

Financial Statistics Explanatory Handbook

Editor: Natu Patel

London: TSO

© Crown copyright 2004

Published with the permission of the Controller of Her Majesty's Stationery Office (HMSO)

ISBN 0 11 621694 8

ISSN 1469-0373

This publication, excluding logos, may be reproduced free of charge, in any format or medium for research or private study subject to it being reproduced accurately and not used in a misleading context. The material must be acknowledged as crown copyright and the title of the publication specified. This publication can also be accessed at the National Statistics website:

www.statistics.gov.uk

For any other use of this material please apply for a free Click-Use Licence on the HMSO website: www.hmso.gov.uk/click-use-home.htm

Or write to HMSO at The Licensing Division, St Clement's House, 2-16 Colegate, Norwich NR3 1BQ. Fax 01603 723000 or e-mail: hmsolicensing@cabinetoffice.x.gsi.gov.uk

Contact points

For enquiries about this publication, contact

Natu Patel

Tel: 020 7533 6035

Email: natu.patel@ons.gsi.gov.uk

For general enquiries, contact the National Statistics

Customer Contact Centre on: 0845 601 3034

(minicom: 01633 812399)

E-mail: info@statistics.gsi.gov.uk

Fax: 01633 652747

Post: Room 1015, Government Buildings,
Cardiff Road, Newport NP10 8XG

You can also find National Statistics on the Internet at:

www.statistics.gov.uk

A National Statistics publication

National Statistics are produced to high professional standards set out in the National Statistics Code of Practice. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political influence.

About the Office for National Statistics

The Office for National Statistics (ONS) is the government agency responsible for compiling, analysing and disseminating many of the United Kingdom's economic, social and demographic statistics, including the retail prices index, trade figures and labour market data, as well as the periodic census of the population and health statistics. It is also the agency that administers the statutory registration of births, marriages and deaths in England and Wales. The Director of ONS is also the National Statistician and the Registrar General for England and Wales.

Contents

Introduction

Page

Section	A	Overview	5
Section	B	The conceptual framework	8
Section	C	The sectors	16
Section	D	Financial instruments	33

I General financial statistics



Part

Chapter	1	Public sector finance	57
Chapter	2	Central government revenue and expenditure	70
Chapter	3	Money supply and credit	81
Chapter	4	Monetary Financial Institutions (MFIs)	96
Chapter	5	Other financial institutions	111
Chapter	6	Companies and capital issuance	120
Chapter	7	Exchange rates, interest rates and security prices	125



Part

II Financial and sector accounts

Chapter	8	Financial accounts matrix	137
Chapter	9	Financial balance sheets matrix	143
Chapter	10	UK Summary dividend and interest matrix flows (to be published in the future)	144
Chapter	11	Financial accounts	145
Chapter	12	Financial balance sheets	151
Chapter	13	Dividend and interest flows by sector: ESA95 tables (to be published in the future)	155
Chapter	14	Balance of payments and other key economic indicators	156
Annex	1	Supplementary tables	208
Annex	2	Financial account codes	211

Bibliography	219
---------------------	-----

Contacts	222
-----------------	-----

Index	224
--------------	-----

National Statistics Online

Users can download time series, cross sectional data and metadata from across the Government Statistical Service (GSS), organised by theme and subject. Download many datasets, in whole or in part, or consult directory information for all GSS statistical resources, including censuses, surveys, periodicals and enquiry services. Information is posted as PDF electronic documents, or in XLS and CSV formats, compatible with most spreadsheet packages.

Time series data

Access to around 40,000 time series, of primarily macro-economic data, drawn from the main tables in a range of our major economic and labour market publications. Download complete releases, or view and download your own customised selection of individual time series.

Complete copies of this publication are available to download free of charge on the following web page:

www.statistics.gov.uk/products/p4861.asp

New ONS publisher to develop product range

The Office for National Statistics (ONS) has appointed a new official publisher. From January 2005, Palgrave Macmillan will publish and distribute all of ONS's print products. This partnership will bring a wealth of expertise to the strategic development of the ONS portfolio.

After putting the contract out to competitive tender, ONS decided that Palgrave Macmillan best suited its business requirements as a future publishing partner. Palgrave Macmillan – Publisher of the Year in 2003 – is a global academic publisher serving learning and scholarship in higher education and the professional world. The term of the contract is five years initially.

ONS felt that this partnership was the right one to make the most of its evolving print portfolio and changing customer needs.

Arrangements are in hand to ensure that services are transferred smoothly and with minimal disruption to subscribers. The subscription price for *Financial Statistics* will remain unchanged during 2005.

For all subscription enquiries please contact Jacqui Powell on 01256 302915. For any other enquiries please contact Charley Holyhead on 01256 357893.

Web: www.palgrave.com/ons, e-mail: ons@palgrave.com

Section **A** Introduction - Overview

The structure of the Handbook

The introduction includes three sections which describe first the national accounting framework within which the financial and sector accounts are compiled, and then the sectors and financial instruments that are used as the basic building blocks.

The main part of the handbook then follows the layout of the chapters which appear monthly in *Financial Statistics*. Typically, the notes on each chapter open with general introductory information. This is followed by explanatory notes on each table or, when appropriate, each group of tables, numbered as in the December 2004 issue.

* ✱

In addition there are two annexes covering:

- (1) Explanatory notes to the supplementary tables which appear regularly in *Financial Statistics*
- (2) Tables showing the codes by which the series in the financial accounts matrix (table 8.1M) and the sector balance sheet (table 9.1M) may be identified in the ONS Databank.

Changes from 2004 Edition

* ✱

In order to make it easier to see where changes have occurred, changes to the text since the 2004 edition are indicated by the asterisk* denotation as shown at the foot of each header page.

* ✱

The structure of *Financial Statistics*

Financial Statistics consists of two main parts:

- Part I: General financial statistics
- Part II: Financial and sector accounts (ESA 95 basis)

This reflects a distinction between “freestanding” and “consistent” data. Part I consists mainly of freestanding data based on the latest available monthly data sources. Part II contains a consistent set of financial and other sectoral accounts based on European System of Accounts 1995 (ESA95). The latter form part of the integrated quarterly national economic accounts (published in *UK Economic Accounts*) and are consistent with the estimates of gross domestic product and the balance of payments.

Much of the data given in Part I is also incorporated in Part II. In some cases the same series can be identified in both, but frequently the data from Part I are rearranged and reclassified, and additional estimates made. The main feature of Part II is that the data for every financial instrument are fully “sectorised”. In other words, the assets, liabilities and transactions of every sector are identified. In many cases this involves estimates made on the basis of reasonable assumptions rather than firm information.

While many of the tables in Part I are updated every month, those in Part II are compiled only once a quarter, and remain unchanged until the next quarter. The data in Part II are updated in the January, April, July and October editions. Data for previous quarters may also be constrained by the application of the ONS National Accounts Revision Policy. (see *Economic Trends October 1993*).

Part I: General financial statistics

The data in Part I are the latest available at the time of going to press. The tables are arranged in the following chapters.

* denotes commencement of changes since the 2004 edition ✱ denotes the end of the changes

Chapter 1 - Public sector finance

This chapter relates to the public sector finances and measures of public sector net debt. Following a summary table on the Public sector net borrowing, there are details of the central government surplus on current budget, and other local government data. Also UK International Reserves data are included in this chapter.

Chapter 2 - Central government revenue and expenditure

In this chapter, details are given of the receipts and expenditures leading to the central government net cash requirement. The relationship between national accounts data and the public expenditure control total is spelt out. Also Public sector aggregates data are included in this Chapter.

Chapter 3 - Money supply and credit

This chapter contains data on the money supply as compiled by the Bank of England, together with details of specific types of credit and loans secured on dwellings.

Chapter 4 - Monetary financial institutions (MFIs)

This chapter contains data on MFIs consolidated balance sheet and the separate contributions of the Bank of England, other UK banks and building societies. Further analysis of the balance sheets of their institutions are also included.

Chapter 5 - Other financial institutions

This chapter contains details of the financial activity of other financial institutions, starting with long-term insurance and pension funds. Securities dealers Income and expenditure and transactions are shown in this chapter.

Chapter 6 - Companies and capital issuance

Data on insolvencies, acquisitions and mergers, liquidity of non-financial corporations, capital issuance and stock exchange transactions are presented in this chapter.

Chapter 7 - Exchange rates, interest rates and security prices

Data on exchange rates, interest rates and security prices and Retail Price Index (RPI) are to be found in this chapter.

Part II: Financial and sector accounts

As from October 1998 edition of Financial Statistics the UK accounts are presented using the new European System of Accounts 1995 (ESA95).

This part contains a consistent set of financial and other sectoral accounts. The latter form part of the integrated quarterly national economic accounts and are consistent with the estimates of gross domestic product and the balance of payments.

Some series in this part also appear in Part I with the same four-letter series identifier. In such cases the data may differ slightly, since the figures in Part I are always the latest available, while those in Part II are those available at the start of the process of compiling the full set of national accounts for the latest quarter, typically nine or ten weeks after the end of that quarter.

This compilation process is complex because so many of the estimates are interrelated. Changing a single series in one part of the system can have not only direct effects on related series but also ramifications in apparently distant parts of the accounts. Each quarter the data are subjected to intensive scrutiny to examine their plausibility, consistency and coherence, before they are considered fit to publish.

Because of this, and in order to avoid what are usually unimportant revisions to the estimates between quarters, no further updating takes place to the national accounting dataset until the next quarter's data are available.

Chapter 8 - Table 8.1M UK Summary Financial accounts ESA95

Table 8.1M UK summary accounts (Matrix table) shows the financial accounts data by sectors, and financial instruments for the latest quarter available.

Chapter 9 - Table 9.1M UK Summary accounts Financial balance sheets ESA95

Table 9.1M UK summary accounts financial balance sheets data by sectors, and financial instruments for the latest quarter available.

Chapter 10 - Table 10.1M UK Summary dividend and interest Matrix flows (DIM)

We are planning to introduce this new table in future.

Chapter 11 New Financial accounts tables ESA95: flows by sectors

Chapter 11 presents the sector financial flow accounts in the form of the financial transactions. Tables display time series data for the financial account of each sector.

Chapter 12 New Financial Balance sheets tables ESA95: by sectors

This chapter presents the sector balance sheets classified in a way that corresponds closely with that of the flow accounts.

Chapter 13 Dividend and interest flows by sector: ESA95 tables

New tables are to be introduced in future.

Chapter 14: Balance of Payments and other Key Economic Indicators:

In this chapter, Balance of Payments together with a set of accounts is published for each main sector. This includes a current (or appropriation) account, a capital account and a financial account. The financial accounts generally use a presentation different from the standard format of **Chapter 11**. In some cases the capital and financial accounts are combined into an alternative presentation - sources and uses of funds.

Section **B** The conceptual framework

Introduction

The data in Part II of *Financial Statistics* are presented within a comprehensive national accounting framework, which is described briefly in this Section. Further explanations are to be found in the current edition of *United Kingdom National Accounts*, the ONS *Blue Book 2004*, and in *United Kingdom National Accounts: concepts, sources and methods* (TSO, 1998).

* ✎

Overview of the accounts

The full system of the UK accounts reveals a highly articulate system which embraces a vast amount of economic information: the production processes revealed in the input-output framework, the sector accounts showing, for example, the income, expenditure, saving and financial transactions and balance sheets of each sector, and estimates of gross domestic product.

In the United Kingdom the general approach essentially begins with the quarterly economic accounts and the production of a single estimate of GDP with its income, output and expenditure components. The income analysis is available at current prices, expenditure is available at both current and constant prices and output is in constant prices only. Income, capital and financial accounts are also produced for each of the institutional sectors: non-financial corporations, financial corporations, general government, and the combined households and non profit institutions serving household sector. The accounts are fully integrated, but with a statistical discrepancy shown for each sector account (which reflects the mismatch between the sector financial surplus or deficit and the identified borrowing or lending in the financial accounts). Accounts are also produced for the Rest of the World sector in respect of its dealings with the United Kingdom. Financial balance sheets are also produced.

The quarterly accounts are fully integrated with the annual accounts. Developments in recent years have improved the coverage and quality of quarterly estimates and strengthened this method of production, although some quarterly surveys remain benchmarked on annual surveys (e.g. benchmarking the quarterly estimates of capital expenditure surveys on the annual census of production). However, some series are only available some time after the end of the year to which they refer and quarterly indicators are used to project forward the last annual estimate and so provide quarterly estimates. For example, the Inland Revenue tax based estimates of compensation of employees are projected forward using employment and average earnings estimates.

A full set of quarterly economic accounts, including accounts for the institutional sectors, are published about 12 weeks after the end of each quarter, extracts of which are first reproduced in *Financial Statistics* in January, April, July and October issues.

The basic framework in the UK

What is an account? What is its purpose?

Each account records and displays all of the flows and stocks for a given aspect of economic life. This account will show that the sum of resources is equal to the sum of uses with a *balancing item* to ensure this equality. Normally the balancing item will be an economic measure which is itself of interest.

By employing a system of economic accounts we can build up accounts for different areas of the economy which highlight, for example, production, income and financial transactions. In many cases these accounts can be elaborated and set out for different institutional units and groups of units (or sectors). Usually a balancing item has to be introduced between the total of assets and total liabilities of these units or sectors, and, when summed across the whole economy these balancing items constitute significant aggregates (for example GDP).

* denotes commencement of changes since the 2004 edition ✎ denotes the end of the changes

The integrated economic accounts

The integrated economic accounts of the UK provide an overall view of the economy and sit at the centre of the accounting framework. The sequence of the integrated economic accounts are shown in the Table 1 (following page). This table presents a summary view of the accounts, balancing items and main aggregates and shows how they are expressed.

The accounts are grouped into three main categories: current accounts, accumulation accounts and balance sheets.

Current accounts deal with production, distribution of income and use of income. The *accumulation accounts* cover changes in assets and liabilities and changes in net worth (the difference between assets and liabilities). *Balance sheets* present stocks of assets and liabilities and net worth.

The accounting structure is uniform throughout the system and applies to all units in the economy, whether they are institutional units, sub sectors, sectors or the whole economy. However, some accounts (or transactions) may not be relevant for some sectors and these details will be covered in subsequent chapters.

Current accounts: the production accounts and the distribution of income accounts

The goods and services accounts (Account 0)

The goods and services account is a transactions account which balances total resources, from output and imports, against the uses of these resources in consumption, investment, inventories and exports. Because the resources are simply balanced with the uses, there is no balancing item. The goods and services account is not shown in *Financial Statistics*.

Production account (Account I)

The production account displays the transactions involved in the generation of income by the production of goods and services. In this case the balancing item is *value added*. For the nation's accounts the balancing item, the sum of value added, is Gross Domestic Product (GDP) or Net Domestic Product when measured net of capital consumption. The production accounts are not shown in *Financial Statistics*.

Distribution and use of income accounts (Account II)

The distribution and use of income account is a very important account for any country and shows the distribution of current income (in this case value added or GDP) carried forward from the production account, and has as its balancing item, saving, which is the difference between income (disposable income) and expenditure (or final consumption). There are three sub-accounts which break down the distribution of income into: the primary distribution of income, the secondary distribution of income and the redistribution of income in kind. The primary distribution account is divided into two sub accounts: the generation and allocation respectively of primary incomes, but the SNA's further breakdown of the allocation of primary income account into an entrepreneurial income account and an allocation of other primary income account has not been adopted in the United Kingdom. A further two sub accounts - the use of disposable income and the use of adjusted disposable income - look at the use of income for either consumption or saving.

The allocation of primary income account and secondary distribution of income accounts by sector are presented in **chapter 14**, but the generation of income account by sector is only available annually and is not shown in *Financial Statistics*.

Aggregated across the whole economy: the balance of the primary distribution of income provides *national income* (which can be measured net or gross), the balance of the redistribution of income in kind provides *national disposable income*, and the balance of the use of income accounts provides *national saving*. These are shown in **Table 1**.

The accumulation accounts

The accumulation accounts cover all changes in assets, liabilities and net worth (the difference for any sector between its assets and liabilities). The accounts are structured to allow various types of changes in these elements to be distinguished.

Table1 **Synoptic presentation of the accounts, balancing items and main aggregates**

Accounts							Balancing items		Main aggregates 1/
	Full sequence of accounts for institutional sectors								
Current accounts	I.	Production account	I.	Production account 2/			B.1	Value added	Domestic product (GDP/NDP)
	II.	Distribution and use of income accounts	II.1.	Primary distribution of income accounts	II.1.1.	Generation of income account 2/	B.2	Operating surplus	National income (GNI,NNI)
					II.1.2.	Allocation of primary income account	B.3	Mixed income	
						B.5	Balance of primary incomes		
Income			II.2.	Secondary distribution of income account			B.6	Disposable income	National disposable income
			II.3.	Redistribution of income in kind account			B.7	Adjusted disposable income	
			II.4.	Use of income account					National saving
			II.4.1.	Use of disposable income account			B.8	Saving	
			II.4.2.	Use of adjusted disposable income account					
Accumulation accounts	III.	Accumulation accounts	III.1.	Capital account			B.10.1	(Changes in net worth, due to saving and capital transfers) 3/	
			III.2.	Financial account			B.9	Net lending/Net borrowing	
						B.9	Net lending/Net borrowing		
Balance sheets	IV.	Financial balance sheets	IV.3.	Closing balance sheet			B.90	Financial net worth	
	Transaction accounts								
0. Goods and services account	0	Goods and services account							National expenditure
	Rest of the world account (external transactions account)								
Current accounts	V.	Rest of the world account	V.I.	External account of goods and services			B.11	External balance of goods and services	External balance of goods and services
			V.II.	External account of primary income and current transfers			B.12	Current external balance	Current external balance
Accumulation accounts			V.III.	External accumulation accounts	V.III.1.	Capital account	B.10.1	(Changes in net worth due to current external balance and capital tranfers) 3/	Net lending/Net borrowing of the nation
					V.III.2.	Financial account	B.9	Net lending/Net borrowing	
							B.9	Net lending/Net borrowing	
Balance sheets			V.IV.	External assets and liabilities account	V.IV.3.	Closing balance sheet	B.90	Net worth	
							B.10	Changes in net worth	
							B.90	Net worth	

1/ Most balancing items and aggregates may be calculated gross or net.

2/ Applies also to industries.

3/ Not a balancing item, but plays a similar role.

The first group of accounts covers transactions which would correspond to all changes in assets/liabilities and net worth which result from transactions (e.g. savings and voluntary transfers of wealth (capital transfers)). These accounts are the *capital account* and *financial account* which are distinguished in order to show the balancing item net lending/borrowing which is useful to analysts. The second group of accounts relate to changes in assets, liabilities and net worth due to other factors (for example the discovery or re-evaluation of mineral reserves, or the reclassification of a body from one sector to another). This second group, the 'other changes in assets accounts' has not been implemented in the United Kingdom.

Capital account (Account III.1)

The capital account concerns the acquisition of physical assets (ie non-financial assets, some of which will be income creating and others which are wealth only), such as fixed assets or inventories, financed out of saving and capital transfers involving the redistribution of wealth. Capital transfers include, for example, capital grants from private corporations to public corporations (e.g. private sector contributions to the extension to the Jubilee line). This account shows how saving finances investment in the economy. In addition to new gross fixed capital formation and changes in inventories, it shows the redistribution of capital assets between sectors of the economy and the rest of the world. The balance on the capital account if negative, is designated net borrowing, and measures the net amount a unit or sector is obliged to borrow from others; if positive the balance is described as net lending, the amount the United Kingdom or a sector has available to finance others. This balance is also referred to as the financial surplus or deficit and the net aggregate for the sectors of the UK economy equals net lending/borrowing from the rest of the world.

Capital accounts by sectors are shown in **chapter 14** of *Financial Statistics*.

Financial account

The financial account shows how net lending and borrowing are achieved by transactions in financial instruments. The net acquisitions of financial assets are shown separately from the net incurring of liabilities. The balancing item is again net lending or borrowing.

In principle net lending or borrowing in the capital account should be identical to net lending or borrowing on the financial account. However in practice, because of errors and omissions, this identity can be very difficult to achieve for the sectors and the economy as a whole. The difference is known as the *statistical discrepancy* (previously known as the balancing item).

Financial transactions accounts by sectors are shown in **chapter 11** of *Financial Statistics*.

The balance sheets (Account IV)

The third category of accounts, the balance sheets, completes the full set of accounts in the system. These include the balance sheets and a reconciliation of the changes that have brought about the change in net worth between the beginning and the end of the accounting period.

The opening and closing balance sheets show how total holdings by the UK or its sectors of assets match total liabilities and net worth (the balancing item). In detailed presentations of the balance sheets the various types of assets and liabilities can be shown. Changes between the opening and closing balance sheets for each group of assets and liabilities result from transactions and other flows recorded in the accumulation accounts. Reclassifications and revaluations and changes in net worth equal changes in assets less changes in liabilities.

However, in the United Kingdom at present, only the end-period financial balance sheets are published. Neither does the United Kingdom at present publish the Other changes in assets accounts, which reconcile the transactions in assets and liabilities with the changes between balance sheets. Financial balance sheets by sectors are published in **chapter 12** of *Financial Statistics*.

Rest of the world account (Account V)

This account covers the transactions between resident and non-resident institutional units and the related stocks of assets and liabilities. The 'rest of the world' plays a similar role to an institutional sector and the account is written from the point of view of the rest of the world.

B The conceptual framework

The rest of the world: National and Domestic

Domestic Product (or income) includes production (or primary incomes generated and distributed) resulting from all activities taking place ‘at home’ or inside the UK domestic territory. This will *include* production by any foreign owned company in the United Kingdom but *exclude* any income earned by UK residents from production taking place outside the domestic territory. Thus Gross Domestic Product is also equal to the sum of primary incomes distributed by resident producer units.

The definition of Gross *National* Income can be introduced by considering the primary incomes distributed by the resident producer units above. These primary incomes, generated in the production activity of resident producer units, are distributed mostly to other resident institutional units; however part of them may go to non-resident institutional units. For example, when a resident producer unit is owned by an overseas company, some of the primary incomes generated by the producer unit are likely to be paid overseas. Symmetrically, some primary incomes generated in the rest of the world may go to resident units. Thus when looking at the income of the nation, it is necessary to exclude that part of residents producers primary income paid abroad, but include the primary incomes generated abroad but paid to resident units; ie

Gross <i>domestic</i> product (or income)
<i>less</i>
primary incomes payable to non-resident units
<i>plus</i>
primary incomes receivable from the rest of the world
<i>equals</i>
Gross <i>national</i> income

Thus gross national income (GNI) at market prices is the sum of gross primary incomes receivable by resident institutional units/sectors.

It is worth noting that although GNI at market prices was previously called gross national product (GNP), in contrast to gross national product, gross national income is not a concept of value added. GNI is an income (primary income) concept.

National income includes income earned by residents of the national territory, remitted (or deemed to be remitted in the case of direct investment) to the national territory, no matter where the income is earned.

The sector accounts

The division of the economy into institutional sectors and the presentation of the relationships and transactions between the different sectors is a primary feature of the SNA and the UK economic accounting framework. This framework - the current accounts, accumulation accounts and balance sheets - is used to record the activities of particular groups of institutions or people in the economy, showing how income is distributed (and redistributed), and how savings are used to add to wealth, in a way in which the aggregate statistics of national income cannot. Indeed this is the framework within which the UK economic accounts are presented in the *UK National Accounts* (Blue Book), *Financial Statistics* and elsewhere.

The framework

The UK sector accounts can be used to show the economic accounting framework in considerable detail by elaborating the accounts on three different dimensions:

the institutional sectors,
the types of transactions and
the national and sector balance sheets.

The institutional sectors

The first dimension involves the breakdown of the current account into institutional sectors grouped broadly according to their roles in the economy. Examples of these roles are : income distribution, income redistribution, private consumption, collective consumption, investment, financial intermediation etc. Most units have more than one role but a natural classification is to distinguish between corporations, government and households. The rest of the world sector is also identified as having a role although it is obviously not part of the domestic economy. For further information see **Section C**.

The types of transaction

The second dimension is that of the type of transaction which relates to the particular account within which the transaction appears. These can be grouped broadly according to purpose, whether current, capital or financial. For further information see **Section D Introduction** in this Handbook.

The balance sheets

To complete the full set of accounts, the system includes balance sheets and a reconciliation of the changes that have brought about the change between the beginning and the end of the period.

In theory the net lending or borrowing from the capital account for each sector should equal the net borrowing or lending from the financial account. In practice because of errors and omissions in the accounts, a balance is rarely achieved and the difference is known as the *statistical discrepancy* although, across all accounts, when an input-output balance is available, these must sum to zero. Consolidating the current and accumulation accounts would provide a balanced account which would look like many presentations of commercial accounts.

Assembling the financial account

The financial account is assembled using database and uses counterparts and residuals to obtain the complete matrix of data.

The accounts are assembled using a database of time series that builds up from data sources to the matrix of transactions by sector that makes up the financial accounts. For each time series the database records where it comes from, which cell in the sector account matrix it belongs to and how it is aggregated with other series to produce the cell totals. The information is held in greater detail than is required for ESA 95, largely depending on the detail available in the source data. In some areas, however, the data obtained from the source each quarter may be less detailed than that required within the timetable for first publication or for ESA 95. In some cases there are no direct data sources and the derivation of the data in these circumstances is described below.

It is primarily the household and non-profit institution serving households sectors where there are no direct data sources. However, depending on the transaction involved, this problem affects the rest of the world sector and certain others. There are two techniques used to collect data in these circumstances:

- (i) counterparts; and
- (ii) residuals.

These both make use of the principle that each acquisition of an asset must have a matching disposal of an asset or a take up of a liability.

The supplementary detailed information held in the database is used to assess counterpart transactions and derive residuals. For example, in most tradeable securities held in domestic currency the household sector is the residual but, for most tradeable securities held in foreign currency the rest of the world sector is the residual. Each transaction in the matrix is balanced individually across all sectors as well as the transactions of each sector being reviewed for the sector accounts.

Assembling the financial balance sheets

The UK balance sheets (like the financial accounts) are a database of time series that build up from data sources to the matrix of the financial balance sheets by sector. For each time series the database records where it comes from, which cell in the sector it belongs to, and how it is aggregated with other series to produce the cell totals. The information held is actually at a greater detail than that required for the European System of Accounts 1995

(ESA 95). For example, there are hundreds of categories, or sub-categories, in the matrix depending on the detailed nature of the data available in the source data. In some areas, however, the data obtained from the source each quarter may be less detailed than that required within the timetable for first publication or for ESA 95. In some cases there is no direct data sources and the derivation of the data in these circumstances is described below.

It is primarily the household and non-profit institutions serving household (NPISH) sectors for which the ONS has almost no direct data sources. (The survey of charities in 1996 is an exception and has assisted production figures for the NPISH sector.) However, depending on the transaction instrument involved, this problem also affects the rest of the world sector and certain others. There are two techniques used to obtain data in these circumstances:

- (i) counterparts; and
- (ii) residuals.

These both make use of the principle that each asset must have a matching liability.

Information is held on the database at a greater level of detail than that required for ESA 95 because this gives a greater control over the allocation of counterparts and residuals. For example, for most tradeable securities held in a foreign currency the rest of the world is the residual. For each sector in the matrix there is a nominated statistician who is responsible for the methodology used to balance the category.

Balancing the quarterly sector accounts

On a quarterly basis the UK publishes sector current, capital and financial transactions accounts, and financial balance sheets, which show the distribution and redistribution of income between the sectors of the economy, additions to wealth, and the flows of funds from savers to borrowers. As these estimates are part of the integrated economic accounts data set that includes GDP (the current price income and expenditure components of GDP are data sources for the sector accounts), any imbalances in the sector accounts are part of the evidence considered in the GDP balancing process outlined below. However, the sector accounts themselves must also be subject to balancing.

When the sector and financial accounts are assembled, data suppliers are required to deliver their source data on a specified date. The database of time series first balances each row of the matrix according to the agreed methodology, then aggregates a top to bottom account for each sector. Finally the sector statistical adjustment items, reflecting errors and omissions in the accounts, are calculated.

The sector statisticians (see contacts list at the end of this book) who have responsibility for the sector balancing item and the key economic indicators for their sector, all then take part in the balancing process; a process which involves an iterative approach to data deliveries, assembly of the accounts and balancing meetings. The final adjustments to allocations of counterparts and unidentified transactions, or adjustments to sample survey results are guided by targets for the size of sector statistical adjustments items and the requirement that key economic indicators tell a coherent story.

In the UK the Balance of Payments account is the same as the Rest of the World account in the sector accounts, so it is also included in the sector accounts balancing process.

Seasonal adjustment of the sector accounts

Quarterly income and capital accounts for each sector are seasonally adjusted, but there is no balanced seasonally adjusted matrix of financial transactions. Although net lending/borrowing may be seasonal, transactions in individual financial instruments are often not seasonal. This is because of the high level of volatility in financial transactions, and the high level of switches made between financial categories as investors and borrowers change their portfolio preferences.

Introduction

The economy is split into a large number of economic units which carry out many transactions. These units are classified into mutually exclusive groups with similar characteristics. Dividing the economy up into groups - or sectors - allows us to summarise the transactions of those groups and thus consider the UK economy in greater detail. Units not in the UK are allocated to a further sector which is called the rest of the world sector. The sectorisation of the UK economy identifies two kinds of units: *consuming units* - mainly households - and *production units* - mainly corporations and non-profit institutions or government units. Units can own goods and assets, incur liabilities and engage in economic activities and transactions with other units in their own right. For the Financial accounts the UK economy is split into eight basic sectors: central government; local government; public corporations; private non financial corporations; household and non profit institutions serving households; monetary financial institutions; other financial intermediaries and financial auxiliaries and insurance corporations and pension funds.

The definitions of the sectors and brief details of data sources are given in this section.

For the purpose of *Financial Statistics*, the institutional sectors of the UK economy are as follows:

- Non-financial corporations
- Financial corporations
 - Monetary financial institutions (MFIs)
 - Banks
 - Building societies
 - Other financial intermediaries and financial auxiliaries
 - Insurance corporations and pension funds
- Public sector
 - General government = Central government + Local government
plus Public Corporations

- Households and non-profit institutions serving households (Personal sector)
- Rest of the world (Overseas sector)

The order in which the sectors are shown above is the order used in *Financial Statistics*. This reflects the primary interest in the financing of central government and the public sector. It also reflects the central role of the financial sector, which is split into three sub-sectors to provide fuller details of their role in financial intermediation.

Alternative groupings are used in some tables. In particular the non-bank, non-building society private sector, known as the *M4 private sector*, is used in the context of monetary statistics. An alternative scheme is given below:

- Central government
- Other public sector
- Local government
- Monetary financial institutions
 - Banks
 - Building societies
- M4 private sector
- Insurance corporations and pension funds
- Households (Personal sector)
- Rest of the world (Overseas sector)

The definitions of sectors and the main sources of financial data relating to them are given below.

General government comprises central government and local government. They produce public services some of which are transferred to households as well as making cash transfers. They also invest in public assets. Their activities are funded by levying taxes and selling financial instruments.

Financial corporations are private corporations engaged primarily in production of financial services such as banking and insurance.

Non-financial corporations are companies that exist to produce goods and non-financial services. They consist of both public and private corporations., private corporations are privately owned either by shareholders in a public limited company or private companies and partnerships which are clearly distinct from their owners. Public corporations are subject to control by general government.

Non-profit institutions serving households (NPISHs) These include units such as charities and universities. In the former system, they were part of the personal sector.

The household sector comprises all the resident people of the United Kingdom as receivers of income and consumers of products. It includes those in institutions such as prisons and hospitals as well as conventional family units. It also contains sole traders where household and businesses accounts cannot be separated.

Units which do not have a centre of economic interest in the UK are allocated to the **rest of the world** sector. No comprehensive account is prepared for them, but insofar as it measures their economic transactions with resident units, their account is equivalent to the balance of payments.

General government (S.13)

This sector consists of:

‘all institutional units which are other non-market producers whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth. [ESA 1995 para 2. 68]

Governments as institutional units

Government units can be considered to be unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a certain area. So the principal roles of government involve responsibility for providing goods and services to the community or to individual households and paying for this out of taxation or other incomes; redistributing income and wealth by means of transfers; and engaging in non-market production.

A government unit usually has the authority to raise funds by collecting taxes or compulsory transfers from other institutional units. To be an institutional unit it must also have funds of its own, (either raised by taxing or received as transfers from other government units) and the authority to distribute some, or all, of such funds towards its policy objectives. It may also be able to borrow funds on its own account.

The general government sector also consists of groups of resident institutional units:

- all units of central, state or local government;
- all social security funds at each level of government;
- all non-market NPIs that are controlled and mainly financed by government units.

The institutional units classified here are as follows:

- general government departments and agencies which administer and finance a group of activities, mainly providing non-market goods and services, intended for the benefit of the community;
- NPIs recognised as independent legal entities that are other non-market producers and which are controlled and principally financed by general government;
- autonomous pension funds where these can be classified as social security funds;
- non-autonomous (unfunded or notionally funded) pension schemes for government employees;
- market regulatory organisations that are either exclusively or principally simple distributors of subsidies even if they are engaged in buying, holding and selling agricultural or food products.

This sector does not include public corporations, even when all their equity is owned by government units. It also excludes quasi-corporations that are owned and controlled by government units in the UK, these are all classified to the non-financial corporations' sectors. However, unincorporated enterprises owned by government units that are not quasi-corporations remain an integral part of those units and so are included in the general government sector.

Sub-sectors of the general government sector

The general government sector is divided into two sub-sectors in the ESA:

- central government (S. 1311);
- local government (S. 1313);

Central government (S. 1311)

This is defined as including:

'all administrative departments of the State and other central agencies whose competence extends normally over the whole economic territory, except for the administration of social security funds.'

[ESA 1995 para 2. 71]

The Central government sector includes the activities controlled by the new assemblies for Scotland, Wales and Northern Ireland. It also includes those NPIs which are controlled and predominantly financed by central government and whose competence also extends over the whole economic territory.

In the UK the administration of social security funds is an integral part of central government for both its funding and decision-making, and so it is not separately classified as a social security funds Sub sector (S. 1314).

The political authority of central government extends over the entire territory of the country. It thus has the authority to impose taxes on all resident and non-resident units engaged in economic activities in the country. Its political responsibilities include national defence and relations with foreign governments. It also uses legislation and regulation to try to ensure the efficient working of the social and economic system and the maintenance of law and order. Its responsibilities include providing collective services for the benefit of the community as a whole – hence expenditure on defence and public administration. Central government may also pay for services like education and health to be provided, primarily to benefit individual households. A final function of central government is to make transfers to other institutional units, including other levels of government.

As in most countries this sub-sector is large and complex. It comprises a central group of departments or ministries, which form a single institutional unit. The departments are responsible for large amounts of expenditure but they are not separate institutional units since they do not own assets, engage in transactions, etc independently of central government as a whole. Central government includes other institutional units such as agencies created to carry out specific functions such as road construction or the non-market production of services such as health or education.

Central government departments may be located in different parts of the country. However, they are still regarded as part of central government. In order to produce production accounts by type of productive activity, the establishment is often used as the statistical unit, and the producer units in different regions are thus treated as different establishments, despite being part of a single institutional unit.

This sub-sector may include units which make financial transactions that in another country would be carried out by the central bank; in particular, managing international exchange reserves, operating exchange stabilisation funds and transacting with the International Monetary Fund (IMF). Those monetary authority functions carried out by central government are, of course, recorded in the government sector. In view of possible variations between countries, international comparisons should be made with caution.

In the UK, central government includes the Exchange Equalisation Account handling the official reserves. However, the Banking Department and the Issue Department of the Bank of England form the UK's central bank sub-sector (S. 121).

Central government trading bodies

As discussed above, UK central government trading bodies are, under the ESA 1995 system, classified as public corporations for example the Central Office of Information, Companies House, Horserace Totalisator Board, Her Majesty's Land Registry and Rempoy Ltd.

Other bodies classified to central government include: Regional Health Authorities; NHS hospitals other than Trusts; the Housing Corporation; Housing for Wales, and Regional Development Agencies.

Main sources of central government data

Most central government expenditure is supply expenditure. That is, it is voted annually by Parliament and spent by Departments and agencies. Figures are collected quarterly from all major departments through the Treasury Government Expenditure Monitoring system (GEMS). Apart from GEMS there are many other sources, some of which are described below:

Expenditure on social security is monitored in great detail by the Department of Social Security, and the national accounts figures derive from that source.

The Consolidated Fund and the National Loans Fund are the core accounts of central government at the Bank of England. Most receipts of government end up in one these accounts, and most payments originate there, but very few transactions of these accounts are with non-government sectors.

The quarterly accounts of the Consolidated Fund are the source for expenditure on the Civil List and pay of judges etc., the Consolidated Fund Standing Services.

The National Loans Fund Account is the source of central government borrowing data.

Quarterly returns from the Ministry of Finance, Northern Ireland supply income and expenditure in the province.

The Inland Revenue and Customs & Excise provide details of taxes as National Insurance Contributions collected. These are published monthly in Financial Statistics. In addition, Customs & Excise provide quarterly estimates of accrued VAT.

The Department for Culture, Media and Sport provide quarterly figures of the operation of the National Lottery.

Local government (S. 1313)

The sub-sector 'local government' includes:

'those types of public administration whose competence extends to only a local part of the economic territory, apart from local agencies of social security funds.'

[ESA 1995, para 2. 73]

This sub-sector includes any NPIs which are controlled and mainly financed by local governments.

These units are in principle those whose fiscal, legislative and executive authority extends over small geographical areas distinguished for administrative and political purposes. However, the authority of local governments is generally much less than that of central or regional/state governments and they may not necessarily have the fiscal authority to levy taxes on institutional units which are resident in their areas. Grants or transfers from higher levels of government are often important components of their income and part of their function may be to act as agents for these higher levels of government to some extent. However, the fact that they may also act as such agents does not prevent them from being treated as separate institutional units as long as they are also able to raise and spend some of their funds on their own initiative and own responsibility.

Local government units often provide a wide range of services to local residents. The rules about the treatment of the production of goods and services by the other levels of government also apply to them. Hence, municipal theatres, museums, swimming pools etc. which supply goods or services on a market basis are classified as quasi-corporations whenever appropriate. By far the most significant of these is the provision of housing (They also include: the Barbican Centre; Bath Library Co. Ltd. ; Enniskillen Aerodrome; Motherwell District Slaughterhouse; municipally owned industrial and trading estates, fishing harbours, ports and piers, restaurants, theatres, toll bridges, etc). However, in the UK the sector includes local government, counties and districts, parish councils, fire and police authorities and some other local bodies.. Units supplying services on a non-market basis (such as education and health) stay part of the local government unit to which they belong.

'Local government' does not include the local agencies of central government such as the National Health Service.

A full list of bodies within this sub-sector is published in *Sector Classification for the National Accounts ESA 1995, which is available via the National Statistics website statistics.gov.uk*

Local Government Schools

These schools are recorded within this sub-sector and include community foundations and voluntary aided schools. Further and higher education establishments, City Technology colleges, and Sixth Form Colleges are recorded as non-profit institutions serving households (NPISH), with the exception of Buckingham University which is a private corporation.

Main sources of Local government data

Most local government data are annual, relating to financial years. Detailed annual returns of expenditure and income are compiled by local government and collected by the Office of the Deputy Prime Minister (OPDM), Scottish Executive, Welsh Assembly and the Northern Ireland Government. Data for the current year are based on local government budgets. Final figures are based on their audited accounts.

A quarterly return collected by OPDM gives wages and salaries, interest and dividend receipts and council tax receipts. Interest and Dividends are modified by the operation of the Dividend Interest Matrix.

OPDM, and its devolved equivalents collect quarterly returns of capital expenditure.

OPDM collects monthly data for the whole of the United Kingdom on the borrowing and lending of local government.

Financial corporations (S.12)

This sector consists of:

‘all corporations and quasi-corporations which are principally engaged in financial intermediation (financial intermediaries) and/or in auxiliary financial activities (financial auxiliaries).’ [ESA 1995 para 2.32]

The distinction between financial and non-financial corporations is made because financial intermediation is inherently different from most other types of productive activity.

Financial intermediation

is defined as:

‘the activity in which an institutional unit acquires financial assets and at the same time incurs liabilities on its own account by engaging in financial transactions on the market.’ [ESA 1995 para 2.32].

The assets and liabilities of financial intermediaries have different characteristics so that funds are transformed or repackaged with respect to maturity, scale, risk etc in the financial intermediate process. Through this process between third parties with a surplus on one side and those with a lack of funds on the other.

Financial intermediaries channel funds from lenders who have excess funds on one side to borrowers with a lack of funds on the other. The funds collected from lenders are transformed or repackaged by the intermediary in order to suit the requirements of borrowers. Such repackaging may change the characteristics of the funds collected in respect of maturity, risk etc.

A financial intermediary does not, therefore, merely act as an agent between parties with surpluses and deficits of funds. It also places itself at risk by acquiring or incurring liabilities on its own account. It may obtain funds by taking deposits, or by issuing bills, bonds or other securities. It uses these funds to acquire financial assets, by making loans to others and by buying bills, bonds and other securities.

Financial intermediation is usually restricted to financial transactions on the market, that is, acquiring assets and incurring liabilities with the general public or specified and relatively large sub-groups of them. Financial intermediation does not normally include the transactions of institutional units whose function is constrained eg. to providing treasury services to a company group; such units are allocated to a sector depending on the main function of the company group. However, where the unit providing the treasury services is subject to supervision by financial authorities in the UK, the convention is that it be classified in the financial corporations sector.

There are some exceptions to the rule that financial intermediation is limited to financial transactions on the market. Examples of them are municipal credit and savings banks, which rely heavily on the municipality involved, or financial leasing corporations which depend on a parent group of companies in acquiring funds. However, for them to be classified as financial intermediaries, either their lending or their acceptance of savings should be independent of the municipality or parent group involved.

Auxiliary financial activities

Auxiliary financial activities may be carried out as secondary financial activities of financial intermediaries or they may be provided by specialist agencies or brokers. Examples of such agencies are securities brokers, flotation companies, loan brokers and managers of mutual or pension funds. There are also other agencies whose main role is to guarantee, by endorsement, bills or other similar instruments intended for discounting or refinancing by financial enterprises and also institutions that arrange hedging instruments (swaps, options and futures etc.). These enterprises provide services that are closely related to financial intermediation but which do not themselves qualify as such (as the enterprises do not put themselves at risk by incurring liabilities on their own account). The boundary between financial intermediation and many services which are auxiliary to it has become somewhat blurred due to continuous innovation in financial markets. It has become increasingly difficult to make a clear distinction between true intermediation and certain other financial activities.

Financial enterprises

Financial enterprises are those which are primarily involved in financial intermediation or in auxiliary financial activities. This sector thus includes enterprises that do not actually engage in financial intermediation themselves but whose principal function is to facilitate financial intermediation without incurring liabilities themselves. Financial enterprises in total comprise all those classified under Divisions 65, 66 and 67, i.e. financial intermediation, insurance and pension funding, and activities auxiliary to financial intermediation, of the International Standard Industrial Classification of All Economic Activities (ISIC) Rev. 3.

Individuals, households and partnerships may engage in financial activity such as lending money to others or buying and selling foreign currency. Such unincorporated financial enterprises can, however, be included in the financial corporations sector only if they qualify as quasi-corporations, ie they must have complete sets of accounts that are separable from those of their owners. In the UK national accounts quasi corporations are represented by unlimited liability partnerships. On this criterion money lenders, currency traders and others operating in financial activities on a small scale are unlikely to be eligible. However, large unincorporated financial enterprises may be subject to government regulation and control and thus obliged to keep accounts: they would therefore fall into this sector.

Mutual funds

Mutual funds mainly incur liabilities through the issue of shares, or units. In the UK these include unit trusts, investment trusts and open-ended investment companies. They transform those funds by acquiring financial assets and/or real estate. They are thus classified as financial intermediaries. As with other corporations, any change in the value of their assets and liabilities other than their own shares is reflected in their own funds. Because the amount of the funds usually equals the value of the mutual fund's shares, changes in the value of the fund's assets and liabilities will be mirrored in the market price of these shares. Mutual funds investing solely in real estate (such as property unit trusts) are also treated as financial intermediaries.

The institutional units included in the financial corporations sector include

- a) private or public corporations which are principally engaged in financial intermediation and/or auxiliary financial activities;
- b) co-operatives and partnerships recognised as independent legal entities which predominantly carry out financial intermediation and/or auxiliary financial activities;
- c) public producers, which by virtue of special legislation are recognised as independent legal entities, which are predominantly engaged in financial market intermediation and/or in auxiliary market financial activities;
- d) Non-profit institutions (NPIs) recognised as independent legal entities which are mainly engaged in financial intermediation and/or auxiliary market financial activities, or which are serving financial corporations;
- e) holding corporations if the group of subsidiaries within the economic territory as a whole is principally engaged in financial intermediation and/or in auxiliary financial activities;
- f) unincorporated mutual funds composed of investment portfolios owned by groups of participants, and whose management is usually undertaken by other financial corporations. By convention these funds are regarded as institutional units separate from the managing financial corporation;
- g) financial quasi-corporations.

Some types of institutional units included in the list above do not currently exist in the United Kingdom. For example, there are no public producers ((c) above) classified to the financial corporations sector.

Sub-sectors of the financial corporations sector and changes in the new ESA

Under the new system the financial corporations' sector (S. 12) is split between:

- the central bank (S. 121)
- other monetary financial institutions (other banks and building societies) (S. 122)
- other financial intermediaries, except insurance corporations and pension funds (S. 123)
- financial auxiliaries (S. 124)
- insurance corporations and pension funds (S. 125).

The central bank (S. 121)

The ESA 1995 (paragraph 2. 45) defines this as:

‘all financial corporations and quasi-corporations whose principal function is to issue currency, to maintain the internal and external value of the currency and to hold all or part of the international reserves of the country.’

This sub-sector includes the national central bank plus any other central monetary agencies of essentially public origin which keep a complete set of accounts and can make decisions independent of central government. In the UK this means the Issue and Banking Departments of the Bank of England. Decisions on the UK's official reserves are handled within central government so this does not form part of the central bank's role. This sub-sector does not include agencies and bodies (other than the central bank) which regulate or supervise financial corporations or financial markets. These are classified to the financial auxiliaries sub-sector (S. 124), if they are private and to central government if they are public sector bodies. This is an instance where the ESA 1995 deviates from the 1993 SNA so that consistency with the European Central Bank's definition of monetary financial institutions is maintained.

Other monetary financial institutions (S. 122)

This sub-sector comprises:

‘all financial corporations and quasi-corporations, except those classified in the central bank sub-sector, which are principally engaged in financial intermediation and whose business is to receive deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, and, for their own account, to grant loans and/or make investments in securities.’

[ESA 1995 para 2. 48]

Monetary financial institutions (MFIs) consist of the central bank (S. 121) and those other institutions classified to S. 122. Monetary Financial Institutions for statistical purposes' as defined by and correspond to the ECB.

In the United Kingdom, other MFIs comprise banks and building societies. In countries covered by the 1995 ESA:

- commercial banks, 'universal' banks, 'all-purpose' banks;
- savings banks (including trustee savings banks and savings banks and loan associations);
- post office giro institutions, post banks, giro banks;
- rural and agricultural credit banks;
- co-operative credit banks and credit unions;
- specialist banks such as merchant banks, issuing houses and private banks.

Money market funds

In the UK credit unions and money market funds are very small and are currently treated as other financial intermediaries (S. 123) rather than monetary financial institutions. Also, some of the above types of intermediaries, whilst common in certain other EU member states, do not exist in the UK.

Other financial intermediaries may be classified in this sub-sector if they receive repayable funds from the public, in the form of deposits or close substitutes for deposits. In the UK, only a few small unit trusts, known as money market funds, currently fulfil the requirements of this category. In view of their small size they are classified at present to S.123 along with other mutual funds Financial intermediaries which do not receive repayable funds from the public are allocated to the 'Other financial intermediaries, except insurance corporations and pension funds' sub-sector (S. 123). UK investment trusts, units trusts, etc. are classified to sub-sector S. 123.

Sub-sector S. 122 does not include:

- holding corporations which only control and direct a group consisting mainly of other monetary financial institutions, but which are not other monetary financial institutions themselves. Such institutions are allocated to sub-sector S. 123: 'other financial intermediaries, except insurance corporations and pension funds';
- non-profit institutions recognised as independent legal entities serving other monetary financial institutions which are not themselves engaged in financial intermediation. They are classified in sub-sector S. 124 as financial auxiliaries.

In the UK the Bank of England is currently the only public monetary financial institution. However, prior to its privatisation in 1990 the Girobank was also classified to this sub-sector.

Other financial intermediaries, except insurance corporations and pension funds (S. 123)

This sub-sector is described as follows:

'all financial corporations and quasi-corporations which are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, or insurance technical reserves.'

[ESA 1995 para 2. 53]

It includes various types of financial intermediaries, especially those which are mainly involved in long-term financing such as investment corporations and hire purchase corporations. This predominant maturity characteristic, and the use only of funding sources other than deposits or close substitutes for deposits, distinguishes them from the other monetary financial institutions described above. The distinction between S. 123 and S. 125 'Insurance corporations and pension funds' is based on the fact that the former institutions do not have liabilities in the form of insurance technical reserves.

The institutions classified to this sub-sector, S. 123, are the following unless they are MFIs:

- those engaged in financial leasing;
- hire purchase and the provision of personal or commercial finance;
- factoring;
- securities and derivatives dealers (on own account);
- specialised financial corporations such as venture and development capital companies, export/import financing companies;
- financial vehicle corporations, created to be holders of securitised assets;
- financial intermediaries which receive deposits and/or close substitutes for deposits from MFIs only;
- holding corporations which only control and direct a group of subsidiaries mainly engaged in financial intermediation and/or auxiliary financial activities, but which are not financial corporations themselves;
- mortgage credit unions;
- mutual funds including most unit trusts and other collective investment schemes, e. g. undertakings for collective investment in transferable securities (UCITS) and investment trusts;
- mortgage lenders;
- credit card issuers.

Non-profit institutions (NPIs) recognised as independent legal entities, serving the bodies in this sub-sector but not themselves engaged in financial intermediation are excluded from S. 123 – they are classified as financial auxiliaries, S. 124.

Financial auxiliaries (S. 124)

These are defined as:

'all financial corporations and quasi-corporations which are principally engaged in auxiliary financial activities, that is to say activities closely related to financial intermediation but which are not financial intermediation themselves.'

[ESA 1995, para 2. 57]

This sub-sector consists of corporations and quasi-corporations such as:

- insurance brokers, salvage and average administrators, insurance and pension consultants, etc.
- securities brokers, loan brokers, investment advisers, etc.
- flotation corporations that manage the issue of securities;
- corporations whose main role is to guarantee (by endorsement) bills and similar instruments;
- corporations which arrange (but do not issue) derivative and hedging instruments such as swaps, futures and options;
- corporations providing infrastructure for financial markets;
- central supervisory authorities of financial intermediaries and financial markets (when they are separate institutional units);
- managers of pension funds, mutual funds, etc. ;
- corporations providing stock exchange and insurance exchange;
- NPIs recognised as independent legal entities serving financial corporations but which are not directly involved in financial intermediation or auxiliary activities themselves.

Insurance corporations and pension funds (S. 125)

These are defined as follows:

‘all financial corporations and quasi-corporations which are principally engaged in financial intermediation as the consequence of the pooling of risks.’ [ESA 1995. para 2. 60]

The insurance contracts administered by these institutions may relate to individuals or groups, whether or not there is a government imposed obligation for them to participate in such contracts.

This sub-sector includes both captive insurance corporations and reinsurance corporations.

This sub-sector does not include ‘social security funds’. Those funds are ones in which certain groups of the population are legally obliged to participate and which general government is responsible for managing independently of its role as supervisory body or employer. So this sub-sector does not include the UK national insurance scheme, which is operated by central government, S. 1311.

The insurance corporations and pension funds sub-sector does not include holding corporations which only control and direct a group of these (S. 125) units without being insurance corporations and pension funds themselves. Such holding corporations are to be found in sub-sector S. 123 (see above). NPIs which serve pension funds or insurance corporations, without being engaged in financial intermediation, are classified as financial auxiliaries (S. 124).

This sub-sector may be further divided, into:

- insurance corporations;
- (autonomous) pension funds.

Insurance corporations

These are incorporated, mutual and other entities whose principal function is to provide life, accident, sickness, fire or other types of social insurance to individual institutional units or groups of units. The insurance contracts administered might relate to individuals and/or groups, and their participation may, or may not, be due to an obligation imposed by government. For example, there is usually a legal obligation for third party motor vehicle insurance. Social insurance contracts (described in Chapter 5) are sometimes a large part of the contracts administered.

Risks concerning individuals or groups could both be included in the activities of life and non-life insurance corporations. Some insurance corporations may restrict their activities to group contracts only. These corporations are permitted to insure every group.

Pension funds

Autonomous Pension funds are institutions which invest contributions for the main purpose of providing a pension upon retirement. So participants may be employees of a single enterprise, employees of a certain industry or profession. The benefits included in the pension contract may include death benefits, retirement benefits and benefits paid on early retirement on medical grounds. In some countries, including the United Kingdom, all these types of risk could be equally well insured by life insurance corporations. In other countries some of these types of risk have to be insured through life insurance corporations..

*
✱
✱ ✱

The pension funds included here, in sub-sector S. 125, are those which are *autonomous*. That is, they are separate institutional units from the units (such as corporations) which create them. They are set up to provide benefits on retirement for specific groups of employees and have their own assets and liabilities. They also make their own transactions in financial assets in the market. These funds are organised, and directed, by individual private or government employers, or jointly by individual employers and their employees. The employers and/or employees make regular contributions to these funds. Examples of such pension funds in the United Kingdom are the many occupational pension schemes established by employers. In some EU member states autonomous pension schemes are rare, with non-autonomous schemes being much more common.

Major sources for the accounts

These are described in chapter 25 of the *United Kingdom National Accounts Concepts, Sources and methods 1998*.

Monetary financial institutions (S.121 and 122)

This sector consists of the central bank (the Bank of England, sub-sector S.121) and other monetary financial institutions (sub-sector S.122). The central bank comprises the Banking and Issue Departments of the Bank of England, but not the Exchange Equalisation Account (the government account at the Bank of England which contains the official reserves) which is classified as central government. (Other EU countries treat their official reserves as assets of the central bank.) The other monetary financial institutions sub-sector (S.122) currently comprises banks and building societies and is equivalent to the other depository corporations' sub-sector as defined in the 1993 SNA (paras 4.88 - 4.94). A full list of the institutions making up the banks' sector was published in the February 1998 issue of the *Bank of England Quarterly Bulletin*. A list of additions and deletions is published in each successive *Quarterly Bulletin*.

As explained earlier, credit unions and money market mutual funds are classifiable as monetary financial institutions but are very small in the UK and to the extent that data are collected they are included at present in sub-sector S.123. Sub-sectors S.121 and S.122 are not published separately. Combined they are equivalent to monetary financial institutions for statistical purposes as defined by the European Central Bank.

Central bank and other banks

Data on the central bank are compiled by the Bank of England. Data relating to the production, distribution and use of income, capital accounts and financial assets and liabilities for other banks are also compiled by the Bank of England from returns made by banks (25.3.1). The Bank collects data on financial assets and liabilities monthly and quarterly. These include sector analyses of deposits, advances and loans which are also used by the ONS to calculate interest flows with other sectors. Estimates of sterling denominated financial flows (eg net lending or borrowing in the period) are derived from levels data, with adjustments made for population changes, revaluations and write-offs from 1986. The figures for financial flows in foreign currency additionally involve adjustments to take account of exchange rate movements and are less certain. "Monthly figures are collected from the larger banks (those with eligible liabilities of £30 million or more or total liabilities of £ 300 million or more). At end-June 1998 monthly returns were being submitted by 362 of the 463 banks; accounting for the great majority of this sector's business."

Main sources

Statistics of assets and liabilities of the banks sector are compiled by the Bank of England from returns made by all companies and institutions classified as banks. The returns provide details of assets and liabilities at the end of calendar quarters, including sector analyses of deposits and of advances and loans.

“Monthly figures are generally collected only from those members of the bank’ sector with eligible liabilities of £30 million or more or total liabilities of £300 million or more. (Before November 1981, all institutions in the sector reported monthly.) At end-June 1998, this amounted to 362 institutions out of a total of 463 in the sector; however, these institutions account for the great majority of the sector’s business”.

Estimates of flows are derived from levels, adjustments being made for write-offs from 1986 and for the effects of changes in the sector population. The figures of flows in foreign currency are additionally adjusted to take account of the effect of movements in exchange rates.

Reviews of banking sector statistical returns are carried out periodically. The most recent, the bulk of which was largely implemented at the end of September 1997, incorporated the data requirements of the 1995 ESA into the system of banking return.

Building societies

Definition

Apart from banks, the only other institutions licensed to accept deposits are building societies as defined by the Building Societies Acts 1962, 1986 and 1997. Traditionally primarily suppliers of loans for house purchase, the societies have provided an increasing range of services especially to depositors. Deposits with building societies are included along with deposits at banks in the wider measures of money supply.

Main sources

Since January 1987, data for building societies have been compiled from a system of returns made by the societies to the Building Societies Commission (25.3.2) Aggregated statistics are passed to the Bank of England for inclusion in the monetary statistics and onward transmission to the ONS for inclusion in the financial accounts. Other data for the non-financial accounts are compiled by the Commission from annual profit and loss data and are supplied to the ONS direct.

Non-financial corporations (S.11)

This sector consists of:

‘institutional units whose distributive and financial transactions are distinct from those of their owners and which are market producers, whose principal activity is the production of goods and non-financial services.’
[ESA 1995, para 2. 21]

This sector also includes non-financial quasi-corporations.

The term ‘non-financial corporations’ describes all bodies which are independent legal entities and are market producers and whose principal activity is the production of goods and non-financial services. The types of institutions classified to this sector are as follows:

- a) private and public corporations which are market producers mainly engaged in the production of goods and non-financial services;
- b) co-operatives and partnerships recognised as independent legal entities which are market producers principally engaged in the production of goods and non-financial services;
- c) public producers which, by virtue of special legislation, are recognised as independent legal entities and which are market producers mainly engaged in the production of goods and non-financial services. In practice in the UK these are bodies subject to an external finance control regime by the Treasury;
- d) non-profit institutions or associations serving non-financial corporations, which are recognised as independent legal entities and which are market producers principally engaged in the production of goods and non-financial services;
- e) holding corporations controlling a group of corporations where the dominant activity of the group as a whole is production of goods and non-financial services;
- f) private and public quasi-corporations which are market producers of goods and non-financial services.

Some non-financial corporations may have secondary financial activities such as providing consumer credit to their customers. However such corporations are classified on the basis of their main activity in the non-financial corporations sector. Since sectors are groups of mutually exclusive units, it is not possible for a corporation (or quasi-corporation) to be classified to more than one sector.

The sector is conventionally divided into two subsectors:

- public non-financial corporations (S.11001);
- private and foreign controlled non-financial corporations (S.11002/3).

Public non-financial corporations (S.11001)

These are all resident non-financial corporations that are subject to control by general government units. In addition, publicly-controlled financial corporations are also included in the sector: to put them in a separate sector would be disclosive. Control may be achieved by government owning more than half the voting shares or, as a result of special legislation, being able to define corporate policy or appoint the majority of the directors. Public corporations' subsidiary companies are automatically classed as public corporations as well. Associates, however, are not public corporations unless control can be demonstrated, either by involvement of other public sector bodies or through other means.

As part of the Blue Book project, a number of government functions which had formerly been part of the general government sector were reclassified as public quasi-corporations. These represent market activities, controlled by government, though not necessarily executed by autonomous units. Notional units have therefore been set up to represent them. The most important are local government housing revenue accounts, local government trading services and the Export Credits Guarantees Department.

The composition of the Public Corporations sub-sector may change over time as governments act to nationalise or privatise (or de-nationalise) corporations, or convert non-market units into market bodies.

The sub-sector currently includes the BBC, the Civil Aviation Authority, National Health Service Trusts, the Post Office and British Nuclear Fuels Limited. A full list is given in the National Accounts Sector Classification Guide (formerly known as MA23) available on the National Statistics website at www.statistics.gov.uk/themes/economy/Articles/NationalAccounts/SectorAccounts/SectorClassification.asp

Since the early 1980s there has been a large contraction in the public corporations subsector with privatisation of many bodies, which now form part of the private corporations subsector. The privatisations have included (in chronological sequence):

- British Telecommunications (privatised November 1984);
- British Gas (December 1986);
- British Airways (February 1987);
- British Airports Authority (July 1987);
- British Steel (December 1988);
- English and Welsh Regional Water Authorities (December 1989);
- The Regional Electricity Companies (December 1990);
- National Power and PowerGen (March 1991);
- British Coal mines (December 1994);
- British Rail (1994-1997 in stages);

Private national and foreign owned non-financial corporations (S.11002 and S.11003)

These comprise all resident non-financial corporations and quasi-corporations that are not controlled by the UK government. These corporations may, or may not, be controlled by other institutional units resident or non-resident in the United Kingdom. This sub-sector also includes market NPIs producing goods or non-financial services – for example, those engaged in providing education or health services on a fee-paying basis, or trade associations serving enterprises.

Quasi-corporations

These are bodies which have no independent legal status but keep a complete set of accounts and exhibit economic and financial behaviour which is distinct from that of their owners and more similar to that of corporations. In the United Kingdom partnerships used to be classified to the household sector, in common with all other unincorporated businesses, but are now classified as quasi-corporations under the above criteria. On the other hand sole proprietors' accounts are not genuinely separable from those of the households of which they form a part and in many cases their businesses do not have autonomy of decision-making. The United Kingdom has therefore decided to classify them to the household sector rather than, as the ESA specifies, to quasi-corporations..

Major sources of data for the accounts is contained in Chapter 19 *United Kingdom National Accounts Concepts, Sources and Methods* 1998.

Households (S.14)

The households sector covers:

'individuals or groups of individuals as consumers and possibly also as entrepreneurs producing market goods and non-financial and financial services (market producers) provided that, in the latter case, the corresponding activities are not those of separate entities treated as quasi-corporations. It also includes individuals or groups of individuals as producers of goods and non-financial services for exclusively own final use.'

[ESA 1995 para 2. 75]

In the previous system households were merged with the NPISH sector in the personal sector. Until data problems have been resolved the 'households' sector will continue to include non-profit institutions serving households in the UK national accounts.

Households as institutional units

To define households the ESA 1995 uses the SNA 1993 definition:

'Households as consumers may be defined as small groups of people who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food.'

[SNA 1993, para 4. 132]

Households are often families; however, members of the same household do not have to belong to the same family as long as there is some sharing of resources and consumption between them. Each member of a household should normally have some claim on its combined resources and, similarly, at least some of the spending decisions should be taken by the household as a whole.

The definition adopted for the 2001 census in the UK was that:

'a household comprises either one person living alone or a group of people (not necessarily related) living at the same address with common housekeeping – that is, sharing at least one meal per day or sharing a living room or sitting room.'

This definition closely corresponds to the concept of a household as defined in the national accounts system

Servants or paid domestic employees who live on the same premises as their employer do not form part of their employer's household, even though they may receive accommodation and meals as remuneration in kind. This is because paid employees have no claim upon the collective resources of their employer's households and the accommodation and food they consume are not included with their employer's consumption. Thus they are seen as belonging to separate households from their employers.

Households may be institutionally based: people who live permanently in an institution are treated as forming a single institutional household. Examples of such institutions are prisons, retirement homes and monasteries: in all of which those residing have little or no autonomy of action or decision in economic respects. Persons expected to live for a long time in such institutions (for example, long-term patients in hospitals), although they themselves may not regard it as their permanent residence, are included.

People who enter institutions such as hospitals, clinics, convalescent homes, religious retreats, etc. for short periods, or who attend boarding schools are treated as members of the individual households to which they usually belong. This also applies to those who live away from home while at university, or who serve short prison sentences.

Non-profit institutions serving households (NPISH) (S.15)

This sector consists of:

‘non-profit institutions which are separate legal entities, which serve households and which are private other non-market producers. Their principal resources, apart from those derived from occasional sales, are derived from voluntary contributions in cash or in kind from households in their capacity as consumers, from payments made by general governments and from property income.’ [ESA 1995 para 2. 87]

These institutions were previously part of the personal sector under the 1979 ESA. Now they have been allocated a separate sector under the 1995 ESA. However, in the UK accounts, until data problems have been resolved the NPISH sector remains combined with the Household sector.

The NPISH sector can be defined as the set of all resident non-profit institutions (NPIs) except:

- NPIs that are market producers;
- non-market NPIs that are controlled and mainly financed by government units; and
- NPIs that serve businesses

Where NPISH do not have legal status they are indistinguishable from households and so they are included in the household sector (S. 14).

This sector includes NPI's serving non-resident units but excludes entities where membership gives right to a predetermined set of goods and services. NPISH are described as NPIs which provide goods or services to households either free or at prices that are not economically significant. They are of two main types:

- those created by associations of persons to provide goods or, more often, services mainly for the benefit of the members themselves;
- charities, relief or aid agencies, set up for philanthropic purposes.

Those set up mainly to benefit their members usually provide services free and are financed by regular membership subscriptions. They include trade unions, professional or learned societies, consumers' associations, political parties, churches or religious societies, social, cultural, recreational and sports clubs. They do not include bodies serving similar functions that are controlled and mainly financed by government units eg British Museum.

Philanthropic non-profit institutions serving households comprise charities, relief and aid agencies, etc. They provide goods and/or services on a non-market basis to those households most in need, including those affected by natural disasters or war. They are financed mainly by donations from the general public, government or corporations. Such donations may be in cash or in kind. They may also be provided by transfers from non-residents – including similar kinds of NPISH in other countries.

A list of NPISH is included in *National Accounts Sector Classification guide*, available on the *National Statistics website* at <http://www.statistics.gov.uk/sectoraccounts>. The wide range of activities of this sector is illustrated by the following brief selection, the Association of Corporate and Certified Accountants; Barnardos; Boy Scouts; British Society for the Advancement of Science; Civil Service Sports Council; the National Trust; Oxfam and the Salvation Army.

Major sources for the accounts are contained in the United Kingdom National Accounts Concepts, Sources and methods 1998 (**chapter 25**).

Rest of the World (S.2) sector

This sector is:

‘a grouping of units without any characteristic functions and resources; it consists of non-resident units insofar as they are engaged in transactions with resident institutional units, or have other economic links with resident units. Its accounts provide an overall view of the economic relationships linking the national economy with the rest of the world.’ [ESA 1995 para 2. 89]

The rest of the world is not a sector for which complete accounts have to be kept or compiled, although it is often helpful to describe the rest of the world as though it were a sector. The rest of the world is essentially the domestic sectors consolidated. The sectors of the national economy (S. 11 through S. 15) are derived by disaggregating the total economy to obtain more homogeneous groups of resident institutional units which are similar in their economic behaviour, their objectives and roles. However, this is patently not the case for the rest of the world sector (S. 2) where the transactions and other flows of all sectors within all non-UK economies are shown only to the extent that they involve units in the UK economy. The subject of the balance of payments between the United Kingdom and the rest of the world forms Chapter 14 in this publication and provides another and more detailed view of this area.

For the UK, and other countries to which the ESA applies, this sector is subdivided into:

- the European Union (S. 21);
- the member countries of the EU (S. 211);
- the Institutions of the EU (S. 212);
- third countries and international organisations (see next paragraph) (S. 22).

Definition

In the domestic accounts the United Kingdom comprises Great Britain plus Northern Ireland and that part of the Continental Shelf deemed by international convention to belong to the United Kingdom.

UK residents are defined as private persons other than visitors (for less than a year) living in the United Kingdom, the UK government, local government, all enterprises situated in the United Kingdom (including foreign companies' branches and subsidiaries located in the United Kingdom, and all UK government officials and HM Forces stationed abroad).

Non-residents, classified to the rest of the world sector, include all persons living abroad, commercial enterprises located outside the UK (including UK companies' branches and subsidiaries abroad, and all foreign government officials, foreign students and armed forces stationed in the UK).

See also the latest edition of United Kingdom Balance of Payments - the ONS 'Pink Book' and in United Kingdom National Accounts: Sources and Methods (TSO 1998).

Main sources

The items appearing in the financial account for the rest of the world sector are mainly taken from the balance of payments financial account, and set out in detail in the annual 'Pink Book' - *United Kingdom Balance of Payments*. A substantial part of this account is compiled from sources used for other sectors' accounts also, namely: banking statistics; statistical enquiries to Insurance companies and pension funds and to Private non-financial companies; central government records together with information available within the Bank of England on various other official transactions. Other statistics, specifically required for balance of payments purposes, are derived from enquiries into the foreign direct investment of companies; enquiries into international portfolio investment transactions by banks and securities dealers; and data on United Kingdom non-banks' transactions with banks abroad, available from the Bank for International Settlements (BIS).

Assembling the UK economic accounts for the ESA95 sectors

The European System of Accounts 1995 (ESA 95) specifies a classification of financial transactions (assets and liabilities) which is required by law from the UK and all other member states. The financial transactions that are used in the financial accounts can be classified into seven broad categories: **F.1** monetary gold and special drawing rights; **F.2** currency and deposits; **F.3** securities other than shares; **F.4** loans; **F.5** shares and other equity; **F.6** insurance technical reserves and **F.7** other accounts receivable/payable. This classification is based primarily on the liquidity and the legal characteristics of the financial assets. In the UK's national accounts system a more detailed approach is adopted to meet the need of the users of the accounts and reflect the importance of the UK financial system. It also reflects further detail allowed for in the ESA 95 and the likely requirements of the European Monetary Institute for administering the European Monetary Union (EMU). The definitions of these transactions listing their component transactions and brief details of data sources are given in **Section D Introduction** of this Handbook.

The databases of time series used to assemble the UK economic accounts includes estimates for reallocating historical data onto the ESA95 sectors. For example estimates have been made to reallocate the assets and liabilities of Quasi-corporations from the old personal sector to non-financial corporations and financial corporations, and to reallocate the assets and liabilities of offshore financial corporations to the rest of the world. In most cases these adjustments have been estimated from the first quarter of 1987.

Section **D** Financial instruments

Introduction

The introduction of the new European System of Accounts 1995 (ESA95) has resulted in changes in the classification of certain assets and liabilities.

Classification of Financial Instruments

The ESA 95 specifies a classification of financial instruments for which both assets and liabilities for each sector are required to be measured. The classification comprises seven broad categories:-

F.1	Monetary gold and special drawing rights
F.2	Currency and deposits
F.3	Securities other than shares
F.4	Loans
F.5	Shares and other equity
F.6	Insurance technical reserves
F.7	Other accounts receivable/payable

This classification is based primarily on the liquidity and the legal characteristics of the financial instruments.

The ESA95 instrument classification defines a number of sub-categories within this broad framework. In the UK national accounts this more detailed approach has been adopted in recognition of the needs of users of the accounts and of the size and complexity of the UK financial system. It also reflects the likely requirements of the ECB for administering the European Monetary Union (EMU).

For the UK the full list of instruments being used is shown in **Table 8.1M**. The distinction between short-term and long-term assets and liabilities in the 1995 ESA is not being adopted in full. The distinction is not regarded as particularly meaningful in the UK context, but groupings of instruments are shown which approximate to a long/short-term split. Eg, long-term loans (F42) includes outward direct investment loans, loans secured on dwellings, financial leasing loans and other loans by UK residents.

The Financial Instruments

The remainder of this chapter considers each financial instrument in turn. For each instrument there is a description and then a discussion of the sources of the data and the methodology used for each sector. The order followed is that specified by ESA95 and is used in the Blue Book UK National Accounts 2004.

* ✎

F.1 Monetary gold and special drawing rights (SDRs)

These consist of assets held by the government in the Exchange Equalisation Account (EEA). The EEA is the central government account at the Bank of England in which transactions in the official reserves are recorded. These reserves comprise the UK official holdings of gold, convertible currencies, Special Drawing Rights (SDRs) and the UK reserve position in the IMF. From July 1979 to December 1998 they also include European Currency Units (ECUs) acquired from swaps with the EMI/ECB. The EEA is managed by HM Treasury. All earnings on the official reserves and transactions with the IMF pass through the EEA.

These financial assets are the only ones for which there are no counterpart liabilities in the system. Transactions in them always involve changes in the ownership of financial assets of the UK or the rest of the world.

Monetary gold is gold held as a component of foreign reserves by monetary authorities, or by others who are subject to the effective control of the authorities. In the UK only gold owned by the government is recorded in the reserves.

* denotes commencement of changes since the 2004 edition ✎ denotes the end of the changes

D

Financial instruments

Under the ESA95 Regulation, the UK has a derogation for monetary gold under which it will continue (as in the previous UK system) to record the gold held by monetary financial institutions (MFIs) as a financial asset rather than as a valuable. However, gold held by MFIs is recorded in Currency and deposits (F2) as foreign currency; it is not recorded as monetary gold.

Special Drawing Rights (SDRs) are international reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement existing reserves. This category records all transactions in SDRs. SDRs are not considered liabilities of the IMF and IMF members to whom SDRs are allocated do not have an actual (unconditional) liability to repay their allocation of them. SDRs are held only by official holders. The IMF issues a quota of SDRs to its members that can be swapped for reserve currencies. A reserve currency is one that other countries are willing to hold in their official reserves.

Sources

A market valuation for SDR transactions is provided by the Bank of England.

(The UK's *reserve position in the IMF* is not part of this financial instrument, F.1, but is within F.229).

Quality

There are two sectors which transact monetary gold and SDRs: central government and rest of the world. The flow which represents the net change in F1 is supplied quarterly by the Bank of England. Both gold and SDRs are recorded by the Bank of England within the Exchange Equalisation Account. Since the source of the transactions data is official records they are considered to be of [high/category A] quality.

F.2 Currency and deposits

This category consists of all transactions in currency and deposits. Thus it includes currency in circulation and all types of deposits in both domestic (i.e. sterling) and foreign currency. Gold held by UK monetary financial institutions (MFIs) is also recorded here (rather than as a valuable), continuing the treatment under the previous ESA.

F.21 Currency

This covers domestic (i.e. sterling) and foreign currency notes and coins, and gold held by UK MFIs.

Sterling currency notes are a liability of the central bank, while coin is regarded as a liability of central government. Coin is issued by the Royal Mint, but Bank of England notes are issued by the Issue Department of the Bank of England, which is part of the central bank sector. The Bank of England holds securities as backing for the note issue. In the accounts prior to 1998 the note issue was a liability of central government and the Issue Department was treated as part of central government. The flows data for central government relate to net issues of coin less holdings of notes and coin by central government for its own use. The figures for the monetary financial institutions sector relate to issues of notes by the Issue Department (liabilities) and by Scottish and Northern Ireland banks and changes in holdings of sterling and foreign currency notes and coin (assets) by the sector.

The figures for other sectors' transactions likewise measure changes in their holdings of notes and coin.

Sources

The figures for public corporations' transactions in sterling notes and coin are based on working balances held by the Post Office. The transactions of private non-financial companies are derived as part of the residual, which is shared with the household and NPISH sectors. Holdings by the local government sector are assumed to be negligible. The data for building societies come from the Building Societies Commission. The data for other financial intermediaries come from the Bank of England and those for insurance corporations are based on a benchmark survey of their holdings, derived from a statutory DTI inquiry. For the rest of the world sector the data are estimated from figures of transactions obtained from the International Passenger Survey, of which certain proportions are assumed to be in sterling notes and coins.

A special adjustment allows for the fact that the amount of sterling notes and coin held by corporations is high on Thursdays (due to payment of weekly wages in cash) and the amount held by households is high on Fridays (reflecting withdrawals to cover weekend spending). Further adjustments are made to reflect the build up of households' notes and coins over the Christmas and Easter periods.

Data for *foreign currency* notes and coin are crudely estimated from the travel data collected in the ONS International Passenger Survey. They are currently attributed to the private non-financial corporations sector.

F22 Transferable deposits with monetary financial institutions (MFIs, S.121 Central Bank +S.122 Other MFIs)

These are deposits which are immediately convertible into currency or which are transferable by cheque, banker's order etc., without any kind of significant restriction or penalty. This category comprises:

1. Sterling deposits with UK MFIs (F.221);
2. Foreign currency deposits with UK MFIs (F.222);
3. Deposits with other (ie rest of the world) monetary financial institutions;

F.221 Transferable deposits with UK MFIs

UK MFIs which can accept deposits currently comprise banks and building societies. These are considered separately in the following paragraphs.

Domestic and foreign currency UK bank deposits (F.2211, F.2212)

These comprise all forms of deposit held with banks. Deposits with UK financial corporations other than banks ceased at the end of 1981 when, under the terms of the Banking Act 1979, institutions not in the banking sector were no longer permitted to accept deposits

The figures include:

- a) deposits from rest of the world offices of banks;
- b) receipts under Save-As-You-Earn (SAYE) and sharesave contracts, on which banks pay interest net of tax;
- c) liabilities under sale and repurchase agreements (repos) of British Government securities and other paper.

The figures are divided between domestic (i.e. sterling) and foreign currency. Both sight and time deposits are included within each.

Deposits evidenced by the issue of negotiable paper (certificates of deposit, commercial paper, promissory notes, bills and other short term paper) are omitted from this sub-instrument and included in money market instruments F.331. The figures also exclude the institutions' liabilities in the form of shares and other securities, reserves and other internal accounts.

Sources

The figures are compiled by the Bank of England from returns provided by the institutions. The increase in banks' liabilities to other sectors is measured as the increase in other sectors' deposits, as reported in the returns, adjusted as appropriate for transit and suspense items. Adjustments are also made for non-transactions effects on balance sheet figures such as changes in the banking sector population and fluctuations in the rates of exchange between sterling and other currencies. The adjustments are detailed in **Chapter 4**.

Figures for counterpart sectors' assets are almost entirely obtained from the analysis provided in the banking sector returns. However, data for insurance corporations and pension funds come from ONS surveys of a sample of these institutions.

Domestic and foreign currency deposits with building societies (F.2211, F.2212)

The figures comprise shares, deposits, repos and (from 1969) receipts under SAYE contracts on which building societies pay interest net of tax (i.e. 'retail' deposits) plus (from 1983) time deposits on which the

societies pay interest gross of tax (i.e. 'wholesale' deposits). The retail deposits include interest credited to depositors' accounts.

Deposits evidenced by the issue of negotiable papers (certificates of deposit, commercial paper and other paper) are omitted from this sub-instrument and included in money market instruments F.331.

Sources

The figures are based on a system of monthly and quarterly balance sheet returns from the societies, which are operated by the Financial Services Authority (FSA, Building Societies Commission). Sector transactions in deposits, inclusive of adjustments for items in transit, are derived from the societies' monthly and quarterly balance sheet returns.

F.229 Deposits with rest of the world MFIs

This consists of transactions in transferable deposits, both domestic (i.e. sterling) and foreign currency, held by residents with rest of the world monetary financial institutions (MFIs). From July 1979 to December 1998, European Currency Units (ECUs) are included here. ECUs were acquired from swaps with the European Monetary Co-operation Fund (EMCF) before 1 January 1994 and with the European Monetary Institute (EMI) afterwards. Also included within this category is the UK's reserve position in the IMF. This is a deposit with no maturity and equals the difference between the UK quota and the sterling holding by the IMF. The reserve position will fluctuate depending on other countries' drawings or repayments of sterling to the IMF.

Sources

Assets with banks abroad are derived from the international banking statistics of countries in the Bank for International Settlements (BIS) reporting area and cover the UK non-bank private sector's deposits with banks in the rest of the world. These data come from the BIS via the Bank of England. Some assets of general government and public corporations may also be included but are not separately distinguishable. The financial flows are estimated from changes in the levels, adjusted for exchange rate movements. They omit, as far as possible, the effects of any discontinuities in the levels series, but no attempt has been made to allow for any deficiencies in the financial flows prior to 1984. Transactions by UK MFIs are derived from inquiries carried out by the Bank of England. Estimates of securities dealers' transactions with banks abroad are derived from their asset levels as reported in an ONS survey. Estimates for earlier years, back to 1986, are based on information from published annual accounts. The UK's reserve position in the IMF is supplied by the Bank of England from the Exchange Equalisation Accounts.

F.29 Other deposits (National Savings and tax instruments)

This category covers national savings tax instruments and the Paymaster General's EC N°1 account.

National savings & investments comprise the following:

deposits

changes in outstanding deposits, including estimated accrued interest, with the ordinary departments of the National Savings Bank (NSB), the NSB investment account from January 1981, and Trustee Savings Banks up to third quarter 1979;

certificates and bonds

net sales or repayments of income bonds, deposit bonds, premium savings bonds, British savings bonds (removed from sale on 31 December 1979), national savings stamps, gift tokens, national savings certificates, SAYE contracts and yearly plan agreements, plus increases due to accrued interest and index-linking.

Most national savings instruments are treated as financial claims by the household sector on the general government sector, but National Savings Bank investment accounts, income bonds and deposits bonds have in the past also been taken up by other sectors, in particular non-financial corporations, other financial intermediaries and financial auxiliaries sectors. Figures for public corporations are included from the second quarter of 1982 which reflect changes in the working balance held by the Post Office on account of its national savings business.

Tax instruments are also included in this instrument. They are instruments issued to tax payers in exchange for advance payments to meet future tax liabilities. They comprise certificates of tax deposit and, in earlier periods, tax reserve certificates, and tax deposit accounts. Transactions not identified by sector are entered under private non-financial corporations.

The category also includes the EC no.1 account at Paymaster (represent the European Commission's operating account in the UK), and deposits held by the National Investment and Loans Office (NILO) in respect of Insolvency Funds.

Sources

Add something for remaining items.

F.3 Securities other than shares

The main sub-division here is between money market instruments (F.331) and bonds and preference shares (F.332). The final sub-division is for financial derivatives (F.34).

F.331 Short term securities: money market instruments (MMIs)

In the UK financial account money market instruments are taken to represent short-term securities. They are given in further detail, according to the issuing sector, as follows:

- F.3311 UK general government
- F.3315 UK monetary financial institutions (MFIs)
- F.3316 Other UK residents
- F.3319 Rest of the world

F.3311 Short term money market instruments issued by UK general government

These comprise both domestic (sterling) and foreign currencies (euros etc.) Treasury bills issued by the UK general government sector .

The Treasury bills covered exclude those held by the National Debt Commissioners, the Exchange Equalisation Account and central government departments.

Bills held by the Bank of England as the sterling counterpart of foreign currency deposits arising from central bank assistance are also excluded.

Sources

Net sales by central government constitute the increase in market Treasury bills outstanding. This information comes from the Debt Management Agency each month.

For periods up to the end of 1986 the private non-financial corporations sector was the residual for this instrument. For the years 1987 to 1990 inclusive the transactions of this sector were assumed to be zero. From 1991 onwards the changes in holdings recorded in the Financial Assets and Liability survey are used to estimate transactions by large corporations. Information for public corporations comes from the ONS inquiries.

Information is available from the Bank of England for the transactions of banks; building societies (the FSA Building Societies Commission supply aggregate data from their quarterly balance sheet inquiry). Data for insurance corporations and pension funds are derived from quarterly ONS inquiries, which collect holdings data. Total transactions by other financial intermediaries and financial auxiliaries are calculated as the instrument residual after the rest of the world part has been taken out; some data are available however from ONS and Bank of England inquiries. The actual amount of the residual allocated to this sector is the difference between the two.

The transactions of local government are derived from quarterly balance sheet inquiries on borrowing and lending carried out by the Office of the Deputy Prime Minister (OPDM), the Welsh Assembly and the Scottish Executive and from Northern Ireland.

Holdings by the household and NPISH sectors are known to be small. Their transactions are thus assumed to be zero.

Rest of the world residents' transactions come from data on Central Monetary Institutions (CMIs) and non-CMIs transactions provided by the Bank of England, based on information on banks' custody holdings on their behalf. Total rest of the world sector holdings are now the sum of these, plus an amount worth fifty per cent of the residual, to allow for the under reporting of non-CMI transactions.

F.3315 Short term money market instruments issued by UK monetary financial institutions (MFIs)

This covers UK corporate commercial paper issued by Monetary Financial Institutions (MFIs) (sub-sectors S.121 and S.122) comprising sterling and foreign currency Certificates of Deposits (CDs) and commercial paper, together with promissory notes, bills and other short-term up to 1 year at issue negotiable paper issued by banks and building societies in both sterling and foreign currency and commercial bills which have been accepted by banks.

Sources

Data for issues of *banks' money market instruments* are available from the first quarter of 1984. Together with banks' holdings, they are obtained by the Bank of England from the banks' monthly balance sheet returns. Data for building societies' transactions in banks' short-term money market instruments is derived from the monthly balance sheet inquiry carried out by FSA, Building Societies Commission. For non-monetary financial institutions, hard data for the transactions (acquisitions and realisations) in non-equity securities each quarter are available from the ONS insurance corporations, pension funds and securities dealers inquiries. For CDs only end quarter levels are collected so the transactions are derived from them. Information is also collected on the unit trust and investment trust forms.



For non-financial corporations, reported data (for CD only) is compiled by the Bank of England, derived from results of the ONS quarterly Financial Assets and Liabilities. In addition, part of the residual [(ten per cent for sterling; two percent for foreign currency certificates of deposit and commercial paper)] is attributed to private non-financial corporations.

Local government transactions in banks' short-term money market instruments are derived from the OPDM, Welsh Office and Scottish Office and quarterly Borrowing and Investment inquiry to local government and from Northern Ireland. This inquiry collects balance sheet data from which the transactions are derived.

Household and NPISH sectors' holdings of banks' money market instruments are known to be very small. These sectors are allocated a total of 2 and 8 per cent respectively of the residual level of holdings for sterling certificates of deposit and commercial paper and one per cent of the residual holdings of foreign currency versions of these two types of short-term money market instruments. Transactions are derived from the holdings data.

Reported holdings of banks' sterling instruments by the rest of the world sector come from a monthly Bank of England balance sheet form. In addition, forty per cent of the residual assets of certificates of deposit (CDs) are allocated to this sector, along with twenty per cent of the residual for medium term notes and other short term paper (MTNs/OSTP). For foreign currency instruments, the rest of the world sector is allocated holdings of ninety two percent of the residual for CDs and seventy per cent for MTNs/OSTP. Transactions figures are derived from the balance sheet data for the rest of the world.

Where the residual difference between issues by banks and reported transactions by other sectors has to be allocated across counterparty sectors as indicated above, an agreement between the ONS and the Bank of England determines the sectoral allocations. Attributed data is allocated as various percentages of the residual (for sterling) or total (for foreign currency) holdings of the different types of short-term money market instruments.

Banks' liabilities also include acceptances of commercial bills on behalf of their customers. Most such acceptances of these bills are held by MFIs, including the Issue Department of the Bank of England. Both issues and holdings by MFIs are recorded from the monthly and quarterly returns made by institutions

in the sector. Holdings outside the MFIs sector are measured by residual and treated as liabilities to non-financial corporations (sterling bills) and rest of the world (foreign currency bills). The lending associated with these acceptances is included under bank lending, F.41.

Building society issues and holdings of *building society short-term money market instruments* are reported by the societies on a monthly form to the FSA (Building Societies Commission).

For private non-financial corporations, transactions in building societies' certificates of deposit are derived by the Bank of England from the results of ONS's Financial Assets and Liabilities survey. In addition part of the residuals for certificates of deposit and commercial paper are allocated to this sector.

Banks' transactions in building society short-term money market instruments are derived from a monthly balance sheet inquiry carried out by the Bank of England. Data for non-monetary financial institutions are derived from the ONS quarterly inquiries to insurance corporations, pension funds and securities dealers, which collect end quarter holdings. A portion of the residual transactions are also allocated to this sub-sector, reflecting the data for types of institutions within this group that are not surveyed.

Central government, local government and public corporations are assumed not to hold short term money market instruments issued by building societies, and thus have no transactions in them.

Households and NPISH are allocated a small proportion of the residual for certificates of deposit and commercial paper.

Data on the rest of the world's holdings of building societies' short term money market instruments are collected by the FSA (Building Societies Commission) who then pass them on to the Bank of England. The transactions are derived from them. An allocation of the residual is made to this sector.

An agreement between the ONS and the Bank of England determines the sectoral allocation of the residual difference between issues by banks and building societies and reported assets by the other sectors. The residual allocations are done separately for certificates of deposit; commercial paper; medium term notes and other short-term paper.

F.3316 Short term money market instruments issued by other UK residents

This comprises the following: UK corporate commercial paper issued by non-MFIs (both domestic - sterling - and foreign currency) and UK local government bills.

Sources

Data on issues of *sterling commercial paper* by non-monetary financial corporations are provided by the Bank of England based on returns to the Bank by commercial papers issuers. Asset holdings are based on inquiry sources with the residual being divided 50:30:2:8:10 between private non-financial corporations : non-MFIs : households : NPISH : rest of the world. The data for transactions are derived from these balance sheet figures.

Euroclear data from the Bank of International Settlement (BIS) are the source for issues of foreign currency commercial paper on the Euro-markets. The liabilities are divided between private non-financial corporations and non-monetary financial institutions in the ratio 95:5. Issues of foreign currency commercial paper elsewhere are obtained from returns made by the main issuers, supplemented by estimates; all are private non-financial corporations. Again, the figures of transactions in the financial account are derived from these balance sheet data.

Bank assets in the form of money market instruments (bills, commercial paper, other short-term paper) issued by UK corporations are reported on the balance sheet returns made to the Bank of England. Building Societies' holdings of money market instruments of UK corporations are reported on returns made by the societies to the FSA (Building Societies Commission). The aggregate data are then passed to the Bank of England. Insurance corporations and pension funds provide data to the ONS each quarter on their holdings of these assets. The transactions data are derived from these holdings data each quarter.

*
✻

Information about rest of the world purchases and sales of UK corporations' money market instruments comes from a variety of sources, including the Bank of England. It is derived from changes in levels and by residual, where investment by the rest of the world is derived from total issues (net of redemptions) less total net identified purchases.

For *local government short term money market instruments* the total figure is taken from returns made quarterly by local government in the UK. The figures are sectorised using a combination of local government and counterparty sector sources. This is described in more detail below.

Figures for local government short term money market instruments are taken from returns made by local government to the OPDM, Scottish Office, Welsh Office and from central government accounts. Borrowing from public corporations is also that shown by local government, supplemented by certain additional transactions identified by these corporations. Similarly data for transactions of such local government debt by other domestic sectors is derived from a combination of local government data and information from the appropriate sector (for example, the ONS quarterly inquiries of insurance corporations; returns made to the Bank of England by banks). The other financial intermediaries and financial auxiliaries sectors are the residual ones. Information about rest of the world activity in local government money market instruments comes from a variety of sources, including the Bank of England. It is derived from changes in levels and by residual, where investment by the rest of the world is derived from total issues (net of redemptions) less total net identified purchases.

F.3319 Short term money market instruments issued by the rest of the world

This instrument includes sterling and foreign currency commercial paper issued by rest of the world residents. The rest of the world liability figures are obtained as the residual, being the total of the figures for the other sectors which hold these financial instruments as assets.

There are some discontinuities for Official reserves and these are mentioned at the end of this section.

Sources

The data are derived from a variety of sources such as the ONS Insurance and Pension Fund and Securities Dealers' inquiries, the ONS Financial Assets and Liabilities Survey and the returns made by MFIs to the Bank of England and FSA (Building Societies Commission).

F.332 Long term securities other than shares: bonds

Long-term bonds are securities by which one party (the issuer) is bound to pay money to another, over the course of more than one year. Before the bond reaches maturity (at which point it must be repaid) the holder will usually receive interest payments, which are commonly made twice yearly.

F.3321 Long term bonds issued by UK central government

Long term bonds issued by UK central government are commonly referred to as British Government Securities (BGS) or gilts. They are the main form of longer term government borrowing and may be of the conventional bond type or index-linked. They are marketable securities denominated in sterling or foreign currency. British Government foreign currency notes and bonds are included, together with government issues abroad.

UK central government bonds may be conventional or index-linked. Conventional bonds pay out a certain amount of interest every six months (for example 5%), until maturity. Index-linked bonds pay out interest linked to the annual rate of increase in the retail prices index (RPI) - for example the interest per £100 gilt may be the rate of increase in the RPI plus 2.5%. Some of the gilts that the government have issued are undated ones.

The figures for central government sales comprise total cash issues less redemptions (including the purchases by government sinking funds) and less net purchases by the National Debt Commissioners.

Sources

Figures for private non-financial corporations' transactions in gilts are grossed-up sample estimates based on changes in holdings (at book value) reported by large corporations in the ONS Financial Assets

and Liabilities Survey, and previously the Survey of Company Liquidity. Data for public corporations' transactions in gilts related only to Girobank before privatisation, and were provided by the Bank of England. They are now sourced from ONS inquiries.

The figures for banks are derived from balance sheet returns made to the Bank of England. Data for building societies comes from monthly returns, showing both transactions and holdings, made to the FSA (Building Societies' Commission). Other financial corporations make quarterly returns of transactions to the ONS, supplemented by annual inquiries.

Local government bodies report purchases and sales of gilts to the OPDM each quarter.

For central government bonds the residual difference between central government net sales and identified transactions of other sectors is generally attributed to the household and NPISH sectors. A survey of charities in 1996 indicated that they had balance sheet holdings of gilts of about £3.4 billion; however, there is no information about the size of transactions in these holdings and so the split of the residual between households and NPISH is an assumed one.

The figures for the transactions of the rest of the world sector are based on custody holdings of sterling bonds held by non residents reported by banks, information from the Stock Register, occasional surveys and evidence from balancing the accounts. The ONS is able to estimate the total value of foreign currency bonds issued by the UK government but is unable to measure exactly how much is purchased by non-residents. To balance the accounts it is therefore assumed that any investment that cannot be directly attributed to UK domestic sectors must therefore be investment by the rest of the world. Adjustments are made when necessary to convert the figures of external liabilities from a nominal to a cash transactions basis.

This instrument also includes issues and redemptions of British government foreign currency bonds. These include an issue in 1991 of ECU 2,500 million HM Government 10 year bonds, issues in 1992 of DM 5,000 million and US \$3,000 million HM Government 5 and 10 year bonds respectively; and issues commencing 1992 of 3 year HM Government ECU Treasury notes. Data for these issues are from official sources and thus of high quality. The holders of these bonds are UK banks, insurance corporations and pension funds, other financial institutions and the rest of the world sector. Counterparty data are obtained from Bank of England and the ONS inquiries; the rest of the world is the residual sector for this particular sub-instrument within long term bonds issued by UK central government.

F.3322 Long term bonds issued by UK local government

Long-term bonds issued by local government are known simply as 'Local Government bonds'. Figures for issues of such bonds come from returns made by local government to the OPDM.

Data for central government transactions in local government bonds come from the Treasury. Public corporations' transactions in local government bonds come from the Bank of England. Data from OPDM, Welsh Executive and Scottish Executive returns from local government provide the estimates for private non-financial corporations' holdings, from which transactions are derived. Households and NPISH are jointly the residual sector for these bonds.

F.3325, F.3326 Medium and Long term bonds issued by UK MFIs and other UK residents

These comprise bonds over 1 year at issue issued by private non-financial corporations and UK financial corporations and others as well as UK corporate quoted and unquoted preference shares.

They include Eurobonds, medium term notes, debentures and loan stock and preference shares issued by UK private sector corporations. They also include issues by non-profit making bodies such as housing associations and universities.

Liabilities

Estimates of issues are based on the prices at which the bonds etc. are offered on the market. For most sectors, issues of Eurobonds, medium term notes and other debt securities listed on the London Stock

Exchange are obtained directly from the Stock Exchange. Estimates for other market issues, including issues of preference shares listed on the Stock Exchange, are compiled by the Bank of England. All figures are net of redemptions. However, figures for building societies are obtained from statistical inquiries carried out by the FSA (Building Societies Commission). Building Societies issue permanent interest bearing shares (PIBS), Eurobonds, medium-term notes, domestic debentures and loan stock.

Sources

The figures for non-market issues are based on data from the University of Nottingham's Centre for Management Buy-Out Research and returns by financial corporations. Investment by foreign parent companies in the loan capital of UK companies in which they have a direct investment stake is also included, based on information from the ONS and Bank of England inquiries. The reliability of the bonds and preference share data as a whole is affected by the rough estimates for some non-market issues and by the difficulty of obtaining market price (as opposed to nominal price) information.

Assets

Transactions in long term bonds by private non-financial companies include their estimated expenditure on preference shares and convertible loan stock when acquiring independent corporations. They also include their portfolio transactions in long term bonds (estimated from the ONS Financial Assets and Liabilities Survey). Figures for transactions by public corporations are taken from their annual accounts.

Sources

Data for banks, building societies and other financial corporations are net transactions taken from inquiries run by the Bank of England, the FSA (Building Societies Commission) and the ONS. Those for other financial corporations are, from 1968, adjusted for estimated costs incurred in transactions and are based on quarterly returns of cash transactions.

Government sector transactions are taken from inquiries to local government and the accounts of central government. They include central government sales of debentures in privatised corporations.

In the absence of any known sources of information, transactions by the household sector in bonds and preference shares are estimated as a constant £10 million a quarter with NPISH being allocated a constant £40 million per quarter.

Rest of the world direct investment transactions in preference shares and loan capital are estimated from the ONS statistics of cross-border acquisitions and mergers and foreign direct investment inquiries. They include injections of loan capital (including preference shares) into UK subsidiaries and the value of preference shares acquired during take-overs of independent corporations. Estimates for the rest of the world sector's portfolio transactions in long term bonds and preference shares are derived as a residual and are obtained as the difference between total UK capital issues and the aggregate of the transactions of all other sectors. Any errors or omissions in the transactions for other sectors (which could be large) are reflected in the residual figure.

F3329 Long term bonds issued by rest of the world

These comprise bonds issued by foreign governments, municipal authorities and corporations as well as rest of the world corporate and unquoted preference shares. Similarly, Eurobonds, medium term notes, debentures and loan stock and preference shares issued by rest of the world private and public sector corporations are recorded here.

Sources

Transactions by private non-financial corporations include their investment in long term bonds. Their figures are derived from the ONS Financial Assets and Liabilities Survey, which collects balance sheet information.

Data for banks, building societies and financial institutions, such as insurance companies, pension funds and securities dealers, are quarterly figures of net transactions. They are taken from inquiries run by the Bank of England, the FSA (Building Societies Commission) and the ONS. Adjustments are made to the

reported figures for other financial institutions to remove the commission charges and other local costs included in the gross acquisition and sales which are not appropriate to the financial account.

Data for the UK government's holdings in the official reserves are supplied by the Bank of England. The quarterly transactions are derived from them.

Transactions by the household and NPISH sectors in rest of the world bonds are based on Inland Revenue data but are subject to a wide margin of error.

The rest of the world figures consist of total UK direct investment in the rest of the world in share capital plus portfolio investment. This liability figure is obtained as the residual, being the total of the figures for the other sectors (which hold these bonds as assets).

F.34 Financial derivatives

In the new system of accounts transactions in derivatives (financial futures, options etc) are to be recorded in the financial accounts and balance sheets. Previously they were treated as contingent liabilities and assets and therefore were excluded. The Bank of England and the ONS have started to collect balance sheet and financial transactions data from banks and other financial institutions and balance sheet results are published in the Blue Book.

F.4 Loans

In the 1995 ESA these are split into short term loans (F.41), normally with an initial term to maturity of one year or less, and long term loans (F.42). As indicated earlier, this split is not fully delineated in the UK data.

F.41 Short term loans

These are normally loans with an original maturity of one year or less. Information on these loans is provided in the UK financial account at a detailed level. This is: sterling loans by UK banks (F.4111); foreign currency loans by UK banks (F.4112); loans by building societies (F.4113) loans by rest of the world MFIs (F.419).

F.411 Short term loans by UK MFIs

These comprise UK banks' and building societies' short term loans in sterling and foreign currency. For ease of presentation, UK banks' and building societies loans are described separately.

UK bank short term loans

The figures comprise lending by banks through advances; loans; the counterpart of banks' liabilities in acceptances of commercial bills and some other paper; and also claims under sale and repurchase agreements of British Government Securities and other paper. They exclude investment in securities. Such loans are made in both sterling (F.4111) and foreign currencies (F.4112). Loans in categories recognised as long-term are excluded here and shown under various sub-headings within long-term loans (F.42). However, the lending included within this item will include some unspecified loans of more than one year original term.

Sources

The figures are compiled by the Bank of England from returns provided by banks. The counterpart sector analysis of loans and advances is obtained from the returns. Adjustments of the types described under UK bank deposits are made to these figures too.

Building society short term loans

This covers the building societies' part of loans by UK MFIs. This sub-instrument comprises advances, net of repayments, of loans not secured on dwellings. The greater part of such lending is to households, but loans to financial and non-financial corporations, including the societies' own subsidiaries, also feature. The figures, including all sector transactions, are drawn from returns submitted by the societies to the FSA (Building Societies Commission).

F.419 Loans by rest of the world monetary financial institutions MFIs)

These comprise loans in both sterling and foreign currency by MFIs in the rest of the world.

Sources

For UK private non-financial corporations, the household sector and other financial intermediaries, the data are received from the Bank of International Settlements and the European Investment Bank.

For securities dealers borrowing from banks abroad, the data comes from quarterly ONS inquiries.

Estimates of UK public sector borrowing from commercial banks are derived from official records.

F.42 Long term loans

The loans recorded here comprise both outward and inward direct investment loans (F4211 and F4212), loans secured on dwellings (F422), finance leasing (F423), other loans (F424) and other loans by the rest of the world (F429).

F.421 Direct investment loans

This is split into outward direct investment loans (F4211) and inward direct investment loans (F4212). Each can be a financial asset or liability of the UK depending on the direction of the loan within the direct investment relationship.

A direct investment in a corporation means the investor has a significant and lasting influence on the operations of the corporation (normally represented by a holding of 10% or more voting shares in the corporation).

F.4211 Outward direct investment loans

Such loans can be an asset or a liability of the UK. Loans provided and received by UK corporations to and from their branches, subsidiaries or associated corporations in the rest of the world are classified as outward direct investment loans. Investment may be for the purpose of acquiring fixed assets or inventories, but that is regarded as a financial transaction in the same way as additions to, or payments of, working capital, other loans and trade credit. Transactions in real estate are not included here but in F.51, Shares and other equity.

Sources

The annual outward direct investment inquiries run by the ONS are sent to all corporations in the oil, and insurance sectors. The remaining private corporations are sampled by value of assets: coverage is over 95 per cent by value of assets.

Estimates for outward direct investment loans by MFIs are derived from quarterly and annual inquiries carried out by the Bank of England.

Public corporations, households and NPISH are not surveyed and are deemed to have no loans between UK parents and overseas subsidiaries.

F.4212 Inward direct investment loans

These figures comprise inward investment in the UK private sector (other than transactions in UK corporation securities which are entered under F.3 or F.5). They can be a liability or an asset of the UK. However, identified inward transactions in real estate are included in F.51 'Shares and other equity'.

Sources

Inward direct investment loans data include figures for direct investment which are obtained from the annual ONS inward direct investment inquiries. These inquiries to private non-MFI corporations have a complete coverage of the oil, and insurance sectors. The remaining corporations are sampled by value of assets: coverage is around 95 per cent by assets. Public corporations are not recipients of inward direct investment.

The figures for banks are obtained from banking sector returns made to the Bank of England. Building societies are not covered since, being owned by their members, they cannot be foreign owned.

Households and NPISH do not have loans between UK subsidiaries and foreign parents.

F.422 Loans secured on dwellings

Loans secured on dwellings comprise loans, net of repayments, made by UK banks (F.4221), building societies (F.4222) and other lenders (F.4229), mainly for house purchase and home improvement. It is assumed that these loans are granted exclusively to the household sector and to housing associations within the non-profit institutions serving households sector.

Sources

Loans secured on dwellings are obtained by sector as follows.

- i The figures for banks and building societies are obtained from returns made to the Bank of England and the FSA (Building Societies Commission). *
- ii For insurance corporations and pension funds the figures are compiled by the ONS from quarterly returns made by a sample of these institutions. ✱
- iii Data for other financial intermediaries' loans secured on dwellings relate mainly to lending by centralised mortgage lenders and the acquisition of mortgage portfolios by loan securitisation subsidiaries of banks and other lenders. Loans made by the Trustee Savings Banks (to end-1981) are also included here.
- iv. Central government loans are those made by central government under the Housing Act, 1961 and the Housing (Scotland) Act, 1962 to private housing associations; loans made by the Housing Corporation to housing societies and loans by new town corporations. The data are obtained from official records;
- v Local government loans secured on dwellings comprise mortgage advances for house purchase and improvements, including loans for the purchase of council houses by tenants and loans to housing associations. Quarterly figures are obtained from returns made to the OPDM and the Welsh Office (Wales). Figures for Scotland are interpolated from financial year totals. (There are no figures for Northern Ireland.)

F.423 Finance leasing loans

The figures show the amounts lent under finance leases by banks and other financial intermediaries, primarily specialist finance leasing subsidiaries of banks. They are calculated as the value of assets leased out under new leases, net of repayments made through the estimated capital element of rental payments by lessees. The total lending of the lessor sectors is obtained from returns made by banks to the Bank of England, from surveys of other financial intermediaries carried out by the ONS and by reference to information collected by the Finance and Leasing Association from its members.

The greater part of the borrowing under this instrument is attributable to non-financial corporations, after allowing for leasing to financial corporations and general government.

The coverage of the figures is limited to leases which are financial in substance. Other forms of lease are operating leases (including hire and rental). These are not regarded as generating transactions in financial instruments.

F.424 Other loans by UK residents

This comprises other loans by: monetary financial institutions, non-financial corporations, including credit extended by retailers; non-MFIs, including insurance corporations and pension funds; central government; local government; NPISH. Such loans made by these sectors, and the data sources for them, are considered separately in the following paragraphs.

Other loans by monetary financial institutions

These relate to long-term loans by UK banks guaranteed by the Export Credit Guarantee Department. Their purpose is to facilitate trade but do not constitute trade-credit as it is not a direct extension of a loan by the supplier.

Other loans by non-financial corporations (excluding credit extended by retailers)

These are picked up as counterparts of loans taken out by what are mainly non-monetary financial corporations.

Credit extended by retailers

The figures relate to hire purchase agreements and to certain other forms of credit including sales on budget accounts, credit sale agreements and personal loans repayable by installments. 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. The figures also exclude monthly accounts and sales on bank credit cards such as Access and Visa (included in bank lending: F.4111) as well as (probably large) amounts of unpaid bills (included in trade credit, F.7, insofar as they are identified) and credit extended by other types of retailer.

Sources

Estimates are derived from the figures of new credit extended and repayments, adjusted to exclude charges, taken from the ONS Retail Sales Inquiry. It is assumed that all credit advanced by retailers is to the household sector and thus the figures represent the debt of individual consumers.

The figures for the public sector represent credit given by public corporations through gas and electricity showrooms (no longer applicable since privatisation).

Other loans by non-monetary financial intermediaries

This item includes installment credit, other loans and advances by finance houses and other consumer credit companies, other than those included in the banks' sector, (excluding loans secured on dwellings) and loans made to their parent organisation by private sector pension funds. Also included are loans made by insurance corporations and by special finance agencies. Loans made by public corporation pension funds to their parent companies are included. Similarly, loans made by local government pension funds to their parent authorities are included. Counterpart figures for groups of institutions are allocated to households, NPISH or non-financial corporations as appropriate.

Sources

Data comes from ONS surveys to such financial institutions, some of which collect a split by counterparty sector (for example, the ONS quarterly survey of the financial transactions of pension funds collects such loans split into: loans to parent organisation; loans to financial institutions; loans to financial corporations; loans to other than financial organisations; loans to other UK residents; and loans to rest of the world).

Other loans by central government

These figures relate to net lending by central government to the following sectors:

- a) building societies - under the House Purchase and Housing Act, 1959;
- b) non-financial corporations - including, from September 1972, shipbuilding credits re-financed from voted funds;
- c) personal sector - miscellaneous loans for education and other services;
- d) rest of the world sector - including net lending to rest of the world governments and to international lending bodies.

Also included is net lending by public corporations to the private sector, other than those secured on dwellings (F.422). This lending is assumed to be to the non-financial corporations sector.

Sources/Quality

The figures are taken from the detailed accounts of central government and public corporations and are of a good quality.

F.429 Other long term loans by the rest of the world

This covers a variety of loans made by the rest of the world to the UK.

For the central government sector it covers sterling liabilities to the rest of the world not included elsewhere. It includes sterling borrowing from governments or from central monetary authorities in the form of assistance with a sterling counterpart invested in Treasury bills (aid bills) and amounts swapped forward into later months against sterling with rest of the world monetary authorities in 1971 and 1972. Transfers from the Government's dollar portfolio into the reserves, gold subscriptions to the IMF, changes in IMF holdings of non-interest bearing notes other than those arising from drawings or subscriptions are also included. The Exchange Equalisation Account's loss on forward commitments entered into before devaluation in 1967 and part of official short-term capital transactions in the balance of payments, together with contributions to the European Coal and Steel Community reserves, are also recorded for the central government sector here.

It also includes loans to local government (both under the exchange cover scheme and non-guaranteed borrowing, excluding bonds), loans to UK corporations and loans by rest of the world banks (including the European Investment Bank) and other institutions. It does not include trade credit: this is included under instrument F.7: Other amounts receivable/payable.

Sources

Data comes from the Bank of England for such loans made to: the private sector by banks in the rest of the world; public corporations; some monetary financial institutions and local government. Information on borrowing by securities dealers and insurance corporations comes from ONS surveys of them. Also included are borrowing by gold dealers and factoring companies. Estimates of loans received by public corporations and local government are of good quality whilst the figures for the private sector, MFIs and security dealers are less reliable.

F.5 Shares and other equity***F.51 Shares and other equity, excluding mutual funds' shares******F.514 Quoted UK shares***

Quoted UK shares comprise shares listed on the London Stock Exchange, in the full market, the Unlisted Securities Market (until end-1996 when the USM closed) and the Alternative Investment Market (from the middle of 1995, when it opened).

There are some discontinuities in UK company securities prior to 1990 and these are mentioned at the end of this section.

Sources

Estimates are compiled from a variety of sources, including the London Stock Exchange, Bank of England and ONS statistical enquiries.

Liabilities

Estimates for new market issues, including issues listed on the Stock Exchange are compiled by the Bank of England. All figures are net of share buy-backs.

Issues by quoted UK corporations relate to new money raised through ordinary shares (public issues, offers for sale, issues by tender, placing and issues to shareholders and employees). Issues to shareholders are included only if the sole or principal share register is maintained in the UK. Estimates of issues are based on the prices at which shares are offered on the market. Subscriptions are included in the periods in which they are due to be paid.

Shares issued by an acquiring company as part of a takeover are included as new issues of shares. The acquiring company is also shown as purchasing the existing shares of its target. Shares issued as a part of a capital restructuring, or when a company demerges are not shown as new issues. New shares issued to employees under employee share schemes are also included. Most of these data come from ONS or Stock Exchange sources.

Assets

The share register survey is an annual sample survey of the share registers of listed UK corporations. It is an important source for assets. It was run annually between 1989 and 1994 and since 1997. It provides end-year estimates of the sectoral breakdown of holdings of quoted ordinary shares. It is used as a benchmark for estimates of insurance corporation and pension funds, industrial and commercial companies, households, NPISH and for the rest of the world. It is also used to derive a grossing factor for overseas portfolio transactions in ordinary shares. The figures used here in the financial account take account of the reliability of the survey estimates, as measured by sampling errors. Share ownership is published on the National Statistics website.

Financial transactions recorded here include the take-up of new issues which are not separable from secondary transactions.

Sources

Transactions by private non-financial corporations include their estimated expenditure on acquiring independent corporations and subsidiaries from other sectors. It also includes their transactions in current assets (estimated from the ONS Financial Assets and Liabilities Survey) and other identified transactions in the press. Figures for public corporations are taken from surveys of them and from their accounts.

Data for secondary transactions by banks, building societies and other financial corporations are net transactions (that is, acquisitions net of realisations). Those for other financial corporations are adjusted for estimated costs incurred in share transactions and are based on quarterly returns of cash transactions.

Transactions by the public sector are taken from enquiries to local government and the accounts of central government. They include privatisations when these take the form of quoted shares.

Transactions in shares by the household and NPISH sectors are derived as a residual and are potentially subject to a wide margin of error. A survey of Charities in 1996 indicated that their holdings of UK and overseas equities amounted to £14.7 billion at the end of 1994. This was used to inform the allocation between Households and NPISH sectors in the ratio 20:80 for their transactions in these assets.

Figures for the rest of the world sector transactions come from various sources, including the benchmark share register survey, short-term surveys on investment by non-residents using UK banks and securities dealers, and direct investment inquiries. The assets shown here of the rest of the world include profits generated by UK subsidiaries which are not remitted to the rest of the world parent corporation. They are treated as re-invested earnings.

***F.515 Unquoted UK shares and other equity
(including re-invested earnings on inward direct investment)***

Unquoted UK shares are tradable or potentially tradable financial instruments issued by UK corporations. Figures are compiled from a variety of sources including the Bank of England and the ONS statistical inquiries.

Liabilities**Sources**

Issues by UK companies are based on information from returns by financial corporations, the University of Nottingham's Centre for Management Buy Out Research and the Bank of England's monitoring of press and other sources. Investment in the share capital of UK subsidiaries by rest of the world parent corporations is also included here, based on information from the ONS direct investment inquiries. (However, investment by rest of the world parent corporations in loan capital is included in long term bonds F.3324).

Quality

The reliability of these data is influenced by the rough estimates for some unquoted issues.

Assets

Transactions in UK assets comprise all those which can be identified. They include the take-up of new issues which are not separable from secondary transactions.

Sources

Figures for private non-financial corporations include their estimated expenditure on acquiring independent companies and subsidiaries from other sectors (including the public corporations sub-sector). It also includes their transactions in current assets (estimated from the ONS Financial Assets and Liabilities Survey) and sales of subsidiaries to other sectors, including rest of the world acquisitions by rest of the world corporations (from the ONS statistics of domestic and cross border acquisitions and mergers). Data for transactions by public corporations are taken from their accounts.

Transactions by banks, building societies and other financial intermediaries are acquisitions net of disposals. Those for other financial intermediaries are, from 1968, adjusted for estimated costs incurred in share transactions and are based on quarterly returns of cash transactions.

Figures for the public sector are taken from enquiries to local government and the accounts of central government. They include privatisations when these take the form of selling unquoted shares, for instance through trade sales. Also included are withdrawals of equity from public corporations, for example the proceeds from the sale of subsidiary passed to government, and payments by the Bank of England to government arising from the revaluations of Department assets.

The estimates of transactions in unquoted shares by the household and NPISH sectors are derived as a residual and are subject to a wide margin of error.

Transactions by the rest of the world sector in unquoted shares come from various sources, including surveys run by the Bank of England and the ONS direct investment inquiries. They include inward direct investment in the share capital of unquoted subsidiaries (including re-invested earnings), acquisition of unquoted independent UK companies and subsidiaries from UK corporations and portfolio investment in venture capital funds and the unquoted shares of other financial institutions.

F.517 By UK residents shares and other equity

There is no breakdown available of Quoted shares (F514), Unquoted shares (F515) and securities (Bonds) (F3326) prior to 1990. A new transaction (F517) has been set up to contain the aggregate of these transactions for 1987 to 1989, and the individual transactions (F514, F515, and F3326) have been set to zero.

F.519 Rest of the world shares and other equity

This sub-category comprises shares and tradable or potentially tradable financial instruments issued by foreign corporations and quasi-corporations. It also includes subscriptions to international organisations which the ESA describes as government investments in the capital of international organisations which are legally constituted as corporations with share capital. An example is the European Investment Bank.

Transactions in non-UK real estate are also included here as the national accounts' and balance of payments' standards state that a resident of one country cannot be said to own real estate in another. The owners of land or buildings in a country are deemed to be notional residential units of the country where they are located. The actual foreign owners of the real estate are regarded as having made a financial investment, akin to shares and other equity, in the country and this is shown in this category.

Sources

Figures for 1963 to 1979 relating to shares and tradable financial instruments were based partly on exchange control returns and partly on a Bank of England inquiry. Transactions by the central government comprise the sale of Suez Canal shares in 1976 and 1979.

Currently figures for transactions in shares and financial instruments for monetary financial institutions are obtained from a Bank of England inquiry (which is supplemented by an annual balance sheet inquiry). Estimates for other financial intermediaries, financial auxiliaries and insurance corporations and pension

funds are based on quarterly ONS surveys of transactions. A deduction from the reported figures which represents an estimate of the costs incurred in share transactions is made for all sectors. The figures include estimates of direct investment in the form of shares.

Figures for private non-financial corporations are for direct investment in the form of shares as well as for other investment: the latter are derived from an ONS inquiry collecting balance sheet information.

The estimates for transactions by the household sector are based on Inland Revenue data but are subject to a wide margin of error. A survey of Charities in 1996 indicated that their holdings of UK and overseas equities amounted to £14.7 billion at the end of 1994. This assisted the allocation between Households and NPISH sectors for transactions in these assets, the ratio obtained being 20:80.

The rest of the world sector figures consist of total UK direct investment in the rest of the world in share capital plus portfolio investment in rest of the world shares and similar financial instruments.

Figures for foreign households' transactions in real estate in the UK are estimated by the Inland Revenue from stamp duty information. The transactions in real estate are believed to be carried out mainly by individuals resident abroad.

Estimates for UK investment in real estate in rest of the world are obtained from quarterly and annual inquiries carried out by the ONS. Most of the property investment is carried out by pension funds and insurance corporations. There is little information on UK households' purchases of real estate abroad.

F.52 Mutual funds' shares

This is sub-divided into UK mutual funds' shares (F.521) and rest of the world mutual funds' shares (F.529).

F.521 UK mutual funds' shares

These comprise unit trusts, investment trusts and property unit trusts and Open Ended Investment Companies (OEICs) and each is discussed separately in the follow paragraphs.

Unit Trust Units

Currently these statistics cover unit trusts authorised by Financial Services Authority (formerly the Securities and Investments Board under the terms of the Financial Services Act 1986. They do not cover other unitised collective investment schemes (e.g. unauthorised funds run on unit trust lines by, for example, securities firms and merchant banks, designed primarily for the use of institutional investors) or those based offshore (Channel Islands, Bermuda etc.) or in other EC Member States.

The majority of unit trusts are required to invest at least 90% of their assets in transferable securities traded on a recognised stock exchange. However, money market trusts are permitted to invest wholly in cash or near cash instruments (such as building society and bank deposits, Treasury bills, short dated British government securities etc.).

Unit trusts are set up under trust deeds, the trustee usually being a bank or insurance company. The trusts are administered not by the trustees but by independent management companies. Units representing a share in the trust's assets can be purchased by the public from the managers or resold to them at any time.

Sources

Figures for sales less purchases of authorised unit trust units are provided by the Investment Management Association (IMA). Unitisations of investment trusts are excluded. Quarterly returns to ONS from insurance corporations, pension funds, unit and investment trusts provide data for this sector's transactions: all other transactions are assumed to be with the personal sector. Sales are measured at market prices less an estimate of the initial charges that are included in the offer price of the units and cover the fund managers' expenses.

The ONS inquiries to insurance corporations and pension funds collect some data for these assets: for pension funds this includes quarterly transactions in unauthorised UTs, that collected from insurance corporations is just annual balance sheet data. Insurance corporations are also required to submit quarterly transactions data to ONS from 1997.

Investment trusts

Investment trust companies acquire financial assets with money subscribed by shareholders or borrowed in the form of loan capital. They are not trusts in the legal sense, but are limited companies with two special characteristics: their assets consist of securities (mainly ordinary shares), and they are debarred by their articles of association from distributing capital gains as dividends. Shares of investment trusts are traded on the Stock Exchange and increasingly can be bought direct from the company.

Sources

The figures cover investment trusts recognised as such by the Inland Revenue for tax purposes and some unrecognised trusts. Returns are received from a sample of companies accounting for about 60 per cent of the total assets of these trusts. Since 1992 quarterly and annual returns have been collected by the ONS. (Previously they were collected by the Bank of England.) As from end-1979 the data received are grossed up to include estimates for non-respondents.

Holdings of quoted securities at end-year are valued at market prices. Unquoted securities are at estimated current values and bills and mortgages at maturity values. The figures include the investment currency premium where appropriate, up to third quarter 1979. Liabilities data are obtained from the Bank of England.

Property Unit Trusts

The data are for all UK property unit trusts authorised under the terms of the Financial Services Act, 1986. The trusts are not allowed to promote themselves to the general public and participation is generally restricted to pension funds and charities. Property unit trusts invest predominantly in freehold or leasehold commercial property, yet may hold a small proportion of their investments in the securities of property companies. Their assets are held in the name of a trustee and are managed on a co-operative basis by a separate committee (elected by the unit holders) or company. Some investment is financed by long-term borrowing.

Sources

Data of a sample of unit trusts and investment trusts have been collected since 1966 and data on levels of assets and liabilities from end-1979. Returns are made by a sample of property unit trusts to the ONS every quarter. The figures include estimates for non-response.

Data on transactions acquisitions and realisations of mutual fund shares/units insurance companies and pension funds are collected each quarter in the ONS 'Transactions in financial assets' inquiry which is sent to a sample of such institutions. The transactions of charities, which are allocated to the NPISH sector, and households are estimated as the residual.

Open Ended Investment Companies F523

Open Ended Investment Companies (OEICs) gained legal status in the UK in January 1997 and the first was launched in May 1997. An OEIC is a cross between a unit trust and an investment trust, being similar to unit trusts in investment terms but governed by company law. It features single rather than dual pricing. During the initial months, of 1997, UK OEICs could only be set up as securities funds. However, later in 1997 the concept was extended to other types of fund, including cash funds, property funds, derivative funds and umbrella funds. A number of large unit trusts have converted to OEICs during 1998. However, data continue to be included within those for unit trusts.

Rest of the world mutual funds' shares F529

Some data are available from the ONS on counterparty to the households sector. New questions are also being inserted on current ONS inquiries to insurance corporations, pension funds, unit and investment trusts to collect information on rest of the world mutual funds.

F.6 Insurance technical reserves

These reserves are the technical provisions of insurance corporations and pension funds to meet future claims by policy holders or beneficiaries. This category shows all transactions in them. It has two sub-categories: net equity of households in life insurance reserves and pension fund reserves (F.61) and prepayments of insurance premiums and reserves for outstanding claims (F.62).

F.61 Net equity of households in life insurance reserves and pension funds' reserves

For life assurance and pension funds this figure represents the net surplus of current income over current expenditure of these funds. In the national accounts the life assurance and pension funds are regarded as the property of the household sector, but the investments of the funds (including purchases of property) are included in the transactions of the financial corporations (insurance corporations and pension funds sub-sector). In order to maintain the articulation of the account, the funds' surplus is shown as an increase in the household sector's financial claim on insurance corporations and pension funds.

Sources

Estimates of the net increase in these funds are taken from their revenue account which is collected through ONS surveys each quarter to a sample of these institutions. Quarterly returns of investment by insurance companies and pension funds are similarly made by the sample of institutions to the ONS.

Transactions concerning certain public sector pension schemes are also represented here. These are net receipts by the central government in respect of those public sector schemes for which a notional pension fund is maintained, primarily the NHS and teachers' superannuation schemes. These receipts are taken from the financial account of central government, and are regarded as part of the personal sector's claims on the central government.

F.62 Prepayments of insurance premiums and reserves for outstanding claims

This represents the amounts already paid in insurance premiums against cover for periods that extend beyond the current year. This reflects the fact that, for example, most annual household payments of premiums do not fall due on 1 January each year. Thus a premium paid on 1 December will be received in the current year but most of the period during which risks are covered will be in the following calendar year. So the majority of the premium paid on 1 December will be part of the pre-paid premium reserves of insurance corporations at the end of the current year.

The prepayments of insurance premiums are the financial assets of policy holders. If these prepayments relate to life insurance the policy holders are resident or non-resident householders. If they relate to non-life insurance then the policy holders may belong to any section of the economy or to the rest of the world. Similarly, insurance companies have other technical reserves including reserves relating to claims from policy holders which they have not yet paid out on. These reflect claims that are being processed and claims for that have not yet been made but which occurred during the current year. For example, they may relate to theft or damage that the policy holder has not yet discovered or events occurring at the very end of the year which have not yet been reported to the insurance company.

Sources

Data for this comes from the ONS surveys to insurance corporations and pension funds and the statutory returns made by insurance corporations to the UK supervisory authority (the Department of Trade and Industry until 1998 subsequently HM Treasury and the Financial Services Authority which is the supervisory authority for insurance corporations in the UK. Use is also made of the ONS Family Expenditure Survey to identify the amounts that households are spending on the different types of insurance.

Other accounts receivable/payable F7

This category consists of all transactions in other amounts receivable/payable, that is, financial claims which are created as a counterpart of a financial or a non-financial transaction in cases where there is a timing difference between this transaction and the corresponding payments. One component of this category is trade credits and advances; the other includes various items.

Domestic trade credit

This relates to identified trade credit only. Omissions are likely to be substantial, thus reducing the quality of these data. The domestic trade credit shown is mainly that given and received by public corporations and certain financial institutions and central government. An estimate of trade credit given to local government is also included from 1989 and transactions in connection with advance payment of fuel bills are included from 1994.

Sources

Data for public corporations are derived from quarterly returns made by them to the ONS. Before 1972 the information was obtained from their annual accounts. The household sector allocation represents a proportion of unpaid bills to utilities prior to privatisation. The residual sector is private non-financial corporations. Transactions related to advance payment for British National Oil Corporation oil are included from the first quarter of 1980.

Identified trade credit given and received by insurance corporations and pension funds is included here too. Insurance corporations' outstanding premiums, claims admitted but not paid, agents balances, and reinsurance, co-insurance and treaty balances are included. For pension funds and long-term insurance funds the counterpart sector is the household one, but for other insurance corporations the counterpart sectors are the household and the private non-financial corporations ones.

The household sector allocation represented a proportion of unpaid bills to utilities prior to privatisation (up to the second quarter of 1991), there are no data for these after privatisation. It also includes, for 1994-1996, the trade credit arising from pre-payment of fuel bills in advance of the introduction of VAT on fuel, based on data from the ONS's Financial Assets and Liabilities Survey. For this private non-financial corporations are the debtors and households the creditors.

No estimates are made for other types of trade credit, in particular that between the private non-financial corporations and household sectors, variations in which are probably sizeable. (This subject is discussed in Economic Trends, September 1992.)

Import and export credit

These currently comprise suppliers' trade credit and associated advance and progress payments on exports and imports. These include those financed by the Crown Agents, by insurance companies and long-term credit linked to purchases of ships and commercial aircraft. It includes refinanced export credit. It does not include import credit of public corporations, but does include advance payments by such corporations.

However, trade credit between UK corporations and rest of the world parents, branches, subsidiaries and affiliates corporations are covered indistinguishably within outward and inward direct investment loans (F.4211 and F.4212).

Other amounts receivable/payable

These are financial assets which arise from timing differences between distributive transactions or financial transactions on the secondary market and the corresponding payment. It includes some financial claims stemming from income accruing over time, where such claims cannot be reallocated to the correct financial instrument from which they were derived.

The main component here is the timing difference between taxes being accrued and the actual cash payment to general government.

Net acquisition of financial assets FA

This figures represent the net acquisitions less disposals of all the financial assets in the financial account.

Net incurrence of liabilities FL

This represents the total net incurrence of liabilities in the financial account.

B.9 Net Lending/Net Borrowing

This represents the balance for the financial account: the difference between the net acquisition of financial assets and the net incurrence of liabilities.

Assembling the UK financial transactions and balance sheets for the ESA95 financial instrument classification

Section B described how the database of time series used to assemble the financial transactions and balance sheets holds information at a greater level of detail than can be seen in the published accounts. Each “sub-instrument” in the old system has been allocated to the most appropriate ESA95 financial instrument, and therefore there is no simple mapping from the old financial instrument classification to the ESA95 instrument classification. In most cases this reallocation has been implemented from the first quarter of 1987, though there are three important instances where, because of lack of data, there are discontinuities in the reallocation:

UK company securities:

Prior to 1990 the transactions for bonds (F3326) quoted shares (F514) and unquoted shares (F515) are only available as an aggregate. This aggregate for three transactions has been placed in F515- which is in fact the smallest component, so that the discontinuity is obvious.

Building Society data:

Reporting arrangements for building societies were reviewed in 1992 and 1998 following the passage of Building Society Acts in the preceding years. Revised supervisory and statistical returns were introduced, reflecting the increasing range of the societies’ permitted funding, lending and investment activities. Data series for us periods before 1992 which had come to cover a number of minor liability and asset types had been allocated by ONS to the most appropriate instrument in the financial accounts, or to miscellaneous instrument categories which are no longer available in ESA95. In the latter case the data series have been classified for ESA95 to the instrument which, in the light of the additional information available for later periods, appears to correspond to the preponderant component.

Official Reserves:

Prior to 1995, it is not possible to separately identify official reserves (reserve assets) balance sheets and transactions for deposits (F229), money market instruments (F3319) and bonds (F3329). The aggregate for these three instruments has been placed in bonds (F3329).

Part

I

Financial Statistics

(comprising Chapters 1 to 7)

Introduction

Table 1 - gives summary of various economic indicators.

The rest of this Chapter relates to the public sector finances. Following summary **Table 1.1A** on the key Public sector fiscal indicators there are details of public sector net borrowing **Table 1.1B**. Central government surplus on current budget and net borrowing are shown in **Table 1.1C**. Public sector net debt at nominal values are shown in **Table 1.1D**. **Table 1.1E** shows details of the public sector net cash requirement including a sectoral breakdown. **Table 1.1F** shows a reconciliation of all the key public sector fiscal aggregates[Financing of the net cash requirement (was previously called the borrowing requirement) of central government **Tables 1.2A to 1.2D**, of local government **Tables 1.3A to 1.3D** and public corporations **Table 1.4A**. UK international reserves are shown in **Table 1.2I**.

Public sector tables 1.1A to 1.1F Background

In the *Economic and Fiscal Strategy Report (HM Treasury, June 1998)* the Government presented a new format for the presentation of public sector finances statistics that corresponds more closely to its fiscal objectives and the national accounts. Two strict fiscal rules were introduced:

- the golden rule, which states that, on average over the economic cycle, the Government should borrow only to invest and not to fund current expenditure. So to accord with this rule, the average surplus on current budget over the cycle should be positive;
- the sustainable investment rule. This requires that public sector net debt, as a proportion of Gross Domestic Product (GDP), will be held, over the economic cycle, at a stable and prudent level.

One of ONS's key objectives is to make information available against which government policies can be monitored and judged. ONS publishes two First Releases relating to public sector finance statistics- the Monthly - *Public Sector Finances (PSF)* and the quarterly *Public Sector Accounts (PSA)* . They make information available in the new format to help monitor fiscal policy effectively.

The ONS published the Public Sector Finances release for the first time on 16 June 1998. This replaced the old PSBR First Release. It showed the PSBR under its new name the *public sector net cash requirement*.

On 23 June 1998 ONS published the quarterly Public Sector Accounts First Release for the first time. On 16 July 1998 ONS expanded *Public Sector Finances* to include public sector net borrowing as well as all the information previously shown on the net cash requirement. Since January 1999 the *Public Sector Finances* has also included public sector net debt. On 26 February 1999, ONS published its First Provisional Public Sector Accounts First Release. (This is now no longer published, as the monthly *Public Sector Finances* release includes monthly details of all the key indicators). On 18 November 1999 ONS expanded the PSF release to include monthly information on public sector surplus on current budget and net investment. Details of the income and expenditure determinants on central government net borrowing were also introduced into the release.

Changes to the structure of the published public sector finance statistics have been made to reflect the change of emphasis and to enable progress against the Government's fiscal rules to be assessed. Greater emphasis is now given to public sector net borrowing, which is the key indicator for assessing the overall fiscal impact of the public sector, and the surplus on current budget, which, along with public sector net debt is published monthly in the PSF Release. The development of the new monthly indicators has been reflected in piecemeal changes to *Financial Statistics*. In July 2000 section one of *Financial Statistics* was restructured to reflect these changes more systematically. All information previously published is still available, along with a new table showing detailed monthly data on public sector net debt and tables showing details of the central government surplus on current budget. The new format is discussed below.

As detailed in the 20th July *Public Sector Finances First Release*, the *Public Sector Finances* have a new revisions policy that allows all periods to be open for comprehensive revision. As a result of this the quarterly *Public Sector Accounts First Release*, which was published with national accounts about 12 weeks after the end of

★

★ denotes commencement of changes since the 2004 edition ✂ denotes the end of the changes

1 Public sector finance

the latest quarter reported is no longer necessary and has been discontinued. The Public sector accounts First Release was last published on 30 June 2004



Table 1- Selected financial indicators

Table 1 was amended so that the public sector net cash requirement was replaced by public sector net borrowing reflecting the importance of net borrowing as a key fiscal indicator.

Table 1.1A - Public sector finances: Key fiscal indicators

Table 1.1A shows information on all the key public sector finance statistics. The government's key fiscal indicators have been given far greater prominence, reflecting more closely the structure of the *Public Sector Finances* and *Public Sector Accounts* first releases. Details of the components of the series in the table are shown in the following tables in this section.

Table 1.1B Public sector net borrowing

Table 1.1B shows the sectoral breakdown of public sector net borrowing. A key aspect of the new format is the prominence it gives to public sector net borrowing, a measure consistent with and ESA 95. Public sector net borrowing is the difference between the accrued income and expenditure of the public sector. Public sector net borrowing is the Government's preferred measure of the short term impact of fiscal policy on the economy, and the general government sector's contribution is reported to the European Commission under the requirements of the Maastricht Treaty. A more detailed description of net borrowing can be found under **Section 2.3**.

Table 1.1C – Central government surplus on current budget and net borrowing

Table 1.1C shows annual (calendar and financial year) quarterly and monthly, details of the income and expenditure determinants of central government net borrowing and the surplus on current budget.

Taxes on production. This series includes Value added tax, tax on tobacco, hydrocarbon oils, stamp duties, National non domestic rates and various other taxes. The biggest component, VAT, is also shown separately.

Taxes on income. Included here are taxes on income and taxes paid by corporations. This includes Capital Taxes Series

Other taxes. Included in this series are motor vehicle taxes paid by households and inheritance tax.

Compulsory social contributions. These are National Insurance Contributions.

Interest and dividends. These are receipts of interest and dividends to central government.

Other receipts. These include rent and other current transfers, including oil royalties and the 3rd generation mobile phone spectrum net receipts.

Interest. This is interest paid by central government to the private sector and the rest of the world.

Net social benefits. Includes Social security benefits and other benefits paid to households by central government.

Other current expenditure. This includes current expenditure on goods and services, subsidies, current grants within general government and some other current transfers.

Gross saving is derived by subtracting total current expenditure from total current receipts, the surplus on current budget is then derived by taking account of depreciation. A more detailed description of the surplus on current budget can be found under **Section 2.3**.

Table 1.1D - Public sector net debt: nominal values at end of period

Table 1.1D shows detailed components of Public sector net debt. The table gives a breakdown of the sterling and foreign currency components of central government gross debt, total local government and public corporations gross debt as well as general government and public sector consolidated gross debt. Details of public sector liquid assets are also shown, which are netted off public sector consolidated gross debt to derive public sector net debt. The sustainable investment rule (discussed above) requires public sector net debt to be measured as a proportion of GDP. Hence this requires an estimate of GDP to be available covering the period from six months before to six months after. An entirely mechanical procedure is used to derive GDP figures for those periods where national accounts information is unavailable, and to produce monthly GDP figures. The procedure computes the quarterly growth rate implied by the Treasury's latest published forecasts of financial year money GDP, and applies those growth rates to the latest quarterly GDP figure published by ONS. Monthly GDP figures are the quarters divided by three. More information on public sector net debt is given in **Section 2.3**.

Table 1.1E Public sector net cash requirement

Table 1.1E is the same as previous **Table 1.1A**, showing the sectoral breakdown of the public sector net cash requirement, both seasonally (with financial year constraint) and not seasonally adjusted.

The *public sector net cash requirement* indicates the extent to which the public sector borrows from other sectors of the economy and the rest of the world to finance the balance of expenditure and receipts arising from its activities. In contrast to the accruals-based net borrowing, the flows that count towards the Public sector net cash requirement are measured on a cash basis (with a minor exception of interest on National Savings instruments). As well as current and capital account transactions, the Public sector net cash requirement also takes into account certain financial transactions, such as loans to the private sector, and the net acquisition of company securities. The Public sector net cash requirement can be defined in terms of the receipts and expenditure of the consolidated public sector accounts, but it is usually more helpful to consider it in terms of the net cash requirements of the sub-sectors of the public sector: central government, local government and public corporations. In practice, the local government and public corporation borrowing requirements are measured from the financing items rather than their receipts / expenditure because this information is more timely and is regarded as more reliable. Part of the central government net cash requirement is needed to finance central government on-lending to local government and public corporations.

The Public sector net cash requirement can be built up as the central government net cash requirement on own account *plus* the local government net cash requirement and the public corporation net cash requirement. Alternatively the Public sector net cash requirement may be regarded as the total central government net cash requirement *plus* the local government and public corporation 'contributions' to the Public sector net cash requirement, where 'contribution' is defined as borrowing (other than direct borrowing from central government), *less* net purchases of other public sector debt (i.e. for local government: central government and public corporation debt; for public corporations: central government and local government debt).

Tables 1.2A, 1.3A, and 1.4A show the financing of the Central Government, Local Government and Public Corporations net cash requirements respectively.

Seasonal adjustment

The seasonally adjusted series are constrained so that financial year totals are equal to the financial year totals of the unadjusted series. Central government uses the financial year as its accounting year for planning and control and the forecasts of Public sector net cash requirement and its components which are

1 Public sector finance

published each year in the *Financial Statement and Budget Report* are for financial years. The financial year constrained seasonally adjusted series should be used when the quarterly outturns during the financial year are compared with these forecasts.

Table 1.1F Reconciliation of public sector finance statistics

This table shows how all the key public sector fiscal aggregates relate to each other. The table shows how public sector net borrowing relates to the surplus on current budget and also shows details of the various financial transactions needed to derive public sector net borrowing from the public sector net cash requirement.

Net cash requirement: This was previously known as the public sector borrowing requirement (PSBR) and comprises the net cash requirements of central government, local government and public corporations. The public sector net cash requirement is detailed in **Table 1.1E**.

Net lending to private sector and rest of world: Includes loans secured on dwellings and inter-government loans to overseas governments and drawings from UK subscriptions to international lending bodies.

Net acquisition of company securities: Includes receipts from sales of assets, including privatisation proceeds, plus some privatisation -related lending.

Accounts receivable/payable: Accounts receivable/payable are the difference between the accrued transactions recorded in the current account and the associated cash flows. They are largely the result of changes in the amounts due to the government in taxes and social security contributions.

Miscellaneous financial transactions: Includes third party deposits in public accounts, the national accounts statistical adjustment item, trade credits and some other financial transactions.

Net borrowing: Public sector net borrowing is the difference between the accrued income and expenditure of the public sector. Further details are given under **Section 2.3**.

Timeliness

Monthly estimates of public sector net borrowing, surplus on current budget, net debt and net cash requirement are released in the joint HM Treasury/ONS *Public Sector Finances* First Release fourteen working days in arrears. Figures issued in *Public Sector Finances* are provisional and subject to later revision. The monthly net borrowing figures, surplus on current budget, and components, are revised quarterly to bring them into line with the actual quarterly national accounts data. Forecasts are published at Budget time in the *Financial Statement and Budget Report*.

Producing the figures

Monthly net borrowing is estimated by producing figures for each of the components that reconcile the difference between net borrowing and the net cash requirement. The public sector totals are shown in **Table 1.1F**.

For some, there are monthly data that provide an accurate approximation: such as central government transactions in company securities (estimated from privatisation proceeds) and lending to private sector (estimated from data on student loans and launch aid loans to the aerospace industry). The statistical adjustment item is assumed to be zero.

The most difficult component to estimate is that for accounts receivable/payable. These represent the differences between accrued and cash measures of the various accrued flows in national accounts. For monthly net borrowing, they are estimated separately using a variety of methods that depend mainly on how the accrued figures are produced. Some accrued figures are only available quarterly and so are not ready in time for the monthly net borrowing calculation. Cash figures are available. So, in several cases, the technique is to estimate the accrued figure for the latest period by taking the accrued figure for the same period in the previous year and updating it by a moving average percentage change in the cash.

The surplus on current budget is obtained by subtracting net borrowing from an estimate of net investment. For central government this is checked against some monthly data for some current and capital transactions. Details are shown in **Table 1.1C**.

Public sector net debt is built up by first calculating the public sector's financial liabilities that are related to the financing items of the Public sector net cash requirement (PSNCR). These are scored at face value. Liquid assets, mainly foreign exchange reserves and bank deposits, are then subtracted to reach net debt. The latest net debt data are calculated from the latest available measurement of the stock of public sector financing liabilities and liquid assets, and adding the change since then implied by PSNCR. This method is refined by taking account of some other adjustments, such as revaluations of the foreign exchange reserves due to currency exchange rate movements, and discounts/premia on the nominal price of debt issued.

The monthly net cash requirement is calculated from monthly data on: central government cash flows recorded by HM Treasury public sector bank and building society deposits and borrowing collected by Bank of England; the financial transactions of local government from Office of the Deputy Prime Minister (ODPM) some public corporations' financial transactions collected by ONS.

Further references

The National Statistics website has a Public Sector accounts page

Public Sector Finances and Public Sector Accounts First Releases

Further information on Public Sector Accounts is available on the National Statistics website at <http://www.statistics.gov.uk/psa>

Monthly Statistics on Public Sector Finances: A Methodological Guide (published 19 January 1999).

A forecast of public sector net borrowing, surplus on current budget, net debt and net cash requirement and how the data are made up are published at Budget time in the *Financial Statement and Budget Report*.

An article describing the new presentation of the public finances, appears in the July 1998 issue of *Economic Trends*.

The new presentation of the public finances is outlined in the *Economic and Fiscal Strategy Report* (published by HM Treasury, 11 June 1998).

Details outlining the changes to the presentation of public finances appears in ONS Press Release 'New First Releases on Public Finances Data' ONS (98) 165 (published on 11 June 1998).

Note on Special Data on Dissemination Standard (SDDS) Government Operations

As from June 1999 a new data set was made available on the ONS Time Series Data.

Table 1.2A Financing of the central government net cash requirement

Table 1.2A shows the main financial instruments through which the central government borrows to finance the central government net cash requirement. The Table gives details of the changes in the financial liabilities and assets of the central government which in aggregate match the net cash requirement.

Sign convention In **Table 1.2A** increases in assets are shown as negative, decreases as positive.

1 Public sector finance

Coin. The change in amounts of coin in issue.

Treasury bills. The change in Treasury bills outstanding excluding those held by government departments and the National Debt Commissioners. The change in Treasury bills outstanding also excludes changes in those holdings of the rest of world monetary authorities that are the counterparts of central bank assistance in support of the reserves in the form of swaps against sterling, these changes form part of other government overseas financing. **Table 1.2B** provides further details on Sterling Treasury bills.

British government securities. Total cash issues of British government and government-guaranteed securities less redemptions. **Tables 1.2C and 1.2D** provide further details.

National savings. This item comprises the total contribution to the financing of the central government net cash requirement from National Savings as shown in **Table 1.2A**.

*

✱

Tax instruments. These consist primarily of certificates of tax deposit - net receipts from deposits less withdrawals plus items in transit. These certificates were introduced in October 1975 (see notes to **Table 1.2G**). Prior to then tax instruments consisted of tax reserve certificates and tax deposit accounts.

Loans from MFIs. This consists of various forms of lending by monetary financial institutions to central government.

Cost of exchange cover scheme on repayment of principal. Certain foreign currency borrowers - primarily public corporations but also local authorities and some private sector companies (particularly privatised former public corporations) - had access to the exchange cover scheme under which central government guaranteed to cover and addition to the sterling cost of interest payments and repayments of the loan arising from a fall in exchange rate between the time the loan is negotiated and time it is repaid (conversely central government would benefit in the event of sterling appreciation). Losses and gains arising on interest payments are included under central government expenditure. Only the cost of guaranteeing repayments of interest is recorded in **Table 1.2A**.

It is important to note that, in practice, no payments as such occur, i.e. the exchange losses or gains are purely notional. Under the exchange cover scheme, the beneficiary is entitled to purchase the foreign currency needed to repay the loan (interest) at the original exchange rate from the Exchange Equalisation Account. However, in the local government, the public corporations and company accounts (**Tables 1.3A and 1.4A**) repayments of borrowing are shown at the current market exchange rate in line with the balance of payments statistics. The item cost of exchange cover scheme on repayments of principal is needed as an adjustment to bring the figures back to an original exchange rate basis. A charge is made by central government for the guarantee. This is included under central government receipts of interest and dividends etc.

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 and building society advances to the Northern Ireland central government. Borrowing by the Northern Ireland government under the exchange cover scheme is included under government foreign currency debt.

Deposits with central government by other sectors. This item comprises ways and means advances by many former Public (National Coal Board, British Gas Corporation, Crown Agents Holdings and Realisation Board); repayments by the Fund for the Banks for Savings to the Trustee savings banks; deposits by public corporations with the National Loans Fund; balances of certain trading funds with the Paymaster General; deposits with Courts and with the Insolvency Service Investment Account.

Government foreign currency debt. This heading includes foreign currency borrowing by HM government under bank euro-dollar facilities from governments and central monetary authorities abroad (including foreign currency deposits), issues and redemptions of British government foreign currency bonds, drawings

by the International Monetary Fund (IMF) and borrowing by the Northern Ireland central government from the European Investment Bank under the exchange cover scheme. HM government's dollar floating rate note issue are also included here.

Other government overseas financing. This item covers all central government transactions with overseas not elsewhere included, such as sterling borrowing from governments or from central monetary authorities in the form of assistance with a sterling counterpart invested in Treasury bills (aid bills), amounts swapped forward into later months against sterling with overseas monetary authorities in 1971 and 1972, transfers from the Government's dollar portfolio into the reserves, gold subscriptions to the IMF, changes in IMF holdings of no-interest bearing notes other than those arising from drawings or subscriptions, allocation of Special Drawing Rights (SDRs), the Exchange Equalisation Account's loss on forward commitments entered into before devaluation in 1967

National Investment and Loans Office (NILO) lending. Indirect lending to public corporations; and payments by nationalised industries to central government for the redemption of their government guaranteed stock at maturity.

Net change in official reserves. Changes in sterling value due to exchange rates (revaluation) are excluded.

Deposits with monetary financial institutions. Deposits with banks and building societies.

Deposits with banks. These figures are deposits by central government with the banks sector and are obtained from the banks sector statistics. (See also the note below re deposits with building societies).

Deposits with building societies. These figures are deposits by central government with building societies and are obtained from the *Financial Services Authority (Building Societies Commission)*. Prior to April 1994 these figures were included in deposits with banks.

*

✱

Timeliness

Figures for the net cash requirement analysed by type of instrument are available approximately one month after the reference period

Table 1.2B Sterling Treasury bill tender

This Table presents figures on the weekly Treasury bill tender. Treasury bills are issued by the UK Debt Management Office and normally have a life of 1 month or 3 months. They are offered for sale by tender on the last working day of each week. Treasury Bills are currently settled within the Central Money Market Office (CMO) system on the next working day after the tender (i.e. the following Monday unless it's a Bank Holiday.)

Tables 1.2C and 1.2D Government and government- guaranteed Marketable securities

Table 1.2C starts with the cash value of net issues of *British government and government-guaranteed securities* by the National Loans Fund (NLF); after deducting *net purchases by official holders* one has the value of *net official sales to the market* which is split into *conventional* and *index-linked stock*. The table then shows *official purchases of index-linked stocks* and *gross official sales of index-linked stocks*. Finally the table shows a maturity analysis of the figure for net official sales of conventional stock; figures are distinguished for *redemptions*, *net official purchases of securities up to one year's residual maturity*, which are in effect early redemptions, and *gross official sales* which are shown in three maturity bands. Transactions in repos were included in outright purchases until 1995 Q4.

*

✱

Table 1.2D analyses for each month the net cash issues by the NLF (the net cash issues are shown quarterly in the last column of the table). The table also shows gross issues and redemptions of individual securities,

1 Public sector finance

giving the name of the security and the cash amount received on issue or subsequent instalment or paid on redemption.

Further references

This information with some additional detail is published in the *Bank of England Monetary and Financial Statistics*.

Tables 1.2E and 1.2F National savings & Investments

These Tables are no longer published in *Financial Statistics* as from March 2003.

*

✱

Table 1.2G Tax instruments

Certificates of tax deposit were introduced in October 1975 and are available to taxpayers generally.

Minimum initial deposits of £500 are accepted by the Inland Revenue and, until further notice, may earn interest at varying rates when applied to payment of income tax (other than PAYE tax and amounts deducted from payments made to sub-contractors), tax due under self-assessment, capital gains tax, inheritance tax, development land tax, petroleum revenue tax, advance petroleum revenue tax, petroleum royalty and gas levy, and at a lower rate when withdrawn for cash.

*

✱

Prior to 1 October 1993, Certificates could be purchased by companies for use against corporation tax. Certificates purchased prior to 1 October 1993 may still be used against corporation tax and pay and file. With effect from 1 October 1993 companies cannot purchase Certificates for use against corporation tax or pay and file.

Interest rates are set both according to the size of the deposit and the length of time for which it is held. Interest rates of existing deposits are revised annually. Interest is paid gross and is taxable. **Table 7.1F** gives details of the interest rates.

For deposits held under earlier prospectuses which were surrendered in payment of a scheduled liability, a bonus was at times payable after six months in addition to the basic rate and a supplement was at times payable for the initial period of the deposit. The rates of interest paid were revised on each second anniversary.

Table 1.2H Outstanding government and other public sector foreign currency borrowing

UK central government and other public sector foreign currency debt comprises

ECS and assigned debt

Net borrowing, primarily by UK local government, under the 1969 and subsequent exchange cover schemes (ECS). This includes foreign currency borrowed through UK banks and from abroad, the issue of foreign currency securities, and any debt owed under the scheme by privatised public corporations at the time of privatisation.

The proportion of other public sector debt assigned to HM Government drawn from UK banks and non-resident lenders (these assignments involve equal and offsetting reductions in other public sector borrowing under the Exchange Cover Scheme).

Outstanding ECS and assigned debt is included in the short-term loan and medium and long term loan columns.

Money market instruments

Covers Euro Treasury bills (short-term instruments with a maturity of between one and six months). The Treasury Bill programme has now wound down. The last bill was redeemed in September 1999.

Bonds and notes

This item comprises:

- An issue of \$2,000 million floating-rate notes in October 1996;
- an issue in February 1991 of ECU 2,500 million issue of HM Government ten year bonds;
- from January 1992, quarterly issues of 3 year HM Government ECU/Euro Treasury Notes;
- an issue in December 1992 of \$3,000 million of HM Government 10 year bonds;
- an issue in October 1996 of US\$ 2,000 million of HM Government 5 year bonds.
- an issue in July 2004 of US\$ 3,000 million of HM Government 5 year bonds.

*

✱

Medium and long term loans

Consists of debt with a maturity of greater than one year: primarily North American debt dating from the 1940s and ECS and assigned debt.

Liability due to SDR allocation

This liability is related to the allocation of SDRs by the IMF. In the event of the winding up of the IMF SDR Department, or in other circumstances the UK could be obliged to repurchase SDRs to the extent of its allocation. It should be noted that the treatment of the allocation in the ONS publication the *Pink Book* is different. In the *Pink Book* the SDR allocation is shown as a memorandum item.

Other Liabilities

Other liabilities are made up of liabilities on account of repo transactions and the net present value of the currency leg of forwards and swaps done against sterling.

Valuation

UK central government and other public sector foreign currency debt is valued on the same basis as the UK international reserves. The debt is marked to market using end-period market prices and exchange rates.

Table 1.2I UK International Reserves

These comprise foreign currency reserves, gold, special drawing rights (SDRs) and other reserve assets held in the Exchange Equalisation Account together with the UK's reserve position in the International Monetary Fund (IMF).

A reserve position represents an automatic drawing right on the Fund and equals the amount that the UK quota exceeds holdings of sterling by the IMF. Apart from UK drawings/repurchases, it will rise or fall as other countries draw sterling from, or repay sterling to, the IMF. Other claims on the IMF such as the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB) would also be included here (see **Table 1.2J** in *Financial Statistics* for more details).

Foreign currency reserves comprise currency and deposits (held with monetary authorities and banks), securities (equities, bonds and notes, and money market instruments) and other claims.

Other reserve assets comprises foreign currency forwards and swap positions and claims on counterparties on account of reverse repos.

Valuation

UK International reserves are valued at end-period market prices and exchange rates.

Table 1.2I.A Currency breakdown of UK central government foreign currency assets and liabilities

Coverage

The currency analysis of the UK central government's foreign currency assets and liabilities is published on a quarterly basis with a two month lag.

The assets and liabilities are broken down into US dollars, euro, yen, other currencies, SDRs, IMF reserve tranche and Gold.

The euro category includes any assets still denominated in the legacy currencies of the euro area countries (Deutschemarks, French Francs etc). The currencies of EU countries that are not currently participating in European Monetary Union are included in the Other currencies column.

Valuation

The assets and liabilities are converted into Sterling at end-period market prices and exchange rates.

Table 1.2I.B Currency breakdown of BoE foreign currency assets and liabilities

Coverage

The currency analysis of Bank of England foreign currency assets and liabilities is published on a quarterly basis with a two month time lag.

The assets and liabilities are broken down into US dollars, euro, yen, other currencies, and Gold.

The euro category includes any assets denominated in the legacy currencies of the euro area countries (Deutschemarks, French Francs etc). The currencies of EU countries that are not currently participating in European Monetary Union are included in the Other currencies column.

Valuation

The assets and liabilities are converted into Sterling at end-period market prices and exchange rates.

Table 1.2J International Monetary Fund

The IMF was set up in 1944 and commenced operations in 1947. Its financial resources are subscribed by members according to agreed quotas. Subscriptions are mainly in members' own currencies but are normally partly in reserve assets (formerly gold but now normally SDRs). The IMF's holding of a particular country's currency is also affected by various types of drawings and repayments, including those made by other countries. Since May 1981 the *reserve tranche* position has been defined as the amount by which a country's quota exceeds the IMF's holding of its currency net of balances acquired as a result of purchases from the IMF other than the *reserve tranche* itself. A country's *reserve tranche* is regarded as part of its official reserves.

When a country has a balance of payments need it can draw foreign currency or SDRs from the IMF, purchasing them with an equivalent amount of its own currency. Drawings may be from the *reserve tranche* (taking the IMF's holdings of the country's currency up to its quota); or from four *credit tranches* each equivalent to 25 per cent of quota (these drawings must be repaid and are subject to increasingly stringent conditions with regard to economic policy and performance); or from other facilities under which countries may be allowed to purchase from the IMF for certain purposes in addition to the *reserve* and *credit tranches*. These facilities include the compensatory financing facility, the buffer stock financing facility, the enlarged access policy, the extended fund facility and formerly the oil facility and the supplementary financing facility. They are discussed in more detail in the December 1983 issue the Bank of England *Quarterly Bulletin*. A purchase of another member's currency will by, reducing the IMF holdings of that currency, either reduce that member's obligation to repurchase its currency or increase its reserve tranche position.

Transactions affecting IMF holdings of sterling

The transactions affecting IMF holdings of sterling are categorised as follows

- (i) reserve tranche UK net drawings (AIVA);
- (ii) reserve tranche net drawings by other countries (AIVB). From the February 1986 issue this series is designated *reserve tranche other net drawings and interest payments of sterling*;
- (iii) credit tranche UK net drawings (AIVC);
- (iv) credit tranche net drawings by other countries (AIVD);
- (v) special oil facility UK net drawings (AIVE);
- (vi) maintenance of value payments (AIVF);
- (vii) UK subscriptions in sterling (AIVG);
- (viii) other IMF sterling transactions (AIVH);
- (ix) total change in IMF holdings (AIVI = sum of items (a) to (h)).

All these series are maintained on the ONS Databank, but since no transactions have taken place since 1980 in series AIVA, AIVC, AIVD AIVE and AIVH they are now omitted from *Financial Statistics*.

The sign convention follows that used in the balance of payments accounts; increase in IMF holdings of sterling i.e. increase in United Kingdom liabilities +, decrease in IMF holdings of sterling -. From 1972 transactions are recorded at the rates of exchange at which the IMF accounted for its holdings at the time of the transaction (not necessarily the prevailing market rate).

Reserve tranche and credit tranches. Net drawings and interest payments of sterling.

General Arrangements to Borrow and New Arrangements to Borrow. These arrangements between the IMF and its members can be activated to provide supplementary resources to the IMF. *Maintenance of value payments.* The IMF maintains its accounts in SDRs. This unit of account is defined by the average of the exchange rates of a 'basket' of five major currencies broadly weighted according to their relative importance in world trade and finance. As the value of sterling falls, so more sterling has to be paid periodically to the IMF to maintain IMF holdings of sterling constant in SDR terms. Correspondingly sterling is received back when the sterling exchange rate rises relative to the SDR.

Further references

Special Drawing Rights (SDRs) are reserve assets created and distributed by decision of the members of the IMF. They first came into use in 1970 and are created upon being allocated by the IMF to a member country and increase the size of that member's official reserves. SDRs are only used directly for settlements between official holders such as central banks. However, participant members countries also accept an obligation to provide convertible currency, when designated by the IMF to do so, to other participants in balance of payments need in exchange for SDRs up to a maximum which would take their SDR holdings to three times their own allocation.

A more detailed description of IMF operations and transactions with the United Kingdom is published in the December 1983 issue of the *Bank of England Quarterly Bulletin* and more general descriptions of the operations of the IMF are to be found in a variety of IMF publications.

Table 1.3A Borrowing by local government

This table provides a broad summary of local government borrowing and shows the latest monthly data. Quarterly totals are obtained from surveys of all Local Authorities in the UK, conducted by the Office of the Deputy Prime Minister (ODPM). Monthly figures are grossed-up estimates, based on a sample survey of 168 local authorities, accounting for about half of the total outstanding debt. The monthly figures are therefore subject to sampling error and are less reliable than the quarterly figures. Sources for the remaining monthly series are the Bank of England (bank deposits and bank lending), the FSA (Building Societies Commission) (building society deposits) Debt Management Office and the Public Works Loan Board.

*

✱

Tables 1.3B and 1.3C Local government borrowing

The tables give details of local government borrowing from all sources outside the local government sector, including borrowing from authorities' own pension funds, which are classified as other financial intermediaries in the Office of the Deputy Prime Minister (ODPM) surveys. The figures exclude borrowing identified by a local authority as being from another local authority. No allowance is made for the possible take-up of one local authority's listed securities or negotiable bonds by another authority.

The survey was initiated by the former Central Statistical Office, but has been administered from March 1977 by Office of the Deputy Prime Minister (ODPM). The quarterly survey on which the tables are based covers all local authorities in the United Kingdom.

Where more complete or more reliable information is available on particular aspects of borrowing from other sources, e.g. PWLB, Bank of England, FSA (Building Societies Commission), such information is used instead of that reported in the survey.

*

✱

Net borrowing refers to gross borrowing less repayments and is divided into temporary (**Table 1.3B**) and longer-term borrowing (**Table 1.3C**).

Temporary borrowing covers all loans repayable within one year of their inception (other than under a stress clause or on the death of the lender), including mortgages repayable by invoking a break clause. Longer term debt with a residual maturity of less than one year is not included here but under longer-term borrowing.

Tables 1.3B and 1.3C show the outstanding debt for the latest few years. For longer-term debt the estimates are based on the results of a benchmark survey as at end-March 2000.

Revenue bills, usually for three months, are those authorised by the Bank of England.

Negotiable bonds are issued through a bank, discount house, issuing house or broker.

Public Works Loan Board borrowing includes borrowing by Northern Ireland Local Authorities from the Government Loan Fund of the Northern Ireland Department of Finance and Personnel, in addition to borrowing by English, Welsh and Scottish Local Authorities from the Public Works Loan Board. This forms part of direct borrowing from Central Government in **Table 1.3A**.

Central government comprises borrowing from central government sources other than the PWLB; it includes the take-up by such sources as the National Debt Commissioners and the National Insurance Fund. The sector headings in the tables are as defined in **Part C** of this Handbook.

Direct borrowing from rest of the world comprises loans from an overseas address or in the name of a person, company or other body with an overseas address. This includes borrowing in foreign currency or sterling in overseas markets. Amounts repaid by central government under the exchange cover scheme are not included.

Other includes borrowing from bank nominees where the original lender is unknown to the local government, and unlisted investment trusts.

Timeliness

Data for the March, June, September and December quarters are normally published in the June, September, December and March issues respectively. Summary figures are included as a table in the Public Sector Finances First Release, published monthly.

Table 1.3D Local government investments

This table gives details of local government lending. This information has been collected since April 1979 on the same return as the borrowing survey referred to in the previous section. The figures are used to help compile the financial accounts and the national and sector balance sheets. These figures, apart from

investments in other long-term assets are included in the calculation of the local government net cash requirement; see **Tables 1.1E and 1.3A**. Alternative estimates of bank deposits are available from the banking sector. The latter source is used in the financial accounts and in the local government net cash requirement.

Table 1.4A Borrowing by public corporations

This table provides a broad summary of the public corporations net cash requirement. The main sources of the monthly data in the table are the Bank of England (including bank deposits and bank lending) and ONS inquiries to individual Public Corporations.

Other sources of data are the Office of the Deputy Prime Minister (ODPM) (borrowing from local government and local authority debt), Department of National Savings, the Post Office (notes and coin) and HM Treasury (direct borrowing from central government).

Chapter 2 Central government revenue and expenditure

In section 2.1 of this chapter, details are given of the monthly receipts and expenditures leading to the central government net cash requirement.

The quarterly accounts of the central government sector, compiled on a national accounts basis are shown in Part II.

The tables present government transactions on a cash basis and in terms of the statutory funds and accounts - principally the Consolidated Fund and the National Loans Fund.

All government revenue, other than borrowing and certain sums received by government departments in the course of their normal activities (known as appropriations-in-aid), is ultimately paid into an account with the Bank of England which forms the Consolidated Fund. With certain exceptions (the main ones being government loans and national insurance benefits), all expenditure by the government is paid out of issues from this fund. All money raised by the creation of debt is paid into a separate cash account at the Bank of England - National Loans Fund (NLF) - together with receipts representing repayment of loans made by the State from the fund and interest on those loans. The National Loans Fund is the channel through which pass all the government's borrowing transactions as well as most of its domestic lending transactions and the servicing (i.e. interest and expenses) of the "national debt".

The Consolidated Fund and National Loans Fund accounts are statements of cash flows through the UK government accounts with the Bank of England, and show receipts and payments under headings which correspond to the requirements of Parliamentary control. Most transactions are with departments and other government bodies. As such, they are internal to the central government sector and do not feature explicitly in the accounts in **chapter 14** prepared on a national accounts basis. Examples of Consolidated Fund or National Loans Fund transactions with bodies outside the central government sector are interest on and management expenses of the national debt and transactions in marketable securities.

The quarterly accounts of the public sector (central government, local government and public corporations), compiled on a national accounts basis, are shown in Section 2.3.

*
✂

Table 2.1A Central government net cash requirement on own account

This table shows details of the Central Government net cash requirement on its own account. The Central government net cash requirement is shown in the Public sector net cash requirement **Table 1.1E**. It differs from the Central Government net cash Requirement measure (shown in **Table 1.2A**) by excluding those borrowings which are lent on to local authorities and public corporations. The Central government net cash requirement is a net measure of all receipts and expenditure on central government funds and accounts, after excluding transactions which do not cross the central government boundary with the rest of the economy.

In addition to the Consolidated Fund and the National Loans Fund the main other central government funds and accounts which contribute to the measurement of the Central Government net cash requirement are:

- (a) the National Insurance Fund
- (b) the Exchange Equalisation Account
- (c) the Paymaster General's Account
- (d) the National Debt Commissioner's Accounts
- (e) Northern Ireland Funds and Accounts

The system of Central Government funds and accounts and their relationship with what was formally known as the CGBR are described in *Treasury Working Paper* No 57, published on 6 June 1990. The paper includes a full explanation of the design of this table.

Inland Revenue and Customs and Excise receipts. These receipts are on the same basis as the funds and accounts presentation in **Table 2.1B**.

Social security contributions. Receipts (which exclude contributions collected in Northern Ireland) are on a cash basis, rather than the accruals basis used in the national accounts. Imputed flows on account of statutory sick and maternity pay are also excluded.

Interest and dividend receipts. These are as defined for the national accounts except for small timing differences.

Other receipts. This heading largely comprises national non-domestic rates, vehicle excise duty, oil royalties and gas levy. The series also includes the 3rd generation mobile phone spectrum payments.

Interest payments. Interest payments are as defined for the national accounts except that accrued uplift on index-linked gilts is excluded. There are also small timing differences.

Net acquisitions of Company Securities. These score as negative central government expenditure. Details of Net acquisitions of Company Securities are given in **Table 2.1F**.

Net departmental outlays. This heading includes most of Supply expenditure (excluding on-lending to public corporations), national insurance benefits, European Community contributions not in Supply expenditure and the funding of Northern Ireland expenditure. *Net departmental outlays* are measured on a cash flow basis as the money leaves the central government sector and the cheques are cleared rather than when the cheques are issued as is the case with Supply expenditure.

Table 2.1B Central government funds and accounts: transactions

This table records monthly receipts and payments on the Consolidated Fund and the National Loans Fund and changes in balances on some other central government funds and accounts e.g. the National Insurance Fund. The net result is the amount the central government needs to borrow i.e. the *Central government net cash requirement*. Figures in **Table 2.1B** are given for calendar months as well as for the normal periods of financial years and calendar years and quarters.

The basis and manner of operation of the Consolidated Fund is governed by the Exchequer and Audit Departments Act 1866 (as amended by the National Loans Act 1968) which provides that gross tax revenue (*less* repayments) and all other public monies payable to the Exchequer shall be paid into 'The Account of Her Majesty's Exchequer'. The Consolidated Fund is at any point of time the amount standing to the credit of this Exchequer Account which is held at the Bank of England.

The National Loans Act 1968 provides that all money raised by the creation of debt is payable into the National Loans Fund together with receipts representing repayments of loans made from the Fund and interest on those loans. The majority of central government lending is made from the National Loans Fund which is thus the channel through which pass all the central government's borrowing transactions and most of its domestic lending transactions. (Loans charged on votes continue to be met from the Consolidated Fund).

Consolidated Fund

Inland Revenue. Receipts of income tax, surtax, corporation tax, capital gains tax, development land tax, estate duty, inheritance (capital transfer) tax, stamp duties and petroleum revenue tax, details in **Table 2.1C**. The figures differ from those in **Table 2.1A** because from April 1991 they include changes in the Inland Revenue's Valuation Office agency balance, which is also paid over to the Consolidated Fund.

Customs and Excise. Receipts of value added tax duties on beer, wines, cider, perry and spirits, tobacco, betting, gaming and lottery, hydrocarbon oils, customs duties, car tax etc, details in **Table 2.1D**

2 Central government revenue and expenditure

Interest and dividends. This includes receipts on loans issued from central government votes; dividends on public dividend capital of public corporations and trading funds, plus a miscellany of small receipts.

Other receipts. The largest items are National non domestic rates (from April 1990) and miscellaneous revenue on supply votes.

Supply services. These are advances to central government departments to meet their requirements arising from monies voted by Parliament.

Service of National Debt (under *standing services*) is the extent to which the Consolidated Fund has had to be used in order to service the National Debt after the receipts of interest etc. accruing to the National Loans Fund have been exhausted. The principal and interest on government stock is a charge on the National Loans Fund, with recourse to the Consolidated Fund.

Northern Ireland Central Government Debt. This item consists of transactions in Northern Ireland government securities, Northern Ireland Treasury bills, Ulster Savings certificates and Ulster development bonds together with bank and savings bank advances to the Northern Ireland central government.

Northern Ireland government debt is excluded from servicing the National Debt. However Northern Ireland borrowing from the European Communities (European Investment bank) is included in government foreign currency debt.

Surplus or deficit of the Consolidated Fund. The Consolidated Fund is brought into balance each day by a transfer to or from the National Loans Fund and this column represents the net difference between receipts and payments over the period.

National Loans Fund

Interest receipts and profits of note issue. These receipts are mainly interest received on loans repayable to the National Loans Fund and payments representing the net profits of the Issue Department of the Bank of England.

Net lending is the net total of lending by, less repayment to, the National Loans Fund.

Other central government funds and accounts

The conventional accounts of the Consolidated Fund and National Loans Fund transactions are not in 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 Fund, all of whose capital is public sector debt. As the balance on this fund rises and falls, so the central government's indebtedness to the fund is increased or diminished.

In order to arrive at a figure of the net cash requirement of the UK central government from the figures given in the account of Consolidated Fund and National Loans Fund transactions, it is necessary to include changes in the central government's net indebtedness to these various official funds and agencies. These are known collectively as *other central government funds and accounts* (which embraces *Northern Ireland central government debt*). The resulting total represents the *central government's net cash requirement* which is the amount the government has to borrow less increase (or plus decrease) in its holdings of official reserves and other assets.

National Insurance Fund: the figures included here are the net totals of the changes in:

- (a) investments by the National Debt Office on behalf of the Fund
- (b) the Fund's balance with the Paymaster General.

Other National Insurance Fund balances are not included in this item. These are mainly sums due from or owing to government departments, the Post Office and overseas administrations arising out of the operation of the National Insurance scheme.

Departmental balances and miscellaneous. Among the items included are:

- (a) changes in balances on the accounts kept by government departments, mainly with the Paymaster General;
- (b) changes in the interest accrued on national savings securities and other items administered by the Department for National Savings;
- (c) changes in valuation of assets held by Bank of England issue department affecting the profits of the note issue;
- (d) profits and losses of the Exchange Equalisation Account including the profit or loss from interest payments on borrowing under the exchange cover scheme.

Timeliness and further references

See notes to **Table 2.1F**

Table 2.1C Inland Revenue Taxes and Duties

Net receipt figures for each period are the gross amounts of tax collected, as shown in the accounts of the department's various collecting offices, *less* repayments and tax credits accounted for centrally in the same period. Figures are given for all main heads of duty: the total includes small amounts of various obsolete duties. This excludes some miscellaneous amounts that the Board of Inland Revenue collect on behalf of other departments. Amounts collected in respect of national insurance contributions are shown separately in **Table 2.1A**.

Remittances are passed to the Consolidated Fund daily as the banks pay over the amounts lodged with them. Differences between the net receipts and the payments into the Consolidated Fund for a particular period reflect the differences between the amounts "in transit" at the beginning and end of the period.

Income and capital gains tax. This covers payments of (a) tax deducted via PAYE, (b) tax due from individuals and trustees following assessments and (c) tax deducted by corporations, the Bank of England and agents from interest etc. paid by or through them. It is also net of repayments and payments of Working Families' Tax Credit and Disabled Person's Tax Credit to 2003 Q2 and payments of Child and Working Tax Credits (from 2003 Q2) that are scored as negative tax. The tax is payable on income, and on gains on the disposal of assets, net of allowances, reliefs and, for gains, the annual exempt amount. However, tax on companies' gains is included within Corporation Tax. *

The largest part is collected via PAYE, which is normally due nineteen or twenty-two days after the month in which the tax is deducted, depending upon the method of payment. However some small employers can pay quarterly. Payments made by individuals and trustees are now generally due on 31 January following the tax year, although in some cases payments on account of this sum are due on the previous 31 January and 31 July. (Before 1997 various payments were due on 1 January, 1 July, 1 November and 1 December, and others were spread throughout the year.) Payments by corporations are generally due fourteen days after the calendar quarter in which the tax was deducted, although for building societies the reference periods are one month earlier with an additional payment in March. *

Repayments are made each month to mortgage lenders under the remaining elements of the MIRAS scheme and to life offices under the LAPRAS scheme; repayments to individuals and trustees are made following the processing of tax returns. Payments of the Working Families' Tax Credit and Disabled Person's Tax Credit to 2003 Q2, and of Working Tax Credit from 2003 Q2, are either made via employers or directly. *

Corporation Tax is assessed on companies profits (including realised capital gains) for the relevant accounting period (AP) of the company. Pay and File, the assessing and collecting system introduced for

2 Central government revenue and expenditure

accounting periods ending on or after 1 October 1993, moved the assessing and collecting process towards one of self assessment with payment due nine months and one day after the end of the accounting period. Previously, tax was payable on assessment, nine months after the end of the companies accounting period or within one month of the issue of an assessment, whichever was the later. For APs ending on or after 1 July 1999, a full self assessment system has been introduced and large companies will pay their corporation tax liabilities by quarterly instalment payments in the 7th, 10th, 13th and 16th months after the start of the AP. For APs ending on or before 30 June 2002, any balancing payment was due nine months after the end of the AP. Companies no longer have to pay any balancing payments on their accounts for APs ending after that date but can make extra payments at any time if their final liabilities are different to the sum of the four quarterly instalments. Small and medium companies continue to pay their CT liability nine months and one day after the end of the AP.

*

✱

Advance Corporation Tax (ACT), which was abolished in April 1999, was payable by a company on any qualifying distribution it made (mainly payments of dividends). The rate of ACT was reduced from 25 per cent to 22.5 per cent from 1993/94, and to 20 per cent for 1994/95. The value of tax credits attached to dividends was reduced from 25 per cent to 20 per cent from 1993/94 and to 10 per cent from 1999/00. Companies had to account for ACT within fourteen days of the end of the return period - normally the calendar quarter - in which the distribution was made. Thus most ACT was paid on or around 14 January, 14 April, 14 July and 14 October. Companies were able to use ACT to discharge their liability to *corporation tax*. ACT was replaced by a system of quarterly instalment payments by large companies.

Inheritance Tax (IHT) replaced capital transfer tax (CTT) under the Finance Act 1986. CTT was payable both on lifetime gifts and on transfers of assets on death. IHT is levied mainly on assets transferred on death. The tax is normally required to be paid before a grant of probate is made and, in any event, is due at the end of the sixth full month after death. However, the tax attributable to land and buildings and certain business assets may be paid by instalments over 10 years. There may therefore be considerable time lags between the death and the full payment of IHT. IHT is also payable on transfers made within seven years of death and on assets in discretionary trusts.

Stamp duties receipts come from the following heads:

- a. conveyances and transfer of land, buildings and other property excluding stocks and shares. Before the 1997 Budget Stamp Duty was charged at 1% for all land and property transactions over £60,000. The 1997 Budget introduced a 1½% rate for transactions over £250,000 and a 2% rate for transactions over £500,000. The 1998 Budget increased the latter two rates to 2% and 3% and the 1999 Budget increased them to 2½% and 3½%. In the 2000 Budget the thresholds again remained the same but the rates for the top two bands were further increased to 3% and 4% respectively. In December 2003 stamp duty land tax replaced stamp duty as the tax on land and property. The legislative basis of the tax changed with the new tax based on the substance of transactions rather than the associated documents, along with some minor changes to the scope of the tax. There were, however, no changes to rates nor thresholds for transfers of freehold property;
- b. transfers of stocks and shares. Most transfers since 27 October 1986 are chargeable at 0.5%. A higher rate of duty - 1½% - is charged where shares are converted into depository receipts or transferred to a clearance service.
- c. grants of new leases of land and buildings. These are charged on both the premium and the average annual rent but the regime was changed from December 2003 with the introduction of stamp duty land tax. The charge on the rental element of a lease is now based on the net present value of the rental charge in the lease.

*

✱

*

✱

Petroleum revenue tax (PRT) is charged to companies on the production of oil and gas under licence in the United Kingdom, its territorial waters and designed areas of its continental shelf. The charge is on the landed value of oil and gas less expenses incurred in discovery, extraction and processing and various other reliefs.

The tax is charged on each company's share of the cash flow from each separate oil field arising in each six month chargeable period (the first or second half of the calendar year). Monthly instalment payments commence two months after the start of the period at the level of one eighth of the PRT payable on the previous period. Returns with estimated liabilities are submitted two months after the end of the period and balances are then paid or repaid. Assessments are issued by the Inland Revenue three months later; during the next two months, further payments or repayments may result from changed liabilities or the carry back of losses to remove or reduce old liabilities.

Windfall tax

A one-off tax, announced in the 1997 Budget, on the excess profits of the privatised utilities, paid in two instalments on 1 December 1997 and 1 December 1998.

*

✱

Timeliness

Receipts of Inland Revenue duties at the Department's two Accounts Offices and various local offices throughout the country are balanced each day and the totals for each duty are reported weekly to the Department's Finance Division for aggregation and reconciliation with the proceeds of cleared remittances, etc. Net receipt figures, i.e. after addition of amounts received centrally and deduction of repayments, are then produced on a monthly basis and published in provisional form in the issue following that of the month to which they relate. Final receipts for a financial year are not determined until the Department's Trust Document is finalised several months after the end of the year.

Further references

Detailed notes about the individual taxes may be found on the Inland Revenue website www.inlandrevenue.gov.uk under 'Statistics'. This also contains annual figures of receipts back to 1908/09 (Table 1.2) and a detailed breakdown of receipts for each tax.

Table 2.1D Customs and excise duties

The figures show the aggregate amounts of tax in the period net of drawbacks and other repayments and paid into the Consolidated Fund. Up to 1993 Customs and Excise also received monies from car tax and duties on matches and mechanical lighters, which are included in the total although not shown separately.

Value added tax (VAT). Persons registered for VAT are required to make a tax return at intervals, generally quarterly. The quarterly tax periods are staggered in order to spread the flow of returns and revenue more evenly over the year. Thus one group has tax periods January to March, April to June etc, a second group has tax periods February to April etc, and a third group has tax periods March to May etc. The VAT due is payable one month after the end of the period. A taxable person who expects his input tax to regularly exceed his output tax (i.e. who will be claiming net refunds from the Department) may opt for monthly tax periods.

Since the end of 1992, the largest traders (currently about 4,500) have been making monthly "payments on account", paying a proportion of their liability over 2 months, and the balance in the third month when they submit their quarterly return

VAT is chargeable on imported goods. For goods imported from non-EU countries (and for EU countries prior to 1993), it must be paid either at the time of importation or, under deferred payment arrangements similar to those in operation for customs duties, by direct debit an average of one month after importation. With the completion of the Single Market in January 1993, VAT due on goods acquired from EU Member States is accounted for on the VAT return.

More detailed information about VAT can be found in *Notice 700: The VAT Guide*, a copy of which can be obtained from any local VAT Business Advice Centre.

Car tax. This was abolished on 12 November 1992. Most traders registered for car tax had tax periods March to May, June to August etc, and the tax was due not later than one month after the end of the tax period.

2 Central government revenue and expenditure

Insurance premium tax was introduced on 1 October 1994. It is charged on most general insurance premiums where the insured risk is located in the UK. Traders liable for the tax are required to account quarterly, with similar staggering to VAT traders. Payment is due one month after the end of the quarter.

Excise duties are charged on hydrocarbon oil, tobacco products, betting and gaming, air travel, and alcoholic drinks. Those on products applied alike to home-produced goods and those produced overseas.

Hydrocarbon oil duties are charged on petrol and derv, i.e. road fuels; and on other chargeable oils e.g. fuel oil. As with other deferred duties, changes in duty rates etc. are not fully reflected in receipts until after the month in which they become effective.

Tobacco products. The duty on tobacco is charged on the finished product and is collected a month in arrears.

Alcoholic drinks. The excise duties on beer, wine, spirits, cider and perry are generally collected one month in arrears. Accordingly, changes in duty rates etc. are not fully reflected in receipts until after the month in which they become effective. In June 1993 there was a change in the duty structure for beer. Since then duty has been chargeable at a later stage in the production process. As a result receipts of beer duty in July 1993 were very low.

Betting, gaming and Lottery. Receipts under this heading are collected from the following:

- (a) general betting duty
- (b) pool betting duty
- (c) gaming duty (gaming licence duty prior to 1 October 1997).
- (d) amusement machine licence duty (gaming machine licence duty prior to 1 November 1995),
- (e) bingo duty
- (f) national lottery duty

Item (c) does not apply in Northern Ireland.

Air Passenger Duty is an excise duty on air travel from UK airports and was introduced on 1 November 1994. It is collected one month in arrears.

Customs duties and Agricultural levies: these are charged under Section 5 of the European Communities Act 1972. For convenience, anti-dumping and other duties - excluding agricultural levies (see below) - charged under directly applicable Community Instruments, are included in this heading, e.g. certain generalised system of preference duties and compensatory levies. Most importers pay by duty deferment in the month following that of the import. Agricultural levies were charged on a wide range of basic and processed agricultural products imported from outside the European Union Prior to 1993 Monetary Compensatory Amounts (MCAs) offset any divergence between the value of the pound sterling at the spot rate and at the (green) rate fixed under the Common Agricultural Policy. Positive MCAs applied in addition to agricultural levies when the spot rate exceeded the green rate; these amounts were paid to the European Union. MCAs ceased to exist with the completion of the single European Market in January 1993. For most products fixed rate tariffs replaced levies in July 1995 following implementation of the GATT Uruguay agreement.

Landfill Tax was introduced on 1 October 1996. It is charged on the disposal of waste at registrable landfill sites. Returns are generally submitted quarterly with similar stagger system as VAT and payment due within one month of the period end.

Climate Change Levy was introduced on 1 April 2001. It is charged on industrial and commercial use of energy. Returns are generally submitted quarterly with similar stagger system as VAT and payment due within one month of the period end, but allowing an extra 7 days for traders opting to pay by electronic direct debit.

Aggregates Levy was introduced on 1 April 2002. It is charged on the commercial exploitation of aggregates in the UK or its territorial waters or imported into the UK for construction purposes. Returns are generally submitted quarterly with similar stagger system as VAT and payment due within one month of the period end, but allowing an extra 7 days for traders opting to pay by electronic direct debit.

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

Other. This heading consists of receipts of duty on matches and mechanical lighters (abolished with effect from 1 January 1993), petrol substitutes, and receipts from excise licences.

Timeliness

Payments of VAT, Air Passenger Duty, Landfill Tax, Climate Charge Levy, Aggregates Levy and Insurance Premium Tax (and previously *car tax*) are made directly to central units. Revenue from other Customs and Excise duties is collected and accounted for either centrally, often by direct debit, or at Collectors' offices throughout the country with daily balances notified to the central accounting officer at headquarters. Monthly figures are usually first published in the issue two months after that to which they relate.

Further references

Monthly bulletins covering duty paid clearances and receipts for most excise goods, and betting, gaming, lottery and VAT receipts are published and are available free from HM Customs and Excise website at www.uktradeinfo.com

A more detailed analysis of the receipts and activities of the department is available in HM Customs and Excise Annual Report published by The Stationery Office.

Table 2.1E Departmental revenue and expenditure on supply

Motor vehicle duties: net value of licences issued. Gross receipts *less* refunds 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.

Oil royalties, licence fees, etc.: other. These figures cover oil and gas production and exploration licences and successful auction bids.

Gas levy: net receipts comprise cash receipts *less* refunds from the British Gas Corporation and British Gas plc under the Gas Levy Act 1981.

Supply services are the amounts transferred each month from the Consolidated Fund to Departments' accounts with the Paymaster General, for spending on Supply; *supply expenditure* is the amount paid out by departments from these accounts. Supply expenditure is usually close to the total of Supply services for the financial year as a whole, but there can be timing differences between the two during the year.

Timeliness

The figures in **Tables 2.1A, 2.1B, 2.1C and 2.1D** are published in the month following the period to which they relate. Some of the figures for *other central government funds and accounts* and the figure for the *central government net cash requirement* will be provisional. Firm figures for these items are published in due course.

Table 2.1F Net acquisitions of Company Securities

Table 2.1F shows Net acquisitions of Company Securities (the privatisation proceeds) received monthly by Central Government during the past three financial years. The table below shows the privatisation proceeds received in financial years since 1979 (prior to this there was a sale of shares in BP in 1977).

2 Central government revenue and expenditure

Net acquisitions of Company Securities

Year	Amount (,m)	Main Contributors
1979-80	377	BP (£276m), National Enterprise Board holdings (£37m)
1980-81	210	National Enterprise Board holdings (£83m), British Aerospace (£43m)
1981-82	493	Cable and Wireless (£181m), Amersham International (£64m)
1982-83	455	Britoil (£334m), Associated British Ports (£46m)
1983-84	1139	BP (£543m), Britoil (2nd instalment; £293m), Cable and Wireless (£263m)
1984-85	2050	BT (£1358m), Enterprise Oil (£384m), National Enterprise Board holdings (£168m)
1985-86	2706	BT (2nd instalment; £1246m), Cable and Wireless (£577m), Britoil (£426m), British Aerospace (£347m)
1986-87	4458	British Gas (including debentures; £2570m), BT (3rd instalment; £1081m), British Airways (£435m)
1987-88	5140	British Gas (2nd instalment; £1758m), Rolls Royce (£1029m), BP (£863m), BAA (£543m), British Airways (£419m)
1988-89	7069	BP (2nd instalment; £3030m), British Gas (3rd instalment; £1555m), British Steel (£1138m), BAA (2nd instalment; £689m)
1989-90	4219	BP (3rd instalment; £1363m), British Steel (2nd instalment; £1289m), British Gas (debentures; £800m), Water (£496m)
1990-91	5345	Electricity England and Wales (£3628m), Water (2nd instalment; £1750m)
1991-92	7923	Regional electricity (2nd instalment; £1447m), Generating companies (2nd instalment; £882m), Electricity debt (£1106m), Water (3rd instalment; £1485m), Scottish electricity (£1112m), BT2 (£1666m)
1992-93	8184	BT2 (2nd instalment; £1856m, 3rd instalment; £1631m), Regional electricity (3rd instalment; £1465m), Scottish electricity (2nd instalment; £810m), Debt sale (£1337m), British Gas debenture (£350m), Northern Ireland electricity (£350m)
1993-94	5420	BT3 (£1866m, 2nd instalment; £1778m), Scottish electricity (£702m), Electricity debt (£693m), Northern Ireland electricity (£218m)
1994-95	6433	Gencos (£1707m), Debt Sale (£1618m), BT3 (£1523m), British Coal (£808m), Electricity (£392m), Northern Ireland Electricity (£186m).
1995-96	2443	Debt sale (£517m), Residual Equity sale (£750m), Gencos (£1022m).
1996-97	4427	Railtrack £1433, AEA £215, Debt Sale £422, British coal £111, Gencos £801, Nuclear electric/Scottish Nuclear £688, BT Loanstock £140, Residual Shares £559.
1997-98	1772	Railtrack £929, Residual Shares £670, Debt Sale £108.
1999-99		Nothing significant
1999-2000	537	British Energy Debt Sale £0.4 billion
2001-01		Nothing significant
2002-02	700	National Air Traffic Service
2002-03		Nothing significant
2003-04	700	National Air Traffic Service

* ❄

Net acquisitions of Company Securities are recorded net of expenses which include the cost of the sale (advisers' fees, underwriting, bank fees etc), the cost of collecting instalments (if applicable) and the cost of distributing bonus shares (if applicable). Certain other transactions may also be netted off the gross proceeds of a sale, eg a cash injection (as occurred for the water supply offers) or a payment to cover a deficit in a pension fund (as occurred on the sale of the National Freight Consortium).

Where a company issued debt to the government prior to privatisation, on redemption the capital being redeemed will be included within Net acquisitions of Company Securities.

Where a privatisation was a sale by a nationalised industry or other public body of a subsidiary, the proceeds will normally accrue to the parent body and consequently will not contribute to Net acquisitions of Company Securities. The exception to this is where some of the proceeds were received by Central Government (eg the sale of Wytch Farm by British Gas).

Tables 2.3A to 2.3F Public sector aggregates

General

Tables 2.3A to 2.3F show some public sector balances drawn from national accounts, plus the public sector net cash requirement and net debt. **Tables 2.3A to 2.3F** present key public sector statistics from national accounts in a form consistent with Treasury presentations in its *Financial Statement and Budget Report*

The Chancellor's Economic and Fiscal Strategy Report in June 1998 established a number of public sector fiscal balances to be monitored. These are:

the surplus on current budget: this is net saving plus capital taxes (B8n+D91 uses from national accounts). The surplus on current budget represents the balance of revenue over current expenditure, whereas net borrowing (see below) measures the overall budget deficit, i.e. the balance of receipts over expenditure, both current and capital. This fiscal balance measures achievement against the Golden Rule, which states that over an economic cycle government should only borrow to finance investment. The surplus on current budget therefore represents the surplus available for investment. From November 1999 data on the surplus on current budget was published monthly in the Public Sector Finances First Release. That release also shows monthly details of the income and expenditure components of the central government surplus on current budget. (See **Table 1.1C** for details) Quarterly estimates can be found in the Public Sector Accounts First Release.

net borrowing (B9 from the national accounts). Net borrowing is a concept based on internationally agreed definitions. Net borrowing measures the change in the public sector's accruing net financial indebtedness. Net borrowing is an accruals concept, whereas the closely related net cash requirement is almost entirely a cash measure. Net borrowing is the government's preferred measure of the short term impact of fiscal policy. Net borrowing data are available monthly in the Public Sector Finances First Release. Quarterly estimates can be found in the Public Sector Accounts First Release. General Government net borrowing is often called the "government deficit" in the context of the Maastricht Treaty which requires governments to keep their deficits below 3% of GDP (See supplementary table S29).

net debt. Public sector net debt consists of the public sector's financial liabilities at face value minus its liquid assets - mainly foreign exchange reserves and bank deposits. Within public sector net debt, the gross liabilities of general government are now consistent with the definition of General Government Gross Debt reported to the European Commission under the Maastricht Treaty. General government gross debt, in the context of the Maastricht Treaty requires governments to keep their debt below 60% of GDP. Net debt is the approximate stock equivalent of the public sector net cash requirement. The Government's sustainable investment rule states that public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Public sector net debt is available monthly in the Public Sector Finances First Release.

2 Central government revenue and expenditure

More information on these key fiscal balances can be found in *Monthly Statistics on Public Finances: A Methodological guide* (GSS Methodology Series No 12).

Table 2.3A Public sector aggregates

This table gives time series for the single period matrix, in **Tables 2.3C** and **2.3D** It shows the main public sector aggregates from national accounts. The second part of the table shows the main aggregates seasonally adjusted.

Table 2.3B Public sector: Key indicators by sub-sector and net debt

This table shows the key statistics from national accounts, and the net cash requirement, for each sub-sector (central government, local government and public corporations). It also shows public sector net debt in £ billion and as a percentage of annual GDP. Annual GDP for this purpose is the sum of GDP in the two previous quarters, and two following quarters, relative to the end of the quarter when the net debt is measured.

Tables 2.3C and 2.3D Public sector transactions by sub-sector and economic category

These tables show total public sector transactions by sub sector (central government, local government and public corporations) and by economic category. The tables are consistent with **Table C22** published in *Budget 2002*. **Table 2.3C** shows data for the latest financial year, **2.3D** for the latest quarter. The tables are consistent with the latest published national accounts, except for the net cash requirement which is revised monthly in light of new information.

Table 2.3E Public sector: main aggregates from national accounts

This table presents the main public sector aggregates consistent with the terminology from national accounts. The first part of the tables shows how net saving is derived (current resources minus current uses). The second part shows the derivation of the surplus on current budget (net saving + capital taxes = surplus on current budget) The third part shows how net borrowing is derived (net investment minus surplus = net borrowing). The fourth part shows the reconciliation of net borrowing and the net cash requirement. (net borrowing + financial transactions that are net cash requirement determinants = net cash requirement).

Table 2.3F

Table 2.3F shows the Public sector key fiscal balances. The time series are the same as those in **Tables 2.3C** and **2.3D**, but do not show the net cash requirement and financial transactions data, The table shows data for the latest five financial years and five quarters and shows the ONS identifiers for each series

Chapter 3 Money supply and credit

This Chapter covers the money supply and other liquid assets, and the credit and the other counterparts of broad money together with more comprehensive statistics on credit extended mainly to the household sector, including consumer credit and loans secured on dwellings.

The money supply

The monetary aggregates play an important role in the formulation of monetary policy in the United Kingdom: in the early 1980's monetary targets were set. More recently following the introduction of the inflation-targeting framework in October 1992, monitoring ranges were set for M0 (0%–4%) and M4 (3%–9%) designed to show what growth rates would or would not be regarded as a cause for concern. In the course of this period the monetary aggregates have been used both as *intermediate targets*, that is they were treated as providing the link between changes in monetary instruments (interest rates) and developments in the final economic variable (nominal income) and more recently as timely *indicators* of developments in inflationary pressures, which would otherwise only become apparent after additional delays. As part of the decision to make the Bank of England operationally independent, the Government has given the Monetary Policy Committee (MPC) discretion over whether to employ intermediate targets or monitoring ranges. The MPC has decided that at present, it will not reinstate monitoring ranges, which lapsed in May 1997.

The use of monetary aggregates in both these capacities depends on the existence of a reasonably stable – or at least predictable – relationship between the growth of the chosen aggregate and nominal income. This relationship is captured in the identity $MV = PT$ which shows that the monetary value of transactions in the economy can be expressed either as the money stock (M) multiplied by the average number of times each unit of money is used (the velocity of circulation, V) or alternatively as the volume of transactions (T) multiplied by the average price level (P). The growth of the money stock can therefore be thought of as being approximately equal to the inflation rate plus the rate of growth of transactions less the growth of velocity. Provided that velocity is predictable, then money growth should serve as an accurate indicator of activity in the wider economy. Under such conditions, control of money growth should ensure that nominal expenditure grows at a rate consistent with the authorities' ultimate objectives. Thus it is important, even if monetary aggregates are being used only as indicators, to be able to explain and/or predict changes in velocity and, in particular, its response to monetary policy actions, primarily movements in official interest rates.

The velocity of money held for transaction purposes is largely determined by the cost of holding money and by changes in transactions technology. The cost of holding money will depend on whether the components of a particular aggregate either pay interest (as is the case with M4 in the United Kingdom, the majority of whose components are interest-bearing) or do not (as is the case with M0, which largely comprises notes and coin). The cost of holding M4 can therefore be defined as the rate of interest on a competing asset less that on M4 balances, whereas for M0, which is non-interest-bearing, the cost is approximately the rate on a competing asset. Thus M4 velocity reflects interest rate *differentials* and M0 velocity reflects interest rate *levels*. Transactions technology (such as automated teller machines and greater use of cheques, bank transfers and credit or debit cards) may alter the size of money balances held for transactions purposes and so might particularly affect holdings of notes and coin. The effect of innovations in transactions technology on broad money aggregates will be less clear-cut, since these will usually include balances held for savings as well as transactions purposes and so could be expected to be equally, if not more greatly, influenced by wealth effects.

Velocity has behaved erratically in recent years. In the case of narrow measures of money, this may have been caused by adjustment to a low-inflation environment, where individuals want to hold a higher level of cash. Because of the uncertainty over trend velocity, the Bank of England's Monetary Policy Committee (MPC), did not reinstate the monitoring ranges which lapsed in May 1997. Instead of using monitoring ranges, the MPC interprets the monetary aggregates in the context of a continuing assessment of the determinants of money demand.

Definitions of Money

There is no single correct definition of *money* and there are many liquid assets which are not included in any of the UK monetary aggregates but which nevertheless need to be taken into account on occasions when interpreting monetary conditions. An article in the *Bank of England Quarterly Bulletin* of December 1982 discussed various liquid assets. An article in the *Quarterly Bulletin* of December 1983 discussed further some alternative definitions of 'broad money'. A Divisia measure of money was introduced in an article in the May 1993 *Bank of England Quarterly Bulletin* and appears each month in *Bank of England: Monetary and Financial Statistics*. An article in the July 2003 *Bank of England Monetary and Financial Statistics* gives details of the main definitional changes to the UK monetary measures.

Monetary Financial Institutions

With effect from April 1998, a new monetary financial institutions (MFIs) sector was introduced, comprising the central bank, other banks and building societies. The central bank sector is made up of the Banking Department of the Bank of England (whose assets and liabilities were previously included in the banks sector) and the Issue Department (previously classified as part of central government).

UK monetary statistics (other than M0) were already compiled on the basis of the MFI sector and there was no change in the definition of the monetary data. This is because the Bank of England Banking Department has always been part of the UK banks sector and the Issue Department's transactions with the M4 private sector (including transactions associated with its money market operations as well as the note issue) were already included in broad money and its counterparts.

Money Stock

A narrow and a broad definition of the money stock are set out in this Chapter.

M0, the narrowest measure, consists mainly of notes and coin in circulation outside the Bank of England, but includes also bankers' operational deposits at the Bank.

M4 comprises holdings by the M4 private sector (i.e. private sector other than monetary financial institutions) of notes and coin, together with their sterling deposits at MFIs in the UK (including *certificates of deposit* and other paper issued by MFIs of not more than 5 years original maturity).

M1, M3, and M3C have not been published since June 1989. See August 1989 edition of *Bank of England Quarterly Bulletin* for further details

Counterparts to money stock changes

Monetary aggregates are defined, in the main, as selections of the assets held by the UK private sector which are the liabilities of monetary financial institutions. The total liabilities of these institutions are equal to the total of the claims on the opposite side of their balance sheets. Therefore, where the aggregate comprises a significant proportion of the liabilities of the institutions in question, as in the case of *M4*, it may also be analysed in terms of the assets held by the institutions. Sometimes this can be a more helpful way of examining the relation of the aggregate's behaviour to other aspects of the economy, particularly if the institutions manage their liabilities to accommodate changes in their assets, rather than the other way round. Thus the main counterpart to a change in *M4* is MFIs' lending in sterling to the private and public sectors. However, MFIs form the residual source of lending to the public sector, so it is usually more helpful to consider MFIs lending to the public sector in terms of the total net cash requirement (the Public Sector Net Cash Requirement – see also **Chapter 1**) less that part financed from non-bank non-building society sources. Therefore the main counterparts to changes in *M4* become the Public Sector Net Cash Requirement less public sector debt sales to the private sector and external and foreign currency finance of the public sector, and *M4* lending to the private sector.

Changes in money stock ($M4$) are presented in **Table 3.1F** in terms of an analysis of changes in domestic counterparts and in external and foreign currency counterparts. It is helpful to explain the construction of this table and to demonstrate these links by starting with the consolidated balance sheet of the MFI sector. Simplifying slightly we have:

UK monetary financial institutions consolidated balance sheet	
<i>Liabilities</i>	<i>Assets</i>
Notes issued	
Sterling deposits	Sterling lending
from: UK public sector	to: UK public sector
UK private sector	UK private sector
Non-resident sector	Non-resident sector
Foreign currency deposits	Foreign currency assets
Other liabilities	Other assets

UK private sector sterling deposits are the main constituent of $M4$ (which also includes *notes and coin held by the M4 private sector*). By rearranging the other items in the above balance sheet, and introducing coin in circulation with the UK public we have:

Changes in $M4$
<i>equals the change in:</i>
Notes and coin in circulation held by the private sector
<i>plus</i>
UK private sector sterling deposits
<i>equals the change in:</i>
Sterling lending to the:
UK public sector (less the public sector's sterling deposits)
UK private sector
Non-resident sector
<i>less</i>
Non-resident sector sterling deposits
Foreign currency deposits net of foreign currency lending
Net Non-deposit foreign currency liabilities
Net Non-deposit sterling liabilities

3 Money supply and credit

Net sterling lending to the UK public sector is termed the public sector contribution. It represents that part of the Public Sector Net Cash Requirement which is financed neither by the UK private sector (except via coin) nor the non-resident sector. It can therefore be expressed as:

the Public Sector Net Cash Requirement

less

the M4 private sector's lending to the public sector (mainly in the form of increased holdings of gilt-edged stocks, Treasury bills, and national savings)

less

the external and foreign currency finance of the public sector (including the sterling counterpart of transactions in the official reserves, as well as non-resident purchases of public sector debt).

With some rearrangement of non-resident sterling transactions, and some reversal of sign, we are now in a position to derive the broad relationships between *M4* and its counterparts:

a. Public Sector Net Cash Requirement (deficit +, surplus-)

less

b. public sector net debt sales to M4 private sector

less

c. external and foreign currency finance of the public sector

equals

d. Public Sector Contribution

plus

e. MFIs' sterling lending to the M4 private sector

plus

f. external (i.e. with non-resident sector) and foreign currency transactions of MFIs (lending +, deposits -)

less

g. Net non-deposit sterling liabilities of MFIs

equals

Change in M4

The *domestic counterparts* of M4 comprise items a, b, e, and g. Item g, net non-deposit sterling liabilities (NNDLs), is the sterling component of capital and other internal funds less non-financial assets), so that flows in this item tend to comprise capital issues and retained profits. Items c and f constitute the *external*

and foreign currency counterparts (usually termed ‘externals’). The externals relate to all the overseas and foreign currency financial transactions of the public sector and MFIs. They will thus generally reflect by residual the balance of payments of the M4 private sector on current and financial account, and the M4 private sector’s foreign currency position at MFIs in the UK (but also reflect any balance of payments current account transactions by the UK public sector, such as expenditure and earnings abroad etc., which also contribute with an opposite sign to the Public Sector Net Cash Requirement, and by UK MFIs).

Calendar month statistics

A major change to the presentation of banking and monetary statistics took place in October 1986 with the move of the reporting date from mid-month to end-month. The change and its implication for the figures were described in detail in a note (*Banking and monetary statistics: a change in reporting dates*) published in the *Bank of England Quarterly Bulletin* of December 1986. The main aspects of the change as they affect *Financial Statistics* are described below.

Hitherto, information on the new calendar month basis was available only from the ninety or so largest banks and only from mid 1982. Two consequences flow from the comparatively short run of data on the new basis and their limited coverage. First, some of the detailed series cannot reliably be estimated separately for the months before October 1986. Second, with the exception of *M0*, the seasonal adjustment applied to calendar month data is less reliable for the first three years or so of the new series. For *M0*, where the series is derived from weekly information, a long run of data is available and the quality of the seasonally adjusted series is unaffected.

The notes in this handbook focus on the calendar month series. Information about the banking month data can be found in earlier handbooks.

Seasonal adjustment

Seasonally adjusted estimates of changes in the money stock are consistent with those of the counterparts. In particular the same moving average procedure is applied to all series, so that, in the monetary statistics, seasonally adjusted *M4* equals the sum of its seasonally adjusted counterparts.

There is no universally agreed definition of ‘seasonality’, and thus no unique set of seasonal adjustments for any set of statistics. X-12-ARIMA has been used for the seasonal adjustment of these statistics. The seasonally adjusted data in these tables are current updated.

*

X-12-ARIMA is the latest in the family of seasonal adjustment methods that have been developed over several decades by the US Census Bureau and Statistics Canada, with contributions from others. X-12-ARIMA, or a closely related predecessor, is used by many statistical agencies and central banks, including the UK Office for National Statistics and the European Central Bank. The method is based on a moving-average technique similar to ‘GLAS’ (General Linear Abstraction of Seasonality), the method that the Bank used since 1991 until the change to X-12-ARIMA in January 2004, but is more sophisticated and readily able to provide adjustments tailored to each series. An article, “Change in seasonal; adjustment method to X-12-ARIMA”, outlining the reasons for the change to X-12-ARIMA from GLAS was published in the December 2003 issue of this publication;

Key characteristics of X-12-ARIMA are:

- X-12-ARIMA contains a time-series-modelling component, which aids the identification of outliers, shifts in the level of a series and calendar effects (all of which could distort the seasonal adjustments), and the estimation of seasonality at the start and end of the series.
- Filters of several different lengths, ranging from 3 to 17 years (or the full length of the series, if desired), are readily available to identify the seasonality appropriate to each series.
- X-12-ARIMA can provide multiplicative – proportionate – seasonal adjustments, if this is appropriate for an individual series.

✱

3 Money supply and credit

- As mentioned above, X-12-ARIMA includes systematic estimation and removal of calendar effects, for the differing lengths of months, public holidays etc. *
- X-12-ARIMA has wide-ranging statistical diagnostics, available graphically where appropriate, enabling the nature, robustness and stability of the seasonal adjustments to be easily monitored. Besides aiding the method's use, these diagnostics facilitate greater understanding and analysis of series.
- The method has been continually developed, is well supported and maintained by the US Census Bureau, and future development seems assured; for example, the Census Bureau is currently working on making Monetary & Financial Statistics: December 2003 available within this family more of the capabilities of TRAMO-SEATS, the model-based method developed by V Gómez and Professor A Maravall.

For more background on the previous method of seasonal adjustment (GLAS), see the May 1996 issue of the Bank of England Quarterly Bulletin page 209 and Bank of England working paper No. 44 "A comparison of methods for seasonal adjustment of the monetary aggregates". ✿

Statistical sources

Several sources are drawn upon to produce the various monetary aggregates. The main ones include the monthly and quarterly balance sheet returns submitted by UK banks and building societies (see **Chapter 4**), similar returns from some other financial institutions (see **Chapter 5**), and statistics of public sector finance (see **Chapter 1**).

Quality

The quality of quarterly and, from October 1986, of monthly data appearing within the chapter is generally high. Most of the information relates to UK banks where statistical coverage is nearly complete and the system of reporting is well integrated. The section on calendar month statistics above describes the quality of the monthly data before October 1986. The information relating to building societies is based on a comprehensive monthly return and a quarterly form submitted by 23 societies who account for over 95% of total building society assets, grossed up so as to estimate the totals for all societies. The sectoral allocation (including the allocation to the M4 private sector) of holdings of certificates of deposit and other issues of 0–5 year paper by MFIs (which are included in 'deposits') is partly estimated. The existence of a discrepancy between sterling and foreign currency inter-mfi lending and deposits is evidence of (minor) errors somewhere within M4 or its counterparts; the stock of the sterling inter-mfi difference is less than 0.2% of the stock of M4 (see *Economic Trends* June 1992, page 101).

Timeliness

A provisional estimate for M0 and notes and coin is published 3 working days after the last Wednesday in the month. A provisional indication of M4 and its counterparts is published on the 14th working day (around the 19th calendar day) after the month end. Final monthly M4 components and counterparts including a sectoral breakdown are issued in a Bank of England release, 'Growth rates of broad money (M4) and credit (M4 lending) including a sectoral breakdown' available on the 21st working day after the month end (i.e. about the end of the month); the data appear at the same time in the *Bank of England: Monetary and Financial Statistics* and later in *Financial Statistics*.

Availability

Calendar quarter figures for M4 are available from the first quarter of 1963 and for the counterparts of M4 as given in **Table 3.1F** from the second quarter of 1963. Consistent calendar month series are available, generally, only from October 1986. However, some series have been constructed back to mid-1982 (see section on **Calendar month statistics**). M0, which is a monthly average series, is available from June 1969.

Further references

The *Bank of England Statistical Abstract, Number 1* (1970) and *Number 2* (1975) gave longer runs of some figures quarterly from 1963 and banking monthly from 1971. The figures shown are M1, M3C (and their components) and the relationship between M3C and the *public sector borrowing requirement*. The Interactive Database, now available on the Bank of England's website (www.bankofengland.co.uk/mfsd/iadb) provides the latest and long runs of statistical data. The *Economic Trends Annual Supplement* also includes long runs, *

on a quarterly basis, of $M0$ (back to the second quarter of 1969) and $M4$ (back to the first quarter of 1963). The counterparts to $M4$ are shown quarterly, starting at various periods from the first quarter of 1963, and calendar monthly, starting at various periods from July 1982. The monthly publications *Economic Trends* and *Monthly Digest of Statistics* also give the main aggregates, with charts in the former.

Articles have been published in the *Bank of England Quarterly Bulletin* describing aspects of the monetary aggregates, including 'The determination of the monetary aggregates', August 1990, 'Liquid assets outside $M4$ ', May 1991, 'M3H', August 1992, 'Divisia measures of money', May 1993 'The determination of $M0$ and $M4$ ', February 1994. 'Influences on broad money growth' February 1995, 'Understanding broad money' May 1996 and the 'Demand for Divisia money by the personal sector and non-financial corporations. The internet version of *Bank of England: Monetary and Financial Statistics* (available via www.bankofengland.co.uk) contains a fuller list of such references. An article entitled 'Monetary statistics and the monetary financial institutions consolidated balance sheet' was published in the July 1999 issue of *Bank of England: Monetary & Financial Statistics*. The October 2002 issue contained an article entitled 'Compilation methods of the components of broad money and its balance sheet counterparts'.

*

✱

Table 3.1A Summary of monetary aggregates - percentage growth rates

The monetary aggregates shown in this table are $M0$, $M4$ (retail and wholesale) and the $M4$ lending counterpart. The definitions of these aggregates are given above.

Table 3.1B Money stock and velocity of circulation

The velocity of circulation for a quarter, as published in this table, is derived as the ratio of gross domestic product at current market price, expressed at an annual rate, to the value of money stock, expressed as an average for the quarter. Data are seasonally adjusted.

To give a numerical example, the sources and methods used to arrive at the $M4$ velocity of circulation figure for fourth quarter 2000 are as follows:

Data (£ millions)

GDP at market prices

2000 Quarter 4 = 237,716

Source: *Economic Trends* (June 2001 Series YBHA)

$M4$ level (end-month):

2000 September = 869,076
 October = 876,158
 November = 875,473
 December = 880,150

Source: *Financial Statistics* (June 2001 - table 3.1D)

Calculation

GDP annualised: $237,716 \times 4$ = 950,864

$M4$ centered: 875,214

Velocity of circulation ($M4$): $950,864/875,214 = 1.09$

3 Money supply and credit

The velocity of circulation figures published in *Financial Statistics* to March 1981 were calculated by using end-quarter data; from the April 1981 issue the calculation was revised and monthly money supply data were used.

The use of GDP (*Gross domestic product*) – or any other national income or expenditure aggregate e.g. *total domestic expenditure* or *total final expenditure* – in this calculation must be regarded as a crude approximation of what is ideally wanted – namely the total value of transactions in the economy involving money. These aggregates are strictly unsuitable because they exclude transfers between sectors and transactions within sectors (of which transactions in primary and intermediate output within the non-financial corporations are very important) and they include non-cash items such as imputed income and income in kind. Use of *GDP* assumes a stable relationship over time between *GDP* and total transactions.

Table 3.1C M0 money stock and changes

M0 comprises notes and coin in circulation outside the Bank of England *plus* bankers' operational deposits with the Bank. The levels are calculated weekly, on Wednesday close of business balances. The level of *M0* is calculated as the average of the levels on Wednesdays during each calendar month: the monthly change equals the difference between the average levels.

Notes and coin in circulation outside the Bank of England comprise: (i) Bank of England notes in circulation, excluding holdings by the Bank of England Banking Department, (ii) Royal Mint coin outstanding, and (iii) Scottish and Northern Irish banks' note issues less Bank of England notes held by these banks as backing for their note issues (to avoid double counting these notes).

Bankers' deposits with the Banking Department. Up to 19 August 1981, bankers' deposits were held predominantly by the clearing banks, which used them to settle net claims between themselves and as a means of paying for their requirements of Bank of England notes. Other banks generally used their accounts with the clearing banks to fulfil these two functions and many of them did not hold deposits with the Bank of England. The level of bankers' deposits was also influenced by monetary control requirements (e.g. the London clearing banks' agreement to hold an average of 1.5% of their eligible liabilities in the form of non-interest-bearing balances with the Bank, when Competition and Credit Control was introduced in 1971). From 20 August 1981, the new arrangements for monetary control took effect (for details, see the paper *Monetary control – provisions*, reprinted in the *Bank of England Quarterly Bulletin*, September 1981, pages 347 to 349). As part of these arrangements, bankers' deposits were divided into two components: *operational deposits* retained voluntarily at the Bank for clearing and other purposes mentioned above, and non-operational *cash ratio deposits*. Operational deposits are still held predominantly by the clearing banks, but all UK banks and building societies with average eligible liabilities of £400 million or more are required with effect from 1 June 1998 to maintain cash ratio deposits of 0.15% of their eligible liabilities in excess of £400 million. Cash ratio deposits, being fixed for six month periods, cannot be withdrawn and are excluded from *M0*.

Seasonal adjustment

The series *M0* and Notes and coin in circulation outside the Bank of England are shown in both seasonally adjusted and non-seasonally adjusted forms. Though the non seasonally adjusted data are compiled on a weekly basis, the seasonally adjusted data are compiled using monthly non seasonally adjusted data. Bankers' operational deposits are not seasonally adjusted.

*
✱

Sources

Figures for Bank of England liabilities are obtained from the Bank Return, which is published each Thursday relating to balances at close of business on Wednesday. Bankers' deposits are taken directly from this source (less their cash ratio deposits), as are the figures for Bank of England notes in circulation, which are the largest component of the first two columns in the table. The Scottish and Northern Irish banks report their note issues to the Bank of England weekly.

Monthly estimates and, from October 1986, weekly estimates of coin outstanding, net of an allowance for wastage, are obtained from the Royal Mint. Further details are given in the following articles in the *Bank of England Quarterly Bulletin*, 'The monetary base – a statistical note' (March 1981), 'Changes to monetary aggregates' (March 1984), 'Banking and monetary statistics: a change in reporting dates' (December 1986) and 'Monthly and weekly MO' (November 1995).

Breaks in the series

Information on breaks can be found in Technical Series paper No. 23 'Breaks in Monetary Series', Bank of England, February 1989, and in the annual *Bank of England: Statistical Abstract (Autumn 2002)*.

Table 3.1D M4 Money stock

This table shows the amounts outstanding at the end of quarters and months of the components of *M4*.

Estimates of non-residents' holdings of notes and coin are available for calendar quarters only and these, along with the public sector's holdings, are excluded from the quarterly series for *Notes and coin in circulation with the UK private sector*, with interpolated estimates being subtracted from the monthly series.

The definition of deposits used is the same as that in the MFI sector tables of **Chapter 4**.

Sale and repurchase agreements (Repos) are shown, which include sale and repurchase agreements against marketable securities of all kinds. With effect from end-December 1995, the way banks reported liabilities and claims under sale and repurchase agreements on their balance sheets was changed to bring it into line with internationally agreed national accounting conventions. An institution selling a security under a repo retains the security on its balance sheet and records a liability to the counterparty representing the cash received. The matching asset will depend on how the cash proceeds are employed. An institution acquiring a security under a reverse repo does not include the security on its balance sheet, but records a claim on the counterparty representing the funds lent. The matching liability will depend on how the loan is funded. Further information about repos is contained in this Handbook, Introduction, **Section D**.

Breaks in the series

Updates of breaks in series are published in Part 2 Section B of the Bank of England's Annual Statistical Abstract. New banking statistics were introduced at end - September 1997 to bring the UK into line with the standards of the European System of Accounts (ESA 95). Flows have been adjusted to remove the effects of any changes resulting from the new reporting forms. Levels are however on the new basis from end-September 1997. Specific changes affecting the monetary aggregates are the removal of any Channel Islands and Isle of Man opted-in banks from the monetary sector and the re-classification of any business with the Channel Islands and Isle of Man as non-resident. A revised treatment of acceptances was introduced in September 1997 and backdated. Although acceptances are still reported off balance sheet by individual banks, in aggregate in the consolidated balance sheet, and in the monetary statistics, they now count as on the balance sheet of the accepting bank, i.e. a bank accepting a bill is regarded as having a claim on the party on whose behalf the acceptance credit facility was opened, and a liability to the holder of the bill. Almost all sterling bank bills are held by other MFIs so the resulting liabilities and claims net out on consolidation. For further details of the changes, see articles in the September 1997 and February 1998 issues of Bank of England: Monetary and Financial Statistics.

Table 3.1E Changes in M4 money stock

In **Table 3.1E** the changes in the money stock may not equal the differences between the amounts outstanding. This is because changes in MFIs liabilities arising directly from alterations in the composition of the reporting population, or from the use of new sources of information or revaluations are reflected only in the levels and not in the changes. Also the seasonally adjusted changes may not be the same as the differences between seasonally adjusted amounts outstanding. (See the passage on **Seasonal adjustment** in the introductory notes to this Chapter.)

See also notes to **Table 3.1D** for details of breaks in series and other differences. The most recent update of breaks in series was published in Part 2 section B of the Bank of England's Annual Statistical Abstract



Table 3.1F Counterparts to changes in M4

This table (see also introductory notes) sets out the accounting identities between:

- (a) domestic counterparts – comprising the *Public Sector Net Cash Requirement*, purchases of *public sector debt* by the UK private sector (other than MFIs and excluding changes in its holdings of coin) and *sterling lending to the UK private sector*; Within this last item, reverse repo claims against marketable securities of all kinds are identified; these include any claims of the Bank of England on the M4 private sector resulting from official money market operations.
- (b) external and foreign currency counterparts – comprising net sterling deposits from banks abroad, other non-resident sterling deposits, sterling lending to non-resident non-banks, external finance of the public sector and MFIs net foreign currency liabilities. From June 1975 this last item includes changes in the foreign currency component of capital, internal funds and reserves of all MFIs, less their foreign currency investments in MFIs and other non-financial assets in currencies other than sterling. Before June 1975, net non-deposit liabilities in foreign currency are presented in aggregate with net non-deposit sterling liabilities. Changes in items denominated in foreign currency are calculated in transaction terms, i.e. after an adjustment has been made for the estimated effect of changes in the sterling value of foreign currencies;
- (c) changes in net non-deposit sterling liabilities comprising the sterling component of capital and internal funds and reserves of MFIs less their sterling investments in MFIs and other non-financial sterling assets.
- d) changes in M4.

The *Public Sector Net Cash Requirement* is described in the notes to **Table 1.1A**.

Tables 3.1G and 3.1H Sectoral analysis of M4 and its sterling lending counterpart

These tables provide the sectoral analyses which are often useful in interpreting the changes in M4 and its sterling lending counterpart (see, for example, “Financial change and broad money” in the *Bank of England Quarterly Bulletin*, December 1986: the discussion there was mainly in terms of the now – discontinued aggregate, M3, but applies, when the appropriate changes are made, to M4; see also ‘The determination of the monetary aggregates’, *Bank of England Quarterly Bulletin*, August 1990).

The figures relate to the financial accounts matrix (**Table 8.1M**) as follows. Broadly the change in each sector's holding of M4 is the sum of the changes in its holdings of currency (F.21 in the matrix), sterling deposits with UK banks (F.2211) and deposits with building societies (F.2213). Sterling lending to each sector is broadly the sum of sterling loans by UK banks (F.4111), loans secured on dwellings by building societies (F.4222) and banks (F.4221), sterling lending by building societies other than that secured on dwellings (F.4113), and bank and building society holdings of UK company securities denominated in sterling (F.3326, F.514 and F.515) and of sterling commercial paper (F.3316). The precise definition of lending secured on dwellings (previously ‘lending for house purchase’) changed at end March 1993.



Tables S3.1G and S3.1H Monthly sectoral analysis of M4 and M4 lending

These tables provide an estimate of the monthly sectoral breakdown of M4 and its sterling lending counterpart. Data from July 1996 to August 1997 are based on reporting by only 100 banks, grossed up to represent the total banking sector. Data from September 1997 onwards have the same comprehensive coverage as the quarterly sectoral series.

The introduction of the new banking statistics returns at the end of September 1997, bringing the UK into line with the European System of Accounts standards, led to changes in the definitions of economic sectors. In particular, unlimited liability partnerships have been re-classified into private non-financial corporations and other financial corporations from the household sector. Adjustments have been made to minimise the breaks in the time series of financial flows. For further details see the article in September 1997 *Bank of England: Monetary and Financial Statistics*.

Table 3.11 Liquid assets outside M4

M4 is made up of sterling cash and deposits with MFIs in the United Kingdom, held by the *M4* private sector (i.e. by UK residents other than the public sector and MFIs). The aim of this table is to illustrate the development of certain liquid assets outside *M4*: it provides data on a wider range of holder, currency, and sector or location of issuer. These series can be used as building blocks from which users of the monetary statistics can create their own aggregates if they wish.

In assessing the liquidity of those assets which are outside *M4*, it should be remembered that *M4* itself contains some comparatively illiquid elements (e.g. *M4* contains deposits of any maturity with MFIs and certain paper and other capital market instruments of not more than five years' original maturity – though in practice the great majority of *M4* is of under three months' residual maturity).

M4 private sector deposits

Channel Islands and Isle of Man. Until the end of September 1997 about one eighth of the banking institutions in the Channel Islands and Isle of Man were treated as UK banks for statistical purposes, and the remainder were treated as 'other financial corporations (OFCs' coverage of institutions in the Isle of Man and in Jersey was only partial). The distinction between the two groups was made according to whether the institutions had opted to comply with the Bank of England's monetary control arrangements (in which case they were treated as UK banks for statistical purposes and deposits by the *M4* private sector with these institutions were included within *M4*). Deposits with OFC institutions in the Channel Islands and Isle of Man were not included in *M4*; but the deposits of these institutions with UK banks and building societies were included in *M4*. So, to the extent that these offshore OFCs took funds and redeposited them in the United Kingdom, there was no 'leakage' from *M4*, although the sectoral breakdown recorded these deposits as being from the OFC sector rather than from the original source of funds. Adding deposits placed with these institutions by the *M4* private sector to *M4* thus introduced an element of double counting. Moreover, because of the nature of financial activity in the Channel Islands and Isle of Man, the series for the *M4* private sector's deposits probably included substantial amounts placed by local companies and trusts essentially on behalf of non-residents rather than on behalf of UK or local residents.

From end-September 1997 all institutions in the Channel Islands and Isle of Man are classified as non-residents. There are no longer any "opted in" banks within the monetary sector. All business with the Channel Islands and Isle of Man has been reclassified as non-resident. The data shown in the new series are collected from all banks and building societies in the Channel Islands and Isle of Man and are not comparable with the earlier data.

Banks in the BIS reporting area. Statistics published by the Bank for International Settlements (BIS) provide comprehensive data on international banking business conducted in the financial centres making up the BIS reporting area. The number of countries within this reporting area has increased over time; currently the statistics cover the positions of banks in thirty-five countries. Data are collected only on a quarterly basis. BIS data are published four and a half months after the quarter-end and hence these series will be less timely than other series in the table. Holdings of certificates of deposit are not generally covered by these statistics.



M4 private sector's holding of foreign currency deposits. Foreign currency deposits held by the *M4* private sector at MFIs in the United Kingdom or in the Channel Islands and Isle of Man- and those held at banks in the BIS area may be destined to be spent in the United Kingdom or may represent a store of wealth which is relevant to UK economic activity. But any significant conversion of these deposits into sterling for

3 Money supply and credit

spending in the United Kingdom would tend to raise the sterling exchange rate which in turn might have an offsetting effect on spending in the United Kingdom (see pages 525-529 of the December 1983 *Bank of England Quarterly Bulletin*).

Non-residents' sterling deposits

Deposits by non-resident banks with banks in the United Kingdom include deposits from central monetary institutions (i.e. part of other countries' official reserves) as well as deposits from commercial banks abroad. When combining series, users should be aware of potential double counting: for example *sterling deposits at banks in the BIS area* may in turn be placed by those banks as sterling deposits in UK banks or institutions in the Channel Islands and the Isle of Man (or indeed at other banks in the BIS area). Non-residents' sterling deposits, particularly those held by non-banks in the United Kingdom, may be destined to be spent in the United Kingdom; equally they may simply be part of the non-residents' global liquid assets, held temporarily or for longer term in the United Kingdom as a store of value (but their conversion into foreign currency might nonetheless affect UK economic activity via an effect on the exchange rate; see pages 525-529 of the December 1983 *Bank of England Quarterly Bulletin*).

Sterling Treasury bills, LA temporary debt, Certificates of Tax deposits and gilts

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

Other assets

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

Sterling medium-term notes are marketable securities issued with original maturities of over one year and up to (and including) five years. In March 1997, a change in the regulations removed the upper maturity limit and renamed those instruments issued under the Exempt Transactions Regulations with a maturity of one year or over, "Other Debt Securities". They include both fixed and floating-rate notes; floating-rate assets are more capital-certain and therefore may be considered more liquid than fixed-rate assets. The series published here is the total of all issues except those by MFIs (which are included in *M4* if owned by the *M4* private sector and in the non-residents' sterling deposits if identified as being owned by non-residents). There are no data distinguishing MFIs, public or non-residents' holdings of this instrument; hence this series comprises all sectors' holdings.

Other sterling paper maturing within one year. This series comprises all holdings of sterling (including eurosterling) bonds issued by the UK private sector and non-residents of original maturity of more than five years, which are due to mature within one year. The majority are floating-rate issues; floating-rate assets are more capital-certain and therefore may be considered more liquid than fixed-rate assets. There are no data distinguishing bank, building society, public or non-residents' holdings of this instrument; hence this series comprises all sectors' holdings.

Residual maturity breakdown of gilts. The maturity breakdown cannot be allocated into sectors and hence both series cover all holders of gilts.

Sterling unused credit facilities. It is sometimes argued that unused credit facilities may be seen by the potential borrower as a form of liquidity. However, the reported series may be misleading as an indicator of liquidity. Coverage is incomplete – notably, the unused portion of credit card holders' limits is not included.

Some banks report no unutilised facilities (although requests by borrowers to increase the credit limits are often met, and borrowers would probably expect them to be met). On the other hand, borrowers may have facilities with several institutions without ever intending to draw on them all simultaneously. Where a facility may be drawn in either sterling or foreign currency at the borrower's option, it is reported in foreign currency facilities – so that potential sterling facilities may be larger than the sterling facilities figures suggest. The series here covers all sterling unused credit facilities reported by UK banks (except to other UK banks).

Among assets not covered by these statistics are certificates of deposit issued by banks abroad and foreign currency commercial paper, foreign currency medium-term notes and other foreign currency short-term paper issued in the United Kingdom or overseas.

Tables 3.2A and 3.2B Consumer credit and individuals' borrowing

* ✎

These tables bring together data on consumer credit and other households borrowing. Their main purpose is to provide information on a measure of consumer credit defined, in principle, as borrowing by consumers (i.e. the household sector excluding sole proprietors, partnerships and non-profit making institutions serving households) to finance current expenditure on goods and services; and to show how it compares with total households' borrowing. Short-term borrowing akin to trade credit is excluded.

The tables are arranged to show credit extended by each of the main types of credit granting institutions. Information on the type of goods purchased via credit agreements is no longer collected. Monthly data on all the main components of consumer credit became available with effect from April 1993.

Data on gross lending (i.e. new advances made during the period) are given in **Table 3.2A**. Data on amounts of debt outstanding and the increase in debt (net lending) are given in **Table 3.2B**. The net lending series reflect changes in the amounts of debt outstanding adjusted to remove distortions caused by revaluations, such as write-offs of bad debts, and reclassification of lenders between sectors. Data are supplied both seasonally adjusted and unadjusted, though where seasonality has not been found to be significantly seasonal, the adjusted and unadjusted data are the same. Series are reviewed annually for seasonality.

* ✎

The tables show borrowing through credit cards as separate memorandum items. Until the second quarter of 1992 the figures only cover cards issued by banks. With effect from the third quarter of 1992, the figures include credit card lending by building societies, and from the first quarter of 1999, they include credit card lending by other specialist lenders. Borrowing through Trustcard, part of Visa, is only included from end-1981 when TSB joined the banks sector. Some credit cards are issued by or on behalf of retailers. Borrowing through these cards is included in the table according to the type of institution financing the scheme. Some are banks, some are specialist consumer credit companies, and others are retailers who finance their own schemes.

Repayment of borrowing through charge cards i.e. through "travel and entertainment" cards such as Diners and American Express is normally made in full at the end of the month. This form of borrowing is more akin to trade credit than consumer credit as defined here. Strictly speaking it should be included in *other borrowing* on the right-hand side of the table. However, in practice this is not possible. Some data are not available and others are indistinguishably included in data for credit cards.

The consumer credit series cannot be compiled for periods prior to 1976 because the crucial split between bank lending to households and individuals and to the remainder of the households sector (mainly partnerships and sole proprietors) is not available before then.

As a result of an ONS review of consumer credit issued by non-bank credit grantors, data for other specialist lenders were improved and revised back to January 1995. As a result the total amount outstanding was revised (in August 1997) upwards by £2.6bn. Flows have been break adjusted.

3 Money supply and credit

Scope of headings

Consumer credit:

- (a) *credit cards: total.* The series cover lending on all bank credit cards and, where these are indistinguishable, charge cards (but excluding Trustcard before end-1981). From the third quarter of 1992 the series also cover a relatively small amount of lending on building societies credit cards, and from the first quarter of 1999, other specialist lenders' credit card lending is included
- (b) *banks.* The series cover bank lending in sterling to individuals and individual trusts but excluding bank loans secured on dwellings. Amounts outstanding in **Table 3.2B** can be derived from tables **3.2C**.
- (c) *building societies* unsecured lending to individuals. Including sterling personal loans and bridging loans (prior to October 1998 known as class 3 lending). Lending by building societies subsidiaries is included in other *specialist lenders*.
- (d) *other specialist lenders.* The series cover unsecured lending to individuals by finance houses, building societies_ subsidiaries and other specialist non-bank credit grantors (see **Table 5.2B**) and a small amount of unsecured lending by specialist mortgage finance companies.
- (e) *insurance companies.* The series relate to policy loans and other loans to individuals by life assurance and general insurance companies. Figures are based on advances and redemptions of premiums.
- (f) *retailers.* The series only cover consumer credit financed directly by retailers.

Other borrowing:

- (a) *loans secured on dwellings* have the same coverage as in **3.2C** where the detail is shown.

Timeliness

Information on consumer credit is generally available one month after the end of the month to which it relates.

Table 3.2C Loans secured on dwellings

This table brings together the quarterly figures for loans secured on dwellings shown in the sector accounts. Net and gross advances (and amounts outstanding) by building societies, central government, local government, insurance corporations and pension funds, the bank sector, Trustee savings banks (up to end-1981 when they became part of the UK bank sector), miscellaneous financial institutions and public corporations are shown separately. Gross advances are shown for all except public corporations. Repayments of principal are shown for building societies, central government, local authorities and insurance corporations and pension funds; repayments of principal for building societies is not equal to gross less net advances because net advances also include interest earned/paid and other debits/credits. This information on gross advances is not available for public non-financial corporations, while for banks and miscellaneous financial institutions it is on a basis not fully consistent with that of the net advances data for these sectors. However, data for gross advances by banks and miscellaneous financial institutions, and a description of their coverage, are included in the Bank of England's *Lending to Individuals* press release. In these releases, figures of miscellaneous financial institutions' outstanding lending and net advances for lending secured on dwellings prior to the end of the second quarter 1990 are constant population estimates whilst those in *Financial Statistics* are based on totals actually reported by a fluctuating population.

The figures for repayments to building societies are split between regular repayments, repayments on redemption and other lump sum repayments. Building society transactions from January 1987 to

November 2001 were derived from figures prepared by the Building Societies Commission on the basis of returns made to it by individual societies. Since December 2001 these have been compiled by the Financial Services Authority. Before 1978 the estimates were made from samples which varied between about 50% and 80% of total assets. Annual figures from 1956 to 1962 are published in *A Compendium of Building Society Statistics*, second Edition by the Building Societies Association. The monthly figures from 1978 to January 1987 are derived from different returns made to the Building Societies Association. These were based on a sample representing over 95% of total assets of all societies. Although the coverage and definitions of these two sources should be broadly the same, there may be some break in series at end-December 1986; thus any effect of the change of source is incorporated in the January 1987 flows. In July 1989 Abbey National Building Society converted to a public limited company. In August 1995 Cheltenham and Gloucester joined Lloyds Bank Group, in August 1996 National and Provincial Building Society transferred its business to Abbey National PLC, in April 1997 Alliance & Leicester Building Society converted to public limited company status, in June 1997 Halifax Building Society converted to public limited company status, in July 1997 Woolwich Building Society converted to public limited company status and Bristol and West Building Society joined the Bank of Ireland Group, in October 1997 Northern Rock Building Society converted to public limited company status, in April 1999 Birmingham Midshires Building Society was acquired by Halifax PLC and in December 2000 Bradford & Bingley Building Society converted to public limited company status. In each of the respective cases, the lending by the institution was classified as that of a bank from the date identified and that of a building society prior to that date.

✱

✱

Chapter 4 Monetary Financial Institutions

Monetary financial institutions (MFIs) consist of the central bank (S.121) and those other institutions classified to S.122. This is the same as the 'Monetary Financial Institutions for statistical purposes' defined by the European Central Bank (ECB).

In the United Kingdom MFIs comprise the Banking and Issue Departments of the Bank of England; other banks; and building societies. (Money market mutual funds, which fall under the ECB's definition of MFIs, are excluded on size grounds.)

Tables 4.1A to 4.1D (4.4A to 4.4D) MFIs consolidated balance sheet

Tables 4.1A to 4.1D give the consolidated balance sheet of the MFIs sector. The emphasis in these tables is on showing the position of MFIs as a whole in relation to other sectors. Transactions within the MFIs sector are netted out. **Tables 4.1A to 4.1D** show, respectively, the contributions of the central bank, other banks and building societies to the MFIs consolidated balance sheet. Because these tables are also consolidated at the MFIs level, they do not, for instance, show banks' positions with building societies. As a result, the sub-sector tables are not balance sheets in their own right, but show the contributions to the wider MFI balance sheet.

Consolidation adjustments

Two types of adjustment are necessary when the returns are consolidated for the sector as a whole.

Transit and suspense items

Gross figures for deposits and advances are adjusted to allow for banks' and the central bank's *transit and suspense items*. Transit items appear in an individual bank's balance sheet both as credit items (eg standing orders) and debit items (eg cheques in course of collection). When figures are aggregated, these items may, without adjustment give rise to double counting of deposits received from customers outside the banks' sector or, where overdrawn or loan accounts are concerned, to the undervaluing of total lending made to such customers.

For *foreign currency* transit items, all debit items less all credit items are deducted from foreign currency deposits of the non-resident sector. For foreign currency credit items in suspense, 39% is added to deposits from the non-resident sector, 22% added to deposits from the UK private sector, 26% is deducted from loans to the non-resident sector and 13% deducted from loans to the UK private sector. For foreign currency debit items in suspense, 39% is subtracted from deposits from the non resident sector, 21% subtracted from deposits from UK private sector and 26% and 14% added to advances to the non-resident and UK private sectors respectively.

For *sterling transit and suspense items* the adjustments are similarly detailed and a revised treatment has been introduced from the 1994 Blue Book with revisions being carried back to Q4 1986. Up till then, in accordance with the treatment originally adopted for the calculation of reserve ratios (see *Reserve ratios: further definitions* on page 482 of the December 1971 issue of *Bank of England Quarterly Bulletin*), it was assumed that 60% of the total value of debit less credit items affected deposits. This proportion was therefore deducted from gross deposits and the remaining 40% was added to advances, the adjustment being applied to deposits of, and lending to, the UK non-bank private sector (specifically, non-financial corporations) in **Tables 4.1C and 4.3A**.

The current adjustments for sterling transit items are as follows:

6% of credit transits is applied to local authorities, 12% to OFCs and 12% to non-financial corporations, with, in each case, 60% of the adjustment added to deposits and 40% subtracted from loans.

70% of credit transits is applied to households, with 80% added to deposits and 20% subtracted from loans.

40% of debit transits is applied to non-financial corporations, with 60% of this subtracted from deposits and 40% added to loans.

60% of debit transits is applied to households, with 80% subtracted from deposits and 20% added to loans.

From mid-May 1975 to September 1986, sterling suspense accounts on both sides of banks' balance sheet, which are unclassifiable by sector, are added to transit items and treated in the same way. From October 1986 adjustments for sterling items in suspense are: 30% of credit balances added to OFC deposits, 9% to non-financial corporations deposits, 28% to households deposits, 20% deducted from lending to OFCs, 6% from lending to non-financial corporations, 7% from lending to households; 22% of debit balances added to lending to OFCs, 4% to lending non-financial corporations 7% to lending to households 33% deducted from OFCs deposits, 6% from non-financial corporation deposits, 28% from households deposits.

No similar adjustments are required for building societies' transit items because they represent 'uncleared cheque' business with banks and do not therefore give rise to double counting.

Valuation adjustments

The changes in banks' assets and liabilities in foreign currencies shown in **Tables 4.1A** and **4.1C** have been adjusted to exclude the estimated effect of movements in exchange rates. To the extent that the total of adjustments made to foreign currency assets does not equal the total of adjustments to foreign currency deposits, a net adjustment is made to non-deposit liabilities; in principle this adjustment removes from banks' capital and reserves any change which is due to a book profit/loss in sterling terms as a result of exchange rate movements, so that the remaining change in non-deposit liabilities is in principle a genuine flow. Changes in foreign currency items may not equal the differences between the amounts outstanding; they will, however, more accurately reflect institutions' transactions. A new method of adjusting for the estimated impact of exchange rate movements was introduced in May 2002 and backdated.

Up to and including the third quarter of 1981, transactions in investments etc were entered as far as possible on a cash receipts/payments basis in the calendar quarter series, and to the extent that these cash transactions differed from changes in book values, an adjustment was made to the reported change in non-deposit liabilities. Thereafter until 1994, the figures are largely based on reported changes in book value.

From 1994, flows for investments issued by non-residents are based on transactions data.

In the second quarter of 1992, but backdated to 1986, adjustments were introduced to bank lending and non-deposit liabilities flows to offset the depressing effect of bank write-offs. Where identified and deemed significant, adjustments (increases) to lending and non-deposit liabilities flows were taken back to 1986. For further details, see August 1992 *Bank of England Quarterly Bulletin*, (page 272) and part 2 of the annual *Bank of England: Statistical Abstract 1997*.

Adjustments on consolidation

As noted above, in producing the MFI consolidated balance sheet transactions between MFI's are netted. Any difference between reported liabilities to, and claims on, other MFIs are handled as follows. The inter-MFI difference is allocated to sectors according to the results of a detailed investigation of the causes of interbank difference (see page 101 of June 1992 *Economic Trends*). In particular, from end-1986, 95% of the sterling interbank (now inter-MFI) difference has been allocated directly to the private sector's deposits. From the same date, 60% of the foreign currency interbank (now inter-MFI) difference has been allocated to non-residents' non-sterling deposits, and 40% to the private sector's deposits.

Scope of headings

The instrument detail in the MFI balance sheet is consistent with that specified in ESA95. The full instrument breakdown is as follows:-

4 Monetary Financial Institutions

Liabilities	Assets
currency, deposits and money market instruments	Loans
financial derivatives	securities other than financial derivatives
other securities issued	financial derivatives
other financial liabilities	other financial assets
Other	Other

The full breakdown is not available monthly; the data on derivatives, for example, are only reported quarterly.

The sectoral detail MFIs consolidated balance sheet contains an ESA95-consistent breakdown of the non-MFI private sector (showing other financial corporations; private non-financial corporations; households; and non-profit institutions serving households) and public sector (central government; local government; and public non-financial corporations).

Currency, deposits and money market instruments

Currency includes notes issued by Scottish and Northern Irish banks (net of Bank of England notes held as backing) as well as notes issued by the Issue Department of the Bank of England. Holdings of currency by the private sector are the residual of the total less estimated holdings by all other sectors. (Coin is a liability of HM Government and not included within currency in this table). Deposits and money market instruments include estimated holdings of MFI's certificates of deposit, commercial paper, bonds, Floating Rates Notes (FRNs) and other instruments of up to and including five years' original maturity, and, from December 1995, liabilities arising from repos. With the addition of its holding of UK coin, the private sector's holding of sterling currency, deposits and money market instruments equals M4.

Financial derivatives

Banks report assets and liability positions in derivatives at the end of the quarter, and transactions in derivatives over the period. Both Over the Counter (OTC) and exchange traded contracts are included. Contracts with a positive marked-to-market value are recorded as an asset; contracts with a negative marked-to-market value as a liability. Transactions in derivatives include the banking book and the trading book of the reporting institution. Transactions in interest rate swaps and Forward Rate Agreements (FRAs) are compiled on an accruals basis; other derivative contracts are recorded on a cash basis with the values reflecting market settlement value rather than daily unrealised revaluation amounts. Other securities issued comprise unsubordinated instruments of more than five years' original maturity.

Other liabilities

Other liabilities include other capital items, including retained profits.

Loans

Loans includes all forms of lending by MFIs, other than holdings of securities. It includes holdings of non-bank bills, amounts receivable under finance leases, and, from December 1995, lending under reverse repos. A revised treatment of acceptances was introduced in September 1997 and backdated. Although acceptances are still reported off balance sheet by individual banks, in aggregate in the consolidated balance sheet, and in the monetary statistics, they now count as on the balance sheet of the accepting bank ie a bank accepting a bill is regarded as having a claim on the party on whose behalf the acceptance credit facility was opened, and a liability to the holder of the bill. Almost all sterling bank bills are held by other MFIs, so the resulting liabilities and claims net out on consolidation. For further details see article in the September 1997 issue of *Bank of England: Monetary and Financial Statistics*. MFIs sterling loans to, and investment in, the private sector are equal to the M4 lending counterpart to M4.

Securities (other than financial derivatives)

Securities (other than financial derivatives). Securities are defined as marketable or potentially marketable income-yielding instruments, including euro-bonds, floating rate notes and investments in related companies. British government stocks are recorded when settlement takes place, other investments are recorded, as far as possible, on a contract basis. Securities acquired under a reverse repo or given as collateral under a repo are excluded: they remain on the balance sheet of the beneficial owner

Other assets

Other assets include fixed assets, gold bullion beneficially owned, and other commodities.

Table 4.2A (4.1A) Bank of England liabilities and assets

This table provides in summary form the balance sheet of the Bank of England, which is divided, for accounting purposes, between the Issue Department and the Banking Department. (The Bank's activities were divided in this way by the Bank Charter Act 1844, so as to separate the note issue function from all other functions.) In the UK financial accounts, the Issue Department and the Banking Department together form the Central Bank sector. The Exchange Equalisation Account (EEA), the government account - managed by the Bank - which holds the official reserves of gold, convertible currencies and special drawing rights (SDRs), is not included in this table: this is part of the Central Government sector and is not an asset of the Bank.

Timeliness

The figures are shown as at the third Wednesday of each month, and are those given in the weekly Bank Return published each Thursday and in the Friday edition of the *London Gazette*. The data are published in *Financial Statistics* one month in arrears.

Issue Department

The accounts of the Issue Department are concerned solely with the note issue and the backing for it. Thus the department's only liabilities are Bank of England notes in issue - in circulation with the general public, in commercial banks' tills, by businesses or held as a reserve by the Banking Department (through which issues and withdrawals of notes take place).

Assets are mainly *public sector debt* (including ways and means advances to the National Loans Fund), reverse repo transactions and *commercial bills* purchased as part of the Bank's money- market operations.

Scope of headings

Government securities include holdings of British Government and government-guaranteed securities, Treasury bills, and Ways and Means advances. Before the Maastricht Treaty became effective in 1994, it also included any special Treasury liability and the historic government debt of £11 million, repayment of which on 27 July 1994 was refinanced by increased holdings of government securities. (For details of its earlier history see pages 56 to 57 of the Bank of England report and accounts for the year ended 28 February 1971.)

Other securities include:

- (i) gilt and Treasury bill repurchase agreements which, prior to 27th July 1994, were covered under "Government securities",
- (ii) promissory notes relating to ECGD and shipbuilding, acquired as part of money market smoothing operations. (Details of repo and secured loan facilities are set out on page 109 of the May 1994 *Bank of England Quarterly Bulletin*. For details of refinance provided directly by Issue Department in 1969-72 see June 1972 *Bank of England Quarterly Bulletin*.)
- (iii) commercial bills and local authority bills (both inclusive of repos,) miscellaneous securities and, on occasion, local authority deposits and bonds acquired in the course of market operations.

4 Monetary Financial Institutions

Government securities include holdings of government and government-guaranteed securities, adjusted for the amortisation of premia or discounts on a straight line basis over the period to maturity, and Treasury bills.

Advances and other accounts include advances to the Bank's money market counterparties, loans to customers and support loans to deposit-taking institutions. Provisions for losses are deducted.

Premises, equipment and other securities include equipment (at cost less accumulated depreciation) and premises (which have been valued at open-market values for existing use). Other securities include ordinary shares, local authority bills and bonds and commercial bills. Both listed and unlisted securities are included at cost less provisions.

Notes and coin complete the assets of the banking department. The holdings of coin and Scottish and Northern Irish notes account for any differences between this column and column two titled "Notes in Banking Department".

Further references

The *Bank of England Statistical Abstract, Number 1* (1970) provides end-year figures for the years 1945-63, and monthly figures for 1964-69. *Abstract Number 2* (1975) provides mid-December figures for 1963-69 and monthly figures for 1970-74. The 1997 Statistical Abstract provides annual and, from 1987, quarterly data from 1976 onwards.

The *Bank of England Annual Report and Accounts*, published in May each year, gives a full balance sheet and further details in the notes to the accounts. See also **Table 4.1B** showing the Central Bank Sector's contribution to the MFIs consolidated balance sheet.

The *Annual Abstract of Statistics* **Table 17.1** gives a run of mid-December figures.

An article in the *Bank of England Quarterly Bulletin*, for June 1967 - *Bank of England liabilities and assets: 1696 onwards* - provides some figures for the years 1696 to 1845, prior to the regular publication of the Bank Return in September 1844.

Table 4.3A Banks: Balance sheet

As from November 1997 edition of *Financial Statistics* this table has been introduced to implement some of the results from the Banking Statistics Review. The main changes are as follows:

- i. The table now includes the business of all monthly and quarterly reporting institutions; it formerly covered only the business of monthly reporting institutions. Figures in non-quarterly months are grossed up to the full reporting population.
- ii. The Channel Islands and Isle of Man are no longer treated as part of the UK for statistical purposes. Banking institutions in the Channel Islands and Isle of Man no longer have the option of being within the UK banking sector and their business, along with the business of offshore island branches of UK mainland banks, is now excluded from the figures within this table. Additionally, the business of the UK banking sector with offshore island residents and entities has been reclassified from the UK residents to non-residents.
- iii. The table now contains more comprehensive detail of business with building societies. This business was previously included indistinguishably within the UK private sector elements of the table.
- iv. The value of derivatives contracts are shown in this new table.
- v. The aggregated balance sheet of the banking sector has been inflated because it is now reported on an accruals basis rather than a cash basis (accrued amounts payable/receivable are shown under liabilities

and assets respectively). Additionally, acceptances have been brought onto the balance sheet and are shown under both liabilities and assets.

Further details about categories in this table are as follows:

This table aggregates the balance sheets of the banks within the United Kingdom. Banks within the UK comprise :-

- (a) Institutions which have a permission under Part 4 of the Financial Services and Markets Act 2000 (FSMA) to accept deposits other than
 - (i) credit unions;
 - (ii) firms which have a permission to accept deposits only in the course of effecting or carrying out contracts of insurance in accordance with that permission;
 - (iii) friendly societies; and
 - (iv) building societies; and
- (b) EEA credit institutions with a permission under Schedule 3 to FSMA to accept deposits through a UK branch

Liabilities and assets are reported at market value, where available. Liabilities and assets in currencies other than sterling are translated into sterling at the middle market spot rate pertaining in the London market at 4pm London time on the last working day of the London market in the period covered by the report. Some amounts outstanding are therefore affected by movements in exchange rates; flows have been adjusted to remove these effects.

Liabilities

Notes outstanding and cash loaded cards comprise the sterling notes issued by Scottish banks and Northern Ireland banks and cash loaded cards issued by banks.

Deposits

These include all credit balances on customers' accounts, including deposits by other UK banks (except deposits in connection with syndicated lending); deposits by non-resident offices of the reporting institution (except those invested in fixed assets which are included in capital and other funds), overdrawn accounts with UK and non-resident correspondents and shareholders' deposits. They also include acceptances granted, liabilities under sale and repurchase agreements, certificates of deposit and other short-term paper issued (all shown separately) and all liabilities in gold bullion or gold coin (which are included in "Foreign currency liabilities") except that deposited for safe custody.

Sight deposits comprise those deposits where the entire balance, whether interest bearing or not, is accessible without penalty, either on demand or by close of business on the day following that on which the deposit was made. They include money at call (except where there is an agreement not to withdraw before a certain date or to call at a specific number of days' notice) and money placed overnight.

Time deposits comprise all other deposits (except acceptances granted, liabilities under sale and repurchase agreements, certificates of deposits and other short-term paper, which are shown separately).

Acceptances granted represent the banks' liabilities to the holders of the bills.

Liabilities under sale and repurchase agreements comprise cash receipts arising from the sale of securities or other assets for a finite period with a commitment to repurchase. Liabilities which arise when securities or other assets are sold in exchange for other securities or other non-cash assets are excluded. The amount of the liability (or its currency denomination) is determined by the cash consideration not the market value (or currency denomination) of the securities. There is a break in the series of liabilities to "banks" and "public sector" respectively after March 1998 as a result of the reclassification of the Issue Department of the Bank of England from the latter to the former. Whilst this reclassification has been affected throughout this table, it is particularly noticeable here.

4 Monetary Financial Institutions

Certificates of Deposit (CDs) etc and other short-term paper issued include promissory notes issued by the reporting institutions, unsubordinated capital market instruments (except debentures and secured loan stocks) of any maturity and subordinated loan stocks with a maturity of five years or less. Other subordinated loan stocks and debentures are included in capital and other funds.

Items in suspense and transmission comprise credit balances not in customers' names but relating to customers' funds rather than to the reporting institution's internal funds or to shareholders' funds; balances awaiting settlement of securities transactions, and standing orders and credit transfers debited to customers' accounts, and other items for which the corresponding payment has not yet been made by the reporting institution. Also included are credits in course of transmission to UK branches of the reporting institution, to other UK banks, and to non-resident banks.

Net derivatives comprise the overall net derivatives position of contracts which are included within the trading and banking books of the reporting institutions.

Accrued amounts payable are gross amounts payable which have not yet been paid or credited to accounts.

Capital and other funds include shareholders' funds, working capital provided by non-resident offices, and all internal accounts (both liability and asset). Included here is loan capital such as debentures and subordinated loan stocks with an original maturity of more than five years.

Assets

With UK Central bank

Cash ratio deposits: Prior to 1 June 1998 before the commencement of the Bank of England Act, reporting institutions with average eligible liabilities of £10mn or more were liable to lodge non-operational, non-interest-bearing deposits with the Bank of England at a ratio of 0.35% of eligible liabilities, until 1 April 1998 and 0.25% of eligible liabilities after that date. Adjustments to the amount of cash ratio deposits took place in October and April each year. From 1 June 1998 the statutory scheme for cash ratio deposits came into effect from which date all eligible institutions (banks and building societies) with eligible liabilities greater than £400mn are required to hold non-interest-bearing cash ratio deposits with the Bank at a rate of 0.15% of their eligible liabilities which are in excess of £400mn; this threshold was raised to £500mn on 15 June 1004. Adjustments to the amount of cash ratio deposits take place in June and December each year based on average eligible liabilities in the six months to April and October respectively.

*
✱

Other: These comprise balances with the Bank of England other than cash ratio deposits.

Market loans

UK banks includes all money (including correspondent balances, finance leasing and initial margin payments relating to futures and options contracts) lent to, or placed with, other UK banks (excluding the Bank of England). Overdrawn accounts are included under deposits.

UK building societies *Certificates of Deposit etc and deposits* includes banks' holdings of commercial paper issued by building societies and all deposits with building societies including finance leasing.

Non-residents includes all balances (including correspondent balances) with, and funds lent to, non-resident banks (except trade and portfolio investments); bills drawn by non-resident banks under acceptance credit facilities opened by the reporting institution which the reporting institution has itself discounted; and certificates of deposit and commercial paper issued by non-resident banks and owned by the reporting institution.

Acceptances granted comprise a claim on the party whose bill the banks have accepted except for bills both accepted and discounted by the same bank which are included as lending (unless subsequently rediscounted). Acceptances are classified according to the customer who has asked for the acceptance facility to be opened.

Bills

UK bank bills comprise all sterling bills which have been accepted by another UK bank.

Other UK includes local authority bills, public corporation bills not accepted by UK banks, sterling commercial paper issued by other UK residents, and UK paper not included elsewhere. It excludes bills connected with lending under the special schemes for exports and domestic shipbuilding, and bills which the reporting institution has disposed of by rediscounting. Bills and notes are classified according to the currency in which they are drawn.

Claims under sale and repurchase agreements comprise cash claims arising from the purchase of securities for a finite period with a commitment to re-sell. Claims which arise when securities or other assets are purchased in exchange for other securities etc. are excluded. The amount of the claim (or its currency denomination) is determined by the cash consideration not the market value (or currency denomination) of the securities.

Advances

These include all balances with, and lending (whether against collateral or not) to, customers, not included elsewhere. They include amounts receivable under finance leases and the reporting institution's own acceptances which it has also discounted (except those drawn by non-resident banks, which are included in market loans). Own acceptances discounted are shown as advances to the party who has asked for the acceptance credit to be opened. Advances purchased by or assigned to the reporting institution under a transferable loan facility or similar arrangement are included, but loans where the borrower is a UK bank, a UK building society, a non-resident office of the reporting institution or another non-resident bank are reported under Market loans. Provisions for bad and doubtful debts are not deducted. Where the reporting institution participates in (or acts as manager or co-manager of) a loan financed by more than one institution, only the reporting institution's participation for its own account is included, the loan being classified according to the ultimate borrower. See the note below on residential status for the definition of UK and non-residents.

Advances to other UK residents include all medium and long-term lending (i.e. with an original maturity of two years or over), at fixed rates under Department of Trade and Industry guarantee for shipbuilding in the United Kingdom for UK buyers, excluding any amounts refinanced.

Advances to non-residents includes all lending for exports under ECGD bank guarantee (excluding any amounts refinanced).

Banking Department lending to central government (net) comprises holdings by the Banking Department of the Bank of England of all forms of central government debt (including bank notes) less its deposit liabilities to the National Loans Fund and the Paymaster General. This item is discontinued after March 1998 as a result of the removal of the Banking Department's balance sheet from this table.

Investments

These include all securities beneficially owned by the reporting institution. They include securities which the reporting institution has sold for a finite period, but with a commitment to repurchase (i.e. repos), but exclude securities which have been bought for a finite period, but with a commitment to resell (i.e. reverse repos). Securities are defined as marketable or potentially marketable income-yielding instruments including bonds, Floating Rate Notes (FRNs), preference shares and other debt instruments but excluding certificates of deposit and commercial paper which are shown as market loans.

British government stocks include all stocks issued by the government.

Other public sector investments include certificates of tax deposit, local authority stocks and bonds which are listed on The London Stock Exchange and UK public corporation stocks and bonds.

Investments: non-residents includes deposits (including retained profits) with non-resident offices which have been invested in fixed assets such as premises and equipment.

4 Monetary Financial Institutions

Items in suspense and collection include all debit balances not in customers' names but relating to customers' funds rather than to the reporting institution's own internal funds (e.g. debit balances awaiting transfer to customers' accounts) and balances awaiting settlement of securities transactions. Collections comprise cheques etc drawn, and in course of collection, on other UK banks and building societies. They include cheques that have been credited to customers' accounts but are held overnight before being presented or paid into the reporting institutions account with another UK bank or non-resident bank; they exclude cheques already passed to other UK banks for collection (these are included under "Market loans" to UK banks). They include all collections on non-resident banks and items in transit to non-resident offices of the reporting institution, where the reporting institution is acting as principal and not as an agent for collection and where it has already given credit or value for the items.

Accrued amounts receivable are gross amounts receivable but which have not yet been received and include interest and other revenues.

Other assets include holdings of gold bullion and gold coin (in "Other foreign currency assets"), other commodities, together with land, premises, plant and equipment and other physical assets owned, or recorded as such, including assets leased out under operating leases and leased in under finance leases. Assets leased out under finance leases are included as loans.

Holdings of own acceptances comprise all bills accepted by the reporting institution which the reporting institution has itself discounted, but excluding any such discounts which have subsequently been rediscounted.

Eligible banks total sterling acceptances comprises all bills accepted by a reporting institution whose bills are eligible for rediscount at the Bank of England including those which the reporting institution has itself discounted.

Eligible liabilities comprise, in broad terms, sterling deposit liabilities, excluding deposits with an original maturity of over two years, plus any sterling resources obtained by switching foreign currencies into sterling. From May 1998, transactions with banks and building societies (previously only banks) (excluding cash ratio and special deposits with the Bank of England) are taken into the calculation of an individual institution's eligible liabilities on a net basis, irrespective of term, except for unsubordinated capital market instruments with a maturity of more than 5 years which are not taken into account. Adjustments are also made in respect of transit items.

Residential status

For statistical purposes, the United Kingdom comprises Great Britain and Northern Ireland, but from end-September 1997, excludes the Channel Islands and the Isle of Man. *UK residents* include: HM Government and other UK public authorities; enterprises which produce goods and services in the United Kingdom, including non-resident enterprises' branches and subsidiaries located and operating in the United Kingdom; individuals permanently resident in the United Kingdom (including temporary residents who have stayed, or who intend to stay, for a year or more) together with individuals normally resident in the United Kingdom who are overseas for less than a year; and members of UK armed forces and officials of HM Government serving overseas, as well as their dependants.

Non-residents include: non-resident governments, together with their diplomatic and military offices and representatives in the United Kingdom; international organisations, including their branches or representatives in the United Kingdom; UK representative offices of non-resident banks; non-resident offices of the reporting institution; enterprises located and operating overseas, including branches and subsidiaries of businesses which are themselves UK residents; and persons (including those of UK origin) who are residing outside the United Kingdom for a year or more. From end-September 1997 non-residents include the Channel Islands and Isle of Man.

Tables 4.4A to 4.4C Building societies

These tables cover building societies as defined by the Building Societies Acts 1962, 1986 and 1997. Building societies business is still, primarily, to provide lending for house purchase. However since the mid to late 1980's they have faced increasing competition, mainly from the banks and centralised mortgage lenders. Societies' lending is financed largely by receipts of deposits which they acquire largely from individuals in competition with the banks and National Savings. Their success in attracting such funds largely depends on the relative attractiveness of their deposit interest rates (see **Table 7.1L** and **Chapter 7** generally). The 1997 Building Society Act allows Building societies to pursue any activities set out in its memorandum, subject to certain restrictions.

Compilation

Building society transactions from January 1987 are derived from figures prepared by the Building Societies Commission (now Financial Services Authority) on the basis of returns made to it by individual societies. The monthly figures before January 1987 are derived from different returns made to the Building Societies Association. Although the coverage and definitions of these two sources should be broadly the same, there may be some break in series at end-December 1986; thus any effect of the change of source is incorporated in the January 1987 flows.

The statistics in **Table 4.4A** are based on monthly returns, currently from 23 societies, with assets amounting to 95% of total balance sheet assets. The data are collected and aggregated by the FSA, who pass them to the Bank of England for inclusion in the monetary statistics and financial accounts. The figures are grossed-up to represent the whole population of societies.

*
✻

The quarterly statistics in **Table 4.4B** are based on the figures from the monthly returns supplemented by a revised quarterly return (with the same reporting population as the monthly return) also collected by the FSA, who pass the aggregated data to the Bank of England. Data prior to August 1992 were collected by the Bank of England and grossed up.

Up to and including 1986, the statistics for assets and liabilities outstanding at the end of each year in **Table 4.4A** are based on an annual return processed by the Bank of England. The returns were issued to the same sample of societies as the quarterly return. Each year the figures for annual holdings and quarterly transactions were reconciled with annual statutory returns made to the Registrar of Friendly Societies by all building societies. After 1986 the end-year figures are taken from the grossed-up comprehensive monthly return described above.

The analysis of new commitments and advances in **Table 4.4C** was, between 1975 and 1980, based on information provided by a panel of building societies, covering 90 percent of the total assets of the movement in the United Kingdom. From 1981 information has been provided by the largest societies (currently from 23 societies). Since July 1989 9 Building Societies have become Banks).

*
✻

In 2001 a new monthly return was introduced collecting, from the 10 largest societies, the breakdown of approval secured on dwellings. These figures provide approvals for house purchase, remortgaging and other by number and value. Figures are grossed up to represent all building societies. Total approvals data are available quarterly from 1987.

Annual figures of 'save-as-you-earn' (SAYE) schemes entered into with building societies are included in the figures for shares and deposits. These are shown separately in **Table S21** published annually, (No longer published, last published May 1998) which is based on supplementary annual returns from a sample of twenty-five societies with assets amounting to over 95% of total building society assets.

Breaks in the series

In September 1992 and October 1997 new monthly building society forms were introduced, and breaks in series occurred as definitions changed. There are also breaks at July 1989 when Abbey National Building Society converted to public limited company status, at August 1995 when the Cheltenham & Gloucester Building Society joined the Lloyds Bank Group, at August 1996 when National & Provincial Building

4 Monetary Financial Institutions

Society transferred its business to Abbey National plc, at April 1997 when Alliance & Leicester Building Society converted to public limited company status, at June 1997 when Halifax Building Society converted to public limited company status, at July 1997 when Woolwich Building Society converted to public limited company status and Bristol & West Building Society joined the Bank of Ireland Group, at October 1997 when Northern Rock Building Society converted to public limited company status, at April 1999 when Birmingham Midshires Building Society was acquired by Halifax plc and at December 2000 when Bradford & Bingley Building Society converted to public limited company status.

Further references

A monthly balance sheet similar to **Table 4.4A** is first published each month by the Bank of England in their *Monetary and Financial Statistics Publication*. Long runs of quarterly figures on mortgage advances, repayments of principal and net advances are given in **Table 3.2C** - Loans secured on dwellings. This table gives separate figures for loans made by central government, local authorities, public corporations, insurance companies and pension funds, building societies, the banks and miscellaneous financial institutions. Up to September 1993, similar figures were first published each quarter by the Council of Mortgage Lenders; the Bank of England assumed responsibility for this release from September 1993. As from January 1995 annual figures of both the number and the value of SAYE accounts opened, accounts closed, contributors, withdrawals are shown for Building Society and National Savings. Balances outstanding are also shown for Banks in **Table S21**. Quarterly figures up to quarter four 1994 were last published in the September 1995 edition of Financial Statistics.

Housing and Construction Statistics, a quarterly publication by the Department of Environment, contains tables showing similar information to **Tables 3.2C** and **4.4C** and, on both regular and occasional bases, a considerable amount of statistics on the housing market including data on the characteristics of mortgagors, mortgage advances and mortgaged property, including an index of house prices. Part of the analysis of mortgages is based on the 'Five Per Cent Sample Survey of Building Society Mortgages,' which is described in a booklet by Andrew Evans with that title published as *Studies in Official Statistics. No 26* (HMSO, 1975).

The *Annual Report of the FSA* contains selected statistics from the aggregation of building societies' statutory annual returns, which are for various accounting years ending between 1 February and the following 31 January.

The *Annual Abstract of Statistics* **Table 17.13** in 1991 provides a long annual series of statistics which are also drawn by the FSA from the statutory returns, and the *Digest of Welsh Statistics* gives details of the number of mortgages granted annually in Wales.

The Building Societies Association's monthly press release and The Council of Mortgage Lenders quarterly Housing Finance include detailed statistics on all aspects of building societies' operations. A compendium of building society statistics, published by the Building Societies Association, provides a long run of all available building society statistics, including quarterly financial statistics from 1955.

General information is provided in a book 'The Development of the Building Societies Sector in the 1980s' in the *Bank of England Quarterly Bulletin*, November 1990.

Table 4.4A Building societies

Retail shares and deposits. These are deposits that are defined as "retail" in section 7 of the 1986 Building Societies Act, i.e. all shares and deposits that are neither transferable instruments (such as certificates of deposit) nor funds from corporate bodies, other building societies, friendly societies, trade unions, charities and administrators of approved retirement benefit schemes, nor large time deposits (over £50,000 and repayable within one year of deposit). In effect, 'retail' deposits are predominantly non-corporate funds raised outside the wholesale money markets. There is no substantial break of character at end-1986, since the distinction between "retail" and non-retail shares and deposits came into being only at that date and the great majority of "deposits" were previously essentially "retail". Nonetheless some £0.7 billion was reallocated out of "retail shares and deposits" column into "deposits and commercial paper" in January 1987; this effect is excluded from the flows shown.

Bank borrowing. Banks also lend to societies via take-up of the other non-retail instruments shown in the table.

Interest accrued but not credited. Indistinguishable within “*other liabilities and reserves*” in the monthly series.

Liquid assets : total. Consistent with the definition in the Building Societies Act 1986.

Other equals the previous “*other short-term assets*”, less bank bills and asset transit and suspense items (which are now distinguished separately). At end-1990 comprised national savings, 1 million, the remainder unidentified but believed to represent mainly mortgaged-backed securities issued by other lenders.

Transit and suspense items. Previously separately identified, are now included in *Sterling deposits with banks and foreign currency including CDs*. As transits items represent ‘uncleared cheque’ business with banks, net transits are added into sterling deposits with banks.

Total loans and investments, previously known as commercial assets, are analysed in more detail in **Table 4.4B**.

Table 4.4B Building societies: further detail

The analyses of gross flows cover *retail* shares and deposits (see notes to **Table 4.4A**), and loans and investments (i.e. mortgages).

Loans and Investments were formally known as commercial assets and were divided into as classes defined by 1986 Building Societies Act. Class 1 assets was advances to individuals, secured on land for the residential use of the borrower; in addition, a Class 1 asset has to be the first charge on the property. Class 2 assets was advances secured on land which do not fulfil all the conditions of a Class 1 asset (e.g. a secured loan which is not a first charge on the property); Class 2 assets therefore included lending to individuals secured other than by a first charge, lending to companies and unincorporated businesses including housing associations; Class 3 assets were loans (to individuals or companies etc.) not secured on a first or second charge on land, investment in subsidiaries and investments in land (other than land mainly occupied by a society itself, which is included in “*other assets*”).

From October 1998, the definitions of building society loans and investments have been changed to bring them into line with the 1997 Building Society Act. These are now Loans fully secured on residential property to individuals only, Other loans fully secured on land including loans secured on residential property to non-individuals, Other loans to individuals including all unsecured lending to individuals and Other loans and investments.

Until end September 1997, subsidiaries set up to take deposits in the Channel Islands and Isle of Man were classified as building societies; thus their balance sheets are consolidated with those of their parents and included in this table. From end-September 1997, as a result of the reclassification of the Channel Islands and Isle of Man as non-residents, the balance sheets of these subsidiaries have been deconsolidated from those of their parents and are excluded from the data. The data excludes the business of other building society subsidiaries (eg consumer credit subsidiaries appropriate mortgage companies and estate agents) except to the extent that this business results in entries on the parent society’s balance sheet. Thus Class 3 lending to individuals was consumer credit extended by a society itself; lending by societies’ consumer credit subsidiaries was reflected only in “*other Class 3 assets*”, if the subsidiaries borrow from their parents. Before 1988 all mortgages are classified as “*Class 1*” in these statistics, except for mortgage lending to industrial and commercial companies. The quarterly path of consumer lending in the first three quarters of 1987 is estimated.

Table 4.4C Building societies lending secured on dwellings

The analyses of new approvals now cover the breakdown of approvals by House purchase, Remortgaging and Other loans. Whereas data previously in **Table 4.4C** was commitments and gross advances for just mortgages (i.e. Classes 1 and 2 of commercial assets) and other lending to individuals (i.e. Class 3 consumer credit lending).

Table 4.5A Industrial analysis of bank deposits from UK residents

The industrial analysis of deposits outstanding was published for the first time for Q4 1997 data. This analysis is based on the ONS Standard Industrial Classification (SIC) of 1992 and excludes deposits from residents in the Channel Islands and the Isle of Man. Banks with balance sheet assets/liabilities over £600mn or eligible liabilities over £60mn report these data which are then grossed to reflect deposits with all UK banks.

This analysis is also published in the Bank of England quarterly press release with the industrial analysis of bank lending to UK residents.

This analysis, which is not seasonally adjusted, covers deposits (including under repo) in UK banks from their UK resident non-bank and non-building society customers (including from the UK public sector) in both sterling and other currencies.

The institutions report their other currency deposits outstanding after translation into sterling at the middle market spot rate pertaining in the London market at 4pm London time on the last working day of the London market in the period covered by the report.

The main differences between the total analysed in **Table 4.2F** and banks' sterling deposits from the M4 private sector are:

- (a) the monetary aggregate M4 includes the M4 private sector's holdings of certificates of deposit, commercial paper, bonds, Floating Rate Notes and other instruments of up to and including five years' original maturity;
- (b) M4 includes 95% of the domestic sterling inter-mfi difference, and adjustments for transit items;
- (c) this analysis includes deposits from the UK public sector;
- (d) in this analysis deposits from unincorporated businesses and non-profit institutions serving households are included in the appropriate industrial category, whereas in the sectoral analysis of M4 they are included in deposits from the households sector;
- (e) this analysis will not be seasonally adjusted until a sufficient run of data is available;
- (f) this analysis covers both sterling and other currencies.

Deposits placed by fund managers consists of money placed on behalf of UK investment and unit trusts other than UK money market mutual funds, UK insurance companies and pension funds, UK individuals, any other UK residents, non-resident clients and any unidentifiable clients.

Table 4.5B Industrial analysis of bank lending to UK residents

This analysis is based on the ONS's Standard Industrial Classification (SIC) of 1992 and excludes lending to residents in the Channel Islands and the Isle of Man which are classified as non-residents for statistical purposes from end-September 1997. Previously, this analysis was based on SIC 1980, data for which can be found in **Table 4.2E** (old). Reporting institutions submit these data quarterly to the Bank of England on the Form AL which contains forty-four categories (formerly Form Q3 containing thirty-seven categories) classified by industry, according to the main activity of the borrower, irrespective of ownership (i.e. private, local authority or government). Lending to unincorporated businesses etc is allocated according to the appropriate trade or profession. Banks with balance sheet assets/liabilities over £600mn or eligible liabilities over £60mn report these data which are then adjusted to reflect lending by all banks in the UK. This analysis is also published in the Bank of England quarterly press release. The analysis, which is not seasonally adjusted, covers loans, advances (including lending under reverse repos), finance leasing, acceptances and

facilities in both sterling and other currencies, and holdings of sterling commercial paper issued by UK residents, provided by reporting banks to their UK resident non-bank and non-building society customers. The figures for loans and advances also include, indistinguishably, amounts lent under the Department of Trade and Industry special scheme for domestic shipbuilding for UK buyers. It does not, however, include funds placed through the local authority money market or funds lent to UK banks, UK building societies or non-residents. The figures for acceptances are for bills accepted by reporting institutions under facilities granted to UK residents (other than UK banks or building societies) which are still outstanding; those discounted by the reporting institution itself are included under advances but not under acceptances. Facilities data consist of the total amount of overdraft, loan and acceptance facilities outstanding, both drawn and undrawn.

The institutions report their other currency advances and acceptances outstanding after translation into sterling at the middle market spot rate pertaining in the London market at 4pm London time on the last working day of the London market in the period covered by the report.

The main differences between the total analysed in **Table 4.2E** and banks' sterling lending to the M4 private sector (as defined in the counterparts to M4) are:

- (a) the M4 lending counterpart includes banks' investments in securities issued by the M4 private sector and adjustments for transit items;
- (b) this analysis includes lending to the UK public sector;
- (c) in this analysis lending to unincorporated businesses and non-profit making bodies is included in the appropriate industrial category; whereas in the sectoral analysis of the M4 lending counterpart it is included in lending to the personal sector;
- (d) this analysis will not be seasonally adjusted until a sufficient run of data are available.
- (e) this analysis covers both sterling and other currencies.

Table 4.5C Industrial analysis of bank lending to UK residents

As part of the agreed implementation schedule for the Banking Statistics Review (BSR), levels data for Q2 1997 were not submitted by reporting institutions, and as a consequence flows data for Q2 and Q3 1997 were not calculable. The British Bankers' Association (BBA) continued to collect monthly figures for the industrial analysis of lending and asked their reporters (the Major British Banking Groups) to quantify breaks caused by revised industrial coding, BSR changes and other reclassifications.

In this table, levels for Q2 1997 and flows for Q2 and Q3 1997 have been estimated. They are therefore not as robust as other levels and flows, and should be used with caution. A strong "health warning" must be attached to the long run of data, not only for the reasons outlined above but because the merged table cannot take account of every detail of the BSR changes or of the redistribution across the industrial categories resulting from the changes to the industrial coding.

Levels were fixed for Q2 1997 where information was available from other reporting. Major British Banking Group data for Q2 1997 were provided by the British Bankers' Association (BBA), and the residual lending to UK residents was calculated from known total lending figures and spread across the remaining industrial categories using four-quarter weighted average proportions. Flows were calculated based on the estimated Q2 1997 levels, and adjusted using existing adjustments that had been applied to lending data from other reporting. The residual adjustments were based on breaks provided by the BBA (grossed up for the reporting population). The analysis, which is not seasonally adjusted (though a seasonally adjusted version is available from the Bank of England), covers loans, advances (including lending under reverse repos), acceptances and holdings of commercial paper in sterling, provided by reporting banks to their UK-resident non-bank and non-building society customers. The figures for loans and advances also include, indistinguishably, amounts

*
✱

4 Monetary Financial Institutions

lent under the Department of Trade and Industry special scheme for domestic shipbuilding for UK buyers. It does not, however, include funds placed through the local authority money market or funds lent to UK banks, UK building societies or non-residents.

Chapter 5 Other financial institutions

The other financial institutions (OFI) chapter brings together details on various financial corporations and institutions other than banks and building societies. Collectively it covers the following sub-sectors of ESA95: insurance corporations and pension funds, other financial intermediaries and financial auxiliaries. The coverage of the insurance and pensions funds sub-sector is virtually complete but there are gaps for other financial intermediaries and auxiliaries. Some additional data are collected, estimated and used in the compilation of the financial and sector accounts presented in **Part II** but currently are not published separately. However, work on improving coverage of these sectors is continuing. See **Section C** for further details on the coverage of the other financial of institutions sub-sectors.

Data collection

Data on OFIs are collected in two ways. The main groups of OFIs are covered by quarterly and annual sample surveys conducted by ONS. Further details on these inquiries are given in the notes to the various tables below. The inquiries also provide information on the counterpart sectors to various transactions. This helps to resolve the problem of obtaining direct information from other sectors, particularly the rest of the world and households sectors.

Data on OFIs are also collected from returns of UK banks. From the beginning of 1982, the OFI sector has been included in the sector definitions employed by UK banks in reporting their borrowings and lending. This more comprehensive information is used to supplement that collected from direct surveys of OFI institutions.

Insurance corporations and pension funds

All transactions of insurance corporations and pension funds are now included in the national accounts within the OFI group of sub-sectors. The accounts include their transactions in financial assets and liabilities which are held to meet their future liabilities to policy-holders. The increase in policy-holders' financial claim on the funds is recorded as an asset in the sector accounts of the policy-holders and a corresponding liability is included in the accounts for insurance companies and pension funds. Friendly societies are included within the population of long-term insurance companies though none are current selected in the ONS sample.

Table 5.1A Insurance companies: long-term business

These notes also cover the data for general insurance in **Table 5.2A**.

Insurance companies are active in both life assurance and non-life (general) insurance and they also conduct pensions business on behalf of companies and individuals. All insurance business involves the spreading of risks. *Long-term business* (mainly life assurance and pensions) has an emphasis on the spreading of risks over time, whereas *general business* is mainly concerned with the spreading of risks between persons and organisations.

Within long-term business the major part consists of life assurance, a large part of which offers a channel for saving. Long-term business also includes group/company and individual pensions business as well as permanent health insurance and capital redemption business.

The financial assets of non-corporate Lloyd's underwriters are included in the households sector rather than general insurance. The assets of corporate Lloyd's underwriters established as investment trusts are included within the investment trust totals.

Coverage

The figures cover insurers and friendly societies operating in the United Kingdom and include the pooled pension schemes they operate on behalf of other companies and funds held on behalf of individuals.

* denotes commencement of changes since the 2004 edition ✂ denotes the end of the changes

5 Other financial institutions

Until the fourth quarter of 1991 (for quarterly data) and end 1990 (for annual data), the Association of British Insurers (ABI) supplied the ONS with information relating to its members. This was supplemented by information from a small sample of non-ABI members, which the ONS collected. With effect from the first quarter of 1992 for the quarterly inquiries and end 1991 for the annual inquiries the ONS now collects all the information from a sample of insurance companies. This covers both ABI members and non-members.

The information collected allows representative estimates of investments and holdings of financial assets to be made for all insurers operating in the UK.

Response to the annual balance sheet inquiry is very high and the holdings data are therefore very reliable. The samples for the quarterly inquiries into net acquisitions are slightly smaller and the figures not quite so reliable.

Since 1984 (in respect of holdings), or 1985 (in respect of transactions), the coverage of the returns has been extended to include UK holding companies where insurance is the main activity of the holding company and its subsidiaries. Additionally where a UK company cannot separate figures for an overseas branch, such a branch is included in the figures.

Compilation

The figures of net acquisitions of assets are derived from a quarterly inquiry to insurance companies, and those of holdings are derived from an annual inquiry.

Valuation

Holdings of assets for calendar year-ends are generally at market values. Some items such as *mortgages and loans* and part of *other investments*, are at book values.

Net acquisitions are quoted at cash values. The annual figures quoted for total net assets under the net investment heading are on an accruals basis from 1985 onwards.

Scope of headings

Agents' and reinsurance balances: net investment figures are derived from annual inquiries, so no quarterly figures are available. The series consists of net agents' reinsurance and coinsurance balances, net outstanding accrued interest, dividends and rent and other debtors.

Other assets includes overseas loans and mortgages and property, UK public corporations securities, British Government Securities denominated in foreign currency, and direct investment, less the net increase in balances of overseas branches where their transactions are included in other columns.

Debtors net of creditors: net investment figures are only available annually. The series covers provision for taxation, net outstanding interest, dividends and rents and other creditors and debtors balances which are omitted from agents' and reinsurance balances.

Table 5.1B Pension funds

The estimates in **Table 5.1B** cover the financial assets of the combined self-administered funded schemes of local authorities, the rest of the public sector and the private sector. These funds are generally run by boards of trustees on behalf of their members. Self-administered pension funds are distinct from those insured with insurance companies, which are included in the figures for insurance companies long-term business in **Table 5.1A**. The main pension arrangements in the central government sector are unfunded and therefore excluded from these tables.

Funds of newly privatised companies are included with private sector funds from the beginning of the quarter following the date of their privatisation.

Compilation

The figures for net acquisitions of assets are derived from a quarterly inquiry and those for holdings from an annual inquiry. These inquiries are conducted by the Office for National Statistics. A panel of local authority, public corporations and self-administered private pension schemes are asked to complete returns. The statistics supplied by these contributors are then grossed up to produce figures for the whole of the UK self-administered pension industry. The inquiries became statutory under the Statistics of Trade Act, 1947 with effect from 1991 for annual inquiries and the first quarter of 1992 for the quarterly inquiries.

The series are reliable but subject to coverage, sampling and reporting errors.

Coverage

The figures relate to pension funds covering the employees of all local authorities in the United Kingdom (including those funds covering employees of the abolished Metropolitan councils and the bodies succeeding them), employees of public corporations, and the self-administered pension funds of the private sector, including those of companies and non-profit-making bodies. Funds that are wholly included in the long term funds of insurance companies are not included. Also excluded are pension schemes for the police and fire services because these schemes are not supported by investment funds.

Respondents to the inquiry are asked to make returns covering financial assets of funds whose investments are managed from within the United Kingdom, including the funds of any subsidiary companies. Some undertakings operate two or more pension funds; such undertakings have been treated as single funds.

Valuation

The annual inquiries into holdings ask funds to report their assets and liabilities wherever possible at current market value and, failing that, at written down book value. Transactions in assets and liabilities are reported at cash values in the quarterly inquiries. The annual figures quoted for total net assets under the Net Investment heading are on an accruals basis for 1985 onwards.

Scope of headings

Short-term assets are those maturing within one year of originating date, including loans repayable at lenders' option within one year of the date of issue, and money at call and short notice. They include cash in hand and deposits with banks, certificates of deposit issued by the banks' sector, UK Treasury bills, local authority bills and temporary money, short-term assets with OFIs, other short-term assets held in both the United Kingdom and overseas and balances due to or from stockbrokers.

The treatment of balances with stockbrokers in **Table 5.1B** is as follows: as regards holdings, balances receivable from stockbrokers at the end of the year are included in *other short-term assets* and balances payable to stockbrokers are included in *short-term liabilities*. Transactions in amounts due to or from stockbrokers, however, are only collected net and so net acquisitions are shown under *other short-term assets*.

Borrowing: net acquisitions relate to gross borrowing *less* repayments in the quarter.

UK local authority securities include loans by local authority pension funds to their parent authorities.

Other investments include items such as commodities, gold coins, works of art, insurance policies, unauthorised unit trusts, and investments in overseas property. From the first quarter of 1986 British government securities denominated in foreign currency are included.

Debtors net of creditors are included in the annual but not the quarterly figures. The series consists of income accrued on investments, amounts receivable from Inland Revenue, other debtors, pensions due but not paid and other creditors.

5 Other financial institutions

Tables 5.1A and 5.1B

Timeliness

The quarterly net acquisitions figures in these tables are normally published in *Financial Statistics* about four months after the quarter to which they relate. The annual holdings figures are normally first published in the December edition following the year to which they relate.

Further references

A quarterly article describing these statistics appears in ONS's Investment by Insurance companies, pension funds and trusts First Release three months after the relevant quarter,

A more detailed breakdown of these statistics appear in Business Monitor MQ5 - Insurance companies, pension funds' and trusts investment, published about four months after the quarter to which the statistics relate. The publication also gives information on income and expenditure data .

The Annual Abstract of Statistics, **Tables 17.20** and **17.21** also gives the balance sheet statistics.

Table 5.2A Insurance companies: general business

See the notes to **Table 5.1A** above.

Table 5.2B Non-bank credit companies

This table gives details of assets and liabilities of non-bank credit companies (excluding retailers, insurance companies and building societies which are covered elsewhere).

The main business of non-bank credit companies is the direct financing of instalment credit sales of motor vehicles, caravans and household goods, mainly to households; together with loans to businesses for farming and industrial building, plant and equipment. The main source of funds for these companies is from banks.

Coverage

The table covers finance houses and other specialist credit companies (including check traders and money lenders). They exclude institutions authorised under the Banking Act 1987 (which form the banks' sector), retailers, building societies and insurance companies.

The figures in the table for *loans and advances to households* cover the two broad forms of credit:

- (a) loans for fixed sums to finance particular purchases
- (b) drawings on existing credit arrangements, often termed running accounts.

They do not include figures for accounts which should normally be settled in full by the end of the account period and where there are no formal credit arrangements.

With fixed sum credit the purchaser normally makes a down payment and pays the balance in equal instalments, which include interest charges, over an agreed period. Fixed sum credit can be provided by a finance house or other specialist credit grantor either directly or with a retailer (or motor trader) acting as agent, or it can be provided by a retailer from his own resources. It may also be provided by a check trader, where the purchaser uses a trading check drawn on his account with the check trader, though this form of credit now only accounts for a very small part of the total.

With running account credit the purchaser normally receives his account monthly, when he has the option of not paying in full, with interest being charged on any balance left unpaid. A common arrangement is

for the purchaser to pay a fixed amount each month by standing order. The purchases may be made in a variety of ways. For example, the purchaser may sign the bill, or he may use some form of credit card (some of which are valid only for a particular retailer and some more generally), or he may use a special cheque book (normally valid only for a particular retailer). As for fixed sum credit, running account credit may be provided by the retailer from his own resources or it may be provided by a finance house or other specialist credit grantor. Credit from specialist grantors includes much of the credit obtained by cards for use only with particular retailers, because many retailers have arrangements for specialist grantors to run schemes for them or have set up separate subsidiary companies to operate their credit schemes.

Compilation

The figures in **Table 5.2B** are obtained from quarterly returns to the Office for National Statistics from a panel of non-banks' sector credit companies, grossed up on the basis of a 'benchmark' inquiry to all consumer credit grantors conducted in respect of 1976.

The companies report levels (holdings and amounts outstanding) of their assets and liabilities. Net acquisitions are obtained by subtracting the level at the beginning of the quarter from the level at the end. When a company comes within or leaves the scope of this inquiry, net acquisitions in the quarter are estimated on the basis of the new coverage. For this reason the figures for net acquisitions during the year do not always equal the differences in levels at the beginning and end of year.

Scope of headings

Certificates of deposit includes promissory notes and any other negotiable paper issued by the banks sector.

Other current assets includes items in suspense and debit items in course of collection.

Loans and advances covers all types of lending, including instalment credit and checks, vouchers, etc. issued but not redeemed. It includes loans to unconsolidated subsidiary and associate companies of contributors to the inquiry. From end-1985, it excludes unearned credit charges (which comprise the interest payments due over the remaining loan period for fixed sum agreements at fixed rates of interest) and includes amounts outstanding on finance leases. Prior to this amounts outstanding on leases were included in *Physical assets in UK*.

Block discounts comprises finance provided to retailers (and occasionally smaller amounts to other financial institutions) against the security of credit agreements initiated by them.

Households includes unincorporated businesses.

Company and government securities includes investment in other companies in the contributor's group.

Borrowing includes borrowing from other companies in the contributor's group.

Commercial bills includes promissory notes and other negotiable paper.

Short-term and longer-term borrowing from banks' sector excludes deposits from the beginning of 1982 onwards as companies remaining outside the banks' sector were no longer permitted to accept deposits as defined in the Banking Act 1979.

Other current liabilities includes items in suspense and credit items in course of transmission.

Capital issues includes preference shares and debentures as well as ordinary shares.

Use in the financial accounts

The figures for *loans and advances* are included in the financial accounts under *other long-term loans by UK residents*, *block discounts* being treated as lending to private non-financial corporations. The figures for *other current assets* and *other financial assets* are treated as lending to private non-financial corporations under *other long-term loans by UK residents*. The figures for *UK company and government securities* are considered to relate mainly to company securities and are included under *Unquoted UK shares*.

5 Other financial institutions

Other borrowing from UK is treated in the financial accounts as coming from private non-financial corporations and households equally and they are included under *other long-term loans by UK residents*. *Other borrowing from overseas* is included under *Direct investment loans in the UK*. *Other current liabilities* is treated as due equally to private non-financial corporations and households is included under *other long-term loans by UK residents*.

Timeliness

The figures are normally published about three months after the quarter to which they relate.

Further references

Statistics of assets and liabilities are also published in *Business Monitor SDQ7 - Assets and liabilities of finance houses and other credit companies*, and annual figures are given in the *Annual Abstract of Statistics (Table 17.15)*. Further details of households sector borrowings are given in *Financial Statistics Tables 3.2A and 3.2B*.

Table 5.2C Investment trusts

Investment trust companies acquire financial assets with money subscribed by shareholders or borrowed in the form of loan capital. They are not trusts in the legal sense, but are limited companies with two special characteristics: their assets consist of securities (mainly ordinary shares), and they are debarred by their articles of association from distributing capital gains as dividends. Shares of investment trusts are traded on the Stock Exchange and increasingly can be bought direct from the company.

The table covers investment trusts recognised as such by the Inland Revenue for tax purposes and some unrecognised trusts - about 360 trusts in all. Returns are received from about 270 trusts accounting for about 95% of total investment trust assets.

Compilation

Since 1992 quarterly and annual returns have been collected and aggregated by the ONS. (Previously they were collected by the Bank of England). The statistics are grossed up to cover all investment trusts.

Valuation

Holdings of listed securities at end-year are valued at market prices. *Unlisted securities* are at estimated current values and bills and mortgages at maturity values. The figures include the investment currency premium where appropriate, up to third quarter 1979.

*

✱

Scope of headings

Short-term assets and liabilities. The quarterly transactions figures exclude contingent assets and liabilities such as claims on, or sums due to, the Inland Revenue and the liability for accrued loan interest and for dividends proposed but not yet paid. They include (in *other short-term assets*) amounts receivable from stockbrokers and securities dealers, less amounts payable.

Reserves, provisions etc. includes dividends payable, and minority interest in subsidiaries.

Timeliness

The latest quarter's figures are published about three months after the end of the quarter to which they refer, and end-year figures twelve months after the end of the year.

Further references

Investment trust figures are also included in the *Insurance Companies, Pensions Funds and Trusts First Release*, *Business Monitor MQ5* and *The Annual Abstract of Statistics*.

*

✱

Table 5.2D Unit trusts

The statistics in this table and **Table 5.3D** cover unit trusts authorised by the Securities and Investments Board under the terms of the Financial Services Act 1986. They do not cover other unitised collective investment

schemes (e.g. unauthorised funds run on unit trust lines by, for example, securities firms and merchant banks, designed primarily for the use of institutional investors) or those based offshore (Channel Islands, Bermuda etc.) or in other EU Member States. They do however include any authorised unit trusts which have converted to open ended investment companies.

The majority of unit trusts are required to invest at least 90% of their assets in transferable securities traded on a recognised stock exchange. However Money Market trusts are permitted to invest wholly in cash or near cash instruments (building society and bank deposits, treasury bills, short dated gilts etc.).

Unit trusts are set up under trust deeds, the trustee usually being a bank or insurance company. The funds in the trusts are managed not by the trustees but by independent management companies. Units representing a share in the trust's assets can be bought by the public or other investors from the managers or resold to them at any time. In the financial accounts, all transactions in unit trusts units, other than those identified on the returns of other OFIs (mainly insurance corporations and pension funds), are assumed to be with the households sector.

Table 5.2D shows the amounts outstanding of liabilities and assets at the end of the calendar year and quarterly transactions in those liabilities and assets. The assets and liabilities are analysed by type, with a maturity analysis of British government securities.

Valuation

Holdings of listed securities at end-year are valued at market prices. Unlisted securities are at estimated current values and bills at maturity values.

*

✱

Compilation

Since the first quarter of 1992 returns have been collected and aggregated by the ONS (before then they were collected by the Bank of England). At the end of April 2003 there were 1,972 authorised unit trusts. ONS receives returns covering about 95% of total assets. The statistics are grossed-up to cover all unit trusts and open ended investment companies as described above.

Scope of headings

These are as for **Table 5.2C**.

Timeliness

The latest quarter's figures are published about three months after the end of the quarter to which they refer and end-year figures up to twelve months after the end of the year.

Further references

Unit trust figures are also included in the *Institutional Investment First Release*, *Business Monitor MQ5* and *The Annual Abstract of Statistics*.

Table 5.2E Property unit trusts

The statistics aim to cover all *UK property unit trusts* authorised under the terms of the Financial Services Act 1986. The trusts are not allowed to promote themselves to the general public and participation is generally restricted to pension funds and charities. Property unit trusts invest predominantly in freehold or leasehold commercial property, yet may hold a small proportion of their investments in the securities of property companies. Their assets are held in the name of a trustee and are managed on a co-operative basis by a separate committee (elected by the unit holders) or company. Some investment is financed by long-term borrowing.

Data of transactions by the trusts have been collected since March 1966 and data of levels of assets and liabilities from end 1979. All these data have been published in *Financial Statistics*.

Scope of headings

Property investments are recorded as acquired or sold on the day of completion. They are valued on a cash basis and include the commission, etc, charges. Holdings of property are at book values.

5 Other financial institutions

Compilation and timeliness

Returns are collected and aggregated by the ONS. There are 12 property unit trusts of which all respond to ONS's inquiry. The figures are grossed to account for non-response. The latest quarter's figures are published about three months after the end of the quarter to which they refer, and end-year figures up to eight months after the end of the year.

Further references

Property unit trust figures are also included in the *Institutional Investment First Release*, *Business Monitor MQ5*, and *The Annual Abstract of Statistics*.

Table 5.3A Turnover in securities by other financial institutions

This table shows turnover (i.e. purchases *plus* sales) for certain financial institutions of:

- (a) UK ordinary shares
- (b) other UK company securities
- (c) overseas ordinary shares
- (d) other overseas company securities and government securities

Details are shown for pension funds, insurance companies (long-term and other funds), investment trusts and unit trusts.

The figures comprise listed securities only and may be compared with turnover figures for the Stock Exchange shown in **Table 6.3A**. However, it should be noted that institutions may not conduct all their share transactions on the Stock Exchange.

Tables 5.3B to 5.3C Institutional investment

Table 5.3B brings together figures from various tables in **Chapter 5** to analyse total institutional investment in British government securities, UK ordinary shares, rest of the world ordinary shares and land, property and ground rents between the various types of institution. **Table 5.3C** analyses investment by the main groups of institutions in various types of financial asset. The figures for *other financial assets* include estimated costs incurred in share transactions. This information is published in the ONS's Investment by insurance Companies, pension funds and trusts *First Release* about 12 weeks after the quarter to which it relates.

Table 5.3D Unit trusts

This table presents monthly data on the total value of units sold by the managers of unit trusts to both institutions and households, the value of units repurchased by managers, the total value of funds managed by the industry and the total number of unit holdings in existence at the month end.

Compilation

The statistics are compiled by the Investment Management Association (IMA) who cover unit trusts and open ended investment companies are authorised by the Financial Services Authority (1,972 trusts operated by 129 management companies at end April 2003).

Scope of headings

Number of unit holdings excludes unit trusts linked to insurance policies.

Total funds are at market value *plus* the cost of buying securities for the portfolio, the managers' initial charge and accumulated undistributed dividends.

Holdings on the PEP data: Stocks and flows via PEPs relate to plans operated by unit trust managers only and not to plans operated by all PEP Plan Managers. As from April 1999 Individual Savings Accounts (ISA) were introduced. The ISA figures relate to accounts operated by unit trust managers only and not to accounts operated by all ISA managers.

Timeliness

The latest month's figures are released to the press by the Investment Management Association about three weeks after the end of the reporting month. The figures are published in *Financial Statistics* about two months after the month to which they relate.

Table 5.4A Securities dealers - Income, expenditure and transactions

This table details the income, expenditure and financial transactions of securities dealers. The data for these tables are sourced from the quarterly income and expenditure, financial transactions and balance sheet inquiries which are conducted by the ONS. Securities Dealers are part of the Other Financial Intermediation sector. The population is sourced from the list of companies regulated by the Financial Services Authority. The information is collected from a sample of 75 dealers who are selected on the basis of a stratified random sample based on their total financial liabilities. The sample contains both dealers dealing principally on their own account and those dealing principally on behalf of others.

Chapter 6 Companies and capital issuance

This chapter brings together various data on companies and capital issuance. **Table 6.1A** gives figures on insolvencies, while **Table 6.1B** gives details of acquisitions and mergers and **Table 6.1C** on Liquidity of large non-financial corporations.

New Tables 6.2A to 6.2H give details of capital issuance and **Table 6.3A** gives details of stock exchange transactions.

* ✨

Table 6.1A Insolvencies in England and Wales

The main legislation governing insolvencies is the Insolvency Act 1986.

Insolvent individuals are dealt with primarily under the 1986 Act, (amended by the enterprise Act 2002 with effect from 1st April 2004), although some provisions remain from the Bankruptcy Acts 1914 and 1926 and the Deeds of Arrangement Act 1914. A *bankruptcy order* under the 1986 Act is made by the Court on the petition of a creditor if it is satisfied that a debt of the debtor has not been paid or secured or there is no reasonable prospect of it being paid when it falls due. It may also be made on the petition of the debtor. The bankruptcy order makes the Official Receiver manager of the bankrupt's estate pending the appointment of an insolvency practitioner as trustee or the Official Receiver himself becoming trustee.

* ✨

Administration orders relate to deceased insolvents and are made under the Administration of Insolvent Estates of Deceased Persons Order 1986. These are included with bankruptcy orders in the table.

Individual voluntary arrangements were introduced in the Insolvency Act 1986 to enable insolvent debtors to come to terms with their creditors with the minimum of formality and court involvement.

Deeds of arrangement relate to arrangements between debtors and creditors that are reached without recourse to the courts under the Deeds of Arrangements Act 1914. For statistical purposes these are now included with individual voluntary arrangements.

Insolvent companies are dealt with under the Companies Acts and the Insolvency Act 1986. There are two types of company liquidation that involve insolvency. *Compulsory liquidations* relate to winding-up orders made by the courts. *Creditors' voluntary liquidations*, follow a resolution by the company members to wind the company up rather than a winding-up order made by the court. There is a third type of liquidation, members' voluntary, but this procedure is available only to solvent companies and is therefore not included in the figures.

The Insolvency Act 1986 also introduced company *administration orders* and *company voluntary arrangements*. The Enterprise Act 2002 amended the Insolvency Act 1986 and introduced additional entry routes into administration that do not require the making of an administration order. The primary objective of administration is the rescue of companies as going concerns. Both administration and company voluntary arrangements are primarily rescue procedures and do not necessarily imply a permanent insolvency of the company concerned. Where they do, they may subsequently be recorded in the figures as either a compulsory liquidation or a creditors' voluntary liquidation. Consequently company administrations orders and company voluntary arrangements are not included in the table.

[NB The Enterprise Act 2002 introduced some substantial changes to the process of administration (by replacing Part II of the Insolvency Act 1986 with Schedule B1). These changes included the ability to make distributions to secured and/or preferential creditors, and to unsecured creditors with the court's permission. This means that the administrator will be able to sell off all of a company's assets, make the necessary distributions and arrange for the company to be dissolved by filing the relevant notice with the Registrar of Companies. When that notice is registered the company will no longer be in administration and will be dissolved after 3 months, unless a court orders otherwise (cf para. 84 of Schedule B1 to the Insolvency Act 1986.)

A company may, under the Insolvency Act 1986, be placed into *administrative receivership* by a debenture holder secured by a floating charge, if that charge was created prior to the 15th of September 2003, the date of the commencement of the relevant provision of the Enterprise Act 2002 (section 250) which, with certain

* denotes commencement of changes since the 2004 edition ✨ denotes the end of the changes

specific exceptions, prohibits such an appointment for any floating charges created on, or after, that date. It may also have a receiver appointed by the court or by the holder of a fixed charge, such as those appointed under the Law of Property Act 1925. All these forms of receivership are not collective insolvency procedures and so are not included in the table.

Insolvent partnerships may be dealt with by two different procedures. Under the first procedure a bankruptcy order is made against one or more of the partners individually. These cases are included under bankruptcy orders. The second procedure was introduced in the Insolvent Partnerships Order 1986, made under the 1986 Act, and allows a partnership to be wound up as if it were a company. These cases are included as company liquidations. Bankruptcy orders may be made with or without a winding-up order against the partnership.

Method of compilation

The insolvency figures are provided by the Department of Trade and Industry, who collate the information from two of their executive agencies, the Insolvency Service and Companies House. Figures for bankruptcies and compulsory liquidations are collected by the Insolvency Service from the official receivers for the various courts. Figures for creditors' voluntary liquidations are collected by Companies House, and are based on the notifications which companies are obliged to make within fourteen days of the resolution to wind-up.

Timeliness

Quarterly insolvency figures are available from the Department of Trade and Industry five weeks after the end of the quarter. They are published via a DTI Statistical Press notice on the first Friday in February, May, August and November. They are normally also included in the issue of *Financial Statistics* about eight weeks from the end of the quarter, i.e. the figures for January to March appear in the May issue etc.

Other publications

The *Annual Abstract of Statistics*, 2000 (**Tables 22.23 to 22.26**) provides an eleven year run of annual totals for company liquidations of each type, for bankruptcy orders and for deeds of arrangement. It also includes the equivalent figures for Scotland and Northern Ireland, and a broad industrial analysis of individual and corporate insolvencies in England and Wales.

Table 6.1B Mergers and acquisitions in the UK by UK companies

The statistics of mergers and acquisitions of companies in this table are based on reports in the financial press and other sources in the public domain, supplemented by special inquiries to the companies to determine the timing, value and method of payment for particular transactions. In an acquisition, one company gains control of another by acquiring more than 50% of the voting shares; in a merger, two companies combine to form a new company, which then owns more than 50% of the voting shares of each of the two combining companies.

The table covers all known mergers and acquisitions in the United Kingdom companies within the UK except acquisitions between subsidiaries of the same company group, which are not included because they relate to internal re-organisation, not to change of ownership.

Figures for acquisitions by and of financial companies have been included in **Table 6.1B** from 1995 q1.

Method of compilation

As far as possible, the transactions are recorded for the date when they are finalised, e.g. when a bid is declared unconditional or a contract to purchase is signed. They are valued at the time of the transaction. Expenditure in the form of deferred payments is recorded when those payments are made.

A merger is valued at the value of the smaller company's share of the newly formed company.

Timeliness

The statistics for mergers and acquisitions involving UK companies are published in an *ONS First Release* about seven weeks after the quarter end and are included in the next issue of *Financial Statistics* about eight

6 Companies and capital issuance

weeks from the quarter end, i.e. the figures for the quarter ending 31 March appear in the *Financial Statistics* first in the May issue.

Scope of headings

Number of companies acquired includes mergers. A merger is a transaction between two companies, true mergers do not happen very often, one company usually takes over the other.

Use in financial accounts

The data is used in the measurement of transaction in UK company securities in the financial accounts. The inquiry results are the sole source of data for acquisitions by non-financial corporations and provides figures on the value of independent companies acquired, the net value of subsidiaries acquired from other sectors and the value of securities issued as part of the consideration during acquisitions.

Table 6.1C Liquidity of large non financial corporations

The figures given in this table are estimates of current assets, total financial assets and liabilities for all large UK established non-financial corporations. It excludes non-profit organisations.

This table uses the results of the statutory quarterly *Financial Assets and Liabilities Survey* to all large non financial corporations, which was introduced in the early nineties as part of the programme of improvements to economic statistics introduced by the then Chancellor of the Exchequer. The survey requests figures on holdings of financial assets and liabilities.

The surveys cover the largest company groups both in terms of employees and in terms of expected holdings of substantial financial assets. The total number of companies approached is 650 each quarter.

Prior to 1996 the largest company groups were selected on the basis of total net assets in their published accounts for the 1987 accounting year, including large companies formed subsequently by divestment or privatisation. This comprised about 650 companies each with total net assets of £40 million or more.

Method of compilation

The results up to end 1990 were based on a regression analysis of responses to the then Company Liquidity Survey and companies' own published accounts in the 1982 accounting year. The time series had been built up from the fourth quarter of 1982 using the quarter on quarter changes given by the Company Liquidity Survey responses.

The statutory annual Financial Assets and Liabilities Survey (FALLS) was introduced in 1990. This was followed by the statutory quarterly inquiry in the first quarter of 1992. Both inquiries replaced the Company Liquidity Survey. So with effect from 1992, the fourth quarter figures were based on the combined results of the quarter four inquiry and the annual FALLS inquiry. The other three quarters' surveys were used to estimate figures for the intervening quarters.

Publication of the table was suspended in 1996 because the sample was substantially changed and it was necessary to evaluate the resulting estimates for a number of quarters in order to publish the new estimates with a consistent back series. The table was reintroduced to *Financial Statistics* from October 1998.

In 1999, the annual inquiry was discontinued and the quarterly inquiry extended to include the major businesses normally selected for the annual.

Quality

The results given do not summarise the whole financial position of large non financial corporations, as they indicate the financial position of these companies only with regard to those financial assets and those financial liabilities which are covered in the Financial Assets and Liabilities Survey. Also the importance of the assets and liabilities covered in the survey varies between companies, depending on the levels of creditors, debtors

and stockholdings, none of which are included in the survey. Furthermore, the results should not be taken to indicate the financial position of the UK non financial corporations as a whole.

Use in financial accounts

The Financial Assets and Liabilities Survey is used to provide estimates of non financial corporations' holdings of, British Government Securities, bank and building society certificates of deposits, sterling commercial paper, sterling Treasury Bills, shares and other securities issued by UK companies and Portfolio investment in overseas securities.

New Tables 6.2A to 6.2H Capital issuance

*

From November 2004 the previously published Capital issues tables have been withdrawn. They are replaced by new Capital issuance **Tables 6.2A-6.2H**. The changes are described in an article published by the Bank of England in the October 2004 edition of *Monetary and Financial Statistics* (Bankstats).

The statistics in these Tables are derived from information provided by UK-based Issuing and Paying Agents (IPAs), who act on behalf of companies issuing debt on the UK capital markets, and the London Stock Exchange (LSE). Each IPA submits a monthly return to the Bank of England listing security-by-security information on each bond issue and repayment transacted during the reported month, and issuer-by-issuer information on Commercial Paper (CP) transactions. The LSE submit a similar return each month listing new shares issued and existing shares removed under rolling share buyback programmes. These statistics do not include debt issued by central or local government institutions.

- (a) Programme bonds use a common set of legal documentation for an ongoing series of issues.
- (b) Stand alone bonds are not issued as part of a programme.
- (c) Commercial Paper is marketable paper issued with maturities of up to and including one year.
- (d) Shares comprise ordinary and preference shares constituting the share capital of a company.

The statistics

The statistics in these tables represent the sterling equivalent of total new capital issued and existing capital repaid during each period. Net figures are derived by subtracting repayments from issues.

Timeliness

The figures for the latest available month are published in Financial Statistics about six weeks after the end of that month.

✱

Table 6.3A Stock Exchange transactions

The Stock Exchange provides a mechanism for the raising of funds, in various forms and for varying periods, by many types of domestic borrowers, including the UK government and other bodies in the public and private sectors of the economy, notably the large number of limited liability companies whose shares and bond issues are listed on the Stock Exchange. It also provides a market for securities of overseas public authorities and institutions and of overseas registered companies.

Transactions are recorded at dealing (contract) dates rather than settlement dates.

The content of the columns covering fixed interest securities has changed from time to time. For periods from July 1987:-

Other fixed interest: UK covers UK local authority and UK company debenture and loan stocks, convertibles and preferentials.

Other fixed interest: overseas covers sterling issues by overseas borrowers (bulldogs) and all other fixed interest instruments (Eurobonds) traded.

6 Companies and capital issuance

Timeliness

The latest month's figures for stock exchange transactions are published by the Stock Exchange during the following month; they appear in the subsequent issue of *Financial Statistics*.

Chapter 7 Exchange rates, interest rates and security prices

This chapter provides monthly information on the main exchange rates, interest rates and security prices. Observations relate variously to the end of a period, the average over a period, and the date on which a change is effected.

Timeliness

For most tables the figures for the latest month appear in the following month's edition of *Financial Statistics* which becomes available in the middle of the month. The data are also available on the Databank within a few days of the end of the period.

Tables 7.1A and 7.1B Exchange rates against sterling

Table 7.1A shows the *sterling effective exchange rate index* (ERI - see below) against a basket of twenty currencies, including some former European currencies synthetically produced. It also shows monthly averages of the mid-points between the spot buying and selling rates (ie the middle market rate) for each currency as recorded by the Bank of England at 16.00 hours each day. They are not official rates, and are no more authoritative than rates provided by any commercial bank operating in the London Foreign Exchange Market.

Table 7.1B shows the mid-point between the spot buying and selling rates recorded by the Bank of England on the last working day of each month for the major currencies listed in **Table 7.1A**. Also shown is the three-month *forward margin* for each currency against sterling, expressed both in terms of foreign currency and as a percentage per annum.

Spot and forward rates

Foreign exchange deals may be executed for settlement no more than two working days later, in which case they are generally termed *spot deals*, or for settlement at some future date, in which case they are termed *forward deals*. The rate for a forward deal is generally expressed by showing the amount by which the forward rate diverges from the spot rate, either in units of the appropriate foreign currency, or as a percentage per annum.

If the forward margin is negative the foreign currency is at a forward premium to sterling (i.e. it is more expensive). Conversely, if the forward margin is positive the foreign currency is at a discount to sterling and sterling is at a premium to the currency.

Sterling effective exchange rate index (ERI)

Between the Bretton Woods Agreement in 1944 and the currency realignment of the Smithsonian Agreement in 1971, the US dollar provided a reasonably satisfactory benchmark against which changes in the value of other currencies could be measured. Since the early 1970's, however, there have been much larger movements in exchange rates and changes in US dollar exchange rates no longer accurately indicate the overall changes in the exchange rate for a currency.

To measure the overall change in the exchange value of a currency, a weighted average of movements in cross-exchange rates against a basket of other currencies is required, with the weights reflecting the relative importance of the other currencies.

The present ERI was introduced with effect from 1 February 1995, rebased to 1990. The old index, with 1985 as the base year, was discontinued from 28 February 1995. The new index is calculated by geometrically weighting together bilateral exchange rates against sterling for all the currencies included in the previous index with the addition of those of Australia, Greece, New Zealand and Portugal. Each of the currencies' countries is given a competitiveness weight which reflects that currency's relative importance to UK trade in manufacturing based on 1989-1991 average aggregate trade flows. Using the US as an example relative to the UK the weights are based on :-

★ denotes commencement of changes since the 2004 edition ✂ denotes the end of the changes

7 Exchange rates, interest rates and security prices

- The importance to UK domestic market imports from industrial countries of imports from the US.
- The degree of competition between the UK and US in the US market.
- The degree of competition between the UK and US in non-UK non-US markets.

This information is then combined into a single weight for each currency, itself based on two factors measuring: first the relative importance of each market (domestic and foreign) in the total sales of manufactured products by the UK; and second the degree of competition between the UK and a particular country across all markets. The ERI published here consists of monthly averages of the value of the ERI as calculated by the Bank of England at 16.00 hours each day.

Further references

The calculation of the ERI is described in the February 1995 *Bank of England Quarterly Bulletin* article entitled “Revisions to the calculation of effective exchange rates”.

Bank of England: Monetary and Financial Statistics” contains middle market closing spot rates against sterling at end – quarter and monthly average intervals for the US dollar, Yen and euro together with the effective exchange rate indices (based on 1990 = 100) for sterling, US dollar, euro and Yen. The 1, 3, 6, & 12 month forward premium/discount against sterling for the US dollar expressed as a percentage are also published.

The ONS *Annual Abstract of Statistics* includes monthly average Sterling Effective Exchange Rate Index (1990 = 100), Sterling/US Dollar and Sterling/Deutsche Mark exchange rates.

The Bank of England Statistical Abstract 2002 – Part 1 contains December average data for the middle market closing spot rates against sterling from 1975 for the Austrian schilling, German mark, Japanese yen, Swiss franc, French franc, Italian lire, Netherlands guilder, Finnish markka, Irish punt, Portuguese escudo, Spanish peseta, Australian dollar, Canadian dollar, New Zealand dollar, Norwegian krone, Swedish krona, Danish krone, Greek drachma, and Belgian franc; and from 1999 the euro. Also shown are selected currencies against the US dollar and effective exchange rate indices/national competitiveness indices.

Since January 1999 the legacy currencies (constituents of the euro) have been synthetically produced.

The Bank of England Statistical Abstract Number 2 - 1975 contains end month exchange rate data against sterling for US dollars, Belgian Francs, Swiss Francs, French Francs, Italian Lire, Netherlands Guilder, Deutsche Mark and Japanese Yen from January 1970 to December 1974. The 3 month forward premium or discount against sterling for the US dollar expressed as a percentage per annum is also published.

The Bank of England Statistical Abstract Number 1 - 1970 contains end month data for the US dollar / sterling spot rate and 3 month US dollar forward premium/discount in cents expressed as a percentage per annum from 1945 to 1969 inclusive.

The Bank of England’s Monetary and Financial Statistical Interactive Database (IADB) launched in July 2003, contains wholesale interest and discount rates, spot exchange rates, effective exchange rates, US dollar forward premium/discount rates, sterling against US dollar forward rates, Gold price against US dollar rates and Yields.

Table 7.1C Interest rate differentials and exchange rates

Included in this table are interest rates on US Treasury Bills, US dollar deposits and three month sterling interbank rate, interest rate differentials (interbank at three months) between the UK and the euro area, Japan and the United States, and the price of gold at the 15.00 hours fixing in London. Also shown are the exchange rates against Special Drawing Rights (SDRs) of Sterling, US dollars, German marks, French francs and Japanese yen; and against the euro of sterling and the US dollar.

Interest on US Treasury bills is the secondary market selling rate in New York for three-month US Treasury bills, expressed as a yield (per cent per annum of 365 days).

Interest on US dollar deposits in London (3 months) is the middle market closing rate (i.e. the mean of bid and offer) as recorded by the Bank of England in the late afternoon.

The London sterling interbank offered rate – refer to notes and definitions for **Table 7.1H**.

Interest rate differentials - These series provide a broad comparison between the general level of interest rates (interbank at three months) between the UK and the euro area (Germany until December 1998), Japan, and the United States. The rates used in these calculations refer to the Euro LIBOR, Euro Yen interbank offered rate and Eurodollar interbank offered rate.

London gold price fixing - London is a major market for transactions in gold with prices being set twice daily (currently 10.30 and 15.00 hours) since 8 September 1919 by representatives of bullion dealers. Buy and sell orders are received by these representatives during the fixings and the price in US dollars per fine troy ounce is adjusted until the supply and demand are in balance. While sellers receive the price fixed, buyers are charged a fixing commission of a quarter percent (minimum \$100). This series relates to the 15.00 hours fixing.

SDRs are valued in terms of a “basket” of currencies. The weights attributable to the SDR are determined by the IMF once every five years. Since 1 January 1999, the basket has consisted of four currencies: dollar, sterling, euro and yen - weighted largely with regard to their relative importance in world trade and official reserves. On 1 January 1999 the euro replaced the French franc and German mark in the basket, which had been constituents since 1 January 1981. Prior to that date a sixteen-currency basket was used. Since 1st January 1996 the SDR consists of:

United States dollar	0.582
Japanese yen	27.2
UK sterling	0.105

With the euro at 0.352 replacing the German and French currencies from 1 January 1999.

The exchange rates for the SDR against all currencies fluctuate from day to day in response to exchange market movements. Once a day (excluding weekends and US Bank Holidays), the IMF values the currency components of the basket at their market exchange rates for the US dollar as reported by the relevant Central Banks and the sum of the dollar equivalents yields the rate of the SDR in terms of the US dollar. The SDR rate of any other currency can be arrived at by taking its official “representative” exchange rate against the dollar and calculating it against the dollar / SDR rate. For further information visit the IMF website at www.imf.org/.

Table 7.1D British government securities: clean prices and yields

Prices and yields for Selected individual stocks

The series relate to stocks selected to represent a cross-section of the market and show figures for the last working Friday in the month. Prices and yields are based on representative middle market prices at the close of official business.

The *gross redemption yield* is the rate of interest which, if used to discount future dividends and the sum due at redemption, will make the present value equal to the market price of the stock. It is an appropriate measure of the gross annual return on these securities, if held to maturity, for investors who pay no tax (e.g. pension funds). It provides a convenient means of comparing the annual return on dated securities with varying coupons and redemption dates. For the computation of undated gilt yields it is assumed that these bonds have an infinite number of cash flows. Yields are calculated using the UK Debt Management Office’s price/yield methodology (see *Formulae for Calculating Gilt Prices from Yields* – 15 January 2002. This appears on the DMO web site www.dmo.gov.uk under the Technical Publications section).

The *real gross redemption yields* on index-linked British Government securities are calculated using the UK Debt Management Office’s price/yield methodology (see *Formulae for Calculating Gilt Prices from Yields* – 15 January 2002. This appears on the DMO web site www.dmo.gov.uk under the Technical Publications section).

7 Exchange rates, interest rates and security prices

The *nominal amount outstanding at end of year* for each selected security is also shown. Details of issues at cash values and redemptions are shown in **Table 1.2D**.

Table 7.10 contains quarterly average data on the flat yield of 3.5% War Loan.

Bank of England: Monetary and Financial Statistics contains end quarter and monthly (average) data on the real gross redemption yield of 2.5% index-linked Treasury Stock 2016.

The Bank of England Statistical Abstract 2002 - Part 1 contains monthly average data of the flat yield of 3.5% War Loan from 1970; and the real gross redemption yield of .2% index-linked Treasury Stock 2006 from 1981 and 2.5% index-linked Treasury Stock 2016 from 1983.

The Bank of England's Monetary and Financial Statistical Interactive Database (IADB) contains monthly average data of the flat yield of 3.5% War Loan from 1979; and the real gross redemption yield of .2% index-linked Treasury Stock 2006 from 1981 and 2.5% index-linked Treasury Stock 2016 from 1983.

The Bank of England Statistical Abstract Number 2 - 1975 contains end month observations of the flat yield of 3.5% War Loan from 1970 to 1974.

The Bank of England Statistical Abstract Number 1 - 1970 contains end month observations of the flat yield 3.5% War Loan from 1945 to 1970.

Table 7.1E British Government securities: yield curve data

The model used to derive these estimates is a spline-based technique, known as the 'Variable Roughness Penalty' (VRP) model, which replaces the formerly used Svensson method. The new method has been found to be better able to capture the true shape of the term structure, and provides more stable estimates.

Zero coupon nominal curves

The spot interest rate or zero coupon yield is the rate at which an individual cash flow on some future date is discounted to determine its present value. By definition it is the yield to maturity of a zero coupon bond and can be considered as an average of single period rates to that maturity. Conventional dated stocks with a significant amount in issue and having more than three months to maturity, plus GC repo rates (at the short end) are used to estimate these yields; index-linked stocks, irredeemable stocks, double dated stocks, stocks with embedded options, variable and floating stocks are all excluded.

Implied forward nominal rates

Implied forward rates are future one period interest rates that when compounded are consistent with the zero-coupon yield curve. They embody a forecast of the future short-term rate but also incorporate risk premia, and other factors. Rates shown are instantaneous forward rates, i.e. the implied interest rates on future transactions with infinitesimal investment periods. In practice these can be identified with expected future overnight rates.

Further references

More details on the Bank's current yield curve models are given by Anderson & Sleath, "New estimates of the UK real and nominal yield curves" *Bank of England Quarterly Bulletin*, November 1999. Further, more detailed descriptions and analysis were provided in a *Bank of England Working Paper* entitled "New estimates of the UK real and nominal yield curves" by John Sleath and Nicola Anderson in March 2001. These are available from Publications Group, Bank of England, Threadneedle Street, London, EC2R 8AH, to which enquires regarding these publications should be addressed. An overall view of yield curves, can be obtained by reference to "*Estimating and Interpreting the Yield Curve*," written by Anderson, Breedon, Deacon, Derry and Murphy and published by Wiley Publishing. Index-linked bonds are discussed in detail in the book "*Inflation-Indexed Securities*," written by Deacon and Derry and published by Prentice-Hall.

Data for a full set of curves fitted using the Bank approach are available to outside researchers at monthly (end-month) and daily frequencies from end-March 1982 to date on the Bank's website (www.bankofengland.co.uk).

Table 7.1F Certificates of tax deposit

For details of certificates of tax deposit see notes to Table 1.2G.

Table 7.1G Company security prices and yields

★

The table contains monthly business day averages and end month levels of FT 30, FTSE 100, FTSE 250, FTSE 350, FTSE All-share, FTSE Eurotop 100, FTSE and Eurotop 300.

FT 30 (prior to 2/10/96 known as FT Ordinary Share (30 Share) Index) - This is the oldest and most familiar of the stock market indices compiled and published on a daily basis by the FT since 1st July 1935 with a base of 100. It is geometric in construction and the constituents of the index are 30 market leaders representing a cross section of British Industry. However, it is biased towards major industrial and retailing companies, although financial and oil stocks are now included. Since all shares in the index are unweighted (market capitalisation is not taken into account) its main advantage is as a short term indicator of the market; but its disadvantage is a downward bias over the long term.

FTSE All-Share - The current objective of the UK series is to represent the performance of companies resident and domiciled in the UK, providing investors with a comprehensive and complementary set of indices which measure the performance of the major capital and industry segments of the UK market. Daily publication of these indices began on 26th November 1962 covering 636 shares. The prices used in the calculation of these indices are exact mid prices taken at the close of business each day. The indices are weighted arithmetic averages of the percentage price changes of the constituent shares since the base date (the base date for each sub-sector is given in the Financial Times each Saturday). The weights for each constituent are the total market values of the shares issued at the base date modified to maintain continuity when capital changes occur (for example, through rights issues or when constituents change owing to take-overs or new companies becoming large enough to qualify for the indices). A great many major companies which are famous today did not exist at all in 1962. Therefore constant monitoring is required if the indices are to remain consistent and useful. With the passage of time it can become necessary to amalgamate sectors and also create new ones like Services and Utilities.

The FTSE All-Share Index (name changed from FT-SE Actuaries All-Share Index wef 2/10/96) was reviewed by a working party during 1993 to take account of the huge changes which had taken place in industry, the economy and the stock market since the sectors were previously reviewed in 1970. The resulting classification introduced on 4th January 1994, reflected the growth of the service industries and the Governments privatisation programme for utilities. In contrast, basic industries and capital goods manufactures in the UK have suffered a relative decline.

The FT-500 Share Index, which was renamed the Non-Financials Share Index (wef 31/12/93), comprises five main sections - mineral extraction, general manufactures (re-named general industrial wef 31/12/94), consumer goods, services and utilities. The FTSE All-Share index of ordinary shares is formed from the Non-Financials, Financials and Investment Trust indices.

Each company is allocated to the industry sub-sector whose definition most closely describes the nature of its business. The primary consideration when classifying companies is the proportion of profits arising from each industry area. In order to maintain stability in the classification system, temporary fluctuations in the profitability of individual companies is generally disregarded. Classifications are normally determined using the annual audited accounts of the company. Where a company carries on two or more different classes of business, the audited segmentation of profits is used. The FTSE Actuaries Industry Classification Committee, which is made up of market practitioners, investment managers and actuaries are responsible for classifying companies.

Industrial analysis was reviewed by the FTSE international in 1999 and changes made. Historical data were recreated using the new industrial breakdown.

7 Exchange rates, interest rates and security prices

FTSE 100 - This was introduced in January 1984 since there was a demand for a real-time index in view of the competition from overseas and the requirements of the traded options and financial futures markets. A base figure of 1,000 was chosen to make the index more tradable on the futures and options market as a high base contract figure usually produces whole number changes every day. The choice of 100 shares of the largest companies by market capitalisation was to strike a balance between the practical difficulty of collecting approximately 750 shares (in January 1984) on a real time basis needed to turn the FTSE All-Share index into a real time index, and yet having sufficient cover of the market to follow closely the movement of the FTSE All-Share index. The method of calculation is similar to that of the FTSE All-Share index.

FTSE 250 - This is a real-time index of the next 250 companies in market capitalisation ranking below the FTSE 100. It was first published in the Financial Times in October 1992, and had a base of 1412.60 on 31st December 1985. It was calculated on two formats, one that includes and one that excludes investment trusts. The series which is published in *Financial Statistics* includes investments trusts.

FTSE 350 - This index combines the FTSE 100 and the FTSE 250. It was introduced in the Financial Times in October 1992, with a base of 682.94 as at 31st December 1985. Its prime function is for a minute-by-minute calculation of industry baskets based on the FTSE 350. Shares are allocated to industry baskets using the sector classification devised for the FTSE All-Share index. Higher yield and lower yield indices are also calculated for the FTSE 350 but are not included within this table.

The chief advantages of the FTSE All-Share index are it accurately reflects the whole market, it can be used to measure long-term market behaviour and it is the professional investors yardstick for the whole UK equity market – for analysing investment strategies and as a measure of portfolio investment.

Details of the latest index constituent lists for the FT 30, the FTSE 100, the FTSE 250 and 350 as well as the FTSE Eurotop 100 and 300, together with the ground rules and calculation methods are obtained from the FTSE International - The Podium, St.Alphage House, 2 Fore Street, London EC2Y 5DA.

Dividend net yields - are the totals of the dividends for the twelve months ending with the most recently declared, payable on the capital of constituents expressed as percentages of total market valuation, net of corporation tax. The series had previously been shown gross of tax, but after the abolition of advance corporation tax in April 1999 was switched to net of tax so a consistent time series can be shown.

Net Dividend Cover - In September 1994, an FTSE Actuaries Working Party was established to review the procedures used to calculate the indices. They recommended that calculating earnings on a maximum distribution basis for the purpose of computing a gross earnings yield was no longer appropriate. The main use of the gross earnings yield is to compute earnings cover, but the working party felt that it would be more useful to calculate the Net Dividend Cover. This shows the ability of the company to meet dividend payments from its current earnings rather than the existing gross maximum earnings yield. This recommendation was implemented with effect from 31 March 1995.

Further References

The Financial Times publishes daily the FTSE Actuaries share indices.

The ONS Annual Abstract of Statistics publishes monthly average observations of the FTSE 100, FT Non-Financials, Financials, Investment Trusts and FTSE All Share Price indices.

Table 7.1H Short-term sterling money rates

This table publishes the average rate of discount and yield on sterling Treasury Bills; bid and offer rates on sterling eligible bills, commercial paper and certificates of deposit; the call money rate; and bid and offer interbank rates.



Sterling Treasury Bills - These are bearer Government Securities representing a charge on the Consolidated Fund of the UK issued in minimum denominations of 5,000 at a discount to their face value for any period not exceeding one year, usually three months (91 days). They are issued 1) by allotment to the highest bidder at a weekly (Friday) tender to a range of counterparties, 2) in response to an invitation from the Debt Management Office to a range of counterparties, 3) at any time to Government departments (non marketable bills only). The rates shown are the average rates of discount at the weekly tender for 91 day bills; the equivalent yields (per cent per annum of 365 days).

Sterling Eligible Bills - These are bills which have been accepted by those banks whose acceptances are eligible for rediscount at the Bank of England; prior to 1984 the series refers to prime bank bills. Since 1985, the rates shown are as described as representative bid and offer discount rates in the secondary money market from a minimum of three sources at 8.30 am.

Sterling Commercial Paper - In April 1986 the Government permitted the development of a sterling commercial paper market, thus increasing the range of short term sterling (ie less than 1 year) debt securities available to both UK and overseas companies. Because the funds raised would have been construed as deposits under the Banking Act (now replaced by the Financial Services & Markets Act 2000), an explicit exemption from the Act was provided for qualifying companies. Full details of these arrangements were set out in a press release issued by the Bank of England on 29 April 1986, which was reproduced in the June 1986 Bank of England Quarterly Bulletin. In March 1989 a modest liberalisation was introduced to allow a wider range of borrowers to issue and in rather smaller, though still wholesale, denominations. These changes were described in the May 1989 Bank of England Quarterly Bulletin.

Two further significant changes occurred in 1990. First, the extension in the maximum maturity of this type of paper from 1 year to 5 years with that over 1 year being referred to as medium-term notes; and second, the exemption from the Banking Act 1987 (now replaced by the Financial Services & Markets Act 2000) was no longer confined to sterling issues. A press notice (11 January 1990) explained the modifications which applied from 1 February 1990.

Further amendments to the regulations governing the issue of Sterling Commercial Paper and Medium-term notes were issued in March 1997. The maturity restriction on Medium Term Notes was removed (as a result of which they were renamed Other Debt Securities) and the qualifications to issue were relaxed: see the Bank of England explanatory memorandum and associated notice issued on 18 March 1997 for details.

Transactions in Sterling commercial paper occur at a discount to face value; however the rates quoted here have been converted to a yield and are derived from two major dealers in the London market at 11.15 am each day.

Sterling Certificates of Deposit - These are negotiable certificates issued by banks and building societies evidencing deposits of 50,000 or more for fixed periods ranging from 7 days to five years. The rates shown are representative secondary money-market rates for clearing bank certificates of deposit obtained from three sources daily at 8.30am.

Call Money Rate - Retail banks loans to discount houses for up to seven days, but which are repayable on demand. These data were obtained from one source only. The series was discontinued from April 1999.

Interbank Rates - Interbank loans are wholesale borrowings for specified periods ranging from overnight to one year. The rates shown are daily representative rates obtained at 8.30am from a minimum of three brokers.

Further references

Table 7.10 publishes quarterly average three months sterling interbank rates.

Bank of England: Monetary and Financial Statistics contains end quarter levels and monthly average sterling interbank rates (overnight, 1 week, 1 month, 3 months, 6 months and 1 year); sterling eligible bills (1 month and 3 months); sterling treasury bills average rate of discount (3 months).

7 Exchange rates, interest rates and security prices

The ONS Annual Abstract of Statistics publishes monthly average 3 month sterling money market rates for Treasury Bills, Eligible Bills, Inter-bank Rate, Certificate of Deposit and Local Authority deposits.

The Bank of England Statistical Abstract - Part 1 contains monthly averages of sterling interbank rates (1 month and 3 months); sterling certificates of deposit (3 months); sterling eligible bills (3 months) and sterling treasury bills average rate of discount (3 months) from 1970 to 1996.

The Bank of England Statistical Abstract Number 2 - 1975 contains last Friday in the month observations of sterling treasury bills average rate of discount (3 months); sterling prime bank bills (334 months); sterling certificates of deposit (3 months); call money rate and sterling interbank rates (overnight and 3 months) from 1970 to 1974.

The Bank of England Statistical Abstract Number 1 - 1970 contains last Friday of month data for sterling treasury bills average rate of discount (3 months), prime bank bills (3 months) and call money rate from 1945 to 1969.

Table 7.1I National Savings: rate of interest on Investment Account

The investment account was introduced on 20 June 1966. The minimum deposit was raised to £5 on 1 April 1985 and subsequently to £20 on 1 February 1993. The maximum permitted holding has varied from time to time, and is currently £100,000.

Period			Maximum
20 Jun 1966	-	30 Jun 1969	5,000
01 Jul 1969	-	05 Jun 1974	10,000
06 Jun 1974	-	25 Jul 1977	Unlimited
26 Jul 1977	-	29 Jan 1981	50,000
30 Jan 1981	-	03 May 1984	200,000
04 May 1984	-	15 Jul 1986	50,000
16 Jul 1986	-	31 Dec 1989	100,000
01 Jan 1990	-	09 May 1993	25,000
10 May 1993	-	to date	100,000

Interest is credited to accounts once a year on 31 December. Prior to 1 January 1984 interest was credited on balances held for a complete calendar month. From 1 January 1984 interest is payable on a daily basis. From 1 January 1990 new holdings were restricted to personal savers and trustees for individuals

Table 7.1J Selected retail banks: interest rates.

Base rates

The minimum lending rate was introduced on 13 October 1972, and represented the minimum rate at which the Bank, acting as lender of last resort, normally lent to members of the discount market against the security of Treasury bills, other approved bills or government stocks with five years or less to maturity. Following the cessation of the continuous posting of MLR on 20 August 1981 the retail banks base rates now fulfil this role.

The table shows the dates of changes in the base rates of Barclays, Lloyds-TSB, HSBC and National Westminster Banks at close of business on the respective dates. A spread is shown where the rates of the four banks did not change on the same day. MLR has been invoked on subsequent dates (as indicated by the footnotes to the table), lapsing at close of business on the same day. The rates of interest charged by the banks on much of their lending to customers are set at margins over their own base rates: the size of the margin depends on the nature and status of the customer. A change in base rate normally signifies a marked change in the level of short-term market rates; hence base rate is widely used as an indicator of the broad level of interest rates. However, some bank lending is at rates more closely related to money market rates which vary daily and some, for example to persons for house purchase, is at rates which vary less frequently than base rate.

Interest rates

The Bank of England and Building Societies Commission harmonised their presentation and calculation of basic mortgage rates from end of August 1997. A new composite mortgage rate for the two sectors with data back to January 1996 is shown.

The basic mortgage rates for retail and building societies represent basic weighted (“headline”) rates calculated using the standard variable mortgage rate - the rate applicable to a significant proportion of outstanding loans rather than that simply affecting new accounts or special offers. Bank basic rates are calculated by the Bank of England. Taking the individual end-month “headline” rates on standard variable rate loans of the major bank lenders, they are weighted according to the size of the individual bank’s total mortgage book reported monthly to the Bank. Building Society basic rates are calculated by the Building Societies Commission. Further information is contained in this section **Table 7.1L** Building Societies: interest rates.

Gross interest on instant access and time deposit accounts - These are averages of end-month observations of the rates paid by a selection of banks.

Further References

Table 7.1O publishes quarterly average data on base rates, and savings rates on retail banks instant access and time deposit accounts.

Bank of England Monetary and Financial Statistics contains end quarter levels and monthly averages of these savings rates.

The ONS Annual Abstract of Statistics contains retail banks’ base rates and dates of change.

The Bank of England Statistical Abstract - Part 1 (last published in 2002) contains monthly average retail banks base rates from March 1970 and dates of changes in successively Bank Rate, MLR and Banks base rates from 1970.

The Bank of England Statistical Abstract Number 2 - 1975 contains last Friday of the month London clearing banks’ base rates from 1970 to 1974.

Table 7.1K Finance House base rate

The rate is calculated at the end of each month by averaging the cost of three month money in the interbank market over the previous eight weeks. The resulting figure is then rounded up to the next half point. The process is entirely arithmetical and contains no discretionary element.

Finance House base rate is calculated on the last Friday of each month and the resulting figure becomes effective from the first day of the following month. It is published daily in the financial press and remains unchanged until the calculation produces a different figure.

The rate provides member companies of the FLA (Finance & Leasing Association) with a base on which to calculate lending charges in certain industrial and commercial contracts where it is appropriate to vary rates during the period of the agreement. It is used, for example, in banking type transactions as well as in connection with stocking loans to dealers. It is also widely used by non FLA members.

* ✎

Table 7.1L Building societies: rates of interest

Average rates are calculated by the Financial Services Authority (“the FSA”). Rates shown are derived from monthly returns to the FSA by calculating for each rate a weighted average of the individual rates (using month-end share/residential mortgage balances) of a sample of societies. Figures for the period to December 1995 are based on data provided by those societies which comprised the 20 largest at January 1984 and whose combined assets accounted for some 87 per cent of the total assets of all societies.

7 Exchange rates, interest rates and security prices

Figures from January 1996 are based on data from the 30 or so largest societies at that date. These societies account for over 95 percent of all societies.

In general each building society has a range of share (ie retail funds) and mortgage accounts. For shares a higher rate of interest will normally be paid for larger investments, for accounts operated by post or via the internet and/or where investors are prepared to leave their money for a longer time. The rate shown in **Table 7.1L**, which is quoted gross (ie without deduction of income tax at the prescribed rate), reflects the range of share accounts offered.

For mortgages, in addition to a basic rate (or a standard variable rate to use its correct terminology other rates may apply depending on the characteristics of the product (eg fixed rate mortgage; discount mortgage, special schemes etc).

*
✿

Rates shown reflect the position at the end of each month and being based on actual rates in force also reflects any timing differences that may exist between societies in their general implementations of new rates. The “**basic mortgage rate**” is taken as that applying to the majority of accounts within a society rather than that simply affecting new accounts, whereas actual rates in force are reflected in the “**Average rate**”.

The Bank and Building Society combined rates are included for comparative purposes.

The rates have been calculated from January 1984. No earlier data are available in these series.

Table 7.1M Local authority interest rates: Public Works Loan Board

This table shows rates for fixed rate loans to local authorities from the Public Works Loan Board (PWLB).

*
✿

- loans repayable by equal instalments of principal together with interest on the outstanding balance of principal (‘EIP method’)
- loans repayable by fixed half-yearly instalments to include principal and interest (‘annuity method’)
- half-yearly payments of interest only with a single repayment of principal at the end of the term (‘maturity method’)

Rates are determined by the Treasury, usually once a day, and published on the PWLB’s website www.pwlb.gov.uk

Table 7.1N Other local authorities interest rates

This table is no longer published in *Financial Statistics* as from November 2004

*
✿

Table 7.1O Average money rates and yields

Nominal zero coupon yields

The model used to derive these estimates is a spline-based technique, known as the ‘Variable Roughness Penalty’ (VRP) model, which replaces the formerly used Svensson method. The new method has been found to be better able to capture the true shape of the term structure, and provides more stable estimates. Further details are given by Anderson & Sleath, “New estimates of the UK real and nominal yield curves”, *Bank of England Quarterly Bulletin*, November 1999. More detailed descriptions and analysis has been published by the *Bank of England Working Paper No.126* entitled “New estimates of the UK real and nominal yield curves” by John Sleath and Nicola Anderson.

The spot interest rate or zero coupon yield is the rate at which an individual cash flow on some future date is discounted to determine its present value. By definition it is the yield to maturity of a zero coupon bond and can be considered as an average of single period rates to that maturity. Conventional dated stocks with a significant amount in issue and having more than three months to maturity, plus GC repo rates (at the short end) are used to estimate these yields; index-linked stocks, irredeemable stocks, double dated stocks, stocks with embedded options, variable and floating stocks are all excluded.

Table 7.2A Retail Prices Index (RPI) and other selected indices.

The general Retail Prices Index (RPI) is the principal domestic measure of inflation in the UK. It measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. The spending pattern on which the index is based is revised each year, mainly using information from the Expenditure and Food Survey. The expenditure of certain higher income households, and of pensioner households mainly dependent on state pensions, is excluded.

*

✱

The index is compiled using a large and representative selection of more than 650 separate goods and services for which price movements are regularly measured in around 150 areas throughout the country. Some 120,000 separate price quotations are used each month in compiling the index.

*

✱

All items excluding mortgage interest payments (RPIX)

This series excludes mortgage interest payments and is used by the Bank of England for monetary policy targets. Its annual change is sometimes referred to as the 'underlying' rate of inflation. In his statement on the UK government's policy on Economic and Monetary Union (EMU) on 9 June, the Chancellor said that he had written to the Governor of the Bank of England stating that subject to confirmation at the time of the Pre-Budget Report he intends to change the inflation target at that time. The inflation target for Britain will then be set on the HICP definition. However he confirmed that pensions and benefits and index-linked gilts will be calculated on exactly the same basis as now.

*

✱

All items excluding mortgage interest payments and indirect taxes (RPIY)

This series excludes council tax, VAT, excise duties, vehicle excise duty, car purchase tax (not applicable after 1992), insurance tax and airport duty as well as mortgage interest payment. It is a useful additional tool for analysing as it is a better indication of inflationary pressures at times when other price indices are influenced by Government-driven changes.

Harmonised Indices of Consumer Prices (HICP)

The harmonised indices of consumer prices (HICPs) are calculated in each member state of the European Union for the purposes of European comparisons, as required by the Maastricht Treaty. From January 1999 it has been used by the European Central Bank as the measure for its definition of price stability across the euro area. Further details are contained in an ECB Press Notice released on 13 October 1998: "A stability oriented monetary policy strategy for the ESCB".

The HICPs are published monthly by ONS in the Consumer Price Indices First Release and also by Eurostat. Additionally, they appear in ONS' Focus on Consumer Price Indices published on the National Statistic website www.statistics.gov.uk/hicp.

* ✱

Part

II

Financial and sector accounts

(comprising Chapters 8 to 14)

(Chapters 10 and 13 to be introduced in the future)

Chapter 8 Financial Accounts Matrix

Introduction

Chapter 8 presents the complete set of sector financial accounts in matrix format on **Table 8.1M**. This matrix table shows the financial assets and liabilities in a two-way classification : by sectors and by types of financial transactions.

The sectors shown on the matrix table are: the UK total economy; non-financial corporations; financial corporations with component sectors presented also - monetary financial institutions, other financial intermediaries and auxiliaries, and insurance corporations and pension funds; general government with component sectors presented also - central government and local government; households and non-profit institutions serving households; and rest of the world. The definitions of these sectors and brief details of data sources are given in **Section C Introduction** of this Handbook.

The financial transactions used in the financial accounts and shown on the matrix table can be classified into seven broad categories: **F.1** monetary gold and special drawing rights; **F.2** currency and deposits; **F.3** securities other than shares; **F.4** loans; **F.5** shares and other equity; **F.6** insurance technical reserves and **F.7** other accounts receivable/payable. The definitions of the financial transactions and brief details of sources are given in **Section D Introduction** of this Handbook.

Table 8.1M UK summary accounts

This table presents financial transactions analysed in a matrix format by sector and by type of financial instrument. the sum of each sector's transactions over all financial assets and liabilities is shown in the line total, either *total net acquisition of financial assets* or *total net acquisition of financial liabilities*. The sum of the *total net acquisition of financial assets* and *the sum of the total net acquisition of financial liabilities* across all sectors are constrained to be equal.

Annex 2 gives the four digit identifiers for **Table 8.1M**. Similar codes appear on all tables in Financial Statistics, showing the relationships between the series and enabling ease of reference.

How the financial accounts are compiled is explained in detail in **Chapter 11**, where topics such as: data sources, assembling the financial accounts, use of financial accounts, sources and methods, and accounting methods are covered.

Reliability gradings in the financial accounts

		Non-financial corporations S.11	Financial corporations S.12	Monetary financial institutions S.121+S.122	Other financial intermediaries & auxiliaries S.123+S.124	Insurance corporations & pension funds S.125
FINANCIAL ACCOUNT	III.2					
Net acquisition of financial assets	F.A					
Monetary gold and special drawing rights (SDRs)	F.1					
Currency and deposits	F.2					
Currency	F.21	D	B	B	C	
Transferable deposits	F.22					
Deposits with UK monetary financial institutions	F.221	B	B	B	C	C
Deposits with rest of the world monetary financial institutions	F.229	D	B	B	C	C
Other deposits	F.29	D	B	B	C	C
Total currency and deposits	F.2	D	B	B	C	C
Securities other than shares	F.3					
Short term: money market instruments	F.331					
Issued by UK general government	F.3311	D	C	B	C	C
UK local authority bills	F.3312	D	C	B	C	C
Issued by UK monetary financial institutions	F.3315	D	C	B	C	C
Issued by other UK residents	F.3316	D	C	B	C	C
Issued by the rest of the world	F.3319	D	C	B	C	C
Long term: bonds	F.332					
Issued by UK central government	F.3321	D	C	B	C	C
Issued by UK local authorities	F.3322	D	C	B	C	C
Issued by UK monetary financial institutions	F.3325	D	C	B	C	C
Issued by other UK residents	F.3326	D	C	B	C	C
Issued by the rest of the world	F.3329	D	C	B	C	C
Financial derivatives	F.34					
Total securities other than shares	F.3	D	C	B	C	C
Loans	F.4					
Short term loans	F.41					
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	F.411		B	B		
Loans by rest of the world monetary financial institutions	F.419					
Long term loans	F.42					
Direct investment	F.421	C	C	B	C	C
Loans secured on dwellings	F.422	D	C	B	C	C
Finance leasing	F.423		C	C	C	
Other long-term loans by UK residents	F.424	D	D		C	C
Other long-term loans by the rest of the world	F.429		D			
Total loans	F.4	D	C	C	C	C
Shares and other equity	F.5					
Shares and other equity, excluding mutual funds' shares	F.51					
Quoted UK shares	F.514	D	C	B	C	C
Unquoted UK shares	F.515	D	D	D	D	C
Other UK equity (including direct investment in property)	F.516					
Shares and other equity issued by the rest of the world	F.519	D	C	B	C	C
Mutual funds' shares	F.52					
UK mutual funds' shares	F.521	D	C	B	C	C
Rest of the world mutual funds' shares	F.529					
Total shares and other equity	F.5	D	C	B	C	C
Insurance technical reserves	F.6					
Net equity of households in life assurance and pension funds' reserves	F.61					
Prepayments of insurance premiums and reserves for outstanding claims	F.62	D	C		C	C
Total insurance technical reserves	F.6	D	C		C	C
Other accounts receivable	F.7	D	C	B	C	C

The table is intended to give rough assessments of reliability of estimates for transactions of the various asset categories by each sector.

Four gradings have been used. These primarily describe the nature of the estimation process, although progressively greater margins of error are implied. The gradings are:

- A = Accounting-type figures, relating to individual institutions mainly in central government.
- B = Reliable figures, obtained by aggregating statistical returns (and thus prone to coverage or reporting errors).

C = Figures based on returns but with some degree of estimation, eg sampling.

D = Figures involving a substantial amount of estimation, or where the coverage is known to be significantly incomplete.

The table refers to the reliability of quarterly figures, which are generally less reliable than the annual figures; later periods are subject to greater revisions than earlier periods. It should be noted that while two sectors may each report a transaction between them accurately, the timing may differ and figures for other sectors estimated by the residual method may be affected.

Reliability gradings in the financial accounts (continued)

		General government	Central government	Local government	Households & NPISH	Rest of the world
		S.13	S.1311	S.1313	S.14+S.15	S.2
FINANCIAL ACCOUNT continued	III.2					
Net acquisition of financial assets	F.A					
Monetary gold and special drawing rights (SDRs)	F.1	A	A			A
Currency and deposits	F.2					
Currency	F.21				D	D
Transferable deposits	F.22					
Deposits with UK monetary financial institutions	F.221	B	A	B	B	B
Deposits with rest of the world monetary financial institutions	F.229	A	A		D	
Other deposits	F.29	B		B	C	C
Total currency and deposits	F.2	B	A	B	D	D
Securities other than shares	F.3					
Short term: money market instruments	F.331					
Issued by UK general government	F.3311	B		B	D	C
UK local authority bills	F.3312	A	A		D	C
Issued by UK monetary financial institutions	F.3315	B		B	D	C
Issued by other UK residents	F.3316	B		B	D	C
Issued by the rest of the world	F.3319	A	A			
Long term: bonds	F.332					
Issued by UK central government	F.3321	B		B	D	C
Issued by UK local authorities	F.3322				D	C
Issued by UK monetary financial institutions	F.3325					C
Issued by other UK residents	F.3326	A	A		D	C
Issued by the rest of the world	F.3329	A	A		D	C
Financial derivatives	F.34					
Total securities other than shares	F.3	B	B	B	D	C
Loans	F.4					
Short term loans	F.41					
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	F.411					
Loans by rest of the world monetary financial institutions	F.419					D
Long term loans	F.42					
Direct investment	F.421					C
Loans secured on dwellings	F.422	B	B	B		
Finance leasing	F.423					
Other long-term loans by UK residents	F.424	B	B	B	D	
Other long-term loans by the rest of the world	F.429					D
Total loans	F.4	B	B	B	D	D
Shares and other equity	F.5					
Shares and other equity, excluding mutual funds' shares	F.51					
Quoted UK shares	F.514	B	A	B	D	C
Unquoted UK shares	F.515	D	D	D	D	D
Other UK equity (including direct investment in property)	F.516	B	A		D	C
Shares and other equity issued by the rest of the world	F.519	B	A		D	
Mutual funds' shares	F.52					
UK mutual funds' shares	F.521				D	C
Rest of the world mutual funds' shares	F.529				D	
Total shares and other equity	F.5	D	D	D	D	C
Insurance technical reserves	F.6					
Net equity of households in life assurance and pension funds' reserves	F.61				C	C
Prepayments of insurance premiums and reserves for outstanding claims	F.62	D		D	D	D
Total insurance technical reserves	F.6	D		D	D	D
Other accounts receivable	F.7	C	C	C	D	D

The table is intended to give rough assessments of reliability of estimates for transactions of the various asset categories by each sector.

Four gradings have been used. These primarily describe the nature of the estimation process, although progressively greater margins of error are implied. The gradings are:

- A = Accounting-type figures, relating to individual institutions mainly in central government.
- B = Reliable figures, obtained by aggregating statistical returns (and thus prone to coverage or reporting errors).

C = Figures based on returns but with some degree of estimation, eg sampling.

D = Figures involving a substantial amount of estimation, or where the coverage is known to be significantly incomplete.

The table refers to the reliability of quarterly figures, which are generally less reliable than the annual figures; later periods are subject to greater revisions than earlier periods. It should be noted that while two sectors may each report a transaction between them accurately, the timing may differ and figures for other sectors estimated by the residual method may be affected.

Reliability gradings in the financial accounts (continued)

		Non-financial corporations S.11	Financial corporations S.12	Monetary financial institutions S.121+S.122	Other financial intermediaries & auxiliaries S.123+S.124	Insurance corporations & pension funds S.125
FINANCIAL ACCOUNT	III.2					
Net acquisition of financial liabilities	F.L					
Currency and deposits	F.2					
Currency	F.21		B	B		
Transferable deposits	F.22					
Deposits with UK monetary financial institutions	F.221		B	B		
Deposits with rest of the world monetary financial institutions	F.229					
Other deposits	F.29	D	D			
Total currency and deposits	F.2	D	D	B		
Securities other than shares	F.3					
Short term: money market instruments	F.331					
Issued by UK general government	F.3311					
UK local authority bills	F.3312					
Issued by UK monetary financial institutions	F.3315		B	B		
Issued by other UK residents	F.3316					
Issued by the rest of the world	F.3319	D	D		C	
Long term: bonds	F.332					
Issued by UK central government	F.3321					
Issued by UK local authorities	F.3322					
Issued by UK monetary financial institutions	F.3325		B	B		
Issued by other UK residents	F.3326	D	D	B	C	C
Issued by the rest of the world	F.3329					
Financial derivatives	F.34					
Total securities other than shares	F.3	D	D	B	C	C
Loans	F.4					
Short term loans	F.41					
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	F.411	B	C		C	C
Loans by rest of the world monetary financial institutions	F.419	D	D		C	C
Long term loans	F.42					
Direct investment	F.421	C	C	B	C	C
Loans secured on dwellings	F.422					
Finance leasing	F.423	D	D	D	C	
Other long-term loans by UK residents	F.424	D	D		C	C
Other long-term loans by the rest of the world	F.429	D	D		C	
Total loans	F.4	D	D	B	C	C
Shares and other equity	F.5					
Shares and other equity, excluding mutual funds' shares	F.51					
Quoted UK shares	F.514	D	D	B	C	C
Unquoted UK shares	F.515	D	D	D	D	C
Other UK equity (including direct investment in property)	F.516	D	D	D		
Shares and other equity issued by the rest of the world	F.519					
Mutual funds' shares	F.52					
UK mutual funds' shares	F.521		C		C	
Rest of the world mutual funds' shares	F.529					
Total shares and other equity	F.5	D	D	D	C	C
Insurance technical reserves	F.6					
Net equity of households in life assurance and pension funds' reserves	F.61		C			C
Prepayments of insurance premiums and reserves for outstanding claims	F.62		C			C
Total insurance technical reserves	F.6		C			C
Other accounts payable	F.7	D	D	B	C	C

The table is intended to give rough assessments of reliability of estimates for transactions of the various asset categories by each sector.

Four gradings have been used. These primarily describe the nature of the estimation process, although progressively greater margins of error are implied. The gradings are:

A = Accounting-type figures, relating to individual institutions mainly in central government.

B = Reliable figures, obtained by aggregating statistical returns (and thus prone to coverage or reporting errors).

C = Figures based on returns but with some degree of estimation, eg sampling.

D = Figures involving a substantial amount of estimation, or where the coverage is known to be significantly incomplete.

The table refers to the reliability of quarterly figures, which are generally less reliable than the annual figures; later periods are subject to greater revisions than earlier periods. It should be noted that while two sectors may each report a transaction between them accurately, the timing may differ and figures for other sectors estimated by the residual method may be affected.

Reliability gradings in the financial accounts (continued)

		General government	Central government	Local government	Households & NPISH	Rest of the world
		S.13	S.1311	S.1313	S.14+S.15	S.2
FINANCIAL ACCOUNT continued	III.2					
Net acquisition of financial liabilities	F.L					
Currency and deposits	F.2					
Currency	F.21	A	A			D
Transferable deposits	F.22					
Deposits with UK monetary financial institutions	F.221					
Deposits with rest of the world monetary financial institutions	F.229					C
Other deposits	F.29	A	A			C
Total currency and deposits	F.2	A	A			D
Securities other than shares	F.3					
Short term: money market instruments	F.331					
Issued by UK general government	F.3311	A	A			
UK local authority bills	F.3312	B		B		
Issued by UK monetary financial institutions	F.3315					
Issued by other UK residents	F.3316				D	
Issued by the rest of the world	F.3319					C
Long term: bonds	F.332					
Issued by UK central government	F.3321	A	A			
Issued by UK local authorities	F.3322	B		B		
Issued by UK monetary financial institutions	F.3325					
Issued by other UK residents	F.3326				D	
Issued by the rest of the world	F.3329					C
Financial derivatives	F.34					
Total securities other than shares	F.3	B	B	C	D	C
Loans	F.4					
Short term loans	F.41					
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	F.411	B	B	B	B	B
Loans by rest of the world monetary financial institutions	F.419	B	A	B		
Long term loans	F.42					
Direct investment	F.421					C
Loans secured on dwellings	F.422				B	
Finance leasing	F.423	D	D	D		D
Other long-term loans by UK residents	F.424	B	A	B	D	C
Other long-term loans by the rest of the world	F.429	B	A	B		
Total loans	F.4	B	B	B	D	C
Shares and other equity	F.5					
Shares and other equity, excluding mutual funds' shares	F.51					
Quoted UK shares	F.514					
Unquoted UK shares	F.515					
Other UK equity (including direct investment in property)	F.516					
Shares and other equity issued by the rest of the world	F.519					C
Mutual funds' shares	F.52					
UK mutual funds' shares	F.521					
Rest of the world mutual funds' shares	F.529					C
Total shares and other equity	F.5				D	C
Insurance technical reserves	F.6					
Net equity of households in life assurance and pension funds' reserves	F.61					
Prepayments of insurance premiums and reserves for outstanding claims	F.62					
Total insurance technical reserves	F.6					
Other accounts payable	F.7	D	C	D	D	D

The table is intended to give rough assessments of reliability of estimates for transactions of the various asset categories by each sector.

Four gradings have been used. These primarily describe the nature of the estimation process, although progressively greater margins of error are implied. The gradings are:

A = Accounting-type figures, relating to individual institutions mainly in central government.

B = Reliable figures, obtained by aggregating statistical returns (and thus prone to coverage or reporting errors).

C = Figures based on returns but with some degree of estimation, eg sampling.

D = Figures involving a substantial amount of estimation, or where the coverage is known to be significantly incomplete.

The table refers to the reliability of quarterly figures, which are generally less reliable than the annual figures; later periods are subject to greater revisions than earlier periods. It should be noted that while two sectors may each report a transaction between them accurately, the timing may differ and figures for other sectors estimated by the residual method may be affected.

Chapter 9 Financial Balance Sheets Matrix

Introduction

Chapter 9 presents the complete set of sector financial balance sheets in matrix format on **Table 9.1M**. As in **Table 8.1M** this matrix shows the financial assets and liabilities in a two-way classification: by sectors and by types of financial transaction.

The sectors shown on the matrix table are: the UK total economy; non-financial corporations; financial corporations with component sectors presented also - monetary financial institutions, other financial intermediaries and auxiliaries and insurance corporations and pension funds; general government with component sectors presented also - central government and local government; households and non-profit institutions serving households; and rest of the world. The definitions of these sectors and brief details of data sources are given in **Section C Introduction** of this Handbook.

The financial transactions used in the financial balance sheets and shown on the matrix table can be classified into seven broad categories: **F.1** monetary gold and special drawing rights, **F.2** currency and deposits, **F.3** securities other than shares, **F.4** loans, **F.5** shares and other equity, **F.6** insurance technical reserves and **F.7** other accounts receivable/payable. The definitions of the financial transactions and brief details of sources are given in **Section D Introduction** of this Handbook.

Table 9.1M UK summary balance sheets

This table presents financial assets and liabilities in matrix format by sector and by type of financial transaction. The excess of each sector's total financial assets over its total liabilities is shown in the line *net financial assets/liabilities*. For each transaction line the sum of the financial assets of every sector (including the rest of the world sector) is equal to the sum of the financial liabilities of every sector. In many cases there is only one sector with liabilities in each line.

The list of assets running in rows down the page is the same as in **Table 8.1M**.

How the financial balance sheets are compiled is explained in detail in **Chapter 12**, where topics such as data sources, assembling the financial balance sheets, use of financial balance sheets, sources and methods, accounting methods, reliability, and timeliness are covered.

Chapter

10

Table 10.1M UK Summary dividend and interest Matrix flows(DIM)

We are planning to introduce this new table in future.

Introduction

Chapter 11 presents the sector financial accounts in a standard format. The financial account shows the acquisition and disposals of financial assets and liabilities. These transactions are between different institutional units within the UK economy and with the rest of the world. Thus this account records the movements in the financial assets and liabilities that form net lending/borrowing.

Data sources

The main sources for the financial accounts are ONS enquiries, data collected by the Bank of England and the Building Societies Commission and administrative data from the Treasury. The ONS and the Bank of England work together closely to produce the financial account because of the importance of monetary financial institutions both in their own right within the account and as an important source of information for counterpart sectors' holdings of instruments such as bank deposits.

Assembling the financial account

The European System of Accounts 1995 (ESA 95) specifies a classification of financial transactions (assets and liabilities) which is required by law from the UK and all other member states. Further details are contained in **Section B and C Introduction** of this Handbook.

The matrix presentation in **Table 8.1M** is necessarily restricted to a single time period. **Tables 11.1A - 11.1O** display time series for the financial account of each sector, corresponding to each column of the matrix. The transaction line numbers used in **Table 8.1M** are repeated in the column headings of **Tables 11.1A - 11.1O**.

Financial transactions measure the net acquisition of financial assets, or the net incurrence of liabilities for each type of financial transaction. Some sectors are net lenders while others are net borrowers.

All financial transactions involve a simultaneous creation or liquidation of a financial asset and the counterpart liability, or a change in ownership of a financial asset, or an assumption of a liability. A financial asset is always balanced by a liability of another unit (except in the cases of monetary gold and special drawing rights). For example, a loan is an asset of the lender (or holder) and a liability of the borrower; a share is a liability of the company issuing it and an asset of the holder.

A financial transaction between two institutional units increases net lending/borrowing by one institutional unit and, by the same amount, decreases net lending/borrowing by the other. So this account shows how the net borrowing of a deficit sector is financed by a reduction in its assets and/or by the incurring of liabilities. Sectors with surplus resources make them available to others by acquiring assets (e.g. by purchasing government bonds, or money market instruments such as commercial paper issued by corporations etc.) or by reducing their own liabilities.

In the income and capital account the financial account provides a complete set of flow accounts for each sector. In principle, flows into and out of each sector should exactly balance, with net total financial transactions for each sector equaling the financial net lending/borrowing from the income and capital account for that sector. In practice there is a statistical adjustment item reflecting errors and omissions anywhere in the three types of account. The statistical adjustment items are shown at the end of each of the sector tables **Tables 11.1A - 11.1O**. The size of the statistical adjustment items and their variation from period to period are helpful in assessing the quality of the statistics and may indicate a need for new sources of data or improvements in methodology.

Use of financial accounts

This account shows how funds flow from sectors that are net savers to sectors that are net borrowers, usually via financial intermediaries. Thus it records the distribution and redistribution of financial assets and liabilities among the sectors of the economy.

The financial account shows how each sector's financial transactions are related to its saving and capital expenditure, and how financial transactions generally are related to one another within and between sectors. So it provides a way of examining the financial effects of economic policy and assistance for decisions regarding future policy. It can be used to investigate factors influencing the holdings of, and transactions in, different types of financial instrument: in particular changes in interest rates. Corporations and others also use it to understand the financial environment they operate in, for example by helping them to assess competition in the market for funds.

For financial institutions the financial account shows the large amounts of money which are channelled through them as financial intermediaries. The scale of this makes it important for them to be aware of changes in their sources of funds and in the use of those funds. The transactions of the financial institutions affect the liquidity, income and capital expenditure of other sectors, and the financing of the public sector borrowing requirement.

The account is a matrix of transactions. It provides a discipline which requires the constituent statistics to be defined and compiled consistently. The total transactions in one transaction line must agree: it is not possible to have the government issuing £x billion of gilts (government bonds) and all other sectors (including rest of the world) recording more, or less, purchases of them.

In forecasting, past relationships between economic and financial variables are discerned and extrapolated into the future. In the forecasting process the advantage of this accounting matrix is that it keeps the various components of the forecast in touch with each other. It compels the forecaster to consider explicitly all the implications of a change. For example, if the public sector net cash requirement were to be increased, the borrowing for this must be made from other sectors. Hence the forecast must allow for funds being made available to them. As a result, they may lend less to other sectors, so that the impact of a higher Public sector net cash requirement spreads further as the other borrowers are deprived of finance have to find funds elsewhere (perhaps at a higher rate of interest) or cut back on their activities.

Sources and methods

In an ideal world, every financial transaction would be accurately recorded by both parties simultaneously and at the same valuation, identifying the sector of the party involved. If all these records were collected and collated, again without error, a perfect set of financial accounts could be compiled. Moreover, because both parties were keeping a record (except perhaps in the case of transactions with non-residents) of the same transaction, a check could be made to ensure they matched, and to eliminate transcription errors etc.

Although such a system is clearly not feasible, it provides a useful conceptual baseline against which to discuss the reality. This reality is a partial and error prone system of data collection and recording. The main departures from the ideal are listed and discussed below.

Inconsistent reporting

Where both parties to a transaction report it in the returns they make, several errors may occur and introduce inconsistency into the accounts. These include different valuation (for example of a transaction involving foreign exchange), different timing (for example when a bank deposit takes place), and different classification of both the type of transaction and the sector of the counterparty.

This problem arises in several points in the accounts. An obvious example concerns transactions between banks. All banks make returns to the Bank of England in which they identify their balances with other banks. When all these figures are put together the net balance should be zero. The fact that it is not zero puts the sector account out of balance. In the case of this *inter-bank difference* special adjustments are made to reclassify the discrepancy. In other cases, one source is preferred to the other. Whatever is done, it is likely to contribute to the sector statistical adjustment items.

There are other examples. Banks report on deposits by, and lending to, local government. So do the local authorities. The figures do not agree. Also timing errors arise, for example, because of the delay between the initiation and the completion of transactions through the banking system. And some institutions may not compile accounts strictly according to calendar quarters.

Partial reporting

A number of difficulties can be included under this heading. In many matrix cells there is only one primary source of information. In some cases the quality of the data will be excellent, for example net issues of *British government securities*. But in others the figures may be based on partial information, because the coverage of a survey is incomplete or the response may not be 100 per cent. Error may also occur where the figures are based on sample surveys.

The measurement of the activities of pension funds is incomplete. The first problem is to identify them all. Then there are far too many for it to be feasible to obtain data from every one. Of those that are asked for data, only a proportion respond in time, and there is scope for compounding the errors through the grossing up procedures.

Partial information exists for the rest of the world sector in the form of custody holdings reported by banks. This provides a lower bound on holdings, but cannot be said to provide a complete picture.

Another form of partial information arises from the fact that it is impractical to require respondents to provide the full detail that is ideally needed to compile the accounts. Some types of transaction are split between different lines in the financial matrix. Often the additional work that would be required to provide the details cannot be justified.

Indirect reporting

Two types of indirect reporting can be distinguished. One is that in the absence of information directly from the sector, details are obtained from the counterpart sector. This applies particularly to the Rest of the World and Households/NPISH sectors. Thus details of household borrowing secured on residential property are obtained from the lending sectors, not from the households sector directly.

The other form of indirect reporting arises in the use of balance sheet levels data at the beginning and end of each period as a basis for estimating the (net) transactions within the period. In doing this, account must be taken of the following factors

- a. changes to the population involved
- b. changes in valuation including write offs

Transactions in bank deposits and lending are derived from levels. For flows denominated in *sterling* the results are relatively reliable. Those in *foreign currency* are less certain as they depend on eliminating the effects of variations in exchange rates. Assumptions have to be made about the mix of currency holdings and about the average rates at which the transactions took place.

No reporting

For some kinds of financial transaction no direct or indirect reporting exists. The best hope is for some occasional indication of the likely size of the levels or flows involved. Examples are *trade credit* and other lending between the company sector and households and certain household financial transactions with the rest of the world. In such cases the transactions may be simply omitted from the accounts.

Main sources and residual sectors

In practice, the major sources of data for the financial accounts are firstly the transactions of central government and secondly the balance sheets of the banks, building societies and other financial institutions. While these sources provide a great deal of information, they do not capture transactions that by-pass the financial system: transactions directly between the private non-financial corporations, households, non profit institutions serving households and the rest of the world.

To cover some of the latter, enquiries are directed particularly at measuring balance of payments flows (for example *direct investment*) and at major private non-financial corporations through the Financial Assets and Liabilities survey. For a number of reasons, concerned with coverage, consistency, valuation, timing and classification as well as timeliness, published accounts are not suitable as a data source.

In order to ensure that the transactions in assets equal transactions in liabilities across each row, one or more sectors may be designated as the **residual sector** for each line. In the compilation system, any errors and omissions for that line are automatically allocated to these sectors. In certain lines, there may be more than one residual sector. In such cases a proportion of the amount unallocated on the basis of “hard” information is allocated to each of the remaining sectors.

The statistical sources for each **sector** are outlined in **Section C Introduction** of this Handbook; more details on each **financial transaction** can be found in **Section D Introduction** of this Handbook.

Accounting conventions

Details of some of the accounting conventions are given in the following paragraphs.

Net presentation

In principle, financial transactions are recorded on a non-consolidated basis showing all transactions between institutional units, within and between sectors. However by convention Central Government is a single institutional unit, and because of the limitations of data sources, it is not possible to show a fully non-consolidated financial account for households.

Sign convention

The ESA 95 presentation of Financial transactions shows transactions in assets separately from transactions in liabilities. Acquisitions of assets and incurrence of liabilities are shown positive, and not lending or borrowing is shown as net acquisition of assets minus net incurrence of liabilities.

A sector's balance on its income and capital accounts, its net lending/borrowing, is matched by the balance of its total financial transactions. In the financial account tables in this Chapter the convention is to give these balances the same sign.

Valuation

In the UK financial accounts, the object is to value each transaction at the price at which the asset is exchanged, which means that when an asset is sold, the value recorded is the amount received from the sale, and when an asset is acquired, the value is the amount paid by the purchaser. These recorded transactions are then consistent with, for instance, any corresponding changes in bank balances. Transactions are thus recorded on a cash value basis. As mentioned in an ideal world every transaction would be accurately recorded by both parties simultaneously and at the same valuation, identifying the sector of the other party involved. Collection and collation of these records would yield a perfect financial account. However, this is not possible and we have to use a partial system of data collection and recording in which there are known to be errors.

The financial account does not include service charges (which include those not made explicitly (FISIM) and those reflected in spread margins), fees or commissions etc associated with financial transactions. These are recorded as payments for services.

Likewise taxes on financial transactions are also excluded from this account: they are treated as taxes on services within taxes on products. However, it may be difficult for one party to a transaction, made by a third party on their behalf, to state the true cost - for example, after selling shares for them, their broker will have sent them the proceeds net of dealing costs such as broker's commissions, stamp duty. Respondents to ONS surveys of financial transactions are thus asked to show sales of assets net of dealing costs, and conversely to include them within the costs of the assets acquired. An aggregate level adjustment is subsequently made to these figures to ensure they are on the basis required. Respondents are thus able to supply the good quality data they have available.

Neither do the financial accounts record unrealised capital gains and losses, and realised capital gains and losses are not distinguished. A person may sell a block of shares for £1,000 after having paid, say £900 for them at an earlier date and so make a capital gain of £100. The financial accounts will record only the cash transactions - the purchase of stock for £900, and the sale of stock for £1,000. Some unrealised gains and losses are included unavoidably because, in a few cases, it is not possible to obtain figures for transactions directly and estimates are entered as changes in the value of holdings. For short-term sterling assets this is not serious because their value does not change, or moves only within narrow limits. For securities and foreign currency items changes in holdings will often be very different from the cash transactions. But in practice most of the figures for securities are reported transactions and estimates are made of valuation changes in most foreign currency items.

Timing of transactions

The income, capital and financial accounts are intended to be on a common time base. This involves the problem of recording transactions between sectors in the same account period for both sectors and of recording accompanying transactions within these sectors in the same accounting period.

Within sector accounting timing of transactions is, in principle, a double entry system with timing arranged as follows. Transactions in the income and capital accounts are generally recorded when change of ownership takes place and/or amounts become due. Transactions which are completed in the accounting period (in other words for which payment has been made) are accompanied in the financial account by transfers of bank deposits, currency, or other means of settlement. Transactions which are not completed in the accounting period are in principle accompanied in the financial account by entries in *trade credit* (for items which derive from the production account) or in *accruals adjustment* (for other items, such as interest which has accrued but not yet been paid). When these transactions are completed in later time periods, the timing adjustments are reversed and the amounts included in bank deposits, currency, etc. Similar adjustments may apply in the case of pre-payments.

Timing consistency therefore depends on consistency between measurements of change of ownership, payment, timing adjustment and settlement. These span a wide range of data sources whose consistency is difficult to assess. For example, the *net lending/borrowing* of private non-financial corporations includes their profit figures derived ultimately from tax assessments. Their *trade credit* entries include data drawn from export credit guarantees. Figures for their *bank deposits* are obtained from data provided by banks. It is unlikely that these sources will always measure associated transactions in the same account period. Problems with timing consistency of the *trade credit* figures, however, are overshadowed by their poor coverage.

Bank deposits are measured, in principle, at the time cheques are banked, standing orders and giro transfers deducted and direct debits credited. When the measurement is made, some of these transactions are not yet cleared through the banking system and appear as 'items in transit' in the aggregate banks sector balance sheet. These are approximately allocated to deposits and lending to produce data as though clearance had been instantaneous. The effect of this, for cheque payments for example, is that receipts in the current account are probably recorded a day or two later than payments because of postage time. Associated movements of bank deposits are probably recorded a little later again, since not all cheques will be banked on the day they are received.

In the financial accounts, transactions in transaction lines other than timing adjustments and means of settlement, are recorded broadly when ownership changes, but the distinction from when payment is made is less sharp than in the current and capital accounts. Many loans, for example, come into existence only when the amount is paid. For many other instruments settlement is quick if not instantaneous. Transactions in government securities, for example, are settled the following day.

Much of the data for company securities are directly reported by other financial institutions (excluding insurance corporations and pension funds). They are asked to measure their transactions according to contract date. Payments may be awaiting settlement day, so the institutions are also asked to report amounts due to or from stockbrokers, which are included in the financial accounts in *other loans by UK residents* and which provide the required timing adjustment.

Timing consistency between sectors is affected by similar measurement problems. Where the sources differ for accompanying entries they are unlikely to be completely consistent. Timing inconsistencies between measures of income and expenditure contribute to the residual error in the national accounts. Inconsistencies between sectors in other items contribute to the balancing items of the two sectors immediately concerned and of any residual sector. For many entries, particularly in the financial accounts, inconsistencies between sectors are avoided by estimating both ends of a transaction from the same source. For example, deposits with building societies are estimated from building society data for both the other financial institution sector and households.

Timing discrepancies can cause distortions in gross flows over a shorter (e.g. monthly) account period but are less important the longer the account period. They are likely to be small compared with gross flows during a quarter. Timing discrepancies, nevertheless, tend to even out over successive periods, and care is taken to ensure that specific large transactions, such as arise when there is a major privatisation, are entered consistently.

Reliability

The system of reliability gradings for the financial accounts shown on **Table 8.1M** is based broadly on the method of estimation used.

Timeliness

The financial accounts are compiled once a quarter as part of an integrated process including GDP and its components, the sector accounts, and the balance of payments. The data are first available at the time of the ONS's *First Release* 12 weeks after the end of the quarter to which they relate. They may of course be revised at the time of subsequent releases, but they are not updated between quarters except at the time the *ONS Blue Book* is prepared.

The financial accounts are updated in *Financial Statistics* in the January, April, July and October editions, though the data first becomes available on the ONS Databank on the day of the "National Accounts First Release" at the end of the previous month. The July issue of *Financial Statistics* is consistent with the *ONS Blue Book 2004*.



Tables 11.1A to 11.10 Sector financial accounts

These tables are concerned with each of the eleven sectors identified in the matrix table and the sub-sectors of which some of the matrix sectors were made up from. They present the financial transactions of the sector in the form of time series. The asset categories are consistent with the matrix and from one table to another. The line numbers in the matrix are repeated in the headings of the time series to show how the asset categories correspond.

Sector statistical adjustment items

This table shows the relationship between the net lending/borrowing for each sector produced from the income and capital accounts, and the corresponding total financial transactions, measured from financial data. The difference is known as the *statistical adjustment item*. The sector statistical adjustment items arise from errors and omissions which may occur throughout the accounts. Their relationship with the *statistical discrepancy* in the GDP account is explained in **Section B Introduction** of this Handbook.

Because income and capital accounts are not separately estimated for the three sub-sectors of the financial companies and the two sub-sectors for households and non profit institutions serving households, it is only possible to compute a statistical adjustment item for these sectors as a whole.

Introduction

Chapter 12 presents the financial balance sheets in a standard format similar to the way in which the financial accounts are presented. The financial balance sheets are statements of the value of financial assets owned, and of financial liabilities outstanding, at a particular point in time. The financial balance sheets can be drawn up for: institutional units; various sectors of the economy; the total UK economy; and the rest of the world. For the rest of the world the financial balance sheet is also called the external assets and liabilities account: the rest of the world have no non-financial assets or liabilities in the UK.

Moving forward through time each balance sheet is linked to the previous one by the accounting identity:

$$\begin{aligned}
 & \text{stock at the beginning of the accounting period} \\
 + & \text{acquisitions less disposals of assets (financial and non-} \\
 & \text{financial) by transaction taking place during period} \\
 + & \text{other changes in the volume of assets} \\
 & \text{e.g. through discovery or destruction during the period} \\
 + & \text{holding gains less holding losses accruing during the period} \\
 = & \text{stock at the end of the accounting period.}
 \end{aligned}$$

In general, the balance sheets are at current market value, so the changes they show from one time to another are not necessarily the same as transactions in the same interval. Price and other changes can also affect the outcome. Where there is no market valuation, the nearest available approximation is used. The data on direct investment in particular are only at book value which can be substantially different from market value.

The economy is split into a large number of economic units which carry out many transactions. These units are classified into mutually exclusive groups with similar characteristics. Dividing the economy up into groups - or sectors - allows us to summarise the transactions of those groups and thus consider the UK economy in greater detail. Units not in the UK are allocated to a further sector which is called the rest of the world sector. The sectorisation of the UK economy identifies two kinds of units: *consuming units* - mainly households - and *production units* - mainly corporations and non-profit institutions or government units. Units can own goods and assets, incur liabilities and engage in economic activities and transactions with other units in their own right. For the financial balance sheets the UK economy is split into eight basic sectors: central government; local government; public corporations; private non financial corporations; household and non profit institutions; serving households monetary financial institutions; other financial intermediaries and financial auxiliaries and insurance corporations and pension funds.

The definitions of the sectors and brief details of data sources are given in **Section C Introduction** of this Handbook.

The financial balance sheets can be seen as completing the picture given by the transactions accounts by indicating the outstanding stocks of financial assets and liabilities of each sector vis-à-vis other sectors at the start and at the end of the accounting period, and of changes between balance sheets. The changes in balance sheets are not at present shown explicitly in the UK accounts. In principle these levels data are consistent with those of the flows. In practice, this is not always so, but work is in hand to achieve closer reconciliation.

For each sector of the economy the financial balance sheets record the value of all financial assets and liabilities at the end of the accounting period. These items are categorised on the standard instrument classification used in the financial account and are valued at prices and exchange rates current at the end of the period. The balancing item of the financial balance sheet the net financial worth at the end of the period. The net worth is the difference between total assets and total liabilities at a particular moment in time. Corporations (not quasi-corporations) have a net worth - which may be positive or negative - even though they are wholly owned by their shareholders. Defined benefit pension funds increase or decrease the

12

Financial Balance Sheets

net worth of financial corporations (or, in the case of unsegregated funds, employers) according to whether they are overfunded or underfunded. Quasi-corporations by convention, have a net worth of zero.

Data sources

The main data sources for the financial balance sheets are ONS inquiries, data collected by the Bank of England and the Building Societies Commission and administrative data from the Treasury. Monetary financial institutions are important holders of financial assets and important suppliers of counterparty information and the ONS is assisted by the Bank of England in the production of these data.

The ONS quarterly inquiries to financial institutions (insurance corporations, pension funds, unit and investment trusts etc.) collect data for the balances held in certain short-term assets (e.g. cash, sterling commercial paper). For longer term instruments the data collected is that of flows which feed directly into the financial account. However, the ONS also send annual balance sheet inquiries to these institutions and these are used together with the quarterly financial transactions and information on changes in the markets, to derive quarterly balance sheets for these institutions.

The ONS Financial Assets and Liabilities Survey (FALS) is sent to non-financial corporations and collects quarterly balance sheet data from them. This is run each quarter (with an extended sample once a year).

The figures for other sectors and the rest of the world are collected in various ways. The Bank of England runs a quarterly balance sheet inquiry to all banks (and a monthly inquiry to the larger ones). The Building Societies Commission similarly has a monthly balance sheet inquiry which covers all building societies. These give not only the quarterly balance sheet data for monetary financial institutions but also provide counterparty data relating to these sums. So, for example, the complete sectoral split of figures for bank deposits can be obtained from them. The Treasury also provides data from administrative sources which are used to compile the balance sheets.

For one or more sectors there is no balance sheet data - for example, because data collection is not feasible (e.g. from households) and/or because periodic benchmark data shows that they hold and transact very small amounts of the instrument concerned. Some surveys run by the ONS collect greater detail from corporations annually than they do each quarter. This is done to limit the form-filling burden that is placed upon the corporations sampled and reflects the fact that they may only collate detailed information themselves once a year (for their annual accounts). Other surveys such as FALS cover only the largest corporations in a sector or industry group each quarter but once a year the forms may be sent to a larger number, including smaller corporations.

Assembling the financial balance sheets

The European System of Accounts 1995 (ESA 95) specifies a classification of financial transactions (assets and liabilities) which is required by law from the UK and all other member states. For further details see **Section B and C Introduction, and Chapter 11** of this Handbook.

Use of financial balance sheets

The balance sheets show the financial worth of each sector of the economy at a particular point in time. The changes from previous balance sheets illustrate both the change in the valuation of different instruments as stock markets move, currency exchange rates change etc. and the changing portfolios resulting from the financial transactions of the sectors. The balance sheets are thus closely linked with the financial accounts data, as on their own financial accounts give only a partial indication of the behaviour of the various sectors. In many cases the reasons for financial flows between sectors include a desire to alter the composition of

a balance sheet. For example, a transaction is often undertaken to change the owner's stock of an asset - perhaps as a reaction to, for instance, a change in the value of that asset - and should be interpreted in that light.

Financial balance sheets can be used in various ways: for households, to analyse the effects of changes in net worth on consumption and saving patterns and the distribution of wealth; for corporations, to compare assets with the market value of shares and study liquidity and financing needs; for industries, to relate capital employed to production and broad measures of productivity; and for the whole economy, to monitor the availability of resources and the overall financial position *vis a vis* other countries.

Sources and methods

As with the financial accounts the sources of data on financial balance sheets are far from ideal. For some types of asset the valuation is an additional difficulty, because there may not be any market and hence no market price.

In order to be consistent with the accumulation accounts all the items must be valued as if being acquired on that date to which the balance sheet relates, including costs of ownership transfer in the case of non-financial assets. There are various ways of doing this but the preferred way is using prices actually observed in the market. Typical applications of this are: financial claims, e.g. securities quoted on the Stock Exchange; land and buildings; vehicles; crops and livestock; and newly-produced fixed assets and inventories.

The sources and methods used to compile the balance sheets are now more closely harmonised than in the past, and for most of the financial transactions financial balance sheets and accounts are compiled using similar methods. However this comparability does not exist throughout, and work is continuing on bringing consistency to the methodologies for compiling financial accounts and balance sheets.

Accounting conventions

Details of some of the accounting conventions are given in the following paragraphs.

Net presentation

In principle, financial transactions are recorded on a non-consolidated basis showing all transactions between institutional units, within and between sectors. However by convention Central Government is a single institutional unit, and because of the limitations of data sources, it is not possible to show a fully non-consolidated financial account for households.

Sign convention

The ESA 95 presentation of Financial transactions shows transactions in assets separately from transactions in liabilities. Acquisitions of assets and incurrence of liabilities are shown positive, and net lending or borrowing is shown as net acquisition of assets minus net incurrence of liabilities.

A sector's balance on its income and capital accounts, its net lending/borrowing, is matched by the balance of its total financial transactions. In the financial account tables in this Chapter the convention is to give these balances the same sign.

Valuation

Throughout the sector balance sheets, assets are in principle valued at their market value.

Breaks in series

Discontinuities in the time series occur from time to time (e.g. Abbey National being reclassified from a building society to a bank in July 1989). When a break occurs the change in value in the column would be explained with a footnote.

Reliability

As with the figures in the financial accounts the quality of the balance sheet data varies between one financial instrument and another and, for particular instruments, between the various sectors issuing or holding the instrument. Data for sectors covered by regular returns of levels and/or flows are generally more reliable than those for other sectors such as, for the most part, private non-financial corporations and the household and NPISH sectors. Where a non-marketable transaction is held predominantly by a single sector, such as household sector holdings of national savings, a reliable figure for the holding sector can usually be obtained from the issuing sector. Issuing sectors can also often provide sectoral analyses of outstanding loans, but they cannot supply regular information on sectoral holdings of marketable instruments.

Only banks and (from 1987) building societies supply complete quarterly balance sheet information. The quarterly returns from public corporations local government and most other financial institutions only collect levels information for short term transactions (i.e. those with less than one year from issue to maturity). Figures for end-year levels of all assets and liabilities are collected for the financial institutions otherwise quarterly data have to be estimated using information collected on flows and their quality tends to be poorer. This is especially so for marketable instruments where price changes as well as flows have to be taken into account in estimating end-quarter levels.

Timeliness

Quarterly financial balance sheet data compilation is integrated with the compilation of the financial accounts.

Table 12.1A UK financial balance sheet

This table presents the national financial balance sheet vis-à-vis the rest of the world. It mirrors the rest of the world balance sheet. A UK liability can only be a rest of the world asset and vice versa. The exception to this rule is the treatment of Special Drawing Rights which is only recorded as a UK asset (within F.1 Monetary gold and special drawing rights). However, the financial accounts also record an equal and opposite liability on the UK to repay these assets.

Because of consolidation, the sum of sector figures are not necessarily equal to the national figures. However domestic sector assets plus UK liabilities (rest of the world assets) are equal to domestic sector liabilities plus UK assets (rest of the world liabilities)

Tables 12.1B to 12.1N Sector financial balance sheets

These tables are concerned with each of the domestic sectors identified in the matrix table. They present the financial assets and liabilities of the sector in the form of time series. The asset categories are consistent with the matrix table **Table 9.1M** and from one table to another.

Table 12.10 Rest of the world financial balance sheet

This table should be a mirror image of its UK opposite (i.e. UK liabilities equaling rest of the world assets and vice versa) and will correspond to the table presented in Balance of Payments format.

Table 12.1P Quoted Ordinary Shares Balance Sheets: Amounts outstanding at end of period (Updated quarterly)

This table shows the value of quoted ordinary shares by sector of issuer and sector of owner for each quarter since 1993.

The assets data in this table are regularly benchmarked against the ONS Share Register Survey.

Chapter

13

Dividend and interest flows by sector: ESA95 tables

To be introduced in future.

Chapter 14 Balance of Payments Tables 14.1A to 14.1I

Summary of balance of payments Current account

Trade in goods

Introduction

The IMF Balance of Payments Manual, 5th edition (BPM5) defines trade in goods as covering general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers, and non-monetary gold.

General merchandise (with some exceptions) refers to moveable goods for which real or imputed changes of ownership occur between UK residents and the rest of the world.

Goods for processing: this covers goods that are exported or imported for processing and that comprise two transactions: the export of a good and the re-importation of the good on the basis of a contract and for a fee OR the import of a good and the re-exportation of the good on the basis of a contract and for a fee. The inclusion of these transactions on a gross basis is an exception to the change of ownership principle. The value of the good before and after processing is recorded. This is included in total trade in goods but cannot be separately identified.

*
✱

Repairs on goods: this covers repairs that involve work performed by residents on movable goods owned by non-residents (or vice versa). Examples of such goods are ships, aircraft and other transport equipment. The value recorded is the value of the repairs (fee paid or received) rather than the value of the goods before and after repair.

Goods procured in ports: this covers goods such as fuels, provisions, stores and supplies procured by UK resident carriers abroad or by non-resident carriers in the UK.

Non-monetary gold: this is defined as all gold not held as reserve assets (monetary gold) by the authorities. Non-monetary gold can be subdivided into gold held as a store of value and other (industrial) gold.

Coverage and other adjustments

The balance of payments statistics of trade in goods compiled by the Office for National Statistics (ONS) are derived principally from data provided by HM Customs & Excise (HMCE) on the physical goods exported from and imported to the UK. However, this information is on a different basis to that required for balance of payments statistics. Accordingly in order to conform to the IMF definitions the ONS has to make various adjustments to include certain transactions which are not reported to HMCE and to exclude certain transactions which are reported to them but where there is no change of ownership. In addition, since the value required for balance of payments purposes is the value of goods at the point of export (i.e. the Customs border of the exporting country) rather than the value of goods as they arrive in the UK. The freight and insurance costs of transporting the goods to the UK needs to be deducted from the values recorded by HMCE. Table 2.4 of the Pink Book summarises this transition onto a Balance of Payments for each of the last 11 years.

*
✱

Overseas trade statistics compiled by HM Customs & Excise (HMCE)

Statistics of the UK's overseas trade in goods have been collected for over 300 years by HMCE. Since 1993 these data comprise statistics of UK imports from and exports to countries outside the EU. Data is compiled from declarations made to HMCE by importers, exporters or their agents AND statistics of UK arrivals (imports) from and dispatches (exports) to other member states of the EU compiled from the Intrastat returns sent by traders or their agents to HMCE.

Prior to 1993 statistics of UK imports from and exports to all countries in the world were compiled from declarations made to HMCE by importers, exporters or their agents.

✱

* denotes commencement of changes since the 2004 edition ✱ denotes the end of the changes

Information on trade with EU countries

The Intrastat system is linked to Value Added Tax (VAT) and has applied since 1993, with minor variations, in all EU member states. In the UK all VAT registered businesses are required to complete two additional boxes on their VAT returns, which are normally submitted quarterly. These show the total value of exports of goods to customers in other member states (dispatches) and the total value of imports of goods from suppliers in other member states (arrivals).

Traders whose annual value of arrivals or dispatches exceed given “assimilation” thresholds are required to provide a supplementary declaration each month, showing full details of their arrivals and dispatches during the month. These thresholds are reviewed annually. For the calendar year 2003 the thresholds remained at the 2002 levels of £233,000 both for arrivals and for dispatches. These detailed Intrastat declarations cover approximately 971/2% of the value of trade.

*
✱

Link with VAT

The information on the VAT returns serves three purposes: (i) to establish a register of traders and to determine which exceed the thresholds; (ii) to provide a cross-check with the supplementary declarations; and (iii) to provide figures on the total value of trade carried out by traders below the thresholds.

*
✱

Traders not registered for VAT and private individuals who move goods within the EU have no obligations under the Intrastat system and their trade is therefore not included in the statistics. Examples of commodities where this trade can be significant are works of art and racehorses.

Below threshold trade

The total values of arrivals and dispatches by traders below the Intrastat thresholds are available from their VAT returns. The figures are included in the month in which the VAT return is received by HMCE, although the VAT return itself may relate to a period of more than one month. Detailed information on below threshold trade is not available. However it has been established that the pattern of that trade before the Intrastat system was introduced in 1 January 1993 was similar to that of traders just above the thresholds. Thus estimates enabling detailed allocations of below threshold trade can be made on this basis by HMCE.

*
✱

Non-response

Traders who have a legal responsibility to provide Intrastat declarations are required to do so by the end of the calendar month following the month to which the declaration relates. However, where traders have failed to provide returns to Intrastat, estimates of the total value of such trade are included. These are based on the trade reported by these traders in a previous period, and the growth rate since that period experienced by traders who have provided returns for the current month.

*
✱

Late response

Late declarations of trade with EU countries are subsequently incorporated into the month's figures to which they relate with a corresponding reassessment of the initial estimates for non-response.

Information on trade with non-EU countries

In general the figures for trade with non-EU countries show the trade as declared by importers and exporters or their agents and for which documentation has been received and processed by HMCE during the month.

Importers are usually required to present a Customs declaration before they can obtain Customs clearance and remove the goods. The great majority of imports are cleared immediately by a computerised system. Furthermore the import statistics include documents received by HMCE up to the third working day after the end of the month. Therefore the import figures correspond fairly closely to goods actually imported during the calendar month. Generally speaking about 75% by value and 85% by number of all entries relate to the calendar month with the bulk of the remainder relating to the immediately preceding month.

Under the procedures for the control of exports the principle is the same – namely that goods cannot be cleared for export until a Customs declaration has been made. Traders can, if they wish, submit a simplified declaration so that the goods can be exported which has to be followed within 14 days after date of shipment

14

Balance of payments

with a complete export declaration. Moreover the processing of these complete export documents begins three working days before the end of the calendar month (two working days for December). Thus the export statistics compiled for a month (which are based on the date of receipt of the complete export documents) do not correspond with goods actually shipped in the calendar month. Generally both in terms of the value and the number of documents, 65% relates to the calendar month with the bulk of the remaining 35% relating to the immediately preceding month.

HMCE's New Export System (NES), which replaces manual (paper) Customs declarations with electronic submissions, requires electronic messages from the trade once the goods have been exported in order to provide the departure date. The new system has led to greater efficiency; improving processing and thereby speeding up the flow of information. This means that, in terms of the value of trade, the proportion allocated to the correct month has increased from September 2003 onwards.

*

✱

Basis of valuation

For statistical purposes the UK adopts the valuation bases recommended in the *International Trade Statistics Concepts & Definitions* published by the United Nations.

The valuation of exports (dispatches) is on a *free on board* (f.o.b.) basis, i.e. the cost of goods to the purchaser abroad, including:

*

✱

- packaging;
- inland and coastal transport in the UK;
- dock dues;
- loading charges; and
- all other costs such as profits, charges and expenses (e.g. insurance) accruing up to the point where the goods are deposited on board the exporting vessel or aircraft or at the land boundary of Northern Ireland.

The valuation of imports (arrivals) is on a *cost, insurance and freight* (c.i.f.) basis including:

*

✱

- the cost of the goods ;
- charges for freight and insurance;
- all other related expenses in moving the goods to the point of entry into the UK (but excluding any duty or tax chargeable in the UK).

*

✱

When goods are re-imported after process or repair abroad the value includes the cost of the process or repair as well as the value of the goods when exported.

Arrivals from and dispatches to EU countries

Because of its link with VAT the primary valuation for trade in goods with EU countries is that required for VAT accounting purposes, usually the invoice value. Regular sample surveys are conducted by HMCE to establish conversion factors to adjust the invoice values to produce the valuation basis required for statistical purposes. Separate factors are imputed for a range of different delivery terms and for trade with each member state.

The value recorded for arrivals and dispatches includes any duties or levies that have been applied to goods originating in non-EU countries but which have since cleared EU Customs procedures in one EU country prior to moving onto other EU countries.

Imports from non-EU countries

The statistical value of imports of goods subject to duty is the same as the value for Customs purposes. This value is arrived at by the use of specific methods of valuation in the following order of preference:

- (i) the transaction value of the imported goods (i.e. the price paid or payable on the goods);
- (ii) the transaction value of identical goods;
- (iii) the 'deductive method' – value derived from the selling price in the country of importation;
- (iv) computed value based on the built-up cost of the imported goods.

Imported goods are valued at the point where the goods are introduced into the Customs territory of the EU. This means that costs for delivery of the imported goods to that point have to be included in the Customs value.

For all other goods (i.e. goods free or exempted from duty and goods subject to a specific duty) the statistical value is determined in relation to the point at which the goods enter the UK.

An amount expressed in foreign currency is converted to sterling by the importer using a system of "period rates of exchange" published by HM Custom & Excise. These rates are normally operative for a four weekly period unless there is a significant movement in the exchange rate.



Treatment of Taxes

As described above, the value of all goods moving into and out of the UK is based on the transaction value recorded for Customs purposes or, in the case of trade in goods with EU countries, the invoice or contract value. In line with this principle the values recorded exclude VAT. For trade in goods with non-EU countries, all other taxes such as duties and levies applied to goods after arrival in the UK are excluded. For trade in goods with EU countries, the value recorded for imports and exports includes any duties or levies that have been applied to goods originating in non-EU countries but which have since cleared Customs procedures prior to moving onto other EU countries. However excise duties are excluded from the value recorded for trade.

Balance of payments statistics for trade compiled by ONS

Table 2.4 summarises the transition from trade in goods statistics on an Overseas Trade Statistics basis (compiled by HMCE) to those on a Balance of Payments basis (compiled by the ONS).



Valuation adjustments

Freight: the cost of freight services for the sea legs of dry cargo imports is estimated by applying freight rates (derived from the rates for a large sample of individual commodities imported from various countries) to tonnages of goods arriving by sea. For the land legs, estimates of freight rates per tonne-kilometre for different commodities and estimated distances are used. Estimates of rail freight through the Channel Tunnel are estimated from data provided by Le Shuttle and freight operators. The cost of freight on imports arriving by air is derived from information on the earnings of UK airlines on UK imports and the respective tonnages landed by UK and foreign airlines at UK airports. Pending investigations of an alternative methodology the cost of freight and insurance on oil and gas imports is projected from data formerly supplied by the Department of Trade and Industry.

Sources: tonnages from HMCE; information on freight rates from Chamber of Shipping, Civil Aviation Authority and road hauliers; information from Le Shuttle.

Insurance: the cost of insurance premiums on non-oil imports is estimated as a fixed percentage of the value of imports.

Source: ONS estimate.

14

Balance of payments

Coverage adjustments

Second-hand ships: to include purchases and sales of second-hand ships which are excluded from the Overseas Trade Statistics as the transactions are not notified to HMCE.

Source: inquiries to UK shipowners conducted by the Department for Transport.

New ships delivered abroad: to include deliveries of new ships built abroad for UK owners while the vessel is still in a foreign port as the transactions are not notified to HMCE.

Source: inquiries to UK shipowners conducted by the Department for Transport.

North Sea installations: to include goods (including drilling rigs) directly exported from and imported to the UK production sites in the North Sea. This adjustment is also used when there is a redistribution of the resources of fields which lie in both UK and non-UK territorial waters (e.g. the Frigg, Murchison and Statfjord). In these circumstances the contribution to (or reimbursement of) a proportion of the development costs has been treated as a purchase (or sale) of fixed assets at the date of the re-determination and appears as an adjustment imports (exports) of goods.

*

✱

Source: ONS inquiries to the petroleum and natural gas industry.

NAAFI: to exclude goods exported by the Navy, Army and Air Force Institute for the use of UK forces abroad since these are regarded as sales to UK residents.

Source: quarterly returns from NAAFI.

Goods not changing ownership: the Overseas Trade Statistics exclude temporary trade (i.e. goods that are to be returned to the original country within two years and there is no change of ownership). However goods may well have originally been recorded as 'genuine' trade but which are subsequently returned to the original country. Examples of these 'returned goods' are goods traded on a 'sale or return' basis; goods damaged in transit and returned for replacement or repair; and contractor's plant. The same amount is deducted from both imports and exports for the month in which the return movement is declared to Customs.

Source: HMCE (goods identified by reference to Customs Procedure codes (CPCs)).

Gold: trade in gold (i.e. gold bullion, gold coin, unwrought or semi-manufactured gold and scrap) is reported to HMCE but it is excluded from the statistics of total exports and imports published in the Overseas Trade Statistics. However, trade in ores and concentrates and finished manufactures of gold (e.g. jewellery) are included in total exports and imports.

For Balance of Payments purposes all trade in non-monetary gold should be included under trade in goods. Non-monetary gold is defined as all gold not held as reserve assets (monetary gold) by the authorities. Non-monetary gold can be subdivided into gold held as a store of value and other (industrial) gold. The UK currently makes adjustments to include industrial gold. In exports the adjustment reflects the value added in refining gold and producing proof coins. In imports the adjustment reflects the value of gold used in finished manufactures (such as jewellery and dentistry).

Within the transactions of the London Bullion Market the UK cannot currently distinguish between monetary gold and non-monetary gold held as a store of value. Accordingly the UK has obtained an exemption from adopting IMF recommendations, as specified in BPM5, on treatment of gold until 2005. For the time being these transactions are included in the Financial Account.

*

✱

Source: ONS estimate.

Letter post: to include exports by letter post which are not included in the Overseas Trade Statistics.

Sources: books – ONS estimate based on historic information from publishers and booksellers; other items – ONS estimate based on historic sample inquiry made by the Post Office.

Additions and alterations to ships: to include work carried out abroad on UK owned ships and work carried out in UK yards on foreign owned ships.

Sources: Inquiries to UK shipowners conducted by the Department for Transport, (imports) and ONS estimates (exports).

Repairs to aircraft: to include the value of repairs carried out in the UK on foreign owned aircraft.

Source: ONS estimate.

Goods procured in ports: to include fuels, provisions, stores and supplies purchased for commercial use in ships, aircraft and vehicles.

Sources: Chamber of Shipping and Civil Aviation Authority for goods procured in foreign ports by UK transport companies (imports); UK oil companies, Civil Aviation Authority, BAA, municipal airports and port authorities for goods procured in UK ports by overseas transport companies (exports).

Smuggling of alcohol and tobacco: Customs provide volume figures for smuggled goods entering the UK based on published estimates of revenue loss and revenue evasion through smuggling. This information is supplemented by information on the average prices for alcohol and tobacco goods in France and Belgium from the published sources of the statistical and banking institutions in those countries in order to estimate the value of smuggled alcohol and tobacco entering the UK.

Sources: HMCE, INSEE and National Bank of Belgium

Territorial coverage adjustment: for the purposes of the Overseas Trade Statistics, “UK” is defined as Great Britain, Northern Ireland, the Isle of Man, the Channel Islands and the Continental Shelf (UK part). Therefore the Overseas Trade Statistics exclude trade between these different parts of the UK but include their trade with other countries.

For balance of payments purposes the Channel Islands and the Isle of Man are not considered part of the UK economic territory. Adjustments are made to exports to include UK exports to those islands and to exclude their exports to other countries; and to imports to include UK imports from those islands and to exclude their imports from other countries.

Source: ONS estimate.

Other adjustments

Diamonds: much of the World’s trade in rough (uncut) diamonds is controlled from London by the Diamond Trading Company, part of De Beers. Prior to 2001, in order not to distort the trade statistics, all imports into and exports from the UK of uncut diamonds which remain in the ownership of foreign principles are excluded from the Overseas Trade Statistics by HMCE. In addition the value of diamonds imported into the UK can be reassessed after the diamonds have been cleared by Customs. Prior to 2001 this adjustment reflects these changes in valuation. From 2001 the procedure for recording movements of diamonds was changed so that all trade was included in the Overseas Trade Statistics by HMCE. From 2001 this adjustment removes movements of diamonds where no change of ownership has taken place.

Source: Diamond Trading Company.

Adjustments to imports for the impact of VAT Missing Trader Intra-Community (MTIC) fraud: VAT intra-Community missing trader fraud is a systematic, criminal attack on the VAT system, which has been detected in many EU Member States. In essence, fraudsters obtain VAT registration to acquire goods VAT free from other Member States. They then sell on the goods at VAT inclusive prices and disappear without

14 Balance of payments

paying over the VAT paid by their customers to the tax authorities. The fraud is usually carried out very quickly, with the fraudsters disappearing by the time the tax authorities follow up the registration with their regular assurance activities.

Acquisition fraud is where the goods are imported from the EU into the UK by a trader who then goes missing without completing a VAT return or Intrastat declaration. The 'missing trader' therefore has a VAT free supply of goods, as they make no payment of the VAT monies due on the goods. He sells the goods to a buyer in the UK and the goods are available on the home market for consumption.

Carousel fraud is similar to acquisition fraud in the early stages, but the goods are not sold for consumption on the home market. Rather, they are sold through a series of companies in the UK and then re-exported to another Member State, hence the goods moving in a circular pattern or 'carousel'.

The VAT system (and therefore the Intrastat collection of trade statistics) picks up the exports of any 'carouselled' goods, but does not pick up the associated import at the time the carouselled goods entered the UK. As a consequence UK import statistics have been under reported.

ONS in partnership with HMCE have developed a methodology to estimate these adjustments. The method used relies heavily on information uncovered during HMCE's operational activity. As such it cannot be detailed for risk of prejudicing current activity, including criminal investigations and prosecutions and more generally undermining HMCE's ability to tackle the fraud effectively. The method is applied only to some of the transactions involving mobile phones and computer components – the commodities of choice of the fraudsters. It specifically excludes other commodities and adjustments for the acquisition variant of the fraud which cannot be quantified at present.

Source: ONS estimate

Adjustment for under-recording and for currency and other valuation errors: these adjustments compensate for the following types of error:

- failure on the part of traders or their agents to submit details of shipments;
- incorrect valuations recorded;
- declarations wrongly given in foreign currency instead of sterling.

Regular reviews show the adjustments for non-EU trade remaining broadly constant over time. Those for EU trade have reduced since the early days of the Intrastat system. The adjustments, expressed as percentages of total trade excluding oil and erratics:

	Exports to:		Imports from:	
	EU	non-EU	EU	non-EU
Under recording	+¼%	+1½%	+¼%	0
currency errors	0	-½%	0	0
other valuation errors	0	-¼%	0	0
* (+1% for 1997 & +1 ½% 1993-1996)				

Source: Sample surveys made by HMCE

Adjustments to estimates for non-response: a review of the introduction of the Intrastat system carried out in 1994 identified a number of difficulties in the initial monthly estimates of trade with EU countries provided by HMCE. The following describes the adjustments made by the ONS to cope with these difficulties.

The HMCE method of estimation for non-response relies on linking the values of trade reported by traders in the current period with previous periods. Problems can arise when traders change their VAT registration (perhaps as a result of an internal reorganisation, mergers or sales). Similarly problems can arise when a trader starts submitting returns for the first time. If the trader then becomes a non-responder there may be no history of previous trade upon which to base an estimate. To allow for this, the ONS makes an initial adjustment of +£30 million to both exports and imports (reducing to zero over the following two months).

Furthermore, some traders may submit first declarations for a month that do not include all their trade in that month. Later declarations are then received for the rest of their trade. The pattern of receipt at HMCE of these partial returns is analysed to enable the ONS to make initial adjustments to both exports and imports to anticipate these later declarations. These initial adjustments are progressively reduced in subsequent months as late declarations are processed.

Currently the profile of these adjustments is as follows:

	£ million Exports	Imports
First published estimates	+600	+650
Second estimates	+250	+250
Third estimates	+120	+150
Fourth estimates	+50	+70
Fifth estimates	+10	+20
All subsequent estimates	0	0

Source: HMCE

Price and volume indices

When Intrastat was introduced it was envisaged that all declarations in respect of any particular month would be made within 6 months of the end of that month. As a consequence HMCE computer programs were designed to recalculate its initial estimates for non-response for six months after those estimates first appear in the Overseas Trade Statistics. However the reality is that some declarations are still being received and processed after that six month period. These are being included as additions to the value of reported trade with no corresponding reduction in the value of estimated trade. Accordingly, in order to eliminate this element of double counting the ONS makes a negative adjustment to the value of estimated trade equal to the value of these late amendments. Note where the value of late amendments exceeds the value of estimated trade the level of estimated trade is set to zero.

Source: ONS estimate.

Any difference between time periods in the total value of trade reflects changes in prices as well as changes in the levels of the underlying economic activity (e.g. the physical amounts of goods exported or imported). Separation of these changes greatly enhances the interpretation of the data and, for this reason, the ONS compiles separate data measuring changes in price and changes in volume. These data are presented in index number form.

References

Aggregate estimates of trade in goods, seasonally adjusted and on a balance of payments basis, are published monthly by National Statistics in a First Release. More detailed figures are available from the Time Series Data Service and are also contained in the *Monthly Review of External Trade Statistics (Business Monitor MM24)* which is available, free of charge, in electronic format as a PDF on the National Statistics website.

14

Balance of payments

An article entitled 'UK visible trade statistics – the Intrastat system' was published in *Economic Trends*, August 1994.

An article describing MTIC fraud and its effect on BoP and the UK National Accounts was published in *Economic Trends* No.597, August 2003. A fuller version of these methodological notes appears in *Statistics on Trade in Goods (Government Statistical Service Methodological Series)*.

✱

✱

Trade in services

Introduction

Trade in services covers the provision of services by UK residents to non-residents and vice versa. Trade in services are disaggregated into eleven broad categories of services, as follows:

- (a) Transportation (Sea, Air and Other) – Passenger, freight and other
- (b) Travel (Business and Personal)
- (c) Communications services
- (d) Construction services
- (e) Insurance services
- (f) Financial services
- (g) Computer and information services
- (h) Royalties and licence fees
- (i) Other business services (Merchandising and other trade-related services; operational leasing services; miscellaneous business, professional and technical services)
- (j) Personal, cultural and recreational services (Audio-visual and related services; other cultural and recreational services)
- (k) Government services

✱

✱

The change from an industry to product based presentation on implementation of *BPM5* in 1998 meant that trade in services data at the individual product level could not always be constructed back in time. Preparation to collect trade in services by product commenced in 1996, with the introduction of the International Trade in Services (ITIS) survey. A full product based dataset is available from this date. Account totals, and some additional product estimates have been constructed back to 1991 or 1992, based on the relationship between the new ITIS data and the previous industry based data. It was not valid to project this relationship further back in time. For the transport, travel, royalties and government services accounts, there were only small changes from the industry based data, and it was possible to construct longer time series.

✱

✱

Construction services

Construction services cover work done on construction projects and installations by employees of an enterprise in locations outside their resident economic territory. The source of information is the International Trade in Services (ITIS) survey. For construction services, where a permanent base is established which is intended to operate for over a year, the enterprise becomes part of the host economy and its transactions are excluded from the trade in services account. Transactions where a permanent base is established are recorded under direct investment, within investment income.

✱

✱

Transportation services

The transportation account covers sea, air and other (i.e. rail, land, and pipeline) transport. It includes the movement of passengers and freight, and other related transport services, including chartering of ships or aircraft with crew, cargo handling, storage and warehousing, towing, pilotage and navigation, maintenance and cleaning, and commission and agents' fees associated with passenger/freight transportation.

Freight and the valuation of UK trade in goods

The trade in goods estimates included in the balance of payments *value imports* as they arrive in the UK valued f.o.b. (free on board) at the frontiers of the exporting country. This is net of the *cost of freight* to the UK border and any loss and damage incurred in transit to the UK. For UK importers who purchase goods f.o.b. and arrange transport themselves, their payment for the goods at the exporting countries' frontiers comprises:

- (i) the value included in the trade in goods estimates (which is net of subsequent loss and damage);
- (ii) the value of loss and damage incurred in transit.

In addition, such importers bear the costs of:

- (iii) freight services outside the exporting countries;
- (iv) insurance services (the excess of insurance premiums paid for the journeys over claims made).

Where importers purchase goods c.i.f. (cost, insurance and freight) on arrival in the UK, items (ii) to (iv) are paid by the foreign exporters in the first instance. The c.i.f. prices are set accordingly, however, and the UK importers are regarded as bearing the costs of items (i) to (iv).

*
✻

Therefore, irrespective of the payment basis, items (ii) to (iv) represent costs to UK importers additional to the trade in goods entries (item i). Item (ii), the value of loss and damage, is part of the price paid to the foreign exporter and so always represents a debit entry in the balance of payments accounts. Items (iii) and (iv), freight and insurance services, also represent debit entries when provided by non-residents; where such services are provided by UK residents there is no balance of payments entry. The debit entries above relating to freight are included in imports of transportation services.

*
✻

The estimates of trade in goods cover exports valued f.o.b. The valuation of exports at the UK frontier must, by definition, include any subsequent loss or damage en route to the importer. Therefore, unlike imports, there is no need to make an explicit adjustment for loss and damage to exports. However, foreign importers must additionally bear the costs of freight and insurance services for the journeys outside the UK and where such services are provided by UK residents this gives rise to credit entries in the services accounts.

The f.o.b. value for UK imports includes the cost of transport within the exporting country. Where this service is provided by a UK operator then the trade valuation of imports overstates the balance of payments effect and an offsetting credit entry is therefore included under "Road transport". Similarly, an offsetting debit entry is included for foreign operators' carriage of UK exports within the UK.

Sea transport

Exports by UK operators consist of freight services on UK exports (but not imports – see "Freight and the valuation of UK trade in goods", above) and on cross-trades, the carriage of non-resident passengers and the provision to them of services, and the chartering of ships to non-residents. Exports also include port charges and other services purchased in the UK by non-resident operators. Conversely, imports comprise services purchased abroad by UK operators, their chartering of ships from non-residents, and the carriage by non-resident operators of UK imports (but not exports) and goods on UK coastal routes and UK passengers.

Statistics relating to UK operators are provided by the Chamber of Shipping (CoS), which conducts inquiries into its members' participation in foreign trade. Until 1995, inquiries covering all CoS members were made every four years, with sample surveys for intervening years. Since 1995, the CoS has surveyed

14

Balance of payments

all its members annually. The services of offshore supply vessels and non-trading ships are not included in “Transportation” but in “Other business services”.



Exports

Passenger revenue: the value of services provided to non-resident passengers comprises fares and passengers’ expenditure on board. Since UK operators are not able to distinguish between fares received from UK residents and non-residents, fares collected abroad are assumed to represent fares received from non-residents (passenger revenue collected abroad from UK residents is thought to be small and is likely to be counter-balanced by that collected in the UK from foreign residents). An estimate of passengers’ expenditure on board is added, taking the non-residents’ proportionate share of the total to be the same as for fares.

Freight: earnings consist of freight services on UK exports and are based on data supplied to the Chamber of Shipping. Time charter receipts include receipts for charters with crew. Time charters without crew are included within the operational leasing component of Other Business Services.



Disbursements: estimates of disbursements in the UK by foreign operators are formed from a variety of sources. UK income from port charges, towage, handling costs and other port related services was collected in 1996 from a survey of port authorities. Crews’ expenditure is estimated from information on numbers of visiting seamen, supplied by the Immigration Service. Regular returns are received on light dues from Trinity House. Estimates of expenditure on ships stores and on bunkers are now included within the trade in goods data. Time charter payments made to UK residents are included under “Ships owned or chartered-in by UK residents”.

Imports

Passenger revenue: estimates of passenger fares paid to non-resident operators are derived mainly from the results of the International Passenger Survey which is described in the notes below on “Travel”. A further allowance is made for on board sales of goods and services. Passenger fares paid to non-resident operators for fly-cruises, however, together with other expenditure by UK passengers on board non-resident shipping, is included, but not separately identified, in “Travel” imports.

Freight: estimates of freight services on UK imports provided by non-resident operators are compiled as follows; the estimates of total freight services (provided by ALL operators) on the sea legs of UK imports of goods are taken as the starting point, as described in chapter 9. Chamber of Shipping estimates of the element provided by UK operated ships are then deducted to obtain the non-resident operators element which is then used in the transportation account. Charter payments cover payments for charters with crew.

Disbursements: disbursements abroad include payments for canal dues, the maintenance of shore establishments, port charges, agency fees, handling charges, crews’ expenditure, pilotage and towage, light dues and other miscellaneous port expenditure abroad. Payments for bunkers, ships stores and other goods purchased are now included within the trade in goods data.

Air transport

The exports of UK airlines comprise the carriage of non-resident passengers to, from or outside the UK, the carriage of UK exports of goods (but not imports – see “Freight and the valuation of UK trade in goods”, above) and cross-trades and the chartering of aircraft to non-residents. Exports also include airport charges and services purchased in the UK by foreign airlines. Purchases of fuel and other goods are included within trade in goods.

Imports include expenditure abroad by UK airlines on airport charges, crews’ expenses, charter payments, etc. They also include payments to foreign airlines for the carriage etc. of UK imports of goods (but not exports) and of UK mail; and for the carriage of UK passengers on flights covered by tickets for journeys to or from the UK (the carriage of UK passengers on other non-resident flights is included under “Travel”).

The transactions of UK airlines are derived from returns supplied by the airlines to the Civil Aviation Authority.

Exports

Passenger revenue: this relates to all tickets sold outside the UK and used on UK aircraft, together with receipts from carrying passengers' excess baggage. An exercise by British Airways plc demonstrated that the value of tickets sold abroad to UK residents is roughly counter-balanced by sales in the UK to non-residents.

Freight: this consists of freight services on UK exports and the carriage of non-resident airmails, and is based on data supplied to the Civil Aviation Authority.

Disbursements and other revenue: these comprise expenditure in the UK by non-resident airlines on landing fees, other airport charges, handling charges, crews' expenses, office rentals and expenses, salaries and wages of staff at UK offices, commissions to agents and advertising. The estimates are based on returns from the Civil Aviation Authority, BAA plc and municipal airports on their receipts from non-resident airlines for air traffic control, landing fees and other airport charges; and survey information collected from large non-resident airlines operating in the UK on their other UK expenses. Purchases of fuel and other goods are now included within trade in goods.

Also included are receipts from the charter or hire of aircraft, and gross receipts of sums due from non-resident airlines under pooling arrangements and for services such as consultancy and engine overhaul.

Imports

Passenger: The information on fares paid by UK passengers to non-resident airlines is derived from the International Passenger Survey; see notes on "Travel" below.

Freight: Estimates of non-resident airlines' freight on UK imports are derived by subtracting from the estimates of total freight on imports of goods arriving by air (see chapter 9) the element provided by UK airlines, the residual being the freight services supplied by non-resident airlines. Other imports comprise payments to non-resident airlines for carrying UK airmails as reported by the Post Office to the Civil Aviation Authority.

*
✻

Disbursements and other payments: disbursements abroad include airport landing fees, other airport charges, charter payments, crews' expenses, the operating costs of overseas offices, agents' commissions, advertising, settlements with non-resident airlines under pooling arrangements, and miscellaneous expenditure abroad. Purchases of fuel and other goods are now included within trade in goods.

Other Transport

This covers the movement of passengers and freight, and other related transport services, by rail, road and pipeline.

Rail: this consists primarily of expenditure on fares and rail freight through the Channel tunnel. Passenger revenue estimates are based on numbers of passengers through the tunnel and average fare information. Estimates of rail freight through the tunnel are based on data provided by Le Shuttle and freight operators.

As the tunnel operators are a joint UK/French enterprise, half of passenger and freight transactions are taken to accrue to the UK part of the business. All tickets sold in France are assumed to be sold to non-UK residents (likewise, all tickets sold in the UK are assumed sold to UK residents). Of these, 50 per cent are assumed to accrue to the UK as they represent exports of rail transport services.

*
✻

Road: exports comprise the earnings of UK road hauliers for the carriage outside the UK of UK exports of goods and the carriage within the exporting countries of UK imports (although excluding all such earnings from lorries leaving the UK via the Northern Ireland land boundary). Estimates of numbers of journeys to various countries are derived from the International Road Haulage Survey, and rates for each journey are estimated from trade and other sources.

14

Balance of payments

Imports include payments to all non-resident land transport operators for the carriage of UK imports of goods between the frontiers of the exporting countries and the foreign sea ports. Estimates are made by subtracting from the estimate of total freight on imports for land legs (as described in chapter 9) an estimate of the element earned by UK operators (derived as for exports). Imports also include the earnings of non-resident road hauliers for carrying UK exports and imports (other than trade with the Republic of Ireland) within the UK. These are estimated from the statistics of ferry movements of foreign registered lorries, average loads, average lengths of haul within the UK and estimated freight rates. The disbursements abroad by UK road hauliers, and in the UK by non-resident road hauliers, are included within "Travel".

*
✱

Pipeline: this covers the cost of transport of oil freight via undersea pipelines. Data are derived from a survey of North Sea Oil and Gas companies

Travel

Travel covers goods and services provided to UK residents during trips of less than one year abroad (and provided to non-residents during similar trips in the UK). Transport to and from the UK is excluded and shown as passenger services under transportation (see above). Internal transport within the country being visited is included within travel.

*
✱

A traveller is defined as an individual staying, for less than one year, in an economy of which he/she is not a resident. The exceptions are those military and diplomatic personnel, whose expenditure is recorded under government services. The one year rule does not apply to students and medical patients, who remain residents of their country of origin, even if the length of stay in another economy is more than a year.

The estimates are based primarily on the International Passenger Survey, which seeks information on expenditure from samples of non-resident visitors leaving the UK and of UK residents returning from abroad. For package tourists, estimates of the transport elements are deducted from the reported total package costs. Estimates of the expenditure of UK residents visiting the Republic of Ireland and of Irish residents visiting the UK have been covered by the survey since the second quarter of 1999. Prior to this, data were derived from statistics published by the Irish Central Statistics Office.

Business travel

Business travel is divided into expenditure by seasonal and border workers (individuals who work some or all of the time in economic territories that differ from their resident households) and other business travel. Estimates are based on the International Passenger Survey.

Personal travel

Personal travel covers holidays, visits to friends and relatives, the expenditures of people visiting for education and health reasons and miscellaneous purposes. Visits for more than one purpose, where none is distinguished as the main purpose, are classified as other.

Education related travel exports covers the tuition fees and other expenditure of students who are funded from abroad and studying in the UK (imports covers the expenditure of UK students studying abroad). The figures also include the fees and other expenditure of pupils in UK private schools and students at other colleges and language schools. Income received direct from abroad by examining bodies and correspondence course colleges is included within personal, cultural and recreational services.

Fees and other expenditure paid by non-resident students for higher education is collected via a special International Passenger Survey (IPS) trailer which commenced in 1997. Expenditure of pupils in UK private schools is validated using data collected by the Independent Schools Information Service (ISIS), who run an annual survey of independent schools. Since the 1996/97 academic year the survey includes a new question for the balance of payments, which specifically identifies expenditure on school fees by persons classified as non-residents.

*
✱

Health related travel covers the cost of medical and other expenses of those travelling abroad for medical treatment. Estimates are based on information supplied to the IPS.

Communication services

Communication services covers two main categories of international transactions: telecommunications (telephone, telex, fax, e-mail, satellite, cable and business network services) and postal and courier services. Information is obtained through the ONS International Trade in Services survey (ITIS) and direct from Parcel Force and the Post Office.

Insurance services

Insurance services cover the provision of various types of insurance to non-residents by resident insurance enterprises and vice versa. Insurance services include freight insurance on goods being imported or exported, direct insurance (life, accident, fire, marine, aviation etc.) and reinsurance. The amounts recorded in the accounts reflect the service charge earned on the provision of insurance services. This is equal to net premiums from abroad (premiums less claims), plus property income attributed to policy holders, less the change in the reserves for foreign business, less foreign expenses. The figures for insurance companies' and brokers' underwriting activities are derived from annual inquiries conducted by the ONS. Lloyd's of London underwriting activity are based on data supplied by the Corporation of Lloyd's; they also include receipts for management services provided to overseas members of Lloyd's syndicates.

Life insurance and pension funds

Life insurance covers underwriting services associated with long term policies. Data are collected in the ONS inquiry into insurance companies. Pension fund services include service charges relating to occupational and other pension schemes, but not compulsory social security services.

Freight

Treatment of freight insurance is consistent with the f.o.b. valuation of trade in goods (see "freight and the valuation of trade in goods" above). That is, non-resident importers pay for freight and insurance on journeys outside the UK. Where such services are provided by UK residents, this gives rise to a credit entry.

Other direct insurance

Other direct insurance covers accident and health insurance; marine, aviation and other transport insurance; fire and property insurance; pecuniary loss insurance; general liability insurance, and other (such as travel insurance and insurance related to loans and credit cards).

Reinsurance

Reinsurance represents subcontracting parts of risks, often to specialised operators, in return for a proportionate share of the premium income. Reinsurance may relate to packages which mix several types of risks. Exports of services are estimated as the balance of flows between resident reinsurers and non-resident insurers. Imports are estimated as the balance of flows between resident insurers and non-resident reinsurers.

Auxiliary insurance services

This covers insurance broking and agency services, insurance and pension consultancy services, evaluation and adjustment services, actuarial services, salvage administration services, regulatory and monitoring services on indemnities and recovery services. These are measured by net brokerage earnings on business written in foreign currencies, and sterling business known to relate to non-residents.

The main sources of information on insurance services are ONS inquiries to insurance companies and brokers, the ITIS survey and administrative data from Lloyd's of London.

Financial services

Financial services cover financial intermediary and auxiliary services other than those of insurance companies and pension funds. They include intermediary service fees associated with letters of credit, bankers' acceptances, lines of credit, financial leasing and foreign exchange transactions. Also included are commissions and other fees related to transactions in securities; e.g. brokerage, underwriting, arrangements of swaps, options and other hedging instruments etc.; commissions of commodity futures traders; and services related to asset management, financial market operational and regulatory services, security custody

14

Balance of payments

services etc. Estimates are based on returns from the Bank of England (for banks), ITIS, and directly from other sources including the Baltic Exchange.

*
✻

From the 2001 edition of the *Pink Book*, the service earnings of financial institutions are presented on a gross exports and imports basis. This treatment is consistent with the BPM5 edition of the accounts. Trade in services transactions covered by type of financial institution are detailed below:

*

Monetary financial institutions (banks and building societies)

This covers UK banking services giving rise to:

✻

- (i) commissions for credit and bill transactions such as advising, opening and confirming documentary credits, collection of bills, etc.;
- (ii) spread earnings (dealing profits less holding gains) on foreign exchange transactions;
- (iii) net receipts on foreign exchange dealing;
- (iv) commission on new issues of securities, investment management and securities transactions;
- (v) commission on derivatives transactions; and
- (vi) banking charges, income arising from lending activities, fees and commissions in respect of current account operations, overdraft facilities, executor and trustee services, guarantees, securities transactions and similar services.

*

✻

Estimates are based on inquiries carried out annually from 1986 to 1990 and for some earlier years. A quarterly survey was run in 1991. A new survey was introduced in 1992 to collect data on UK banks' current account transactions including services. The survey is completed quarterly by a selected sample of banks and annually by the full UK banking population.

Fund management companies

From 2001, information on investment management fees and fees generated from advisory and other related functions, has been collected via ITIS. Earlier estimates were derived from a survey of companies whose main activity is fund management. Earnings are net of any foreign expenses by the institutions concerned. They exclude earnings of insurance companies, which are covered by separate returns made to the Office for National Statistics (see above, under "Insurance Services").

*

✻

Securities Dealers

The earnings of securities dealers are derived from a survey run by the ONS. From the 1998 edition of the *Pink Book*, security dealers' spread earnings (dealing profits less holding gains) are included as part of securities dealers' overseas earnings. This treatment is consistent with the domestic accounts as described in the European System of Accounts (1995). Estimates of these spread earnings are based on information on acquisitions and realisations of various classes of securities derived from ONS inquiries, together with the bid and offer prices for certain international bonds.

*

✻

Baltic Exchange

This covers the brokerage and other service earnings of members of the Exchange for chartering, sales and purchases of ships and aircraft and other associated activities. Estimates are based on a survey of Exchange members.

Other

This includes commissions etc. received from abroad by UK residents (other than MFIs and oil companies, whose earnings are included elsewhere) for dealings in physical goods and in futures and options contracts. From 1990 the Office for National Statistics has carried out an annual survey of dealers in physical commodities. The foreign earnings of financial futures and options dealers are assumed to have moved

*

✻

in line with the corresponding total earnings of such dealers reported in statutory returns to supervisory bodies.

This component also includes those financial services not included elsewhere, including financial service transactions (exports and imports) picked up from the ITIS survey, and service charges on purchases of International Monetary Fund resources.

Computer and information services

Computer and information services cover computer data and news related service transactions including databases, such as development, storage and on-line time series; data processing; hardware consultancy; software implementation; maintenance and repair of computers and peripheral equipment; news agency services; and direct, non-bulk subscriptions to newspapers and periodicals. Information is obtained from the ITIS survey.

Royalties and licence fees

Royalties and licence fees cover the exchange of payments and receipts for the authorised use of intangible, non-produced, non-financial assets and proprietary rights (such as patents, copyrights, trademarks, industrial processes, franchises etc.) and with the use, through licensing agreements, of produced originals or prototypes (such as manuscripts and films).

The heading includes royalties, licenses to use patents, trade marks, designs, copyrights, etc.; manufacturing rights and the use of technical “know-how”; amounts payable or receivable in respect of mineral royalties; and royalties on printed matter, sound recordings and performing rights. Data are obtained through the ITIS survey. Film royalties from the ONS Films and TV inquiry are also included. Royalties incorporated in the contract prices of UK exports and imports of goods are recorded under “Trade in Goods”. The outright sale of a copyright is treated as a sale of a non-produced, non-financial asset and is recorded within the Capital Account.

Other business services

Other business services cover a range of services including merchanting and other trade-related services, operational leasing (rental) without operators and miscellaneous business, professional and technical services.

Merchanting and other trade related services

Merchanting is defined as the purchase of a good by a resident from a non-resident and the subsequent resale of the good to another non-resident, without the good entering the compiling economy. The difference between the purchase and sale price is recorded as the value of merchanting services provided.

Estimates of the net profits of UK firms from third country trade in goods are derived from an annual survey. Since 1990 the ONS has carried out a sample survey of export houses. This information is supplemented by merchanting and trade related services reported to the ITIS survey. This component also covers fees charged for ship classifications and other related services, including information supplied by Lloyd’s Register of Shipping.

Operational leasing

Operational leasing covers leasing (other than financial leasing) and charters of ships, aircraft and other transportation equipment without crews. Operational leasing data are derived from the ITIS survey and from the Chamber of Shipping.

Miscellaneous business, professional and technical services

Miscellaneous services include legal, accounting, management consulting, recruitment and training and public relations; advertising and market research and development; architectural, engineering and other technical services; agricultural, mining and on-site processing services associated with agricultural crops

*
✱

14

Balance of payments

(protection against disease or insects), forestry, mining (analysis of ores) etc.; and other services such as placement of personnel, security and investigative services, translation, photographic etc. This item includes data from a number of different data sources, the most important of which is the ITIS survey.

Estimates of the earnings of solicitors are based on surveys held in respect of 1980 and annually since 1986 by the Law Society (in which amounts forwarded to barristers are included). From the 2000 edition of *Pink Book*, earnings of solicitors are collected as part of the ITIS survey. Other legal services also included estimates of the overseas earnings of UK barristers as supplied by the Commercial Bar Association.

From *Pink Book* 2001, estimates of banks' and securities dealers' management services appear in the other business services account. Previously, these management services were implicitly included in the financial services account.

The North Sea oil and gas exports data mainly consists of work done abroad by UK owned drilling rigs and offshore supply boats and by UK seismic survey contractors, services provided by UK residents to the owners of foreign drilling rigs, the treatment of Norwegian oil and gas at the Seal Sands and St.Fergus terminals and the transporting of Norwegian gas to the latter terminal and receipts of the UK company operating the Murchison field from the Norwegian partners in respect of their share of the operating costs of the field. The imports item comprises services such as the hire of drilling rigs and marine support vessels, consultancy, diving and insurance (premiums less claims). The estimates are based on returns to the ITIS survey by companies classified to the industry (Class 11.20 of the Standard Industrial Classification, 1992).

Personal, cultural and recreational services

Personal, cultural and recreational services are divided into audio-visual and related services and other. The first category covers services and associated fees relating to the production of motion pictures (on film or video tape), radio and television programmes (live or on tape), and musical recordings. It includes rentals, fees received by actors, directors, producers etc. The second category covers all other personal, cultural and recreational services including those associated with museums, libraries, archives, provision of correspondence courses by teachers or doctors etc. Income received direct from abroad by examining bodies and correspondence course colleges is also included. Most of the information is obtained from the ITIS survey but there is a special ONS inquiry for the film and television industry.

Government services

Government services include all transactions by embassies, consulates, military units and defence agencies with residents of staff, military personnel etc. in the economies in which they are located. Other services included are transactions by other official entities such as aid missions and services, government tourist information and promotion offices, and the provision of joint military arrangements and peacekeeping forces (e.g. United Nations). Information comes directly from government departments (including the Ministry of Defence and the Foreign and Commonwealth Office), foreign embassies and United States Air Force bases in the UK.

Exports

Expenditure by foreign embassies/consulates in the UK: this comprises the cost of operating and maintaining Commonwealth High Commission offices, foreign embassies and consulates in the UK, including the personal expenditure of diplomatic staff, but excluding the salaries of locally engaged staff which are included within income; and similar expenditure by the UK offices of non-territorial organisations. In 1993 the Office for National Statistics conducted an inquiry to all high commission offices, embassies, consulates and international organisations in the UK. This figure has been updated for subsequent years using information obtained from several key high commissions and embassies.

Military units and agencies: this includes expenditure by the United States Air Force (USAF) in the UK (excluding the pay of locally engaged staff which is included within compensation of employees), together with receipts for services provided in the UK and elsewhere to non-residents, such as military training schemes.

European Union institutions exports: these are services of the UK government in collecting the UK contributions to the EU Budget, and services provided at the site of the EU's Joint European Torus project in Oxfordshire.

Other: this comprises goods and services which the government provides to non-residents under its economic aid programmes (these are offset under "Bilateral aid" transfer debits) and miscellaneous goods and services supplied by the UK government to foreign countries, including the reimbursement from other member states of the EU for treatment given by the National Health Service to their nationals.

Imports

Expenditure abroad by UK embassies and consulates: goods and services provided by local residents to UK embassies, High Commission offices, Consulates and the British Council account for most of this heading. It also includes the goods and services provided by local residents to UK diplomatic and other non-military personnel stationed abroad, excluding the salaries of locally engaged staff.

Expenditure abroad by UK military units and agencies: this includes expenditure on food, equipment, fuel and services purchased locally. These items are recorded partly on a net basis – that is, after deducting receipts arising locally.

Other: this includes goods and services provided by local residents to the UK Government, excluding military and diplomatic expenditure. It covers expenditure abroad of the British Council and the reimbursement to other member states of the EU for medical treatment given to UK nationals.

References

United Kingdom Trade in Services, UKA1 contains service sector information highlighting the UK's major trading partners, the services which are common to a number of industries, and the geographical breakdown on services and industries.

Sea transport

An annual analysis describing the international activities of the UK shipping industry is published by the Department for Transport, in *Transport Statistics Great Britain* (The Stationery Office).

*
✻

Air transport

Information relating to passenger expenditure is published by the Civil Aviation Authority in CAA Monthly and Annual Statistics.

*
✻

Travel

Details are published regularly in National Statistics monthly *First Releases* and quarterly *Business Monitors* (MQ6), both titled *Overseas Travel and Tourism*, and in the annual publication *Travel Trends*. Copies are available through the National Statistics Sales Desk (Tel: 020 7533 5678).

*
✻

Income

Introduction

The income account covers compensation of employees and investment income. For compensation of employees, estimates for total credits, debits and the balance appear at Table 4.1 but no detailed breakdown of the account is available. Investment income is broken down into four main categories; direct investment, portfolio investment, other investment and reserve assets.

*

✻

Compensation of employees

Compensation of employees comprises wages, salaries, and other benefits, in cash or in kind, earned by individuals in economies other than those in which they are residents, for work paid for by residents of those economies. Employees in this context, include seasonal or other short term workers (less than one year), and

14

Balance of payments

border workers who have centres of economic interest in their own economies. Compensation of employees also includes pay received by local (host country) staff of embassies, consulates and military bases as such entities are considered non-resident of the host economy.

Personal expenditure made by non-resident seasonal and border workers in the economies in which they are employed are recorded under travel within trade in services. Wages and salaries are recorded gross, with taxes paid, recorded under current transfers.

Credits

There are three components:

- (i) wages, salaries and other benefits earned by UK seasonal and border workers, together with employers' contributions. The International Passenger Survey has been amended to collect this information alongside expenditure of non-resident seasonal and border workers from 1998. Estimates for earlier years are based on the growth of travel and average earnings data;
- (ii) wages and salaries earned by UK employees in US military bases in the UK. Information is supplied to the ONS by US military bases;
- (iii) wages and salaries earned by UK employees of foreign embassies in the UK. In 1993, the ONS conducted an inquiry to all high commission offices, embassies, consulates and international organisations in the UK, asking for information on expenditure – including that of locally employed staff. This figure has been updated for subsequent years using information from a small sample of key embassies.

Debits

There are two components:

- (i) wages, salaries and other benefits earned by non-resident workers employed in the UK for less than one year. The International Passenger Survey has been amended to collect this information alongside expenditure of non-resident seasonal and border workers from 1998. Estimates for earlier years are based on the growth of travel and average earnings data;
- (ii) wages, salaries and other benefits earned by foreign workers working in UK embassies and military bases abroad. Information on *pay of locally engaged staff* in UK embassies and military bases abroad is obtained from the Government Expenditure Monitoring System (GEMS) and the Ministry of Defence (MOD).

Investment income

The investment income account covers earnings (e.g., profits, dividends and interest payments and receipts) arising from foreign investment in financial assets and liabilities. Credits are the earnings of UK residents from their investments abroad and other foreign assets. Debits are the earnings of foreign residents from their investments and funds held in the UK and other UK liabilities. The flow of investment is recorded separately from the earnings in the *Financial account*, although reinvested earnings of companies with foreign affiliates are a component of both – see *Earnings on direct investment* below. The total value of UK assets and liabilities held at any time is also recorded separately under the *International Investment Position*. The presentation of these three sections is almost identical, although there are small differences in coverage in some cases, mainly because full information is not available for all items.

Earnings on the credit side of the account cover such items as interest on UK residents' deposits with banks abroad, profits earned by UK companies from their foreign affiliates, and dividends and interest received by UK investors on their portfolio investments in foreign companies' securities, etc. Similarly, debits cover earnings by foreign investors on deposits held with UK banks, profits of foreign companies from their investments in their affiliates in the UK, and dividends and interest paid to foreign investors on their holdings of UK bonds and shares, including British government stocks, etc.

Earnings on assets and liabilities are defined to include all profits earned and interest and dividends paid to UK residents from non-residents or to non-residents by UK residents. They are, where possible, measured net of income or corporation taxes payable without penalty during the recording period by the enterprise to the economy in which that enterprise operates and, in the case of profits, after allowing for depreciation. Dividends are recorded when they are paid (on a cash basis), whereas interest is recorded on an accruals basis.

*
✻

Profits and dividends include the (credit) earnings from foreign affiliates of UK registered companies and the (debit) earnings of profits and dividends by UK based affiliates of foreign based companies. Conceptually, stock appreciation and other unrealised capital gains and losses should be excluded from the flows entered in the balance of payments accounts, because they represent only valuation changes. Profits retained abroad by foreign affiliates or retained in the UK by affiliates of foreign companies are included in the flows of earnings and offset in the financial account. All interest flows between UK residents and non-residents are in principle included.

*
✻

Earnings on direct investment

A direct investment relationship exists if the investor has an equity interest in an enterprise, resident in another country, of 10 per cent or more of the ordinary shares or voting stock. The direct investment relationship extends to branches, subsidiaries and to other businesses where the enterprise has significant shareholding.

Credits

Direct investment earnings include interest on inter-company debt, profits from branches or other unincorporated enterprises abroad and the direct investor's share of the profits of subsidiary and associate companies. It includes the direct investor's portion of reinvested earnings, which is also treated as a new investment flow out of the parent's country into the affiliate's and appears in the financial account (Table 7.3) as an offsetting entry to the earnings one.

Estimates of profits are made after providing for depreciation, the companies' own estimates of depreciation being used. Although depreciation is estimated at replacement cost in the national accounts, there is little doubt that the estimates in the balance of payments are, in the main, measured at historic cost (different treatments of depreciation result in different entries in the current and financial accounts, but the sum of the two entries will always be the same). Refunds of tax made retrospectively under double-taxation agreements are included in the period when they were made rather than the earlier periods in which they could be deemed to have accrued. Dividend receipts and payments include subsidiaries payments of withholding tax. Estimates for reinvested earnings are not collected separately but are derived by deducting dividends paid from total subsidiaries' profits.

*
✻

Monetary financial institutions (banks): information on the direct investment earnings of UK registered banks, from their foreign branches, subsidiaries and associates are collected by the Bank of England from a selection of banks quarterly and from all banks which are, or have, a direct investment enterprise annually.

Insurance companies and other financial intermediaries: a comprehensive annual inquiry forms the basis for estimates of direct investment earnings by UK insurance companies and other financial intermediaries; these results are supplemented by a quarterly survey. Earnings from foreign property by financial companies are also included here. They are estimated from the levels of such assets held by financial companies and information on their total income from abroad.

*
✻

Private non-financial and public corporations: earnings, both credits and debits, of all private and public non-financial corporations are estimated from the results of the ONS' annual direct investment inquiry. This inquiry covers a sample of UK companies that either have foreign affiliates or are affiliated to a foreign parent. Returns are imputed for concerns which are not approached in the inquiry but which are known to have direct investment links. Results of the annual inquiry are available about twelve months after the end of

14

Balance of payments

the year and are published in a *National Statistics First Release* and in *Business Monitor MA4*. The estimates for the latest year are based on a quarterly inquiry.

Earnings on foreign assets by the household sector: this comprises household sector investment in property abroad. Estimates for household sector investment in property abroad are purely notional as no data exists for such earnings.

Debits

Estimates for income earned from direct investment in the UK are based on the same inquiries to banks, financial institutions and private non-financial corporations as credits.

*
✻

Earnings on portfolio investment

Credits

A large part of the total earnings of UK residents on equity securities and bonds and notes are earned on investments that are not considered to have led to the acquisition of a foreign affiliate, and so are classified as portfolio rather than direct investment.

*

Earnings of UK residents on portfolio investment abroad are sub-divided into earnings on equity securities and earnings on debt securities; earnings on debt securities are further sub-divided into earnings on bonds and notes and earnings on money market instruments.

✻

Earnings on equity securities: earnings on equity securities consist of dividends received by UK residents on their holdings of shares of foreign registered companies.

Earnings on debt securities: earnings on bonds and notes consist of interest received by UK residents on their holdings of foreign government and municipal loan stock and bonds of foreign registered companies; earnings on money market instruments consist of earnings of UK residents on holdings of foreign commercial paper, certificates of deposit etc.

*

Estimates of earnings by monetary financial institutions (banks and building societies) are derived from statutory inquiries conducted by the Bank of England.

Estimates of earnings by insurance companies and pensions funds, and securities' dealers, are largely derived from ONS inquiries.

Estimates of earnings by other financial intermediaries and private non-financial corporations are derived from survey-based asset levels to which rates of return on comparable assets shown by financial institutions are applied.

Estimates of the household sector largely consist of earnings by members of Lloyd's of London which are supplied annually by Lloyd's. They include portfolio investment income on funds which are held abroad to support business underwritten in those countries. This income, which is generally reinvested in these foreign funds (see *Portfolio investment*) is net of earnings distributed to Lloyd's foreign members.

✻

Debits

Foreign earnings on portfolio investment in the UK are sub-divided into earnings on equity securities and earnings on debt securities; earnings on debt securities are further sub-divided into earnings on bonds and notes and earnings on money market instruments.

*

Earnings on equity securities: Estimates of foreign earnings from UK equity securities consist of dividends paid to foreign holders of UK company ordinary shares. These estimates are calculated from Stock Exchange data on dividend payments, which are applied pro-rata to levels of non-resident holdings of UK shares derived from the ONS' share ownership surveys.

✻

Earnings on debt securities:

- (i) *Earnings on bonds and notes:* Interest on UK foreign currency bonds and notes issued by central government relates to bonds issued by HM Government (the latest of which is the \$3 billion 5-year eurobond issued in 2003). Also included is interest on foreign currency securities originally issued by public corporations and local authorities under the Exchange Cover Scheme and subsequently assigned to HM Government, and interest paid to foreign residents on their holdings of HM Government's floating rate notes. Data are estimated from the liability level and known interest rates. *

Foreign earnings on British government stocks (gilts) are estimated from information on the levels outstanding and appropriate rates of interest. These earnings are calculated gross of UK income tax. Most gilts are issued by the UK government at a discount to the redemption value. This is recorded as interest accruing over the lifetime of the gilt.

Foreign earnings on bonds issued by local authorities and public corporations have been zero in recent years.

From 1992, total interest paid on all bonds and notes issued by UK monetary financial institutions and other non-governmental sectors (other than domestic debentures and loan stock) has been estimated from records of capital issues held by the London Stock Exchange and the Bank of England. These sources also provide estimates of the total value of bonds on issue; foreign receipts have been allocated pro rata to foreign holdings.

- (ii) *Earnings on money market instruments:* Foreign earnings on UK money market instruments consist of earnings on foreign holdings of UK treasury bills, certificates of deposit and commercial paper. Estimates of interest paid to foreign holders of treasury bills are calculated on the basis of levels outstanding and appropriate interest rates. Estimates of foreign earnings on holdings of UK certificates of deposit and commercial paper are derived from statistical inquiries conducted by the ONS and the Bank of England, and from information supplied by the UK's Debt Management Office. ✱

Earnings on other investment

Credits

Earnings of UK residents on other investment abroad are sub-divided into earnings on trade credit, loans, deposits and other assets.

Trade credit: only a minimal amount of data is available within trade credit. See Financial account notes for detail. *

Earnings on loans: earnings on loans are sub-divided into earnings on long-term loans and earnings on short-term loans; short-term loans are those which are repaid in full within one year. It is not possible to separate out UK monetary financial institutions' (MFIs) earnings on lending abroad from their earnings on deposits abroad. Estimates for earnings on such loans are therefore included indistinguishably within earnings on deposits (see below).

On long-term loans, earnings which are separately identifiable consist of earnings on loans by UK banks guaranteed by the Export Credit Guarantee Department (ECGD), earnings on loans by the ECGD, and earnings on loans by the Commonwealth Development Corporation (CDC). Data on earnings from these loans are derived from information supplied by the Bank of England, the ECGD and the CDC. ✱

On short-term loans, the earnings which are separately identifiable mainly consist of earnings on loans by non-governmental sectors other than MFIs. Earnings on such loans are derived from banking statistics. ✱

Earnings on deposits: estimates of earnings on deposits relate to private sector earnings.

14

Balance of payments

Estimates for MFIs' earnings abroad are sub-divided into earnings on sterling deposits abroad and earnings on foreign currency deposits abroad.

*

Included under the heading of MFIs' earnings on deposits are earnings on MFIs' foreign lending as it is not possible to separate out UK banks' earnings on their lending abroad from earnings on their deposits abroad. Earnings from lending consist of the interest received by UK banks on overdrafts and loans to non-residents. In this context UK banks means all banks in the UK, including (with effect from 1 April 1998) the Banking Department of the Bank of England. The figures are based on returns made by banks to the Bank of England.

✱

Estimates of securities dealers' earnings on deposits abroad are derived from an ONS statistical inquiry.

Estimates of earnings on deposits abroad for the UK private sector other than banks and securities dealers are largely estimated from levels of such assets (mainly those reported in banking statistics of countries in the BIS reporting area) and appropriate rates of interest. Adjustments are made to remove as far as possible the effects of incomplete coverage and breaks in the reported assets series.

*

✱

Earnings on other assets: until 2001 earnings from trusts and annuities were estimated from Inland Revenue data on all reported interest and dividend receipts from abroad. From 2001 Inland Revenue have ceased to collect this data, and from this point the data should be regarded as being of lower quality.

*

✱

Debits

Foreign earnings on other investment in the UK are subdivided into earnings on trade credit, loans, deposits and other liabilities.

Trade credit: Only a minimal amount of data is available within trade credit. See Financial account notes for detail.

*

✱

Earnings on loans: this covers interest on loans raised from commercial banks abroad and the European Investment Bank (EIB). It is not possible to separate out earnings on foreign loans to UK banks from earnings on foreign deposits with UK banks. The estimates for foreign earnings on UK banks' loans from abroad are therefore included indistinguishably within earnings on deposits.

*

✱

Interest paid on central government long-term fixed-interest loans such as Lend-Lease and the Lines of Credit is reported by HM Treasury. Interest on the Very Short-term Financing Facility (VSTFF) taken out during 1992 and repaid in 1993 is also included here. Estimates of interest on local authorities' borrowing from abroad are made by the Bank of England on the basis of levels outstanding and appropriate discount rates. Estimates of interest on public corporations' borrowing from abroad are made by the Bank of England.

*

✱

Estimates of foreign earnings on securities dealers' loans from abroad are derived from an ONS statistical inquiry.

For estimates of foreign earnings on loans to the UK private sector (excluding monetary financial institutions and securities dealers) most interest payments are estimated from levels of liabilities to banks abroad (as published in the BIS international banking statistics) and appropriate interest rates. Information on interest paid by the UK non-bank private sector to the EIB is supplied by the EIB.

*

✱

Earnings on deposits: foreign earnings on deposits with UK MFIs are sub-divided into earnings on deposits with banks, and earnings on deposits with building societies. It is not possible to separate out foreign earnings on deposits with UK banks from foreign earnings on loans to UK banks. The estimates for foreign earnings on loans to UK banks are therefore included indistinguishably within earnings on deposits.

*

✱

Foreign earnings on deposits with UK banks consist of interest on foreign residents' deposits in sterling and foreign currencies. They include the interest paid on deposits which are the counterpart to foreign

*

✱

currency loans made to HM Government and, under the public sector Exchange Cover Scheme, to local authorities and other public bodies. Estimates are made from banking statistics. Estimates of interest paid abroad on deposits with UK building societies are estimated by applying appropriate interest rates to levels outstanding.

*
✿

Earnings on other liabilities: imputed income to foreign households from UK insurance companies' technical reserves is recorded in the balance of payments because households are regarded as owning the net equity of pension funds and life assurance reserves; i.e., the funds set aside for the purpose of satisfying the claims and benefits foreseen. The estimates are derived from data collected on ONS statistical inquiries.

Earnings on reserve assets

Interest received on the official foreign exchange reserves and on the UK's holdings of Special Drawing Rights with the IMF and other remuneration received from the IMF (related to its holdings of sterling), is recorded within the Exchange Equalisation Account by the Bank of England.

Current transfers

Introduction

Most entries in the balance of payments accounts represent resources provided (goods and services exported or imported or the use of investments) or changes in financial assets and liabilities. Most transactions between UK residents and non-residents give rise to two such entries, which are theoretically recorded in the accounts with opposite signs. For some transactions however, only one such entry appears. Examples are a gift of goods sent abroad (which appears as a positive entry under "Trade in Goods") and a transfer to abroad of financial assets (which appears as a positive entry in the financial account). Some of the entries in this section represent the counterpart to such entries (the value of the gift of goods or of the assets transferred, with a negative sign in both the examples).

*
✿

Transfers are separately identified as either current or capital. Capital transfers relate to the transfer of ownership of a fixed asset, or the forgiveness of a liability by a creditor, when no counterpart is received in return. Counterparts to the financial account entries resulting from money being brought to, or taken from, the UK by migrants are included within the *Capital account*.

*
✿

Current transfers are sub-divided into those of central government and other sectors. UK's contributions to and receipts from the European Union budget are recorded on a gross basis.

Central government current transfers

Central government transfers include receipts, contributions and subscriptions from or to European Union (EU) institutions and other international bodies, bilateral aid and military grants. Information mainly comes from government departments (HM Treasury, Foreign & Commonwealth Office and Department for International Development).

*
✿

Credits

These mainly comprise receipts of the UK central government from EU institutions, taxes on income, and social contributions paid by non-resident workers.

*

Current taxes on income and wealth: these are the receipts of the UK government from taxes on the incomes of non-resident seasonal and border workers working in the UK (the incomes themselves are recorded as compensation of employees) and withholding taxes paid abroad by UK direct investment corporations. The former are estimated on the basis of the compensation of employees information derived from the International Passenger Survey and the latter from the ONS inquiries into foreign direct investment.

Social contributions: these represent social contributions paid to the UK National Insurance Fund by non-residents.

EU institutions: these receipts comprise the VAT Abatement and other smaller, miscellaneous EU receipts. From the 1998 edition of the Pink Book, the VAT Abatement has been treated as a credit entry to the UK balance of payments, rather than simply netted off VAT based contributions.

✿

14

Balance of payments

Debits

These comprise payments by the UK central government to international organisations and other non-residents.

Social Security benefits: these mainly consist of National Insurance Fund retirement and war pensions paid abroad.



European Union institutions: these payments are mainly the Central Government part of the UK contribution to the EU budget.



Other international organisations: this includes contributions to the military budget of NATO, contributions to the European Regional Development Fund and agencies of the United Nations to provide economic assistance to developing countries, and subscriptions to cover the administrative expenses of various other international bodies.



Bilateral Aid: this covers technical co-operation and non-project grants (project grants are included within capital transfers as they fund capital projects). Technical co-operation covers the provision of technical “know-how” to developing and transitional countries either as qualified manpower or as facilities for the training of nationals of these countries. It is wholly-funded by the UK Government and is included as a credit in Trade in Services. Non-project grants are cash grants to developing countries for use in financing imports and budgetary support, together with the value of goods and services provided by the UK government as food aid or disaster relief.



Military Grants: these consist of cash grants for military purposes and the value of goods and services of a military nature provided without charge to foreign countries and international organisations by the UK government.

Other sectors’ transfers

Other sectors’ transfers cover current taxes paid, receipts and payments to EU institutions, net non-life insurance premiums and claims, and other payments and receipts of households, including workers remittances.

Credits

Receipts from EU institutions: comprise those in respect of the EU’s Agricultural Guarantee Fund and Social Fund. They are treated as non-government transfers within the national accounts and balance of payments, as the UK government acts as an agent for the ultimate beneficiary of the transfer.



Net non-life insurance premiums: comprise the actual premiums received from non-residents plus the imputed premium supplement, less the insurance service charge. The source for these data are the ONS surveys of insurance corporations, which collect premiums by type of insurance product, and Lloyd’s of London.

Net non-life insurance claims: these are based on information supplied to the International Trade in Services survey on insurance claims received from non-resident insurance companies.

Other receipts of households: consists of three main components:

- (i) Workers remittances, estimated as the savings from work of UK nationals temporarily resident in Middle East oil exporting countries, estimated from the number of UK passport holders resident in these countries, and assumed average savings per worker. These data are supplemented by information in the global transfer debits of the countries concerned.
- (ii) Pension payments and other transfers (excluding immigrants assets) from OECD countries, estimated mainly from information supplied by these countries on their payments to the UK.

- (iii) Similar transfers from other countries. These are estimated from published current transfer debits figures, supplemented by bilateral information on payments to the UK, supplied directly to the ONS. Also included are UK receipts from voluntary aid agencies or non-profit institutions serving households (NPISH's).

*
✿

Debits

Current taxes on income: these are taxes on the incomes of UK seasonal and border workers (recorded as Compensation of employees) working abroad and withholding taxes paid abroad by UK direct investment corporations. The former are estimated on the basis of the compensation of employees information derived from the International Passenger Survey and the latter from the ONS inquiries into foreign direct investment.

*
✿

Payments to EU institutions: these comprise agricultural and sugar levies, customs duties and VAT based contributions.

Net non-life insurance premiums: this covers premiums paid by UK companies to non-resident insurance companies collected via the International Trade in Services survey.

Net non-life insurance claims: this covers settlement of claims by UK insurance companies to non-resident claimants, which are regarded as a transfer debit. The total of claims equals the total of net premiums (service charges having been deducted), as the essential function of non-life insurance is to redistribute resources. The source for these data are the ONS surveys of insurance corporations, and Lloyd's of London.

Other payments of households: these include a number of separate components:

- (i) Cash transfers from UK households to non-residents. Data were obtained from exchange control records until 1979. Estimates for later years are based on counterpart information supplied by a number of countries on their receipts from the UK. These data are used in conjunction with historical information collected in the Family Expenditure Survey and, for recent years, the trend in UK personal disposable income.
- (ii) Payments abroad by voluntary aid agencies or non-profit institutions serving households (NPISHs). These estimates are based on data supplied by the Institutions.
- (iii) The estimated value of gifts sent abroad by parcel post.

*
✿
✿

Capital account

The capital account comprises two components: capital transfers and the acquisition/disposal of non-produced, non-financial assets.

Capital Transfers

Capital transfers are those involving transfers of ownership of fixed assets, transfers of funds associated with the acquisition or disposal of fixed assets, and cancellation of liabilities by creditors without any counterparts being received in return. As with current transfers, they can be sub-divided into central government transfers and other sectors transfers. The main sources of information are government departments (Department for International Development and HM Treasury) and the Bank of England. Compensation payments from the EU related to the destruction of animals to combat BSE and foot and mouth disease are also included here.

*
✿

Central government capital transfers: these consist of debt forgiveness and project grants (there are no receipts in recent years).

14

Balance of payments

Debits

Debt forgiveness is defined as the voluntary cancellation of debt between a creditor, in this case the UK government, and a debtor in another country. Data are supplied by the Department for International Development. Project grants are cash grants to developing countries for the establishment of production and infrastructure facilities. Such transfers are distinguished from current transfers as they are conditional on the acquisition of fixed assets. Data are supplied by the Department for International Development.

Other sectors capital transfers: these include migrant's transfers, debt forgiveness and capital transfers from European Union Institutions.

*
✻

Credits

Migrants' Transfers: these are recorded as being equal to the net worth of the migrants, as they arrive in the UK. Estimates are based on information on number of migrants and average assets being transferred as supplied to the International Passenger Survey. These data are supplemented by information on migrants to and from Ireland and asylum seekers, which are not covered by the IPS.

Transfers from EU Institutions: regional development fund and agricultural guidance fund receipts from the EU are considered to be capital rather than current transfers as they relate to infrastructure projects. Data are supplied by HM Treasury. Other capital transfers are agricultural compensation scheme payments relating to BSE and the Foot and Mouth Disease Outbreak.

*
✻

Debits

Migrants' transfers: these represent the net worth of emigrants as they leave the UK. Estimates are based on information on the number of migrants and average assets being transferred as supplied to the International Passenger Survey. These data are supplemented by information on migrants to and from Ireland, which are not covered by the IPS.

*
✻

Debt forgiveness: this consists of non-government debt forgiveness by monetary financial institutions and public corporations. Data on monetary financial institutions is supplied by the Bank of England and data on public corporations is supplied by the Export Credit Guarantee Department.

Sales/Purchases of non-produced, non-financial assets

This heading covers intangibles such as patents, copyrights, franchises, leases and other transferable contracts, goodwill etc. and transactions involving tangible assets that may be used or needed for the production of goods and services but have not themselves been produced, such as land and sub-soil assets. The use of such assets are recorded under trade in services as royalties and license fees; only the outright purchase or sale of such assets are recorded in the capital account.

*
✻

The International Trade in Services (ITIS) survey has collected information on the sale and purchase of copyrights, patents and transferable contracts from 1996. Such transactions are indistinguishable from other areas of the current account for years before 1996.

*
✻

Financial account

Introduction

The financial account covers transactions which result in a change of ownership of financial assets and liabilities between UK residents and non-residents. The financial account is broken down into five main categories: direct investment, portfolio investment, financial derivatives, other investment and reserve assets.

In the balance of payments accounts, the term "investment" has a wide coverage. It does not refer only to the creation of physical assets but also, for example, to the purchase (or sale) of paper assets, such as shares, bonds and other securities. Investment also covers the financing of trade movements and other financial transactions between related companies in the UK and abroad. These "other financial transactions" consist mainly of borrowing and lending by banks, both transactions by UK banks with non-residents and

transactions of banks abroad with UK residents. Such borrowing and lending may be associated with UK trade in goods. For example, a non-resident may borrow from a UK bank to pay a UK exporter; alternatively he may use money already on deposit with the bank. Such borrowing or use of deposits will be included in the appropriate item in the financial account offsetting the entry under trade in goods.

Banking transactions may also arise from the financing of other financial transactions. For example, a UK company may borrow from a foreign bank in order to finance investment ("direct investment") in one of its subsidiary companies abroad. In this case, both the bank borrowing and the investment would be recorded in this section of the accounts and the two entries would offset each other; the investment would increase UK assets abroad while the borrowing would increase UK liabilities to foreign residents.

The total value of assets and liabilities held at the end of each year is recorded separately under the International Investment Position and the income earned from them is recorded under investment income within the income account. The presentation of these sections are almost identical although there are small differences in coverage in some cases, mainly because full information is not available for all items.

Direct investment

The term "direct investment" defines a group of transactions between enterprises, usually companies, that are financially and organisationally related and are situated in different countries. Such related enterprises – "affiliates" – comprise subsidiaries, associates and branches. Further details are given in the Glossary. Direct investment refers to investment that is made to add to, deduct from, or acquire, a lasting interest in an enterprise operating in an economy other than that of the investor and which gives the investor an effective voice in the management of the enterprise. Other investments in which the investor does not have an effective voice in the management of the enterprise (i.e., the investor has less than 10 per cent of the voting shares) are regarded as portfolio investments. The estimates of direct investment include the investor's share of the reinvested earnings of the subsidiary or associated company, the net acquisition of equity capital, changes in inter-company accounts and changes in branch/head office indebtedness.

Investment abroad by UK residents

Direct investment abroad by UK residents comprises net investment by UK companies in their foreign branches, subsidiaries or associated companies. The figures of outward investment also cover the transactions of a number of concerns which were previously classified as public corporations. Transactions of central government are excluded from direct investment. Outward direct investment includes property transactions and other financial intermediaries' loans and mortgages to foreign residents.

Investment in the UK by foreign residents

Direct investment in the UK by foreign residents predominantly includes net investment by foreign companies in branches, subsidiaries or associated companies in the UK.

Estimates of direct investment are mainly derived from quarterly and annual inquiries by the ONS and the Bank of England, the combined results of which are published periodically in *National Statistics First Releases* and *Business Monitor MA4*; the latter provides geographical analyses.

Information on property transactions is obtained by the Inland Revenue, the Office for National Statistics and the Bank of England. Some of this is published in Financial Statistics, and that relating to transactions by insurance companies and pension funds, in *Business Monitor MQ5*. From 2003 Inland Revenue have ceased to collect this data, and from this point the data should be regarded as being of lower quality.

Portfolio investment

Portfolio investment is sub-divided into investment in equity securities and investment in debt securities; investment in debt securities is further sub-divided into investment in bonds and notes and investment in money market instruments.

Investment abroad by UK residents

Transactions in equity securities: these represent net transactions by UK residents in shares of foreign registered companies.

14

Balance of payments

Transactions in bonds and notes: transactions in bonds and notes, within debt securities, consists of net transactions in foreign government and municipal loan stock, and bonds of foreign registered companies.

*
✻

Investment abroad by Lloyd's of London, including in members' premiums trust funds and overseas regulatory deposits, is included under household sector transactions in bonds and notes.

*
✻

Estimates of portfolio investment transactions by UK MFIs, insurance companies and pension funds, and other financial intermediaries, are obtained from inquiries. Estimates for securities dealers' foreign investment, within other financial intermediaries, are based on integrated financial returns, with transactions aligned with changes in balance sheets. Adjustments are made to the reported data for insurance companies to remove the commission charges and other local costs included in the gross acquisitions and sales figures which are not appropriate to the financial account.

*

Estimates of portfolio investment transactions of private non-financial corporations are derived from asset levels at each year-end, measured in the ONS's Financial Assets and Liabilities inquiry. Estimates for household sector foreign investments, other than by Lloyd's of London (see above), are largely based on Inland Revenue data.

Transactions in money market instruments: these consist of transactions in foreign commercial paper and certificates of deposit. Estimates are derived from statistical surveys undertaken by the ONS and the Bank of England.

Investment in the UK by foreign residents

Transactions in equity securities: the main source for estimates of transactions in ordinary shares is the portfolio investment inquiry run by the Bank of England. Other data are collected by ONS inquiries. Data are adjusted to take account of total levels of foreign investment in shares as indicated by the results of the ONS' annual Share Register Survey.

Transactions in debt securities:

- (i) *Transactions in bonds and notes:* this includes foreign net acquisitions and disposals of bonds and notes.

Foreign transactions in bonds and notes issued by HM Government are subdivided into transactions in UK foreign currency bonds and notes and transactions in other central government bonds.

Foreign transactions in British government stocks consists of net transactions by central banks, international organisations and private foreign residents in government and government guaranteed stocks. It is measured from banking statistics and other Bank of England sources. Most gilts are issued by the UK government at a discount to the redemption value.

Foreign transactions in bonds issued by local authorities and public corporations have been zero in recent years. They are measured from official records.

Total foreign transactions in bonds and notes issued by non-governmental sectors are obtained by assuming that any net transactions in UK securities not attributable to the domestic sectors of the UK (using all available data sources) are attributable to foreign residents. The further breakdown of these data by sector and instrument is derived from data provided by the Bank of England supplemented by best estimates.

✻

- (ii) *Transactions in money market instruments:* these consist of net acquisitions of UK treasury bills, certificates of deposit and commercial paper. Foreign residents' net transactions in Treasury bills exclude any bills held by the Bank of England as the sterling counterpart of foreign currency deposits arising from central bank assistance. Estimates of foreign transactions in UK certificates of deposit and commercial paper are derived from statistical inquiries conducted by the ONS and the Bank of England, and from information supplied by the UK's Debt Management Office.

*

✻

Financial derivatives

Financial derivatives include options (on currencies, interest rates, commodities, indices, etc.), traded financial futures, warrants and currency and interest rate swaps. Estimates for financial derivatives are currently unavailable except for settlement receipts/payments on UK banks' interest rate swaps and forward rate agreements, which are supplied by the Bank of England. From Pink Book 2001 the UK moved to new international standards that now treat settlement payments and receipts on interest rate swaps as financial flows (rather than investment income).

*

✱

Other investment

Other investment is sub-divided into trade credit, loans, currency and deposits, and transactions in other assets.

*

✱

Investment abroad by UK residents

Trade credit: represents the extent to which the flows of payments for imports and exports follow or precede the flows of goods or services in the current account. Lending activity to facilitate trade, including those loans underwritten by the Export Credit Guarantee Department (ECGD), is treated as loans and not trade credit within the accounts (see loans). Trade credit between related firms (i.e. credit received or extended between a UK business and a foreign affiliate or parent company) is treated as an investment in the affiliate or parent company, and is therefore recorded under direct investment.

*

✱

At present only a minimal amount of data is recorded within trade credit. Some data previously recorded in this area has been reclassified as bank lending (see above), and is now within the loans data in other investment abroad. Other data are no longer suitable for inclusion and have been removed from the accounts, generally back to 1999. Work is continuing to produce alternative estimates of UK trade credit assets and liabilities.

*

✱

Loans: these are sub-divided into long-term and short-term loans; short term loans are those which are repaid in full within one year. Long-term loans consist of inter-government loans by the UK central government, loans by the Commonwealth Development Corporation (CDC) (a public corporation), loans by UK banks guaranteed by the ECGD, and loans by the ECGD itself. Inter-government loans covers drawings on and repayments of loans between the UK government and foreign governments. Estimates for loans by the CDC are obtained directly from the Corporation, UK banks' loans data are supplied by the Bank of England, whilst information on loans by the ECGD are supplied direct by the Department.

*

✱

Estimates for short-term loans mainly consist of loans by UK banks and miscellaneous financial institutions (within "other sectors") and are derived from banking statistics.

Currency and deposits: estimates of UK residents' deposits abroad relate to private sector deposits.

Deposits abroad by UK MFIs are sub-divided into sterling and foreign currency deposits by UK banks. Some transactions in banks' foreign assets and liabilities taking place between two UK residents are also included, sometimes indistinguishably. However, these are matched by offsetting entries elsewhere in the accounts.

*

✱

Estimates of MFIs' sterling deposits abroad are derived from banking statistics. Estimates for foreign currency deposits abroad have been calculated from the end-quarter balance sheets as reported by all UK banks and similar institutions to the Bank of England. Adjustments have been made to the reported changes in balance sheets to exclude revaluations resulting from changes in exchange rates.

*

✱

Estimates of securities dealers' deposits abroad are derived from their asset levels reported to the ONS.

*

✱

Estimates of the UK private sector (excluding monetary financial institutions and securities dealers) are based on counterpart information obtained from the Bank for International Settlements (BIS). Due to limitations in the coverage of the BIS data, statistical adjustments have been applied from 1994 to improve the overall coherence of the sector financial accounts. The financial flows are estimated from changes in

14

Balance of payments

levels adjusted for exchange rate movements. They omit as far as possible, the effects of any discontinuities in the levels series.

Estimates for transactions in foreign notes and coin by the UK private sector other than monetary financial institutions are based on tourists' expenditure. Transactions in non-monetary gold covers net transactions in gold, which is held as a financial asset by listed institutions in the London Bullion Market (LBM). Estimates are derived from data collected from banking statistics.

Other assets: this includes central government subscriptions to international organisations and covers capital subscriptions to international lending bodies other than the IMF, i.e. regional development banks, the International Finance Corporation and the International Fund for Agricultural Development. Some transactions are in the form of non interest-bearing promissory notes and are included in the accounts as the subscriptions fall due, irrespective of the time of encashment of the notes. The information is obtained from official records.

The entry for UK banks' and ECGD's debt forgiveness offsets the corresponding entry in the capital account. Other sectors' short-term assets largely relate to assets of UK insurance companies and pension funds and other financial intermediaries other than those classified under portfolio investment, estimates for which are obtained from ONS statistical inquiries.

Investment in the UK by foreign residents

Trade credit: only a minimal amount of data is recorded within trade credit. See outward investment notes for details.

Loans: these are sub-divided into long-term and short-term loans; the former are further sub-divided into drawings and repayments. It is not possible to separate out loans from abroad to UK banks from foreign deposits with UK banks; all such transactions are therefore assumed to be deposits.

Long-term loans consist of drawings and repayments by central government, local authorities and public corporations. Public corporations' borrowing directly from foreign residents under the exchange cover scheme is included. Repayments under the scheme by former public corporations that have since been privatised are included under repayments from central government, to whom their foreign debt was transferred following privatisation; such debt is known as novated debt. In recent years only local authorities have engaged in long-term borrowing from abroad; estimates are obtained from the Department for Transport, Local Government and the Regions. Estimates for other long-term loans are largely obtained from the Bank of England.

Estimates for central government short-term loans from abroad covers the Very Short-term Financing Facility (VSTFF) which was taken out during 1992 and repaid in 1993. Estimates for securities dealers' short-term loans from abroad are estimated from levels of liabilities reported in a statistical inquiry. Since 1995 statistical adjustments have been applied to the data for securities dealers' short-term loans in order to improve the overall coherence of the sector financial accounts

Estimates of borrowing by UK residents other than banks are based on data reported to the Bank for International Settlements (BIS), and are generally confined to borrowing from commercial banks based within the BIS reporting area (see glossary). The data relate to levels of liabilities; flows have been estimated from changes in levels, adjusted to remove the effects of exchange rate movements and discontinuities in coverage. Due to limitations in coverage of the BIS data, statistical adjustments have been applied to the estimates since 1994 in order to improve the overall coherence of the sector financial accounts. Additional information on borrowing from the European Investment Bank (EIB) is obtained from the EIB.

Currency and deposits: these are sub-divided into transactions in sterling notes and coins, and deposits from abroad with UK monetary financial institutions including deposit liabilities of the UK central government.

Estimates of transactions in sterling notes and coin by private foreign residents (other than monetary financial institutions) are based on ONS statistics of tourists' expenditure. While sterling bank notes are

*

✱

*

✱

*

✱

*

✱

*

✱

issued by the Bank of England, which is classified to monetary financial institutions, coins are issued by the Royal Mint, which is classified to the central government sector. In the absence of any separate data for notes and coin, it is assumed that notes make up 90 per cent of total notes and coin.

Foreign deposits with UK monetary financial institutions are sub-divided into deposits with banks and deposits with building societies. It is not possible to separate out foreign deposits with UK banks from foreign loans to UK banks. The estimates for foreign loans to UK banks are therefore included indistinguishably within deposits.

Within deposits with UK monetary financial institutions, estimates for sterling deposits are derived from banking statistics and include both current and deposit accounts. Foreign currency deposits comprise all external borrowing denominated in foreign currencies by UK banks (sometimes described as Euro currency transactions). They consist of changes in deposits with, and other lending to, UK banks from abroad. These transactions may be a reflection of (i.e. the counterpart to) a variety of other foreign or domestic transactions by UK banks. These other transactions could be: foreign currency lending to UK residents (which are not balance of payments transactions); net purchases of foreign securities by the banks (which are included in direct or portfolio investment abroad as appropriate); any switching of banks' liabilities between foreign currencies (including gold) and sterling; or any change in the amount of foreign currency capital raised by banks.

Estimates for foreign currency deposits with UK monetary financial institutions have been calculated from the end-quarter balance sheets as reported by all UK banks and building societies to the Bank of England. Adjustments have been made to the reported changes in balance sheets to exclude revaluations resulting from changes in exchange rates.

Deposit liabilities of UK central government include short-term inter-government loans and transactions with non-residents under minor government accounts in the form of changes in balances not attributable elsewhere in the accounts. In recent years this has consisted entirely of balances held by the Paymaster General on the European Union (EU) account.

Other liabilities: these are sub-divided into long-term and short-term liabilities.

Long-term liabilities consist of net equity of foreign households in life assurance reserves and in pension funds and prepayments of premiums and reserves against outstanding claims which are recorded in the balance of payments because households are regarded as owning the net equity of pension funds and life assurance reserves; i.e., the funds set aside for the purpose of satisfying the claims and benefits foreseen. The estimates are derived from data collected on ONS statistical inquiries.

Short-term liabilities largely consists

of additions to insurance companies' technical reserves, estimates for which are derived from ONS statistical inquiries, and non-interest bearing notes, estimates for which are obtained from the Bank of England. Non-interest-bearing notes are issued by HM government and are held by international organisations.

Reserve assets

This item consists of the sterling equivalent, at current rates of exchange, of drawings on, and additions to the gold, convertible currencies and Special Drawing Rights (SDRs) held in the Exchange Equalisation Account; and of changes in the UK reserve position in the IMF. From July 1979 convertible currencies also include European Currency Units acquired from swaps with the European Monetary Co-operation Fund (until December 1993), the European Monetary Institute (until December 1997) and the European Central Bank (from 1998). The swap arrangement was terminated in December 1998.

International investment position

Introduction

The international investment position brings together the available estimates of the levels of identified UK external assets (foreign assets owned by UK residents) and identified UK external liabilities (UK assets owned by foreign residents) at the end of each calendar year.

14

Balance of payments

The presentation of the international investment position is almost identical to the presentation of investment income, within the income account and the financial account although there are small differences in coverage in some cases, mainly because full information is not available for all items.

Changes in balance sheet levels will reflect not only transactions in the corresponding assets and liabilities but also changes in valuation and certain other changes. Changes in valuation will occur in the following circumstances:

- (i) where assets and liabilities are denominated in foreign currencies, their sterling value may change because of changes in foreign exchange rates;
- (ii) where assets and liabilities are regularly bought and sold (e.g. British government stocks, UK and foreign company securities), the current market value may be different from the value at which they were acquired;
- (iii) where the holders of assets and liabilities change their values in preparing their accounts to reflect what is thought to represent the current position (e.g. bad debts may be written off and direct investment assets may be written up or down in the books of the investing company).

In addition to changes in the valuation of identical underlying assets and liabilities, changes in recorded levels of external assets and liabilities will also reflect some changes in coverage which introduce discontinuities in the series.



Assessment of the international investment position

Because of the very varied data sources used to derive the estimates for the international investment position, there are some inconsistencies between the different figures in the tables, resulting particularly from different methods of valuation. Wherever possible, figures are at market values. However, for significant items such as direct investment, the figures are at book values and are subject to all the limitations of data taken from accounting balance sheets as a reflection of current market values. To the extent that the conventional valuation basis for direct investment is book values, an up-to-date valuation closer to market values is likely to be higher.

In addition, some assets and liabilities are measured very imperfectly (e.g. for a number of items levels of assets and liabilities are not directly reported but derived from cumulating recent identified transactions and allowing for estimated valuation changes). The balance between the estimates of identified external assets and liabilities has always been an imperfect measure of the UK's debtor/creditor position with the rest of the world.

To the extent that net errors and omissions reflect unrecorded or misrecorded financial transactions, the external balance sheet will tend to fail to capture the corresponding levels of assets and liabilities, although much will depend on the categories of assets and liabilities concerned:

- (a) where both levels and transactions are reported (e.g. portfolio investment by most financial intermediaries), there may be similar deficiencies to estimates of both levels and transactions, although levels may tend to be more accurate to the extent they are derived from annual accounting data;
- (b) where only levels are reported and transactions are derived from changes in levels, allowing as far as possible for valuation changes, (e.g. non-portfolio transactions of UK and foreign banks), there may be errors in the estimates of transactions (e.g. in allowing for valuation changes) with no corresponding error in levels;
- (c) where only transactions are reported and levels are calculated by cumulating transactions and allowing for valuation changes, e.g. inward portfolio investment in UK company bonds, errors in recording transactions will lead to corresponding errors in levels. Thus if part of the net errors and omissions represents such missing portfolio investment inflows, the identified net assets figures will be overstated.

Allocation of Special Drawing Rights

These are issued to the UK by the IMF but are not regarded by them as a liability of the UK and do not form part of total external liabilities in this table.

Direct investment levels

Investment abroad by UK residents

Direct investment abroad by UK residents: this represents the stock of investment in foreign branches, subsidiaries and associates and in real estate abroad. Figures for insurance companies, other financial intermediaries and private non-financial corporations are based on ONS survey data. The annual Foreign Direct Investment Inquiry collects balance sheet information to produce estimates of the net book value of direct investment for the end of each year. The figures to 2002 are based on the annual inquiry data and the 2003 figures are a projection taking into account flows of direct investment, exchange rate changes and other projected revaluations.

*

✱

The surveys relate to total net asset values attributable to investing companies, i.e. book values of fixed assets less accumulated depreciation provisions plus current assets less current liabilities. The book values of direct investments are likely to be less than the values at written down replacement cost and less than the market values. There are no official estimates of the market value of UK direct investment assets and liabilities. However, research by Cliff Pratten (Department of Applied Economics, University of Cambridge) indicated that, on certain assumptions, the market value of UK direct investments abroad at end-1989 might be about double their book value, while the market value of foreign direct investment in the UK might be just under double their book values at the same point of time. However there are considerable uncertainties in making such estimates.

The comparison between transactions in the balance of payments account and changes in total assets and liabilities is not affected by allowances for depreciation of fixed assets as charged to the profit and loss account; such allowances are deducted before arriving at the earnings included in the current account, and the provision for depreciation is regarded as maintaining the total book value of the existing assets. Similarly, the comparison is unaffected by the treatment of reinvested earnings from direct investments, since these appear both in the current account as earnings and in the financial account as a flow of capital adding to the stock of assets. However, the values are affected by the treatment applied in their consolidated accounts by UK companies to value newly acquired foreign companies. Under both merger and acquisition accounting the increase in the net book value can be less than the net investment to complete the acquisition. The difference represents goodwill and the other costs associated with the transaction which are written off directly against reserves.

Direct investment by insurance companies and the household sector include estimates of all property investments together with related foreign loans of non-bank financial institutions.

The figures for UK MFIs have been based on periodic censuses of foreign assets and liabilities carried out by the Bank of England, the latest being for end-2003; values for other years are estimated by similar methods to those used for other companies. From December 1998 a new annual report form was introduced for banks. The level of investment is defined as the sum of reporting institutions' investment in ordinary and preference shares, loan and working capital and other capital funds and reserves of their foreign affiliates; less certain funds raised by foreign affiliates through the issue of loan stocks and subsequently redeposited with their UK parents.

*

✱

Investment in the UK by foreign residents

Direct investment in the UK by foreign residents: this represents the stock of investment by companies incorporated abroad in their UK branches, subsidiaries and associates. The estimates relate to book values and are measured in the same way as those for direct investment abroad. The latest year estimates are based on accumulated flows. Foreign direct investment in private non-financial corporations includes foreign residents' holdings of UK real estate not held through companies trading in the UK. It is estimated from the financial flows and appropriate indicators of market prices.

*

✱

14

Balance of payments

Portfolio investment levels

Portfolio investment abroad is sub-divided into equity securities and debt securities; debt securities are further sub-divided into bonds and notes and money market instruments.

*
✿

Investment abroad by UK residents

Equity securities, and debt securities: bonds and notes: equity securities consists of UK residents' holdings of shares of foreign registered companies. Investment in bonds and notes consists of holdings by UK residents of foreign government and municipal loan stock and bonds of foreign registered companies.

*
✿

The total is calculated using a combination of banking statistics, the results of the Bank of England's portfolio investment inquiry to banks on their customers' transactions, and information from ONS statistical inquiries to insurance companies and pension funds and other financial intermediaries including securities dealers.

*
✿

Estimates for Lloyd's of London fall within household sector investment in bonds and notes; estimates are derived from data supplied by Lloyd's. Estimates of assets held by the household sector other than Lloyd's of London are largely based on Inland Revenue data.

Estimates of assets held by private non-financial corporations are derived from the quarterly Financial Assets and Liabilities survey.

*

Debt securities: money market instruments: this consists of holdings of foreign commercial paper and certificates of deposit. Estimates are derived from statistical surveys undertaken by the ONS and the Bank of England.

Investment in the UK by foreign residents

Equity securities: the market value of inward portfolio investment in listed ordinary shares is based on the results of annual share ownership surveys. Adjustments are made to exclude holdings of a direct investment nature and to establish the beneficial ownership of nominee share holdings (the latest Share Ownership Report, covering end-2003, was published by the ONS in June 2004).

Debt securities:

- (i) *Bonds and notes:* Levels of investment in UK foreign currency bonds and notes issued by HM Government are translated to sterling at end-year middle-market rates.

Levels of British government stocks held by foreign central banks, international organisations and private foreign residents are measured from banking statistics and other Bank of England sources including the Central Gilts Office. The most recent Gilts survey recorded non-resident holdings as at end-2002; data for end-2003 have been estimated.

Levels of inward investment in bonds and notes issued by UK MFIs and other sectors are estimated from information derived from Bank of England and London Stock Exchange records of UK company bond issues, accumulated financial transactions, and price and exchange rate movements.

- (ii) *Money market instruments:* this consists of foreign holdings of UK treasury bills, commercial paper and certificates of deposit. Estimates are derived from statistical surveys undertaken by the ONS and the Bank of England, and from information supplied by the UK's Debt Management Office.

Other investment levels

Investment abroad by UK residents

Other investment abroad by UK residents is sub-divided into trade credit, loans, currency and deposits, and other assets. For notes on trade credit, loans, and central government subscriptions to international organisations, see under "Other investment abroad by UK residents" under *Financial account*.

✿

Currency and deposits: Estimates of UK residents' holdings of foreign notes and coins and of deposits abroad relate to the private sector. *

Estimates of foreign notes and coin covers estimated holdings (excluding gold coin) by UK residents. Data for MFIs are obtained from the Bank of England. Data for other sectors are derived from transactions with an allowance for exchange rate movements.

Deposits abroad by UK MFIs are derived from banking data. Estimates of securities dealers' deposits abroad are derived from an ONS statistical inquiry.

Estimates of other UK private sector deposits with banks abroad are derived from the banking statistics of countries in the BIS reporting area obtained from the Bank for International Settlements. They include the working balances of various UK companies. Due to the limitations in the coverage of the BIS data, statistical adjustments have been applied to the financial flows data since 1994 to improve the overall coherence of the sector financial accounts. In order to maintain consistency between financial flows and balance sheet levels corresponding coherence adjustments have been applied to the International Investment Position. ✱

Other assets: Other sectors' long-term and short-term assets largely relate to assets other than bonds and shares of UK insurance companies, pension funds and other financial intermediaries. Estimates are obtained from ONS statistical inquiries. *

Investment in the UK by foreign residents

Other investment in the UK by foreign residents is sub-divided into trade credit, loans, currency and deposits, and other liabilities. For notes on trade credit, and loans to central government, local authorities, public corporations and securities dealers, see under "Other investment in the UK by foreign residents" under *Financial account* . ✱

Short-term loans to the UK private sector other than MFIs and securities dealers: estimates for such loans are derived mainly from the banking statistics of countries in the BIS reporting area. Adjustments have been made to eliminate overlap with other items. The limitations in the BIS data has resulted in statistical adjustments being applied to the financial flows data from 1994 to improve the overall coherence of the sector financial accounts. In order to maintain consistency between financial flows and balance sheet levels corresponding coherence adjustments have been applied to the IIP. Borrowing from the European Investment Bank is also included. ✱

Currency and deposits: levels of sterling notes and coin held by private foreign residents (other than MFIs) are estimated from the financial flows. *

Foreign deposits with UK MFIs are sub-divided into deposits with banks and deposits with building societies. It is not possible to separate out foreign deposits with UK banks from foreign loans to UK banks. The estimates for foreign loans to UK banks are therefore included indistinguishably with deposits. Estimates are derived from banking statistics.

Deposit liabilities of UK central government include short-term inter-government loans and transactions with non-residents under minor government accounts in the form of balances not attributable elsewhere in the accounts. Since 1973 this has consisted entirely of balances held by the Paymaster General on the European Union (EU) account. ✱

Other liabilities: Long-term liabilities consist of net equity of foreign households in life assurance reserves and in pension funds and prepayments of premiums and reserves against outstanding claims which are recorded in the balance of payments because households are regarded as owning the net equity of pension funds and life assurance reserves; i.e., the funds set aside for the purpose of satisfying the claims and benefits foreseen. The estimates are derived from data collected on ONS statistical inquiries.

14

Balance of payments

Short-term liabilities largely consist of non-interest bearing notes, estimates for which are obtained from the Bank of England. Non-interest-bearing notes are issued by HM government and are held by international organisations.

Reserve asset levels

These comprise gold, convertible foreign currencies, IMF Special Drawing Rights (SDRs) and the UK's reserve position in the IMF. Currencies may be held in the form of financial instruments. Until 1999 securities are valued at historic cost but translated to sterling as set out below. From July 1979 convertible currencies also include European Currency Units acquired when 20 per cent of the gold and dollar holdings in the reserve assets were deposited on a swap basis with the European Monetary Co-operation Fund, the swap arrangement being renewed quarterly. As from January 1994 the swap was with the European Monetary Institute and as from January 1998 was with the European Central Bank. The swap arrangement was terminated in December 1998.

Gold is valued at the ruling official price of 35 SDRs per fine ounce until end-1977 and at end-year market rates from end-1978 to end 1999. SDRs and convertible currencies (including ECUs) are valued throughout at closing middle market rates of exchange. Since 2000 all reserve assets are valued at end-period market prices and exchange rates.

Financial derivatives

Financial derivatives are defined as financial instruments that are linked to the price performance of an underlying asset and which involve the trading of financial risk. Examples of the underlying asset might include a financial instrument, commodity, bilateral foreign exchange rate, movement in stock index, or interest rate. Financial derivatives include options, futures/forwards, swaps, FRAs, warrants and certain credit derivatives. The rationale for separate recording of derivatives contracts in the financial account is to keep the distinction between them and other transactions (e.g. securities) to which they may be linked for hedging purposes. Derivatives are valued at current market prices.

*
✻

Data on UK Banks' gross asset and liability positions in derivatives are collected quarterly by the Bank of England; no data are available prior to 1998. Data on securities dealers' assets and liabilities are collected by the ONS; similarly there are no data available prior to 1998.

Estimates for financial derivatives have yet to be fully implemented in either the UK international investment position or in the UK's national accounts balance sheets. Work is continuing to validate and improve the estimates and obtain more information on the types of derivatives traded, and the underlying transactions.

*
✻

Tables 14.2A To 14.9B - Income and Capital Account by sectors

Introduction

The tables in this chapter describes the methodology for the estimation of the variables in the distribution and use of income accounts, and the capital accounts. Prior to 1998 these were called the current and capital accounts. These accounts take the gross domestic product (B.1) from the production account and show how this is used or distributed. What is left at the end of the distribution and use of income accounts is the saving of each sector, which is carried forward to the capital account. Capital transactions are regarded as redistribution of wealth rather than income in the ESA and are recorded within the capital account

The distribution and use of income accounts exist for all the main institutional sectors. To obtain the disposable income and saving of each sector we need to take account of transfers in and out of the sector. The accounts are not consolidated, so that in the whole economy account, transfers such as social contributions and benefits appear in both uses and resources.

These accounts describe the distribution and redistribution of income and its use in the form of final consumption. The distribution and use of income are analysed in four stages, each of which is presented as a separate account:

- the generation of income account
- the allocation of primary income account
- the secondary distribution of income account
- the use of disposable income account

Generation of income account

This is the first of the Distribution and Use of Income accounts. It shows the sectors, sub-sectors and industries which are the source, rather than the destination, of income. It shows the derivation of the 'profit' arising from production, called the operating surplus (or mixed income in the case of unincorporated businesses in the households sector).

This account analyses the degree to which value added covers the compensation of employees (their wages and salaries etc.) and other taxes less subsidies on production. So it gives a figure for the operating surplus of the total UK economy: the surplus (or deficit) on production activities before distributions such as interest, rents and income tax charges have been considered. Hence the operating surplus is the income which units obtain from their own use of the production facilities.

Note that taxes on production and imports are shown as a use (or payment) by producing sectors in this account but not as a resource (or receipt) of government. This is because they do not relate to productive activity by government, and cannot therefore contribute to its operating surplus. They become a resource of government in the allocation of primary income account which follows.

In the UK the generation of income accounts by sector are only compiled annually. They are not published here but are published in the Blue Book

Allocation of primary income account

This account is the second of the four in the distribution and use of income group. It shows the resident units and institutional sectors as recipients, rather than producers, of primary income. It demonstrates the extent to which operating surpluses are distributed (for example by dividends) to the owners of the enterprises. Also recorded in this account is the property income received by an owner of a financial asset in return for providing funds to, or putting a tangible non-produced asset at the disposal of, another unit. The receipt by government of taxes on production less subsidies on production is shown in resources.

The resources side of the allocation of primary income account includes the components of the income approach to measuring gross domestic product. It is also the starting point for UK quarterly sector accounts. The account also includes property income recorded as both resources for receipts and uses for payments.

★ denotes commencement of changes since the 2004 edition ✂ denotes the end of the changes

14

Other key economic indicators

The balance of this account is the gross balance of primary income (B.5g) for each sector. The aggregate across all sectors of the economy is gross national income. For the private non financial corporation, financial corporation and household sectors the tables showing the allocation of primary income account also give gross balance of primary incomes as a percentage of gross national income.

Secondary distribution of income account

This account is the third in this group. It describes how the balance of primary income for each institutional sector is allocated by redistribution through such current transfers as taxes on income, social contributions and benefits and others. It excludes social transfers in kind.

The balancing item of this account is gross disposable income (B.6g), which reflects current transactions and explicitly excludes capital transfers, real holding gains and losses and the consequences of events such as natural disasters.

In the case of the household sector, gross disposable income is also shown at 1995 prices deflated by the households final consumption deflator.

Use of disposable income account

This is the final account in the distribution and use of income accounts. It illustrates how income is consumed and saved: the remaining balance at the end of this account is gross saving (B.8g).

This account illustrates how their gross disposable income is split between final consumption and gross saving. In the system for recording economic accounts, only, the non-market sectors government, households and NPISH, have final consumption. In addition, for households and pension funds, there is an adjustment item in the account which corresponds to the way that transactions between households and pension funds are recorded. (This adjustment is D.8: Adjustment for the changes in the net equity of households in pension funds reserves).

The balancing item for this account, and thus for this whole group of distribution and use of income accounts, is gross saving (B.8g).

Thus it is only in the case of non-financial corporations (public and private), that undistributed income and saving are equivalent.

The (summary) capital account

The capital account is presented in two parts.

The first part shows that gross saving (B.8g) - the balance between gross national disposable income and final consumption expenditure from the production and distribution and use of income accounts - is reduced or increased by the balance of capital transfers (D.9) to provide an amount available for financing investment (in both non-financial and financial assets).

Then in the second part, total investment in non-financial assets is the sum of gross fixed capital formation (P.51), changes in inventories (P.52), acquisitions less disposals of valuables (P.53) and acquisitions less disposals of land (K.2). Thus, if investment is lower than the amount available for investment, the balance will be positive and is regarded as lending. If negative the balance is borrowing. These represents the resources available to the rest of the world. Where the capital account relates to the individual institutional sectors, the net lending or borrowing of a particular sector represents the amounts available for lending to or borrowing from other sectors.

The lending or borrowing figure arising in the capital account is identical, in principle, to the balance which emerges from the transactions in financial assets and liabilities. However, because of measurement problems in the accounts generally, in practice these will not be the same. Part of the ONS's balancing process for national accounts statistics for years before the most recent shown involves assessing and modifying the component variables so that the estimates of net lending/borrowing made from the current and capital accounts, are the same at the level of the whole economy, and also that at the sector level they are reasonably close to that recorded in the financial account.

The remainder of this chapter gives details of the income and expenditure components of gross domestic product and the distributive transactions, that make up the income and capital accounts.

Gross Operating surplus (B.2g)

This forms part of the balance of the generation of income account. It represents the income which the units obtain from their own use of their production facilities. That is, value added less compensation of employees less taxes on production payable plus subsidies receivable on production. It is the last balancing item in the economic account that can be calculated for both industries and the institutional sectors and sub-sectors.

This item includes the surplus from the own account production of accommodation services by owner-occupier households, e.g. the amounts owner-occupiers save by not having to pay rentals.. It also includes an estimate of financial intermediation services indirectly measured (FISIM), in the operating surplus of financial corporations.

However, for unincorporated enterprises in the households sector, the balancing item of the generation of income account is called 'mixed income'.

Despite its position as a balancing item in the accounts, the operating surplus is initially estimated directly from data on profits, trading surplus, rental income and reductions for inventory holding gains. These results are subsequently modified in the ONS's annual input output balancing process when gross operating surplus is calculated through the generation of income account.

Gross Mixed income (B.3)

This is the term for the generation of income account's balancing item for unincorporated enterprises owned by members of households (either individually or collectively) in which the owners, or other members of their households, may work without receiving a wage or salary. In the former system of UK economic accounts, this was known as income from self-employment. Any payment for work by the owner, or members of their family, cannot be distinguished from the owner's profits as entrepreneur. All unincorporated enterprises owned by households that are not quasi-corporations fall in this category, except owner occupiers in their capacity as producers of housing services for their own final consumption, which is included in the gross operating surplus (B.2g), and households employing paid domestic staff, an activity that generates no surplus.

Compensation of employees (D.1)

This is the total remuneration in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period. It has two components:

- wages and salaries payable in cash or in kind (D.11)
- employers' social contributions (D.12).

The first of these is the most significant, being 87% of the total in recent years. Compensation of employees appears in the allocation of primary income accounts as a resource of the household sector.

Wages and salaries (D.11)

These include the following:

- basic wages and salaries payable at regular intervals;
- enhanced rates of pay for overtime, night work, hazardous circumstances, etc.;
- cost of living allowances, local allowances and expatriation allowances;
- bonuses paid on productivity or profits, Christmas bonuses, allowances or transport to and from work, holiday pay for official or annual holidays; commissions, tips and directors' fees paid to employees; and other similar bonuses.

Also included here are wages and salaries in kind such as meals and drinks, price reductions in subsidised canteens, vehicles provided for the personal use of employees, the provision of sports, recreation or holiday

14

Other key economic indicators

facilities for employees and their families, the provision of work place creches and other similar benefits.

In principle, wages and salaries exclude amounts which employers continue to pay to their employees temporarily in the case of sickness, maternity, etc. - these are classified as unfunded employee social benefits (D.623) with the same amounts being shown under employers' imputed social contributions (D.122). Similarly, other unfunded employee social benefits are excluded. However, in practice it is difficult to make the distinction comprehensively.

Estimates of wages and salaries for those within the PAYE system are derived from a one per cent sample of the tax deduction documents. The documents are sent by the Inland Revenue under statutory authority to the Department of Work and Pensions, who note the details of social security contributions on their central computer records at Newcastle-upon-Tyne. A separate computer file based on 1 per cent of these records is compiled for statistical analysis including details of pay and tax by industry, area, etc. The estimates for pay obtained for the whole PAYE population are obtained by multiplying the one per cent sample estimates by appropriate grossing factors. These have been obtained by comparing the employees' National Insurance contributions totals obtained from the one per cent sample with the total employees' National Insurance contributions recorded. Allowance is then made for information received more than twelve months after the year to which it applies. The total number of tax deduction documents exceeds 30 million each year and the sample of 300,000 records is sufficient to estimate total wages and salaries with a standard error of about 1/4 per cent.

Tax records relate to tax years which run from 6 April to 5 April. Interpolation of calendar year estimates is carried out using Office for National Statistics figures of numbers of employees in employment and average earnings. The quarterly path is also constructed using monthly and quarterly surveys of numbers in employment and the quarterly survey of average earnings.

Some supplementary estimates are made to cover income partially covered, or not at all covered, by the PAYE system.

- Estimates of incomes below the threshold at which the PAYE system becomes operative are based on data from the Family Resources Survey (FRS) on the numbers concerned and their average annual earnings.
- The Expenditure and Food Survey (EFS) is also used in place of PAYE estimates for domestic service which are recognised as being incomplete.
- Earnings of employees of farming enterprises are measured by data compiled by the Department of Environment, Food and Rural Affairs (DEFRA).
- Estimates of the wages and salaries of HM Forces are compiled from GEMS returns produced quarterly by the services on the same basis as the figures published subsequently in the Appropriation Accounts presented to Parliament.
- An adjustment for undeclared income is added to the initial estimate of income to allow for income earned but not declared to the Inland Revenue.

Various adjustments are made to cover tips, the earnings of juveniles, fringe benefits such as company cars, profit sharing schemes, and income-in-kind. For the latter, estimates are included to cover: coal provided free or at concessionary rates to miners and other colliery employees; food provided for merchant seamen and fishermen; the imputed rent of housing provided free by employers; the net cost to employers of meal vouchers and meals provided in canteens; the net cost to employers of food and accommodation provided for staff in catering establishments other than canteens.

The wage and salary figures include bonus and other ad hoc payments in the quarter in which they are paid. Such payments might be relevant to activity which has taken place in previous periods. As such, it might be thought that they should be put on to an accruals basis by spreading them over the earlier periods. This is arguable in concept, and not fully possible in practice. Any re-allocation would also require modifications to other series such as household consumption, operating surplus and taxes on income, for example, to ensure consistency both within and over the three measures of GDP. The basis for some of these adjustments, particularly to household consumption, would be extremely hazardous, to say the least. Thus, the quarterly series of wages and salaries will reflect the effects of 'lumpy' payments. However, the figures for operating

surplus and taxes on income are adjusted, if necessary, to be as consistent as possible with these figures.

Employers' social contributions (D.12)

These represent the value of the social contributions incurred by employers in order to ensure their employees are entitled to social benefits. They are treated as supplements to wages and salaries. They comprise payments by the employers to insurers and the cost of benefits paid directly to employees or former employees (unfunded schemes). These employers' contributions are treated as a component of the compensation of employees, who are deemed to pay them to the insurers (in the case of funded schemes) or back to the employers (in the case of unfunded schemes), and recorded in social contributions (D.61). The payment of benefit is recorded in social benefits (D.62) in both cases.

Estimates of employees' and employers' contributions to funded pension schemes are derived from data collected by the Office for National Statistics. That part of employers' contributions which refers to the National Insurance Fund, the National Health Service and the Redundancy Fund is estimated quarterly from data prepared by the Government Actuary's Department and Inland Revenue. As with employees' contributions, separate estimates are made for employers' contributions to superannuation schemes, the estimates being obtained by interpolation and projection of annual figures. Contributions to public sector unfunded schemes come from government accounts and are equal to the accruing superannuation liability contributions paid by government departments. For unfunded schemes, mainly the teachers' and National Health Service employees' schemes where the government constructs a notional fund, the contributions recorded are the actual amounts paid by employers.

Taxes on production and imports (D.2)

These are taxes levied by general government or by institutions of the European Union relating to the production and import of goods and services, the employment of labour, and the ownership or use of land, buildings or other assets used in production. They appear in the allocation of primary income account as resources of central and local government. Such taxes must be paid whether or not profits are made by the unit. Similar Taxes paid by non-marketable sectors, such as those on the personal use of vehicles by households, are recorded under current taxes on income, wealth, etc. The economic accounts break D.2 taxes down into: taxes on products (D.21) and other taxes on production (D.29). These estimates come from the accounts of government and are of good quality.

Taxes on products (D.21)

These are taxes that are payable per unit of a good or service produced or transacted.

The single most important element of this category is value added tax (VAT), part of which is deemed to be paid to central government and part directly institutions of the EU.

Other taxes on production (D.29)

These comprise taxes on the production of goods and services or trade in them, which are not proportional in any way to output or sales. In the United Kingdom they are collected by central government, with the exception of local non-domestic rates, which were a tax on the rental value of property and were levied by local authorities up to 31 March 1990 (1989 in Scotland). From April 1989 in Scotland and from April 1990 in England and Wales, these rates were abolished for businesses and replaced by National Non-Domestic rates (NNDR). This is a tax set by central government on the rental value of non-domestic property, the proceeds of which are distributed to local authorities. NNDR is collected by certain local authorities (collecting authorities) as agents of central government. It is classified as a central government tax. Local authority rates are still collected in Northern Ireland.

The main taxes in this group nowadays are NNDR and motor vehicle duties paid by businesses. The sources of data on taxes on production and imports are as follows:

- data on receipts by HM Customs and Excise, as published in their annual report and in Financial Statistics;

14

Other key economic indicators

- other central government tax receipts as published in either the Consolidated Fund Accounts or other accounts of government departments;
- data on NNDR as recorded in local authorities' statutory annual returns to the DDPM and regional equivalents. These are summarised in Local Government Financial Statistics for England and similar publications for Scotland, Wales and Northern Ireland.

Most taxes on production are essentially accounted for on a time-adjusted cash basis. The actual cash receipts are adjusted to when the activity took place to generate the liability. This is done using assumptions about the delay between the accruing liability and the receipt of the cash.

These estimates are from government accounts sources and are thus of good quality.

Subsidies (D.3)

Subsidies are current unrequited payments that the UK general government, or institutions of the European Union make to resident producers. The object of such payments is to influence their production levels or the payment level of the factors of production. Subsidies are divided into: subsidies on products (D.31) and other subsidies on production (D.39). The main source of data is the system of public expenditure planning and monitoring. These estimates are of good quality. Subsidies are recorded as far as possible on an accruals basis.

Property income (D.4)

14.54 This is the income receivable by the owner of a financial asset or a tangible non-produced asset in return for providing funds to, or putting the tangible non-produced assets at the disposal of, another institutional unit. Property income is split into six categories:

- interest (D.41)
 - distributed income of corporations (D.42)
 - reinvested earnings on direct foreign investment (D.43)
 - property income attributed to insurance policy holders (D.44)
 - rent (D.45)
- less • an adjustment for financial intermediation services indirectly measured (FISIM,)

Of these, interest is the most significant.

Interest is the amount that a debtor becomes liable to pay to a creditor, over a given period of time without reducing the amount of principal outstanding, under the terms of the financial instrument agreed between them.

Dividends and other distributive income are a form of property income to which the shareholders become entitled to as a result of their ownership of corporations. A special case are the distributions by quasi corporations to their owners, where there is one payment sector and only one recipient sector.

These figures come from the dividends and interest matrix (DIM) system developed within the ONS. The DIM is a framework for estimating dividend and interest flows to and from each sector of the economy. It is constructed on the standard classification of financial instruments (a term covering all types of financial assets and liabilities - bank loans, corporation shares, government bonds, etc.). For most instruments, payments of interest or dividends are made by a single sector and the amount payable in each period is known. However, the amounts receivable by each sector are frequently not known. The only firm information is that, for any given instrument, that the sum of receipts by all sectors must be equal to the sum of payments by all sectors. The DIM framework allocates the total payable between the receiving sectors using figures on the sectors' holdings of the instrument.

The DIM framework provides logical links within the economic accounts between the estimates of each sector's transactions in different financial instruments, of the level of their assets and liabilities in these instruments and of their receipts and payments of dividends and interest on the instruments. The DIM also has the advantage of being a general methodology for producing estimates that are common to all sectors.

The estimates of these amounts are derived by allocating the total among the receiving sectors according to their average holdings in the period. Their average holdings in the period are derived from their balance sheet figures. A similar approach is adopted for assets for which there is a single receiving sector but the amounts paid by the various paying sectors are not known.

In some cases more detailed, or separate information exists for certain sectors, which give reliable figures for flows to or from individual sectors. These data are used and the balance sheets are then used to allocate the remaining amounts between the other sectors.

If the total flow of interest for a particular instrument is not known, the balance sheet figures are used to estimate the total interest flows using known or estimated interest rates.

Thus these figures and those for each sector's transactions in and holdings of financial assets and liabilities are logically linked together, coherent, consistent and complete.

For several types of assets, the holders of them may be in the same sector as the issuers. For example, banks borrow funds from other financial corporations; a corporation may hold some share in another corporation as part of its portfolio of shares. Within the figures calculated by the dividends and interest matrix the aim is to include intra-sector transactions (as both payments and receipts) wherever possible. Intra-sector holdings are generally included in the unconsolidated balance sheet estimates. It therefore follows that similar coverage of income flows is obtained where these balance sheets are used to allocate income between sectors. Consistency of coverage is necessary if, for example, income data and balance sheets are being used to check that the implied rates of return are sensible and consistent with other information.

In the system of economic accounts, interest (D.41) is shown:

- among resources and uses in the allocation of primary income account of the sectors (this is different from most business accounting, where interest paid is usually shown as a fixed charge similar to other costs of production in the operating account);
- among resources and uses in the external account of primary incomes and current transfers.

Dividends (D.42) are shown:

- among uses in the allocation of primary income account of the non-financial and financial corporations' sectors;
- among resources in the allocation of primary income account of the shareholders' sectors;
- among uses and resources in the external account of primary income and current transfers.

More detail on the dividends and interest matrix (DIM) can be found in the article 'Sector allocation of dividend and interest flows - a new framework' published in the October 1992 edition of Economic Trends.

Adjustment for Financial Intermediation Services Indirectly Measured (FISIM,)

FISIM is an indirect measure of the value of the services for which financial intermediaries do not charge explicitly. The total value of FISIM is measured in the system as the total property income receivable by financial intermediaries other than insurance corporations and pension funds less their total interest payable. For this purpose, property income receivable should exclude any from the investment of their own funds.

FISIM is not at present allocated to user sectors, so the entries shown for interest are those for actual interest payable and receivable. The adjustment is made to deduct the value of FISIM from interest resources of financial corporations. An equivalent offsetting adjustment is attributed to the nominal sector deemed to be consuming FISIM. To simplify the presentation of the accounts, the nominal sector is not shown separately, but the counterpart to the adjustment to the financial corporations sector is included in the aggregate account for the total UK economy.

14

Other key economic indicators

Reinvested earnings on direct foreign investment (D.43)

This is defined as equalling the operating surplus of the direct foreign investment enterprise plus any property incomes or current transfers receivable less any property income or current transfers payable (including actual remittances to foreign direct investors and any current taxes payable on the income, wealth, etc. of the direct foreign investment enterprise).

A direct foreign investment enterprise is one in which a foreign investor owns 10 per cent or more of the equity. The foreign shareholder's share of the surplus defined in the previous paragraph is deemed to be distributed to it (in this account) and re-invested by it (in the financial account).

These figures may be either positive or negative on either side of the account. Resources are net earnings from outward direct investment by UK investors; uses are net earnings on inward direct investment in the UK by the rest of the world. For the UK, both resources and uses are positive, but there is some variation between specific sectors and industries.

Figures for this come from the ONS and Bank of England surveys of foreign direct investment.

These earnings are recorded when they are earned. They appear:

- as uses and resources in the allocation of primary income account of the sectors;
- similarly, as uses and resources in the external account of primary incomes and current transfers.

Property income attributed to insurance policy holders (D.44)

This is the primary income received from the investment of insurance technical reserves. It is shown as a use of the insurance sector and a resource of the policy holding sectors.

Figures for property income on these reserves come from surveys run by the ONS to insurance corporations and pension funds. A similar set of ONS income and expenditure surveys are completed by a sample of pension funds. These data are compared with the results of the DIM system for interest and dividends which, in turn, is based on annual balance sheet and quarterly transactions in financial assets inquiries to these institutions.

The division of this property income between the policy holder sectors takes into account information on the breakdown of premiums paid by product, the timing of premiums (many households now pay their annual premiums over a number of months, by direct debit), and the level of reserves held by type of business. Information from the Association of British Insurers, which represents about [98%] of UK insurers, supplements the data from the ONS surveys of insurance enterprises for this purpose.

Rent (D.45)

This property income is payable to the owners of tangible non-produced assets in return for allowing others to exploit the assets in question. Such assets include land, water, subsidiary assets and the electromagnetic spectrum. In the former UK system Rent included rental on buildings, now in principle a constituent of output and intermediate or final consumption. It is not possible to separate the value of land and buildings in many cases and component series are classified to one or the other according to a judgment of which is the predominant element. In practice, the main constituents of rent for the UK are for agricultural land; royalties in respect of permits to explore for oil and gas and from spectrum use for third generation mobile phones.

Rents are recorded in the period when payable and are shown:

- as resources and uses in the allocation of primary income account of sectors;
- among resources and uses in the external account of primary incomes and current transfers.

The total rent income over the whole UK economy is estimated from:

- government receipts of rent on land and spectrum;
- government receipts of royalties for oil and gas exploration;
- information from DEFRA on agricultural rents.

Gross Balance of primary incomes/national income (B.5g)

This is the balancing item of the allocation of primary income account: the total value of the primary incomes receivable, less the total of the primary incomes payable.

Current taxes on income, wealth etc. (D.5)

Most of these consist of taxes on the incomes of households or profits of corporations; and of taxes on wealth that are payable regularly every tax period (as distinct from capital taxes levied infrequently). This category is broken down simply into taxes on income (D.51) and other current taxes (D.59). It covers all compulsory, unrequited payments (in cash or kind) levied periodically by general government and the rest of the world on the income and wealth of institutional units.

Information from the Inland Revenue provides most of the data needed here.

Taxes on income (D.51)

These consist of taxes on incomes, profits and capital gains. They include taxes on individual income (through the PAYE system) including the income of owners of unincorporated enterprises; and corporation tax. They are assessed on the actual or presumed incomes of individuals, households, and corporations.



These data come from the Inland Revenue. For individuals the PAYE system, is supplemented by annual tax returns for higher rate taxpayers (self assessment), and data of tax paid on deposits with monetary financial institutions (MFIs).

Other current taxes (D.59)

These include:

- taxes that are payable periodically on assets, e.g. ownership or use of land;
- The Council tax, payable to local authorities and its predecessors the Community Charge and domestic rates;
- payments by households of vehicle excise duty, or for fishing licences.

These taxes are recorded:

- as uses of the sectors in which the taxpayers are classified in the secondary distribution of income account;
- as resources of general government in the secondary distribution of income account;
- as uses and resources in the external account of primary incomes and current transfers.

These estimates are obtained from a variety of sources. Taxes on capital come from the Inland Revenue. The figures for motor vehicle duties (motor vehicle excise duty and driving licence fees) come from Department of Transport records. Figures for the council tax, community charge (payable by adults in England and Wales from 1990 to 1993 and in Scotland from 1989 to 1993) and local domestic rates came from the government departments, local government in England, for Scotland, Wales and Northern Ireland.

Social contributions and benefits (D.6)

Social benefits are transfers to households (in cash or in kind), intended to relieve them from the financial burden of a number of risks or needs. They are either made through collectively organised schemes, or outside such schemes by government units and NPISH. They may be financed by social contributions (social insurance benefits) or be non-contributory (social welfare benefits). The secondary distribution of income account includes both social contributions (D.61) and social benefits other than social transfers in kind (D.62).

14

Other key economic indicators

Social contributions (D.61)

These are actual or imputed payments to social insurance schemes to make provision for social insurance benefits to be paid. They are available in the following detail:

- Actual social contributions (D.611);
- Employers' actual social contributions (D.6111);
- Employees' social contributions (D.6112);
- Social contributions by self- and un-employed persons (D. 6113);
- Imputed social contributions (D.612).

In the United Kingdom these comprise contributions to the national insurance scheme, the National Health Service, the Redundancy Fund, and the Maternity Pay Fund and premiums associated with the minimum state pension scheme. They include contributions in respect of Statutory Sick Pay (whereby employers pay their employees sickness benefit in return for a deduction from the contributions they pay). The main source for this information is the Inland Revenue, who collect the contributions on behalf of the Department of Social Security (DSS), the Department for work and pensions (DWP) and the Government Actuary's Department (GAD).

Under the PAYE system, when an employer deducts income tax from the wages and salaries of his employees they also deduct National Insurance Contributions (NIC) and pays them to the Inland Revenue for forwarding to the Department of Social Security (DSS). The Inland Revenue collects most National Insurance Contributions on behalf of the Department of Social Security. The information collected basically covers all employees in employment who are liable to tax and/or NICs. Information from a one per cent sample of DSS National Insurance records is extracted annually. For this sample of individual records, additional information about pay, tax, pensions, industrial/business classification, employers' contributions and category of contributions is extracted from end-of-year Inland Revenue PAYE documents. These data are transferred to a statistical file which is analysed to provide information on employees' NICs by industry, region, etc. This database or project is known as the National Income Statistics Project.

The social contributions shown in the central government accounts are the estimated amounts deducted by employers. The difference between these deductions and central government receipts is shown as in accounts receivable and payable in the financial account.

Social benefits other than social transfers in kind (D.62)

These comprise social security benefits in cash, private funded social benefits in cash or kind, unfunded employee social benefits and social assistance benefits in cash. They are intended to provide for the needs that arise from certain events or circumstances: for example, sickness, unemployment, retirement, housing, education. They may be social insurance benefits or social assistance benefits. The social transfers in kind that are excluded are those paid by government as individual consumption.

These estimates are derived from Department of Social Security records.

Other current transfers (D.7)

Current transfers are all other transfers that are not transfers of capital.

Five sub-categories are shown in the Blue Book tables. These are:

- net non-life insurance premiums;
- non-life insurance claims;
- current transfers within general government;
- current international co-operation;
- miscellaneous current transfers.

They are described separately below.

Net non-life insurance premiums (D.71)

These relate to insurance policies taken out by enterprises or individual households. The policies taken out by individual households are those taken out on their own initiative and for their own benefit, independently of their employers or government and outside any social insurance schemes. These premiums comprise both the actual premiums payable by policy holders during the accounting period and the premium supplements imputed from the property income attributed to insurance policy holders. The total of these has to cover the payments of service charges to the insurance corporations as well as the payments of the insurance itself. After deducting the service charges from total non-life insurance premiums, the remainder is described as net non-life insurance premiums. Only the net non-life insurance premiums constitute current transfers. The service charges represent purchases of services and so are shown as intermediate or final consumption, as appropriate.

These estimates are derived from the ONS survey of insurance companies.

Net non-life insurance claims (D.72)

These are the actual amounts payable in settlement of claims that become due during the current accounting period. The settlement of a claim is regarded as a current transfer to a claimant. (This heading does not include payments to households in the form of social insurance benefits.)

These estimates are derived from insurance inquiry returns to the ONS.

Current transfers within general government (D.73)

In the United Kingdom these comprise current transfers between central and local government. They include both specific grants (that is, those financing a specified expenditure) and general grants. They do not include transfers of funds committed to finance gross fixed capital formation; such transfers are regarded as capital transfers. The transfer of national non-domestic rates from central to local government is included here.

These estimates are obtained from public expenditure monitoring records.

Current international co-operation (D.74)

Resources of the United Kingdom are predominantly current transfers in cash or in kind between the government and institutions of the European Union. Uses comprise foreign aid and social security benefits paid abroad. These estimates come from government accounting records and are of good quality.

Miscellaneous current transfers (D.75)

This is the residual category where current transfers not specified elsewhere are recorded. They may take place between resident institutional units or between residents and non-resident units.

This includes UK contributions to the EU budget based on the so-called '4th resource' (derived from the value of the UK's ESA79-based gross national product at market prices). This item also includes certain compulsory fees and fines paid to central government. They exclude such fees where a service is deemed to be provided, such as passport fees or driving test fees, which are included in household consumption and government output. These data come from government sources and are of good quality.

Gross Disposable income (B.6g)

This is the balancing item in the secondary distribution of income account. It represents the balance of primary incomes for a sector or institutional unit plus all current transfers receivable (except social transfers in kind) less all current transfers payable (except social transfers in kind).

Final consumption (P.3)

Actual final consumption of households comprises their own consumption expenditure plus the individual consumption expenditure of general government and NPISH. Actual final consumption of general government comprises its own collective consumption expenditure. NPISH have no actual final consumption.

14

Other key economic indicators

Adjustment for change in net equity of households in pension funds (D.8)

The increase in pension funds reserves represented by contributions less pensions paid is regarded as an asset of the household sector. However, the treatment of these items in the distribution of income accounts leads to it being recorded in the pension providing sector (usually financial corporations). This correction is necessary to put the savings of the household and pension providing sectors on to the correct basis.

Changes in liabilities and net worth

Gross Saving (B.8g)

This is the balance of resources and uses which derives from the production and distribution and use of income accounts. For the whole economy, it is the balance of national disposable income over final consumption expenditure. In the case of household sector gross saving differs from gross disposable income by the amount of the adjustment for the change in net equity in pension funds (D.8) as well as by the amount of final consumption expenditure (P.3). The household sector saving ratio is therefore expressed as gross saving as a percentage of all the resources in the use of disposable income account, thereby including the adjustment for the change in net equity in pension funds with gross disposable income.

Capital transfers (D.9)

Capital transfers are defined as transactions in which one institutional unit provides another with a good, service or asset without receiving anything in return. They may be in cash or in kind, the latter consisting of transfers of ownership, cancellations of liabilities or provision of services. An important distinction is made between:

- Capital transfers, which involve the disposal or acquisition of assets by one or both parties, and
- Current transfers, which reduce the income and consumption possibilities of one party and increase those of the other.

Some cash transfers may be regarded as capital by one party to the transaction but current by the other. For example, a payment of inheritance tax could be seen as a one-off capital transfer by the taxpayer but as a current receipt by the government which collects many such payments. Similarly a large country making investment grants to a number of smaller countries might regard them as current payments even though they finance capital expenditure. In an integrated system of accounts any one transaction must be classified consistently so transfers are treated as capital for both parties even if only one of them acquires or disposes of assets. However, in other doubtful cases transfers should be treated as current rather than capital.

Non-financial assets are valued according to the price at which they could be sold on the market, including any costs of transportation, installation or ownership transfer incurred by the donor but not those of the recipient. The donation of a non-financial asset give rise to four entries in the accounts:

1. capital transfer paid by the donor
2. capital transfer received by the recipient
3. An imputed sale of asset by the donor
4. An imputed purchase of asset by the recipient

The capital account shows separate figures for receipts and payments for three broad categories, as below. In respect of the whole economy, the balance of receipts and payments will reflect any transfers received from or paid to overseas. For individual institutional sectors, the accounts will also show the flows between sectors. Given that most capital transfers are made by central government and to a lesser extent, local government, these sectors are taken as the source of information on receipts as well as payments. In the description given below, the receivable and payable components are not shown separately, but are discussed under the type of transfer.

Capital taxes (D.91)

Capital taxes cover taxes levied on assets or the transfer of assets, principally death duties (including inheritance tax). Taxes on capital gains, are included in current taxes on income and wealth (D.51). Capital taxes are paid to central government, mostly by households, but companies also make payments. Information, on a quarterly basis, is derived from Inland Revenue sources, as part of the administration of the tax system.

Investment grants (D.92)

These cover grants made by government to residents or non-residents to finance all or part of the costs of acquiring fixed assets. In the UK, the main type of investment grants are central and local government grants for house building and improvements and grants to universities, but European Union investment grants to UK residents are also included. Estimates are made, on a quarterly basis, largely from information available as part of the arrangements for monitoring public expenditure.

Other capital transfers (D.99)

These capital transfers cover a variety of transactions, including central government grants to local government and cancellation of debts, particularly by central government. Note that grants from government to public corporations are treated as equity investment if they come from a part of government that has a claim on the corporation, particularly if they relate to the cancellation of debt in the context of privatisation. Estimates are again made largely from information required for the monitoring of public expenditure. Compensation Payments for animals destroyed as part of the programme to prevent the spread of Foot and Mouth disease are included here.

* ✎

The analysis by institutional sector

This section describes the allocation of the figures of receipts and payments of capital transfers to each of the seven main institutional sectors, as shown below. Given that the bulk of payments emanate from central government, this also provides the main source for information on the recipient sector. It should be borne in mind that the long-run figures on a sector basis will be influenced by changes in the composition of the sectors, for example as a result of privatisations. The main transactions for the individual sectors are shown below.

Private non-financial corporations

Receipts by these producers relate mainly to investment grants; payments are mostly taxes and contributions to capital formation by local government. There are also grants to Housing Associations

Public corporations

Receipts by public corporations relate to investment grants and cancellations of debt. However, many debt cancellations from government have now been classified as equity injections.

Financial corporations

There are no receipts of capital transfers and only small payments of taxes.

Central government

Central government makes major capital transfers to private and public corporations, local government and NPISHs, as detailed for the recipient sectors. Receipts are of capital taxes.

Local government

Local authorities receive capital transfers from central government to cover a variety of service spending, particularly on housing and transport. They also receive transfers from private non-financial corporations. Grants are made to households for housing improvements.

Households

The household sector's main receipt is from local government for housing improvements. Payments relate to capital taxes, mainly inheritance tax.

* ✎

NPISH sector

Receipts by the NPISH sector are mostly central government grants to universities.

Change in net worth due to saving and capital transfers (B.10.1)

This is the sum of saving and receipts less payments of capital transfers. It represents the amount available for the acquisition of financial and non-financial assets.

14

Other key economic indicators

Acquisition of non-financial assets account

The second sub-account shows how saving and net capital transfers are used in the acquisition of non-financial assets, such as gross fixed capital formation, or additions to inventories or valuables, or of non-produced assets.

Changes in liabilities and net worth

Change in net worth due to saving and capital transfers (B.10.1)

This is the balance from the previous account.

Changes in assets

Included on the assets side of the table are three separate components which together make up gross capital formation (P.5). They are three very different variables, in nature and magnitude, and will be considered separately. The components are:

- Gross fixed capital formation (P.51);
- Changes in inventories (P.52);
- Acquisition less disposals of valuables (P.53).

Although the analyses will mostly show the components separately, occasionally they will relate to the aggregate of the three variables - gross capital formation. It is important that this aggregate is not confused with the main component of gross fixed capital formation.

Gross fixed capital formation (GFCF) (P.51)

GFCF relates essentially to investment in tangible and intangible produced assets and improvements to land.. GFCF constitutes additions to the nation's wealth. Investment is in assets which are used repeatedly in the production process for more than a year. This section expands on some of the more important of these points and also describe the estimation process for the analyses of GFCF, have been defined in the National Accounts concepts, sources and methods chapter 15.

Tangible and intangible produced assets

A distinction is made between investment in tangible and intangible produced assets. The former are made up of the conventional assets, such as plant and machinery, transport equipment, dwellings and other buildings and structures, and also cultivated assets. Intangible assets, which represent most of the expansion in scope of GFCF.

The analysis by institutional sector

The allocation of GFCF to sector is based on the sector using the asset. In respect of central and local government, the estimates flow directly from the public expenditure monitoring system. Information for public corporations is also readily available. For the private sector, estimates for financial corporations are derived from the appropriate industry classification used in the surveys, while estimates for the NPISH sector are also available directly. For other private sector investment, a breakdown is made between private non-financial companies and households, largely based on the sector allocation appearing on the statistical register of businesses.

For dwellings, the investment is almost entirely by the household sector. For transfer costs the residual is the household sector.

It should be borne in mind that the long-run figures of GFCF on a sector basis will be influenced by changes in the composition of the sectors, for example as a result of privatisations. Further, the figures are net of any receipts from sales, which has some impact on the series for government.

Changes in inventories (P.52)

Inventories in the economic accounts relate to goods which are held by producers prior to further processing or sale, or which will enter intermediate consumption or be sold without further processing. Inventories also include work-in-progress.

The analysis by institutional sector

The allocation follows the same groupings as for GFCF.

Acquisitions less disposals of valuables (P.53)

Valuables as defined here are essentially goods which are not used in the production process, and which are generally held as a store of value. They include, in principle, precious stones and metals, antiques and art objects. The presentation in the accounts, bringing together all valuables within gross capital formation, is new. However, it is likely that some valuables would have been included in the previous accounts, in final consumption or gross capital formation.

There are problems with both the concept of the variable and the derivation of any estimates. Valuables can enter the UK economy in two ways. First, they may achieve 'valuables' status as time evolves, for example, as might occur for an antique or a painting. Secondly, they may enter (or leave) through overseas trade. Measurement of the former type of valuables is extremely difficult and there is no attempt to measure it. The figures for the UK accounts will relate solely to the net value of dealers' margins on transactions (which are recorded in this item along with the value of the goods) plus overseas trade.

Estimates are based on information supplied by HM Customs and Excise.

Acquisitions less disposals of non-produced, non-financial assets (K.2)

These comprise non-produced, non-financial assets. This is mainly land used in the production process, and also intangible non-produced assets. They are divided into two groups, as described below.

Acquisitions less disposals of land and other tangible non-produced assets (K.21)

This is defined as covering transactions in land and in subsoil assets, such as deposits of coal, oil and gas, located on land or under the sea. The former is meant to cover land separately from the building on the land. However, as discussed earlier, it is not readily possible to make this separation in the estimates for the UK accounts. Hence, the figures recorded in the capital account for this item will not embrace the land component of the combined buildings and land transaction. This information will be included, as acquisitions and disposals, in the estimates of GFCF on dwellings and on other buildings and structures. The coverage for this heading will be restricted to agricultural land and land which undergoes a change of use. This practice does not affect the aggregate of gross capital formation, only the way the information is recorded, by asset.

The source of the data on land is the Inland Revenue survey of Property Transactions, based on a sample of returns to valuation offices where stamp duty is collected. The value of land is separated from that of buildings by reference to unpublished Inland Revenue information and some sector specific assumptions. The sector analysis is derived from the same survey.

Acquisitions less disposals of intangible non-produced assets (K.22)

Most transactions in patents, leases and other transferable contracts take place within sectors, but transactions with the Rest of the world are derived from ONS surveys. No information is yet available on purchases and sales of goodwill, but again, they are thought to be mainly intra-sector transactions or transactions with the Rest of the world.

1 Supplementary tables

A list of supplementary tables and expected publication dates for the forthcoming year is to be found towards the back of *Financial Statistics*. It may not always be possible to achieve the expected publication date. The following tables are currently published: S4, S29, and S29B.

S1 Debt of the public sector: nominal amount outstanding

No longer published. Information on Public Sector Net Debt is published monthly in table 1.1D.

S3 Annual financial accounts matrix

Annually: (No longer published. Last published in April 1998)

S4 National debt: nominal amount outstanding

Annually: (Last published April 2004)

★ ✎

The figures included here represent the total nominal liabilities of the National Loans Fund calculated as outstanding at 31 March each year, analysed by instrument and maturity. The table shows details for the most recently completed financial year, where the figures are provisional, and for the three previous financial years. Full details are given in *Consolidated Fund and National Loans Fund Accounts: Supplementary Statements* (normally published annually in December). These figures are included in supplementary table S1 and the *Bank of England Quarterly Bulletin* for November 1997 also contains an article on the distribution of the national debt.

The sterling valuation of debt payable in external currencies has been made at the following rates:

	US \$	Can \$	DM	Yen	ECU	EURO
1991	1.7385	2.0144	2.9702	245.74	1.4428	
1992	1.7350	2.0647	2.8584	231.19	1.397503	
1993	1.5062	1.8925	2.4254	172.91	1.250996	
1994	1.4845	2.0531	2.4776	152.61	1.285281	
1995	1.6280	2.2833	2.2271	140.63	1.222406	
1996	1.5262	2.0798	2.2531	163.04	1.214161	
1997	1.6303	2.2448	2.7345	-	1.406765	
1998	1.6745	2.3821	3.0963	-	1.556517	
1999	1.6138	2.4415	2.9242	-	-	1.495090
2000	1.5952	2.3146	3.2588	-	-	1.666178
2001	1.4217	2.2384	3.1469	-	-	1.6090
2002	1.4240	2.240	2.2721	-	-	1.632279
2003	1.5806	2.3253	2.8329	-	-	1.448436
2004	1.837	2,4161	2.9359	-	-	1.4953

★ ✎

S9 Reconciliation of the financial accounts and the balance of payments accounts

Annually: (No longer published, last published November 1994)

S13 Public sector accounts by subsector

No longer published. Details of the Public sector accounts by sub sector are contained in section 2.3.

★ denotes commencement of changes since the 2004 edition ✎ denotes the end of the changes

S21 Save as you earn

Quarterly :Last published in September 1995

Annually: (No longer published, last published in May 1998).

S24 Finances of the public sector

(No longer published. Last published in July 1998. For further information see **Table S2.4**)



S2.4 Public sector finances: current receipts

(No longer published. Last published in the September 2000). Public sector key fiscal balances showing the current receipts and current expenditure are published in table 2.3F of *Financial Statistics* every month

Table S29 Government Deficit and Debt Under Maastricht Treaty: Summary Table

Table S29 shows general government net borrowing (also referred to as “government deficit”) and the nominal value of general government gross consolidated debt, in £ million and as percentages of gross domestic product (GDP) at current market prices, which is also shown in £ million. Data in this table are reported to EUROSTAT in the Excessive Deficits Procedure, under the requirements of the Maastricht Treaty. The Maastricht Treaty does not determine what constitutes excessive general government deficits or debt. A protocol to the Treaty does, however, specify reference percentages for general government deficit (which should not exceed 3 per cent of GDP) and gross consolidated debt (which should not exceed 60 per cent of GDP).

Table S29A Reconciliation of General Government Net Cash Requirement with Net Borrowing

(No longer published)

Table S29B General Government Gross debt at Nominal Value Consolidated

Table S29B shows general government gross consolidated debt at nominal value, by Maastricht debt instruments. These are loans from central bank, other loans, currency and deposits, bills and short-term bonds and medium and long-term bonds. The main component of total gross debt is medium and long-term bonds, this category mainly consists of British Government Securities (gilts).

Timeliness

These tables are produced twice a year to coincide with the Excessive Deficits Procedure on 1 March and 1 September every year. In the March 2000 EDP, the data was reported on an ESA95 basis for the first time. Previously it had been reported on an ESA79 basis. (ONS no longer produces these data on ESA79 basis).

Further references

ONS First Release, ‘Government Deficit and Debt under the Maastricht Treaty’. (Published on the last working day in February and August each year).

1

Supplementary tables

Table S9.2 Quoted Ordinary Shares Balance Sheets

Last published in December 1999. As from January 2000 This table has been renumbered as table 12.1P and is published in *Financial Statistics* every month.

		UK total economy	Non-financial corporations	Financial corporations	Monetary financial institutions	Other financial intermediaries & auxiliaries	Insurance corporations & pension funds
		S1	S11	S12	S121 + S122	S123+ S124	S125
FINANCIAL ACCOUNT	III.2						
Net acquisition of financial assets	F.A						
Monetary gold and special drawing rights (SDRs)	F.1	NQAD					
Currency and deposits	F.2						
Currency	F.21	NYPY	NGIJ	NFCV	NGCB	NFJD	
Transferable deposits	F.22						
Deposits with UK monetary financial institutions	F.221	NYQC	NGIL	NFCX	NGCD	NFJF	NBSJ
Deposits with rest of the world monetary financial institutions	F.229						
Other deposits	F.29	NYQK	NGIP	NFDB	NGCH	NFJJ	NBSN
Other deposits	F.29	NYQM	NGIQ	NFDC	NGCI	NFJK	NBSO
Total currency and deposits	F.2	NQAK	NGII	NFCU	NGCA	NFJC	NBSG
Securities other than shares	F.3						
Short term: money market instruments	F.331						
Issued by UK general government	F.3311	NYQQ	NGIT	NFDF	NGCL	NFJN	NBSR
UK local authority bills	F.3312	NYQY	NGIX	NFDJ	NGCP	NFJR	
Issued by UK monetary financial institutions	F.3315	NYRA	NGIY	NFDK	NGCQ	NFJS	NBSW
Issued by other UK residents	F.3316	NYRK	NGJD	NFDP	NGCV	NFJX	NBTB
Issued by the rest of the world	F.3319	NYRM	NGJE	NFDQ	NGCW	NFJY	NBTC
Long term: bonds	F.332						
Issued by UK central government	F.3321	NYRQ	NGJG	NFDS	NGCY	NFKA	NBTE
Issued by UK local authorities	F.3322	NYRW	NGJJ	NFDV	NGDB	NFKD	NBTH
Issued by UK monetary financial institutions	F.3325	NYRY	NGJK	NFDW	NGDC	NFKE	NBTI
Issued by other UK residents	F.3326	NYSE	NGJN	NFDZ	NGDF	NFKH	NBTL
Issued by the rest of the world	F.3329	NYSG	NGJO	NFEA	NGDG	NFKI	NBTM
Financial derivatives	F.34			NFEB	NGDH		
Total securities other than shares	F.3	NQAL	NGIR	NFDD	NGCJ	NFJL	NBSP
Loans	F.4						
Short term loans	F.41						
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	F.411	NYSS		NFEH	NGDN		
Loans by rest of the world monetary financial institutions	F.419						
Long term loans	F.42						
Direct investment	F.421	NYTE	NGKB	NFEN	NGDT	NFKV	NBTZ
Loans secured on dwellings	F.422	NYTK	NGKE	NFEQ	NGDW	NFKY	NBUC
Finance leasing	F.423	NYTS		NFEU	NGEA	NFLC	
Other long-term loans	F.424	NYTU	NGKJ	NFEV	LNPM	NFLD	NBUH
Other long-term loans by the rest of the world	F.429			NFEW			
Total loans	F.4	NQAN	NGJT	NFEF	NGDL	NFKN	NBTR
Shares and other equity	F.5						
Shares and other equity, excluding mutual funds' shares	F.51						
Quoted UK shares	F.514	NYUG	NGKQ	NFFC	NGEI	NFLK	NBUO
Unquoted UK shares	F.515	NYUI	NGKR	NFFD	NGEJ	NFLI	NBUP
Other UK equity (including direct investment in property)	F.516	NYUK					
Shares and other equity issued by the rest of the world	F.519	NYUQ	NGKV	NFFH	NGEN	NFLP	NBUT
Mutual funds' shares	F.52						
UK mutual funds' shares	F.521	NYUY	NGKZ	NFFL	NGER	NFLT	NBUX
Rest of the world mutual funds' shares	F.529	NYVA					
Total shares and other equity	F.5	NQAP	NGKL	NFEX	NGED	NFLF	NBUJ
Insurance technical reserves	F.6						
Net equity of households in life assurance and pension funds' reserves	F.61	NQAX					
Prepayments of insurance premiums and reserves for outstanding claims	F.62	NQBD	NGLE	NFFQ		NFLY	NBVC
Total insurance technical reserves	F.6	NQAW	NPXB	NPWR		NPWT	NPWB
Other accounts receivable	F.7	NQBK	NGLF	NFFR	NGEX	NFLZ	NBVD
Total net acquisition of financial assets	F.A	NQBL	NRGP	NFCQ	NGBW	NFIY	NBSC

Sources: National Statistics;
Bank of England

2 Financial accounts

Continued

Financial account codes - flows, ESA 1995

		General government	Central government	Local government	Households & NPISH	Rest of the world
		S.13	S.1311	S.1313	S.14+S.15	S.2
FINANCIAL ACCOUNT	III.2					
Net acquisition of financial assets	F.A					
Monetary gold and special drawing rights (SDRs)	F.1	NFPH	NWXM			NEWJ
Currency and deposits	F.2					
Currency	F.21				NFVT	NEWN
Transferable deposits	F.22					
Deposits with UK monetary financial institutions	F.221	NFPN	NART	NBYR	NFVV	NEWP
Deposits with rest of the world monetary financial institutions	F.229	NFPR	NARX		NFVZ	
Other deposits	F.29	NFPS	RYWO	NBYW	NFWA	NEWU
Total currency and deposits	F.2	NFPK	NARQ	NBYO	NFVS	NEWM
Securities other than shares	F.3					
Short term: money market instruments	F.331					
Issued by UK general government	F.3311	NFPV		NBYZ	NFWD	NEWX
UK local authority bills	F.3312	NFPZ			NFWH	
Issued by UK monetary financial institutions	F.3315	NFQA		NBZE	NFWI	NEXC
Issued by other UK residents	F.3316	NFQF	NSRI	NBZJ	NFWN	NEXH
Issued by the rest of the world	F.3319	NFQG	NASM			
Long term: bonds	F.332					
Issued by UK central government	F.3321	NFQI		NBZM	NFWQ	NEXK
Issued by UK local authorities	F.3322				NFWT	NEXN
Issued by UK monetary financial institutions	F.3325					NEXO
Issued by other UK residents	F.3326	NFQP	NASV		NFWX	NEXR
Issued by the rest of the world	F.3329	NFQQ	NASW		NFWY	
Financial derivatives	F.34					
Total securities other than shares	F.3	NFPT	NARZ	NBYX	NFWB	NEWV
Loans	F.4					
Short term loans	F.41					
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	F.411					
Loans by rest of the world monetary financial institutions	F.419					NEYD
Long term loans	F.42					
Direct investment	F.421					NEYP
Loans secured on dwellings	F.422	NFRG	NATM	NCAK		
Finance leasing	F.423					
Other long-term loans by UK residents	F.424	NFRL	NATR	NCAP	NFXT	
Other long-term loans by the rest of the world	F.429					QYLT
Total loans	F.4	NFQV	NATB	NBZZ	NFXD	NEXX
Shares and other equity	F.5					
Shares and other equity, excluding mutual funds' shares	F.51					
Quoted UK shares	F.514	NFRS	NATY	NCAW	NFYA	NEYU
Unquoted UK shares	F.515	NFRT	NATZ	NCAV	NFYB	NEYV
Other UK equity (including direct investment in property)	F.516	NFRU	NAUA		NFYC	NEYW
Shares and other equity issued by the rest of the world	F.519	NFRX	NAUD		NFYF	
Mutual funds' shares	F.52					
UK mutual funds' shares	F.521				NFYJ	NEZD
Rest of the world mutual funds' shares	F.529				NFYK	
Total shares and other equity	F.5	NFRN	NATT	NCAR	NFXV	NEYP
Insurance technical reserves	F.6					
Net equity of households in life assurance and pension funds' reserves	F.61				NFYL	NEZF
Prepayments of insurance premiums and reserves for outstanding claims	F.62	NFSG		NCBK	NFYO	NEZI
Total insurance technical reserves	F.6	NPWV		NPWD	NPWX	NPWP
Other accounts receivable	F.7	NFSH	NAUN	NCBL	NFYF	NEZJ
Total net acquisition of financial assets	F.A	NFPG	NARM	NBYK	NFVO	NEWI

Sources: National Statistics;
Bank of England

Financial account codes - flows, ESA 1995

Continued

		UKNon-financial total economy corporations	Financial corporations	Monetary institutions	Other financial intermediaries & auxiliaries	Insurance corporations & pension funds
		S1	S11	S12S121 + S122	S123+ S124	S125
FINANCIAL ACCOUNT continued	III.2					
Net acquisition of financial liabilities	F.L					
Currency and deposits	F.2					
Currency	F.21	NYPZ		NFFZ	NGFF	
Transferable deposits	F.22					
Deposits with UK monetary financial institutions	F.221	NYQD		NFGB	NGFH	
Deposits with rest of the world monetary financial institutions	F.229					
Other deposits	F.29	NYQN		NFGG		
Total currency and deposits	F.2	NQCK		NFFY	NGFE	
Securities other than shares	F.3					
Short term: money market instruments	F.331					
Issued by UK general government	F.3311	NYQR				
UK local authority bills	F.3312	NYQZ				
Issued by UK monetary financial institutions	F.3315	NYRB		NFGO	NGFU	
Issued by other UK residents	F.3316	NYRL	NGMH	NFGT	NFNB	
Issued by the rest of the world	F.3319					
Long term: bonds	F.332					
Issued by UK central government	F.3321	NYRR				
Issued by UK local authorities	F.3322	NYRX				
Issued by UK monetary financial institutions	F.3325	NYRZ		NFHA	NGGG	
Issued by other UK residents	F.3326	NYSF	NGMR	NFHD	NGGJ	NFNL
Issued by the rest of the world	F.3329					NBWP
Financial derivatives	F.34			NFHF	NGGL	
Total securities other than shares	F.3	NQCM	NGLV	NFGH	NGFN	NFMP
Loans	F.4					
Short term loans	F.41					
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	F.411	NYST	NGMZ	NFHL	NFNT	NBWX
Loans by rest of the world monetary financial institutions	F.419	NYTB	NGND	NFHP	NFNX	NBXB
Long term loans	F.42					
Direct investment	F.421	NYTF	NGNF	NFHR	NGGX	NFNZ
Loans secured on dwellings	F.422	NYTL				NBXD
Finance leasing	F.423	NYTT	NGNM	NPHY	NGHE	NFOG
Other long-term loans by UK residents	F.424	NYTV	NGNN	NFHZ	NFOH	NBXL
Other long-term loans by the rest of the world	F.429	NYTX	NGNO	NFIA	NFOI	
Total loans	F.4	NQCN	NGMX	NFHJ	NGGP	NFNR
Shares and other equity	F.5					
Shares and other equity, excluding mutual funds' shares	F.51					
Quoted UK shares	F.514	NYUH	NGNU	NFIG	NGHM	NFOO
Unquoted UK shares	F.515	NYUJ	NGNV	NFIH	NGHN	NFOF
Other UK equity (including direct investment in property)	F.516	NYUL	NGNW	NFII	NGHO	
Shares and other equity issued by the rest of the world	F.519					
Mutual funds' shares	F.52					
UK mutual funds' shares	F.521	NYUZ		NFIP	NFOX	
Rest of the world mutual funds' shares	F.529					
Total shares and other equity	F.5	NQCS	NGNP	NFIB	NGHH	NFOJ
Insurance technical reserves	F.6					
Net equity of households in life assurance and pension funds' reserves	F.61	NQCD		NFIR		NBYD
Prepayments of insurance premiums and reserves for outstanding claims	F.62	NQDD		NFIU		NBYG
Total insurance technical reserves	F.6	NQCV		NPWS		NPWC
Other accounts payable	F.7	NQDG	NGOJ	NFIV	NGIB	NFPD
Total net acquisition of financial liabilities	F.L	NQDH	NRGR	NFFU	NGFA	NFMC
Net lending / borrowing	B.9					
Total net acquisition of financial assets	F.A	NQBL	NRGP	NFCQ	NGBW	NFIY
less Total net acquisition of financial liabilities	-F.L	-NQDH	-NRGR	-NFFU	-NGFA	-NFMC
Net lending (+) / net borrowing (-), from financial account	B.9f	NQDL	NYNT	NYNL	NYNS	NYNM
Statistical discrepancy between financial & non-financial accounts	dB.9f	NYVK	NYPF	NYOX	NYPE	NYOY
Net lending (+) / net borrowing (-), from capital account	B.9	NQFH	EABO	NHCQ	NHFK	NHLW

Sources: National Statistics;
Bank of England

2 Financial accounts

Continued

Financial account codes - flows, ESA 1995

		General government	Central government	Local government	Households & NPISH	Not sector -ised	Rest of the world
		S.13	S.1311	S.1313	S.14+S.15	S.N	S.2
FINANCIAL ACCOUNT continued	III.2						
Net acquisition of financial liabilities	F.L						
Currency and deposits	F.2						
Currency	F.21	NFSP	NAUV				NEZR
Transferable deposits	F.22						
Deposits with UK monetary financial institutions	F.221						
Deposits with rest of the world monetary financial institutions	F.229						NEZX
Other deposits	F.29	NFSW	NAVC				
Total currency and deposits	F.2	NFSO	NAUU				NEZQ
Securities other than shares	F.3						
Short term: money market instruments	F.331						
Issued by UK general government	F.3311	NFSZ	NAVF				
UK local authority bills	F.3312	NFTD		NCCH			
Issued by UK monetary financial institutions	F.3315						
Issued by other UK residents	F.3316				NFZR		
Issued by the rest of the world	F.3319						NFAM
Long term: bonds	F.332						
Issued by UK central government	F.3321	NFTM	NAVS				
Issued by UK local authorities	F.3322	NFTP		NCCT			
Issued by UK monetary financial institutions	F.3325						
Issued by other UK residents	F.3326				NGAB		
Issued by the rest of the world	F.3329						NFAW
Financial derivatives	F.34				NGAD		
Total securities other than shares	F.3	NFSX	NAVD	NCCB	NFZF		NEZZ
Loans	F.4						
Short term loans	F.41						
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	F.411	NFUB	NAWH	NCDF	NGAJ		NFBD
Loans by rest of the world monetary financial institutions	F.419	NFUF	NAWL	NCDJ			
Long term loans	F.42						
Direct investment	F.421						NFBJ
Loans secured on dwellings	F.422				NGAS		
Finance leasing	F.423	NFUO	NAWU	NCDS			NFBQ
Other long-term loans by UK residents	F.424	NFUP	NAWV	NCDT	NGAX		NSRT
Other long-term loans by the rest of the world	F.429	NFUQ	NAWW	NCDU			
Total loans	F.4	NFTZ	NAWF	NCDD	NGAH		NFBB
Shares and other equity	F.5						
Shares and other equity, excluding mutual funds' shares	F.51						
Quoted UK shares	F.514						
Unquoted UK shares	F.515				NGBF		
Other UK equity (including direct investment in property)	F.516						
Shares and other equity issued by the rest of the world	F.519						NFCD
Mutual funds' shares	F.52						
UK mutual funds' shares	F.521						NFCI
Rest of the world mutual funds' shares	F.529						
Total shares and other equity	F.5						NFBT
Insurance technical reserves	F.6						
Net equity of households in life assurance and pension funds' reserves	F.61						
Prepayments of insurance premiums and reserves for outstanding claims	F.62						
Total insurance technical reserves	F.6						
Other accounts payable	F.7	NFVL	NAXR	NCEP	NGBT		NFCN
Total net acquisition of financial liabilities	F.L	NFSK	NAUQ	NCBO	NFY5		NEZM
Net lending / borrowing	B.9						
Total net acquisition of financial assets	F.A	NFPG	NARM	NBYK	NFVO		NEWI
less Total net acquisition of financial liabilities	-F.L	-NFSK	-NAUQ	-NCBO	-NFY5		-NEZM
Net lending (+) / net borrowing (-), from financial account	B.9f	NYNO	NZDX	NYNQ	NZDY		NYOD
Statistical discrepancy between financial & non-financial accounts	dB.9f	NYOZ	NZDW	NYPC	NZDV	RVFE	NYPO
Net lending (+) / net borrowing (-), from capital account	B.9	NNBK	NMFJ	NMOE	NSSZ	RVFE	NHRB

Sources: National Statistics;
Bank of England

Financial account codes - levels, ESA 1995

Continued

		UK total economy	Non-financial corporations	Financial corporations	Monetary financial institutions	Other financial intermediaries & auxiliaries	Insurance corporations & pension funds
		S.1	S.11	S.12	S.121+S.122	S.123+S.124	S.125
FINANCIAL BALANCE SHEET	IV.3						
at end of period							
Financial assets	AF.A						
Monetary gold and special drawing rights (SDRs)	AF.1	NYVN					
Currency and deposits	AF.2						
Currency	AF.21	NYVV	NNZG	NLJE	NNSY	NLPM	
Transferable deposits	AF.22						
Deposits with UK monetary financial institutions	AF.221	NYVZ	NNZI	NLJG	NNTA	NLPO	NIYG
Deposits with rest of the world monetary financial institutions	AF.229	NYWH	NNZM	NLJK	NNTE	NLPS	NIYK
Other deposits	AF.29	NYWJ	NNZN	NLJL	NNTF	NLPT	NIYL
Total currency and deposits	AF.2	NYVT	NNZF	NLJD	NNSX	NLPL	NIYD
Securities other than shares	AF.3						
Short term: money market instruments	AF.331						
Issued by UK general government	AF.3311	NYWP	NNZQ	NLJO	NNTI	NLPW	NIYO
UK local authority bills	AF.3312	NYWX	NNZU	NLJS	NNTM	NLQA	
Issued by UK monetary financial institutions	AF.3315	NYWZ	NNZV	NLJT	NNTN	NLQB	NIYT
Issued by other UK residents	AF.3316	NYXJ	NOLQ	NLJY	NNTS	NLQG	NIYY
Issued by the rest of the world	AF.3319	NYXL	NOLP	NLJZ	NNTT	NLQH	NIYZ
Long term: bonds	AF.332						
Issued by UK central government	AF.3321	NYXP	NOLR	NLKB	NNTV	NLQJ	NIZB
Issued by UK local authorities	AF.3322	NYXV	NOLU	NLKE	NNTY	NLQM	NIZE
Issued by UK monetary financial institutions	AF.3325	NYXX	NOLV	NLKF	NNTZ	NLQN	NIZF
Issued by other UK residents	AF.3326	NYYD	NOLY	NLKI	NNUC	NLQQ	NIZI
Issued by the rest of the world	AF.3329	NYZF	NOLZ	NLKJ	NNUD	NLQR	NIZJ
Financial derivatives	AF.34			NLKK	NNUE		
Total securities other than shares	AF.3	NYWL	NNZO	NLJM	NNTG	NLPU	NIYM
Loans	AF.4						
Short term loans	AF.41						
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	AF.411	NYTT		NLKQ	NNUK		
Loans by rest of the world monetary financial institutions	AF.419						
Long term loans	AF.42						
Direct investment	AF.421	NYZF	NOMM	NLKW	NNUQ	NLRE	NIZW
Loans secured on dwellings	AF.422	NYZL	NOMP	NLKZ	NNUT	NLRH	NIZZ
Finance leasing	AF.423	NYZT		NLLD	NNUX	NLRL	
Other long-term loans	AF.424	NYZV	NOMU	NLLE	LNPN	NLRM	NJAE
Other long-term loans by the rest of the world	AF.429						
Total loans	AF.4	NYYP	NOME	NLKO	NNUI	NLQW	NIZO
Shares and other equity	AF.5						
Shares and other equity, excluding mutual funds' shares	AF.51						
Quoted UK shares	AF.514	NZAJ	NONB	NLLL	NNVF	NLRT	NJAL
Unquoted UK shares	AF.515	NZAL	NONC	NLLM	NNVG	NLRU	NJAM
Other UK equity (including direct investment in property)	AF.516	NZAN					
Shares and other equity issued by the rest of the world	AF.519	NZAT	NONG	NLLQ	NNVK	NLRY	NJAJ
Mutual funds' shares	AF.52						
UK mutual funds' shares	AF.521	NZBB	NONK	NLLU	NNVO	NLSC	NJAU
Rest of the world mutual funds' shares	AF.529	NZBD					
Total shares and other equity	AF.5	NYZZ	NOMW	NLLG	NNVA	NLRO	NJAG
Insurance technical reserves	AF.6						
Net equity of households in life assurance and pension funds' reserves	AF.61	NZBH					
Prepayments of insurance premiums and reserves for outstanding claims	AF.62	NZBN	NONP	NLLZ		NLSH	NJAZ
Total insurance technical reserves	AF.6	NZBF	NPYN	NPYH		NPYP	NPXR
Other accounts receivable	AF.7	NZBP	NONQ	NLMA	NNVU	NLSI	NJBA
Total financial assets	AF.A	NZBV	NNZB	NLIZ	NNST	NLPH	NIZN

Sources: National Statistics;
Bank of England

2 Financial accounts

Continued

Financial account codes - levels, ESA 1995

		General government	Central government	Local government	Households & NPISH	Rest of the world
		S.13	S.1311	S.1313	S.14+S.15	S.2
FINANCIAL BALANCE SHEET	IV.3					
at end of period						
Financial assets	AF.A					
Monetary gold and special drawing rights (SDRs)	AF.1	NIFC	NIFC			
Currency and deposits	AF.2					
Currency	AF.21				NNMQ	NLCW
Transferable deposits	AF.22					
Deposits with UK monetary financial institutions	AF.221	NLVW	NIFI	NJEO	NNMS	NLCY
Deposits with rest of the world monetary financial institutions	AF.229				NNMW	
Other deposits	AF.29	NLWA	NIFM	NJET	NNMX	NLDD
		NLWB	NIFN			
Total currency and deposits	AF.2	NLUT	NIFF	NJEL	NNMP	NLCV
Securities other than shares	AF.3					
Short term: money market instruments	AF.331					
Issued by UK general government	AF.3311	NLWE		NJEW	NNNA	NLDG
UK local authority bills	AF.3312	NLWI			NNNE	
Issued by UK monetary financial institutions	AF.3315	NLWJ		NJFB	NNNF	NLDL
Issued by other UK residents	AF.3316	NLWO	NSRH	NJFG	NNNK	NLDQ
Issued by the rest of the world	AF.3319	NLWP	NIGB			
Long term: bonds	AF.332					
Issued by UK central government	AF.3321	NLWR		NJFJ	NNNN	NLDT
Issued by UK local authorities	AF.3322	NLWU	NIGG		NNNQ	NLDW
Issued by UK monetary financial institutions	AF.3325					NLDX
Issued by other UK residents	AF.3326	NLWY	NIGK		NNNU	NLEA
Issued by the rest of the world	AF.3329	NLWZ	NIGL		NNNV	
Financial derivatives	AF.34				NNNW	
Total securities other than shares	AF.3	NLWC	NIFO	NJEU	NNMY	NLDE
Loans	AF.4					
Short term loans	AF.41					
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	AF.411					
Loans by rest of the world monetary financial institutions	AF.419					NLEM
Long term loans	AF.42					
Direct investment	AF.421					NLEO
Loans secured on dwellings	AF.422	NLXP	NIHB	NJGH		
Finance leasing	AF.423					
Other long-term loans by UK residents	AF.424	NLXU	NIHG	NJGM	NNOQ	
Other long-term loans by the rest of the world	AF.429					NLEX
Total loans	AF.4	NLXE	NIGQ	NJFW	NNOA	NLEG
Shares and other equity	AF.5					
Shares and other equity, excluding mutual funds' shares	AF.51					
Quoted UK shares	AF.514	NLYB	NIHN	NJGT	NNOX	NLFD
Unquoted UK shares	AF.515	NLYC	NIHO	NJGU	NNOY	NLFE
Other UK equity (including direct investment in property)	AF.516				NNOZ	NLFF
Shares and other equity issued by the rest of the world	AF.519	NLYG	NIHS		NNPC	
Mutual funds' shares	AF.52					
UK mutual funds' shares	AF.521				NNPG	NLPM
Rest of the world mutual funds' shares	AF.529				NNPH	
Total shares and other equity	AF.5	NLXW	NIHI	NJGO	NNOS	NLEY
Insurance technical reserves	AF.6					
Net equity of households in life assurance and pension funds' reserves	AF.61				NNPI	NLFO
Prepayments of insurance premiums and reserves for outstanding claims	AF.62	NLYP		NJHH	NNPL	NLFR
Total insurance technical reserves	AF.6	NPYJ		NPXT	NPYL	NPYF
Other accounts receivable	AF.7	NLYQ	NIIC	NJHI	NNPM	NLFS
Total financial assets	AF.A	NPUP	NIGP	NJFV	NNML	NLEF

Sources: National Statistics;
Bank of England

Financial account codes - levels, ESA 1995

Continued

		UK total economy	Non-financial corporations	Financial corporations	Monetary financial institutions	Other financial intermediaries & auxiliaries	Insurance corporations & pension funds
		S.1	S.11	S.12	S.121+S.122	S.123+S.124	S.125
FINANCIAL BALANCE SHEET continued	IV.3						
at end of period							
Financial liabilities	AF.1						
Currency and deposits	AF.2						
Currency	AF.21	NYVW		NLMI	NNWC		
Transferable deposits	AF.22						
Deposits with UK monetary financial institutions	AF.221	NYWA		NLMK	NNWE		
Deposits with rest of the world monetary financial institutions	AF.229						
Other deposits	AF.29	NYWK		NLMP			
Total currency and deposits	AF.2	NYVU		NLMH	NNWB		
Securities other than shares	AF.3						
Short term: money market instruments	AF.331						
Issued by UK general government	AF.3311	NYWQ					
UK local authority bills	AF.3312	NYWY					
Issued by UK monetary financial institutions	AF.3315	NYXA		NLMX	NNWR		
Issued by other UK residents	AF.3316	NYXK	NOOS	NLNC		NLTK	
Issued by the rest of the world	AF.3319						
Long term: bonds	AF.332						
Issued by UK central government	AF.3321	NYXQ					
Issued by UK local authorities	AF.3322	NYXW					
Issued by UK monetary financial institutions	AF.3325	NYXY		NLNI	NNXD		
Issued by other UK residents	AF.3326	NYYE	NOPC	NLNM	NNXG	NLTU	NJCM
Issued by the rest of the world	AF.3329						
Financial derivatives	AF.34			NLNO	NNXI		
Total securities other than shares	AF.3	NYWM	NOOG	NLMQ	NNWK	NLSY	NJBQ
Loans	AF.4						
Short term loans	AF.41						
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	AF.411	NYIU	NOPK	NLNU	NNXO	NLUC	NJCU
Loans by rest of the world monetary financial institutions	AF.419	NYZC	NOPO	NLNY		NLUG	
Long term loans	AF.42						
Direct investment	AF.421	NYZG	NOPQ	NLOA	NNXU	NLUI	NJDA
Loans secured on dwellings	AF.422	NYZM					
Finance leasing	AF.423	NYZU	NOPX	NLOH	NNYB	NLUP	
Other long-term loans by UK residents	AF.424	NYZW	NOPY	NLOI	NNYC	NLUQ	NJDI
Other long-term loans by the rest of the world	AF.429	NYZY	NOPZ	NLOJ		NLUR	
Total loans	AF.4	NYIQ	NOPI	NLNS	NNXM	NLUA	NJCS
Shares and other equity	AF.5						
Shares and other equity, excluding mutual funds' shares	AF.51						
Quoted UK shares	AF.514	NZAK	NOQF	NLOP	NNYJ	NLUX	NJDP
Unquoted UK shares	AF.515	NZAM	NOQG	NLOQ	NNYK	NLUY	NJDQ
Other UK equity (including direct investment in property)	AF.516	NZAO	NOQH				
Shares and other equity issued by the rest of the world	AF.519						
Mutual funds' shares	AF.52						
UK mutual funds' shares	AF.521	NZBC		NLOY		NLVG	
Rest of the world mutual funds' shares	AF.529						
Total shares and other equity	AF.5	NZAA	NOQA	NLOK	NNYE	NLUS	NJDK
Insurance technical reserves	AF.6						
Net equity of households in life assurance and pension funds' reserves	AF.61	NZBI		NLPA			NJEA
Prepayments of insurance premiums and reserves for outstanding claims	AF.62	NZBO		NLPD			NJED
Total insurance technical reserves	AF.6	NZBG		NPYI			NPXS
Other accounts payable	AF.7	NZBQ	NOQU	NLPE	NNYY	NLVM	NJEE
Total financial liabilities	AF.1	NZBW	NONT	NLMD	NNVX	NLSL	NJCR

2 Financial accounts

Continued

Financial account codes - levels, ESA 1995

		General government	Central government	Local government	Households & NPISH	Rest of the world
		S.13	S.1311	S.1313	S.14+S.15	S.2
FINANCIAL BALANCE SHEET continued	IV.3					
at end of period						
Financial liabilities	AF.L					
Currency and deposits	AF.2					
Currency	AF.21	NLYY	NIIK			NLGA
Transferable deposits	AF.22					
Deposits with UK monetary financial institutions	AF.221					
Deposits with rest of the world monetary financial institutions	AF.229					NLGG
Other deposits	AF.29	NLZF	NIIR			
Total currency and deposits	AF.2	NLYX	NIIJ			NLPZ
Securities other than shares	AF.3					
Short term: money market instruments	AF.331					
Issued by UK general government	AF.3311	NLZI	NIIU			
UK local authority bills	AF.3312	NLZM		NJIE		
Issued by UK monetary financial institutions	AF.3315					
Issued by other UK residents	AF.3316				NNQO	
Issued by the rest of the world	AF.3319					NLGV
Long term: bonds	AF.332					
Issued by UK central government	AF.3321	NLZV	NIJH			
Issued by UK local authorities	AF.3322	NLZY		NJIQ		
Issued by UK monetary financial institutions	AF.3325					
Issued by other UK residents	AF.3326				NNQY	
Issued by the rest of the world	AF.3329					NLHF
Financial derivatives	AF.34				NNRA	
Total securities other than shares	AF.3	NLZG	NIIS	NJHY	NNQC	NLGI
Loans	AF.4					
Short term loans	AF.41					
Loans by UK monetary financial institutions, excluding loans secured on dwellings & financial leasing	AF.411	NNKY	NIJW	NJJC	NNRG	NLHM
Loans by rest of the world monetary financial institutions	AF.419	NNLC	NIKA	NJJG	NNRK	
Long term loans	AF.42					
Direct investment	AF.421					NLHS
Loans secured on dwellings	AF.422				NNRP	
Finance leasing	AF.423	NNLL	NIKJ	NJJJ		NLHZ
Other long-term loans by UK residents	AF.424	NNLM	NIKK	NJJQ	NNRU	NROS
Other long-term loans by the rest of the world	AF.429	NNLN	NIKL	NJJR		
Total loans	AF.4	NNKW	NIJU	NJJA	NNRE	NLHK
Shares and other equity	AF.5					
Shares and other equity, excluding mutual funds' shares	AF.51					
Quoted UK shares	AF.514					
Unquoted UK shares	AF.515				NNSC	
Other UK equity (including direct investment in property)	AF.516					
Shares and other equity issued by the rest of the world	AF.519					NLIM
Mutual funds' shares	AF.52					
UK mutual funds' shares	AF.521					
Rest of the world mutual funds' shares	AF.529					NLIR
Total shares and other equity	AF.5				NNRW	NLIC
Insurance technical reserves	AF.6					
Net equity of households in life assurance and pension funds' reserves	AF.61					
Prepayments of insurance premiums and reserves for outstanding claims	AF.62					
Total insurance technical reserves	AF.6					
Other accounts payable	AF.7	NNMI	NILG	NJKM	NNSQ	NLIW
Total financial liabilities	AF.L	NPVQ	NIJT	NJIZ	NNPP	NLHJ
Net financial assets / liabilities	BF.90					
Total financial assets	AF.A	NPUP	NIGP	NJFV	NNML	NLEF
less Total financial liabilities	-AF.L	-NPVQ	-NIJT	-NJIZ	-NNPP	-NLHJ
Net financial assets (+) / liabilities (-)	BF.90	NYOG	NZDZ	NYOJ	NZEA	NLPK

Sources: National Statistics;
Bank of England

Title	Author/Published	ISBN/ISSN
Mergers and acquisitions involving UK companies : ONS First Release.(quarterly)	ONS Press Office available on-line from National Statistics web site	N/A
Annual Abstract of Statistics. 2004	ONS. Distributed by the Stationery Office	ISBN 0116217316 ISSN 00725730
Assets and Liabilities of Finance Houses and Other Consumer Credit Companies: Business Monitor SDQ 7. (quarterly)	Available on-line from National Statistics web site (last paper copy Q1 02)	ISSN 1366 882X
Bank of England Annual Report and Accounts. 2004	Bank of England	ISSN 1467 016X
Bank of England Inflation Report. (quarterly)	Bank of England	ISSN 1353 6737
Bank of England Monetary and Financial Statistics (online monthly, hard copy twice yearly)	Bank of England	ISSN 1365 7690
Bank of England Quarterly Bulletin	Bank of England	ISSN 0005 5166
Bank of England Statistical Abstract. Parts 1 and 2. 2002 (annual)	Bank of England Only available online on BOE website	N/A
Building Societies' Association. A Compendium of Housing Finance Statistics 1997. (annual)	Building Societies' Association 1997 last edition, now discontinued	ISBN 1872423345
Building Societies Commission Final Report	Financial Services Authority (Building Societies Commission)	ISBN 0952208792 ISSN 0956-490X
Capital Expenditure and Treasury Management Statistics. 2002/03. (annual) Formerly - Capital payments, financing and debt statistics)	Chartered Institute of Public Finance and Accountancy	ISSN 0969-7101
Consolidated Fund and National Loans fund Accounts 2002/03. Supplementary Statements. (annual)	H.M. Treasury. Distributed by The Stationery Office	ISBN 0103283137
Digest of Welsh Statistics 2003. (annual)	National Assembly for Wales	ISBN 0750499524 ISSN 0262-8295
Economic Trends (monthly)	Office for National Statistics. Distributed by The Stationery Office.	ISSN 0013 0400
Economic Trends Annual Supplement. 2004	Office for National Statistics. Distributed by The Stationery Office	ISSN 0308-1133 ISBN 0116216816
Financial Statement and Budget Report.. (Cover title Budget 2004 prudence for a purpose a Britain of stability and strength economic and fiscal strategy report and financial statement and budget report March 2004)	H.M. Treasury. Distributed by The Stationery Office.	ISBN 0102927626

Bibliography

Guide to Official Statistics. 2000.	Office for National Statistics. Distributed by The Stationery Office	ISBN 011621161X
The Financial Times guide to using the financial pages (4 th ed)	Financial Times Prentice Hall	ISBN 027365263X
Housing and Construction Statistics Great Britain. Published quarterly in 2 parts, with a single annual volume – latest 1988-1997/8 Housing and construction statistics now published separately - see below	Department of the Environment, Transport and the Regions (now OPDM). Distributed by The Stationery Office No longer published see below	ISBN 1851123504 (Latest annual volume). ISBN 0117820121 / 011782013X
Housing Statistics published quarterly, with a single annual volume	Office of the Deputy Prime Minister Distributed by The Stationery Office	ISSN 1475-2360 ISBN 0117539066 (Latest annual volume 2003).
Construction Statistics (2003 Annual)	Department of Trade and Industry Distributed by The Stationery Office	ISBN 0115155074
Inland Revenue Statistics. (annual)	Board of Inland Revenue. Distributed by the Stationery Office.	No longer published – tables available on-line (2000 last paper ed.)
Insolvency Service. General Annual Report for 2000-01	The Insolvency Service. Distributed by The Stationery Office	ISBN 0102910030 (2000-01) Now available as Annual report only – latest available on-line (2002-03)
Insurance Companies' Pension Funds' and Trusts' Investments. Business Monitor MQ5. (quarterly)	No longer published available on-line from National Statistics web site	ISSN 1462 558X
Local Government Financial Statistics. England. No.14, 2003. (annual)	Office of the Deputy Prime Minister	ISBN 1851126694
Monthly Digest of Statistics.	Office for National Statistics Distributed by The Stationery Office.	ISSN 0308 6666
Northern Ireland Annual Abstract of Statistics. No.21, 2003.	Northern Ireland Statistics and Research Agency. Available from The Stationery Office	ISBN 0337086524
Foreign direct investment Business monitor MA4 [Formerly Overseas direct investment] (annual)	No longer published in hardcopy Available on-line from National Statistics web site	ISSN 1369 1538
Quality of Markets Quarterly (part of Economic and Market Information Service)	International London Stock Exchange, Publications Section.	No longer published. Various statistics available on-line from their web site
Report of the Chief Registrar of Friendly Societies 2000-01	Financial Services Authority	ISBN 0952258382

Scottish Abstract of Statistics. (annual)	Scottish Office. Distributed by The Stationery Office Bookshop, Edinburgh	ISBN 0748071865 1998 last paper edition now known as Scottish Statistics and available online from National Statistics website. 2001 latest online issue
Sector Classification for the National Accounts. Business Monitor MA23. Main volume 1996 ; Supplement 1997	Office for National Statistics. Main volume distributed by The Stationery Office. Supplement from ONS Direct	ISBNs 1996 0115363394 1997 (supplement) 18577423 0 No longer published. Available on-line from National Statistics Website.
Share Ownership. A Report on the Ownership of Shares at 31st December. 2003	Office for National Statistics. Distributed by The Stationery Office.	ISBN 0117065838
Social Trends. No. 34 2004. (annual)	Office for National Statistics. Distributed by The Stationery Office.	ISSN 0306 7742 ISBN 0116217324
Statistical News. (quarterly)	Office for National Statistics. Distributed by The Stationery Office.	ISSN 0017 3630 No longer published
Statistics on International Development. 1997/8 – 2003 (annual)	Department for International Development.	ISSN 0068 1210 ISBN 1861925727
Statistics Users' Conference on Financial Statistics. Proceedings.	Business and Trade Statistics Ltd	ISBN 0903312077
Stock Exchange Quarterly with Quality of Market Review. (Now part of the Economic and Market Information Service).	International London Stock Exchange. Publications Section.	ISSN 02671530 No longer published. Various statistics available on-line from their web site
United Kingdom Balance of Payments. (The Pink Book). 2004. (annual)	Office for National Statistics. Distributed by The Stationery Office	ISSN 0950-7558 ISBN 0116217375
United Kingdom Economic Accounts. (quarterly)..	Office for National Statistics. Distributed by the Stationery Office.	ISSN 1350 4401
United Kingdom National Accounts. The Blue Book. 2004. (annual)	Office for National Statistics. Distributed by The Stationery Office.	ISSN 0267 8691 ISBN 0116217367
United Kingdom National Accounts. Concepts, Sources and Methods. 1998.	Office for National Statistics. Distributed by The Stationery Office.	ISBN 0116210621
Welsh Local Government Financial Statistics. 2003 (annual).	National Assembly for Wales	ISSN 0140 4482 ISBN 0750499567

For further information on these publications and any other UK government statistical publications, please contact the Office for National Statistics Customer Enquiry Centre. Tel. 0845 6013034. Fax 01633 652747. E mail info@statistics.gov.uk

Contacts

Bank of England	Threadneedle Street London EC2R 8AH	Tel 020 7601 4878 Fax. 020 7601 5460
Building Societies' Association	3 Saville Row London W1S 3PB	Tel. 020 7437 0655 Fax. 020 7734 6416
Financial Services Authority (FSA)	12 th Floor, 25 The North Colonnade Canary Wharf, London E14 5HS	Tel. 020 7066 1000 (switchboard), 0845 606 1234 (consumer helpline)
Chartered Institute of Public Finance and Accountancy (CIPFA)	3 Robert Street London WC2N 6RL	Tel. 020 7543 5600 Fax. 020 7543 5700
Office of the Deputy Prime Minister (OPDM)	26 Whitehall London SW1A 2WH	Tel: 020 7944 4400 Fax: 0207 944 6589
Department for International Development	1 Palace Street London SW1E 5HE	020 7023 0000
Financial Times Newsletters and Management Reports	Gilmoora House 57-61 Mortimer Street London W1N 8JX	Tel. (FT customer services) 020 7775 6248 Tel. (FT switchboard) 020 7873 3000
HM Customs and Excise Advice Centre	Dorset House Stamford Street London SE1 9PY	Tel. 0845 010 9000
London Stock Exchange Ltd Publications Department	10 Paternoster Square London EC4M 7LS	Tel. (switchboard) 020 7797 1000. (Publications Dept.) 020 7797 1692
Northern Ireland Statistics and Research Agency, Department of Finance and Personnel	McAuley House 2-14 Castle Street Belfast BT1 1SA	Tel. 028 9034 8100 (Switchboard)
Registry of Friendly Societies, contact via the Financial Services Authority (FSA) as above		
Scottish Office	The Scottish Office Library K Spur, Saughton House Broomhouse Drive Edinburgh, EH11 3XD	Tel. 0131 244 4564
National Assembly of Wales Statistics Branch Statistical Directorate 2	Cathays Park Cardiff CF10 3NQ	Tel. (General Statistics Directorate enquiries) 029 2082 6023

OFFICE FOR NATIONAL STATISTICS: INTERNAL CONTACTS

Key economic developments

Geoff Tily
020-7533 5919
geoff.tily@ons.gov.uk

National Accounts

Households' final consumption expenditure

Fenella Maitland-Smith
020-7533 5938
fenella.maitland-smith@ons.gov.uk
Margaret Dolling
020-7533 5996
margaret.dolling@ons.gov.uk

General government final consumption expenditure

Martin Kellaway
020-7533 5987
martin.kellaway@ons.gov.uk

Gross capital formation

Adrian Chesson
01633815696 ext 2537
adrian.chesson@ons.gov.uk

Exports and imports of goods

David Ruffles
020-7533 6070
david.ruffles@ons.gov.uk

Exports and imports of services

Tom Orford
020-7533 6095
tom.orford@ons.gov.uk

Gross domestic product by category of output

Rob Pike
01633 815696 ext 2624
rob.pike@ons.gov.uk

Sector Accounts

Shares Bonds and Equity

Michael Tucker
020-7533 5944
michael.tucker@ons.gov.uk

Households' and NPISH sector

Nollaig Griffin
020 7533 6073
nollaig.griffin@ons.gov.uk

Non-financial corporations

Roger Ward
020-7533 6002
roger.ward@ons.gov.uk

Financial corporations

Nollaig Griffin
020-7533 6073
nollaig.griffin@ons.gov.uk

Balance of payments

Richard Dagnall
020-7533 6055
richard.dagnall@ons.gov.uk
Simon Humphries
020-7533 6075
simon.humphries@ons.gov.uk

Index



- accounting conventions 148–150, 153–154
- accumulation accounts 9, 10, 11
- acquisitions
 - assets 139–140, 182, 207
 - companies 6, 121–122
 - net 113, 139–142
 - valuables 207
- advance corporation tax (ACT) 74
- advances
 - banks 103
 - Issue Department 99
- aggregates
 - money 81–95
 - public sector 79–80
- aggregates levy 76, 77
- agricultural levies 76
- air passenger duty 76, 77, 135
- air transport 164, 166–167, 173
- alcoholic duties 76
- annual financial accounts matrix 5, 90, 208
- appropriations-in-aid 70
- assets
 - acquisition 139–140, 182, 207
 - balance of payments 186
 - bank balance sheets 102
 - Bank of England 99–100
 - building societies 86
 - capital transfers 206
 - classification 139
 - commercial 107
 - earnings 178
 - fixed, tangible/intangible 206, 207
 - liquid 81–95, 107
 - long-term bonds 42
 - Monetary Financial Institutions 98, 99
 - non-financial 207
 - non-produced 207
 - overseas investments 191
 - reserve 65, 187, 192
 - shares and equity 49
- audio-visual and related services 164, 172
- auxiliary financial activities 21
- auxiliary insurance services 169




- balance of payments 7, 156–192
- capital account 181–182, 193–205
- current transfers 179–181
- financial accounts 138, 182–187, 208

- income 173–179
- income account 194–195
- institutional sectors 205–207
- investments 182–192
- trade in goods 156–164
- trade in services 164–173
- balance sheets 9, 14, 151–154
 - banks 100–104
 - codes 215–218
 - introduction 7, 10, 11, 13, 14
 - matrix 143
 - Monetary Financial Institutions 83, 96–99
 - use 152–153
- balancing items, conceptual framework 8, 9
- Baltic Exchange 170
- Bank of England
 - assets 99–100
 - banking department 88, 99
 - foreign currency assets and liabilities 66
 - government securities 99–100
 - liabilities 99–100
 - money supply 6
 - sector definition 23
- banker's deposits, banking department 88
- banking department 88, 99
- banks
 - see also* Monetary Financial Institutions
 - balance sheets 100–104
 - bills 102
 - consumer credit scope 94
 - deposits 35, 101–102, 108
 - direct investment earnings 175
 - domestic currency deposits 35
 - foreign currency 35, 98
 - government deposits 63
 - investments 103–104
 - lending 108–110
 - liabilities
 - balance sheets 101
 - financial instruments 38–39
 - foreign currency 98
 - retail interest rates 132–133
 - sector definition 26
 - short-term loans 43
 - statistics changes 85–87
 - trade in services 170
- base rate, Finance House 133
- betting, duties 76

- bibliography 219–221
- bills
 - banks 102
 - Treasury 37, 63, 92, 131
- bonds
 - see also* long-term bonds
 - investments 184, 190
 - overseas investments 190
 - transactions 184
 - UK investments 190
- bonds and notes, portfolio investment earnings 176
- borrowing
 - see also* interest rates; loans; public sector
 - consumer credit 93–95
 - HMG short-, medium- and long-term 65
 - local authorities 59, 67–68
 - net borrowing 53, 58–59, 68
 - net cash requirement 59–60, 69, 84
 - non-bank credit companies 115
 - public corporations 69
 - secured on dwellings 94–95
- British government securities *see* government securities
- building societies 105–107
 - see also* Monetary Financial Institutions
 - assets, money supply 86
 - commercial assets 107
 - compilation 105
 - consumer credit scope 94
 - data, financial instruments 54
 - deposits 35–36, 63, 106
 - domestic and foreign currency deposits 35–36
 - interest rates 133–134
 - issues 39
 - loans secured on dwellings 107
 - M4 money stock 90
 - retail shares 106
 - sector definition 27
- business services 164, 171
- business travel 168
- C

 - calendar month statistics 85–87
 - Call Money Rate 131
 - capital account
 - balance of payments 181–182, 193–205
 - conceptual framework 8, 11
 - gross mixed income 195
 - gross operating surplus 195
 - household consumption 204
 - liability changes 204
 - net worth 204
 - primary incomes 201
 - summary 194
 - capital issuance 6, 123
 - capital issues
 - non-bank credit companies 115
 - capital taxes 201, 204
 - capital transfer tax (CTT) 74
 - capital transfers 181
 - assets changes 206
 - definition 204
 - institutional sector 205
 - car tax 75, 135
 - cash loaded cards, banks 101
 - CDs (Certificates of Deposit) 102, 107
 - central bank
 - definition 23
 - sector definition 26
 - central government
 - capital transfers 181, 205
 - debt 62
 - departments 18, 19
 - expenditure 6, 70–80
 - financing 61–63
 - foreign currency assets and liabilities 66
 - loans 46, 185
 - long-term loans 185, 186
 - net cash requirement (old CGBR) 61–63, 70–71
 - Northern Ireland debt 62, 72
 - other government funds and accounts 72–73
 - revenue 6, 70–80
 - sector definition 18–19
 - short-term loans 186
 - sources of data 19
 - subscriptions 186
 - surplus on current budget and net borrowing 58–59
 - trading bodies 19
 - transfers 179–180
 - Certificates of Deposit (CDs) 102, 107
 - certificates of tax deposit 64, 92
 - circulation *see* money stock
 - classification, financial instruments 33, 54
 - clean prices and yields, government securities 127–128
 - climate change levy 76, 77
 - codes, financial account 211–218

- coin *see* notes and coin
- commercial assets, building societies 107
- communication services 164, 169
- companies 6
 - acquisitions 121–122
- company security prices and yields 129–130
- compensation, employees 173–174, 195
- computer and information services 164, 171
- Consolidated Fund
 - description 70
 - Inland Revenue receipts 73
 - receipts and payments 71–72
- consolidation adjustments, Monetary Financial Institutions 96–99
- construction services 164
- consumer credit, personal sector borrowing 93–95
- consumption, households 204
- contacts
 - external 222
 - internal 223
- corporation tax 73–74
- council tax 135
- credit 6, 81–95
 - see also* trade credit
 - cards 94
 - companies 114–116
 - consumer credit 93–95
 - domestic trade 53
 - retailers, import and export 53
 - unions 26
- CTT (capital transfer tax) 74
- cultural services 164, 172
- currency, Special Drawing Rights 126, 127
- currency and deposits
 - see also* foreign currency
 - balance of payments 185, 186
 - banks 35
 - financial instruments 34–35
 - investments 191
 - money market instruments 98
- current account
 - see also* income account
 - conceptual framework 9, 10
- current transfers 179–181, 202–203
- Customs and Excise
 - duties 75–77
 - receipts 71
-  data sources, financial instruments 33–54
- debt
 - local authorities 67–68
 - Northern Ireland 62, 72
 - public sector 64–65, 208
- deeds of arrangement 120
- deposits
 - balance of payments 185, 186
 - banks 35, 63, 101–102, 108
 - building societies 35–36, 63, 106
 - central government 62
 - earnings 177, 178
 - financial instruments 34–35
 - money market instruments 98
 - National Savings 36–37
 - overseas 36, 190–191
 - tax certificates 64, 92
 - tax instruments 37
 - UK investments 191
- derivatives *see* financial derivatives; net derivatives
- DIM *see* dividend and interest matrix
- direct borrowing, local authorities 68
- direct insurance 169
- direct investment 183, 189–190
 - earnings 175–176, 200
 - loans 44–45
- disbursements 166, 167
- disposable income account 194
- distribution and use of income account 9, 10
- dividend
 - balance of payments 199
 - interest flows 7, 144, 155, 198, 199
- dividend and interest matrix (DIM) 7, 144, 155, 198, 199
- domestic currency 35
- domestic trade credit, financial instruments 53
- duties
 - see also* Customs and Excise; Value Added Tax
 - air passengers 76, 77
 - alcoholic drinks 76
 - betting, gaming and lottery 76
 - excise 76, 135
 - imports 76
 - Inland Revenue 73–75
 - motor vehicles 75, 77
 - oil 75, 76
 - stamp duty 74
 - tobacco products 76
 - vehicle excise 135, 201

dwellings, loans on 6, 45, 94–95, 107



earnings 174–179
deposits 177, 178, 179
direct foreign investment 200

direct investment 175–176
loans 177
other assets 178
other investment 177–179
other liabilities 179
portfolio investment 176–177
reserve assets 179
trade credit 178

economic accounts assembly 32

economic indicators 7, 193–207

see also dividend and interest matrix

EEA (Exchange Equalisation Account) 70, 73

employees, compensation 173–174, 195

employers, social contribution 197

equities

financial instruments 47–50
investment in 182, 183, 184, 190
overseas 49–50, 190
transactions 184

ERI (Sterling exchange rate index) 125–126

ESA *see* European System of Accounts

Euro 66, 127

European System of Accounts (ESA)

1979 209

1995 5, 6, 13, 14, 32, 54, 155, 209, 211–218

Exchange Equalisation Account (EEA) 70, 73

exchange rates 6, 125–135

see also currency

against sterling 125–126

interest rates differentials 126–127

excise duties 76, 135

see also Customs and Excise; Value Added Tax

expenditure, conceptual framework 8

export credit 53

exports

Government services 172–173



Finance House, base rates 133

financial accounts 6–7, 11, 137–207

accounting conventions 148–150

assembly 13–14

balance of payments 138, 182–187, 208

balance sheets 151–154

codes 211–218

flows by sector 7

M4 money stock 90

matrix 5, 90, 138, 208

reliability gradings 139–142

sectors 150

uses 145–146

financial auxiliaries 21

definition 24–25

financial corporations 17, 21–27, 205

sub-sectors 22–26

financial derivatives 185, 192

financial instruments 43

Monetary Financial Institutions 98

portfolio investment earnings 176–177

financial enterprises 22

financial institutions

see also Monetary Financial Institutions

other than MFIs 111–119

financial instruments 7, 33–54

classification 33, 54

financial intermediaries, investment earnings 175

financial intermediation, definition 21, 24

financial intermediation services indirectly measured
(FISIM) 199

financial leasing 45

financial services, trade 164, 169–170

financial statistics 55–136

financial transactions accounts 8, 11, 54

FISIM (financial intermediation services indirectly
measured) 199

flat yields 128

flows, conceptual framework 8

foreign currency

see also overseas finance

borrowing 62–63, 64–65

holdings 91–92

UK bank deposits 35

foreign deposits 185, 186, 191

freight, trade 165, 166, 167

freight insurance 169

fund management companies, trade 170



gaming, duties 76

gas levy 77

GDI (Gross Domestic Income) 12

GDP (Gross Domestic Product) 8, 12, 209

GEMS (Treasury Government Expenditure
Monitoring System) 19

general government

see also central government; local authorities

current transfers 203

resident institutional units 17–18

sector definition 17

short-term instruments 37–39

sub-sectors 18

General Government Financial Deficit (GGFD) 209

GFCF (gross fixed capital formation) 206

GGFD (General Government Financial Deficit) 209

gilts

see also securities

money supply 92

gold

see also monetary gold

price fixing 127

value 66, 192

goods, trade 156–164

goods and services account 9, 10

government

see also central government; general government;

Sterling Treasury Bills

debt 62, 64–65, 209

institutional units 17–18

public sector foreign currency 62–63, 64–65

roughness securities 128

securities 99, 100

prices and yields 127–128

services 164, 172

grants, investment 205

gross advances, Monetary Financial Institutions 107

gross balance, primary incomes 201

gross disposable income 203

Gross Domestic Income (GDI) 12

Gross Domestic Product (GDP) 8, 12, 209

gross fixed capital formation (GFCF) 206

gross mixed income, capital account 195

gross operating surplus, capital account 195

gross savings 204



households 29

capital transfers 205

consumption 204

income taxation 201

as institutional units 29–30

sector definition 17, 29

hydrocarbon oil duties 76



IHT (inheritance tax) 74

IMF (International Monetary Fund)

66–67

imports

air transport 167

credit 53

customs duties 76

EU countries 157, 158

Government services 173

non-EU countries 157–158, 159

rail transport 167

road transport 167

sea transport 165

taxation 197

valuation 158, 159 165

VAT 75

income

balance of payments 173–179

investment 173–179

property 198–199, 200

income account

allocation of primary 193–194

conceptual framework 9, 10

disposable 194, 203

generation 193

secondary distribution 194

by sector 193–205

income analysis, framework 8

income tax 73, 201

see also Pay As You Earn system

industrial analysis, bank lending 108–110

information services 164, 171

inheritance tax (IHT) (old CTT) 74

Inland Revenue

see also taxation

central government net cash requirement 71

Consolidated Fund 71

duties 73–75

insolvencies 6, 120–121

institutional sector

capital transfers 205

conceptual framework 8, 13

definition 16

financial corporations sector 21–27

general government 17

investments 118

insurance 6

claims 203

- financial instruments 52
 - net non-life 203
 - policy holders' property income 200
 - premium tax 76, 77
 - premiums 203
 - property income 200
 - reserves 52
 - insurance companies
 - consumer credit scope 94
 - direct investment earnings 175
 - general business 114
 - sector definition 25
 - insurance corporations 25
 - insurance services, trade 164, 169
 - intangible fixed assets 206, 207
 - integrated economic accounts 9
 - interest
 - economic accounts system 199
 - matrix system 7
 - interest rates 6, 125–135
 - building societies 133–134
 - differentials 126–127
 - exchange rates 126–127
 - investment accounts 132
 - local authorities 134
 - National Savings 132
 - retail banks 132–133
 - international investment position 187–189
 - International Monetary Fund (IMF) 66–67
 - international reserves 65
 - investment
 - see also* direct investment; portfolio investments
 - balance of payments 182–192
 - banks 103–104
 - direct 183, 189–190
 - direct foreign 200
 - earnings 175–179, 200
 - grants 205
 - institutions 118
 - international 187–189
 - inward (UK) 183, 184, 186–187, 189, 190, 191–193
 - loans 44–45
 - local authorities 68–69
 - National Savings accounts 132
 - open ended investment companies (OEICs) 51
 - other 177, 185, 190
 - outward (overseas) 183, 184, 185–186, 189, 190, 191
 - portfolio 176–177, 183, 190
 - reserve assets 187, 192
 - trusts 51, 116
 - investment income, summary 174–175
 - inward investment 183, 184, 186–187, 189, 190, 191–193
 - Issue Department, Bank of England 99
 - issues
 - building societies 39
- 1

 - LA temporary debt, Treasury 92
 - landfill tax 76, 77
 - leasing loans 45
- lending *see* loans
 - liabilities
 - Bank of England 99–100
 - banks 38–39, 101
 - classification 138
 - deposit 186
 - earnings 179
 - financial instruments 38–39, 41–42, 47, 48
 - long-term 41–42, 186, 187, 191
 - Monetary Financial Institutions 98
 - sale and repurchase agreements 101
 - shares and equity 48
 - short-term 186, 187, 192, 193
 - unquoted UK shares 48
 - licence fees 171
 - life insurance, trade 169
 - liquid assets 81–95
 - building societies 107
 - outside M4 91–93
 - liquidity
 - companies 6
 - non-financial corporations 122–123
 - loans
 - see also* borrowing; interest rates; long-term loans; short-term loans
 - balance of payments 185, 186
 - banks 102
 - consumer credit scope 94
 - earnings 177, 178
 - financial instruments 43, 44, 45–47
 - leasing 45
 - market 102
 - Monetary Financial Institutions 62, 98
 - non-bank credit companies 114–116
 - non-monetary financial intermediaries 46
 - overseas 44
 - secured on dwellings 6, 45, 94–95, 107

local authorities *see* local government

local government 205

 borrowing 67–68

 capital transfers 205

 financial instruments 41

 interest rates 134

 investments 68–69

 long-term bonds 41

 schools 20

 sector definition 20

 sources of data 20

 trading bodies 20

London gold price fixing 127

long-term bonds

 central government 40–41

 financial instruments 41, 42–43

 local authorities 41

 Monetary Financial Institutions 41–42

 overseas 42–43

long-term loans

see also short-term loans

 central government 185, 186

 financial instruments 44, 47

 overseas 47

long-term securities, financial instruments 40–43

lottery, duties 76



M0 money stock 81, 82

 changes 88

 seasonal adjustments 88

M1 money stock 82

M3 money stock 82

M4 money stock 89–93

 changes 82–85, 89–90

 circulation velocity 87–88

 definition 16, 82

 domestic counterparts 90

 foreign currency holdings 91

 lending sectoral analysis 90–91

 private sector deposits 91

 seasonal adjustments 85–86

mainstream corporation tax 73–74

market loans, banks 102

maturity breakdown, gilts 92

MCAs (Monetary Compensatory Amounts) 76

merchanting 164, 171

mergers 6, 121–122

MFIs *see* Monetary Financial Institutions

monetary aggregates

 definition 81, 82

 growth rates 87

Monetary Compensatory Amounts (MCAs) 76

Monetary Financial Institutions (MFIs) 6, 23, 26, 82, 96–110

see also other financial institutions

 balance sheets 83, 96–99

 building societies 105–107

 consolidation adjustments 96–99

 definition 96

 deposits 34

 direct investment earnings 175

 financial derivatives 98

 financial instruments 34, 38–39, 41–42

 loans 62, 98

 long-term bonds 41–42

 money market instruments 38–39

 money supply and credit 82

 sector definition 26

 trade in services 170

 transferable deposits 35

 valuation adjustments 97

monetary gold

 financial instruments 33–34

 special drawing rights 33–34

money market

 balance of payments 190

 currency 98

 deposits 98

 sector definition 23–24

 short-term 37–40

 transactions 184

 UK investments 190

money market instruments 37–40, 98

 investment earnings 190

money rates and yields 134–135

money stock

see also M0, M1, M3, M4 money stock

 circulation velocity 87–88

 counterparts to changes 82–85

 definition 82

 seasonal adjustments 85–86

money supply 6, 81–95

see also money stock

mortgage interest payments 135

motor vehicle duties 75, 77, 135

mutual funds 22

financial instruments 50–51
overseas 51
shares 50–51



National Debt 208
central government net cash requirement
70

Commissioners 70
Consolidated Fund 72
National Loans Fund 70
nominal amount outstanding 208

national income 9
capital account 201
gross balance 201

National Insurance Fund 70, 72–73

National Loans Fund (NLF) 19
description 72
net cash issues 63–64
receipts and payments 72–73

National Savings 64
deposits 36–37
financial instruments 36–37
interest rates 132
investment accounts 132
net cash requirement 62
public sector finance 64

net acquisitions 113, 139–142

net borrowing
financial instruments 53
general government 209
local authorities 67–68

net cash requirement (old CGBR) 62, 84
central government 70, 71

net derivatives 102

net lending, financial instruments 53

net non-deposit sterling liabilities (NNDLs) 84

net sterling lending 84

net worth
capital account 204
capital transfers 205, 206

NLF *see* National Loans Fund

NNDLs (net non-deposit sterling liabilities) 84

nominal zero coupon yields 134–135

non-bank sector 16, 114–116

non-building society sector 16

non-financial corporations
liquidity 122–123
sector definition 17, 27–29

non-monetary financial intermediaries 46

non-profit institutions (NPIs) 22
sector definition 24

non-profit institutions serving households (NPISHs)
14, 17, 30–31, 205

non-residents, sterling deposits 92

Northern Ireland
central government
debt 62, 72
net cash requirement 70–71

notes and coin
see also M0 money stock; M4 money stock
investment in 183, 185, 191
money stock changes 82
outstanding, banks 101
overseas 88, 89

NPISHs (non-profit institutions serving households)
14, 17, 30–31, 205



OEICs (open ended investment
companies) 51
OFIs *see* other financial institutions

oil royalties 77

open ended investment companies (OEICs) 51

operational leasing 164, 171

other financial institutions (OFIs) 6
data collection 111
insurance companies 111–112
net acquisitions 113
pension funds 111, 112–114
securities turnover 118

outward (overseas) investment 183, 184, 185–186, 189,
190, 191

overseas finance 11
balance sheets 154
deposits 36, 190–191
financial instruments 36, 40, 42–43, 49–50, 51
loans 44
long-term bonds 42–43
long-term loans 47
mutual funds' shares 51
notes and coin 88, 89
portfolio investments 190
sector definition 31
shares and equity 49–50
short-term money market instruments 40



- passenger revenue 166, 167
- Pay As You Earn (PAYE) system 73, 196, 202
- Paymaster General 72, 73
- account 70
- pension funds 6
 - financial instruments 52
 - OFls 111, 112–114
 - reserves 52, 204
 - sector definition 26
 - trade 169
 - valuation 113
- personal sector
 - borrowing 93–95
 - credit 81–95
 - money supply 81–95
- personal services 164, 172
- personal travel 168
- petroleum revenue tax (PRT) 74–75
- pipelines 168
- portfolio investments 176–177
 - overseas 190
 - UK 183
- prices and yields, securities 127, 128, 129, 130
- primary incomes, gross balance 201
- private national and foreign owned corporations 28
- private non-financial corporations 205
 - capital transfers 199
 - direct investment earnings 175
- private sector 16
 - see also* M4 money stock
 - M4 deposits 91
 - M4 foreign currency holdings 91
 - sterling deposits 83
- privatisation 28
 - proceeds 77–79
- production accounts 8, 9, 10, 197, 198
- professional services 164, 171–172
- property income
 - capital account 198–199
 - insurance policy holders 200
- property unit trusts 51, 117–118
- PRT (petroleum revenue tax) 74–75
- PSBR *see* public sector, net cash requirement
- public corporations
 - see also* privatisation
 - borrowing 69
 - direct investment earnings 175

- net cash requirement 69
- public non-financial corporations 28
- public sector
 - accounts by subsector 208
 - aggregates 79, 80
 - current budget surplus 79
 - debt 59, 64–65, 79, 90, 208
 - finance 6, 57–69, 209
 - foreign currency
 - borrowing 64–65
 - debt 62–63
 - key indicators 58, 80
 - net borrowing 58, 79
 - net cash requirement 59–60, 79, 84, 90
 - net debt 59, 79
 - net sterling lending 84
 - transactions 80
- Public Works Loan Board 134



- quarterly economic accounts 8, 14–15
- quasi-corporations 25, 29



- rail transport 167
- re-invested earnings 48–49
- receipts, public sector finances 209
- recreational services 164, 172
- redemption yields 127
- reinsurance 169
- reliability of accounts 139–142, 150, 154
- rent, capital account 200–201
- reporting, financial accounts 146–147
- Repos *see* sale and repurchase agreements
- reserve assets 65
 - balance of payments 187
 - UK investments 192
- reserves, pension funds 52
- resident institutional units, general government 17–18
- residential status
 - banks 104
 - short-term money market instruments 39–40
- rest of the world *see* overseas finance
- retail, money supply 87
- retail banks, interest rates 132–133
- Retail Prices Index (RPI) 135
- retail shares, building societies 106
- retailers, credit 46, 94
- road transport 167–168

- royalties 171
- RPI (Retail Prices Index) 135
- S

salaries, capital account 195–197
- sale and repurchase agreements (Repos) 89, 101
- Save As You Earn (SAYE) scheme 105, 209
- savings banks *see* National Savings
- SAYE (Save As You Earn scheme) 105, 209
- SDR *see* Special Drawing Rights
- sea transport 165, 166, 173
- seasonal adjustment, sector accounts 15
- sectors 16–32
 - accounts 6–7, 12–15, 137–207
 - balance sheets 5, 154
 - dividend and interest flows 155
 - financial accounts 150
 - general government 17–20
- securities
 - see also* equities; government, securities; shares
 - Bank of England 99
 - company security prices and yields 129–130
 - earnings 176–177
 - financial instruments 37
 - prices 6, 125–135
 - sale and repurchase agreements 89
 - short-term 37
 - Treasury bills 37, 63, 92
 - turnover 118
- securities dealers 119, 170
- services, trade 164–173
- shares
 - see also* equities
 - financial instruments 47–51
 - liabilities 48
 - ordinary 154
 - overseas 49, 50
- shipbuilders' relief 77
- short-term loans 43, 186, 191
 - banks 43
 - central government 186
 - financial instruments 43
 - Monetary Financial Institutions 43
- short-term money market instruments
 - Monetary Financial Institutions 38–39
 - overseas 40
 - UK residents 39–40
- short-term securities 37
- short-term sterling money rates 130–132
- sight deposits 101
- social benefits, capital account 201, 202
- social contributions, capital account 197, 201, 202
- Social Security contributions 71
- Special Drawing Rights (SDRs)
 - allocation 189
 - currencies 126, 127
 - financial instruments 33–34
 - IMF 66, 67
 - reserve assets 67
- stamp duties 74
- sterling
 - credit facilities unused 92–93
 - deposits
 - M4 money stock 90
 - non-residents 92
 - private sectors 83
 - exchange rates 125–126
 - holdings 67
 - lending 84, 90
 - money rates, short-term 130–132
 - suspense accounts, Monetary Financial Institutions 96–97
 - transit items, Monetary Financial Institutions 96–97
- Sterling Certificates of Deposit 131
- Sterling Commercial Paper 92, 131
- Sterling Eligible Bills 131
- Sterling exchange rate index (ERI) 125–126
- Sterling Treasury Bills 92, 131
- Stock Exchange transactions 123–124
- stocks 8
 - see also* securities; shares
 - prices and yields 127–128
- sub-sectors
 - central government 18–19
 - financial corporations 22–26
- subscriptions, international organisations 186
- subsidies, capital account 198
- summaries
 - accounts 7, 138, 194–195
 - balance sheets 143
 - capital account 194–195
 - dividend and interest matrix 144
 - international investments 187–192
- supplementary tables 208–210
- supply services 77
- suspense items, Monetary Financial Institutions 96–97



takeovers *see* acquisitions
tangible fixed assets 206, 207
tax deposit certificates 64, 92

taxation 71, 73–77

see also duties

advance corporation tax 74

air passengers 76, 77, 135

capital 201, 204

capital transfer tax (CTT) 74

certificates of tax deposit 64, 92

corporation tax 73–74

council tax 135

households 201

imports 197

income tax 73, 201

inheritance tax (IHT) 74

instruments 37, 62, 64

insurance premiums 76, 77

landfills 76, 77

Pay As You Earn (PAYE) system 73, 196, 202

petroleum revenue tax (PRT) 74–75

production 197, 198

products 197

Value Added Tax 75, 77, 135, 157

vehicles 75, 77, 135, 201

technical services 164, 171–172

time deposits, banks 101

tobacco duties 76

trade

goods 156–164

services 164–173

trade credit 53, 185, 186

investment earnings 177, 178

trade related services 164, 171

trading bodies

central government 19

local government 20

transaction types 13

transferable deposits 35

transfers

current 179–181, 202–203

transit items, Monetary Financial Institutions

96–97

transportation 165–168

travel 164, 168, 173

Treasury bills 131

see also securities

LA temporary debt 92

short-term instruments 37

sterling 92, 131

tenders 63

Treasury Government Expenditure Monitoring system
(GEMS) 19

trusts *see* investment, trusts; unit trusts

turnover, securities 118

type of transaction 13



unit trusts 50, 51, 116, 117, 118, 119



valuables

acquisition 207

valuation

adjustments 97

investment trusts 116

Monetary Financial Institutions 97

pension funds 113

property unit trusts 117

unit trusts 118

Value Added Tax (VAT) 75, 77, 135, 157

Variable Roughness Penalty (VRP) 128

vehicle excise duties 135, 201



wages and salaries 195–197

windfall tax 75



yields 127–128, 129–130



zero coupon nominal curves 128

' , (6 +, 10/8 + 84 (33493*, 8/(8-642 Ž 39(6 & /11 fi
 \$(1 6:, ! (*2 01(3
 ; 01), 8/, 3, ; 4-00 159) 17/, 6(3+ +0786) 9846
 4- (11563859) 10(8437-468/,
 &308 + ž 3. +42 7# --0, -46" (843(1%8 80807



146-911+, 8 0743 /4; 84
 6 3; <49679) 7*65843 84
 ~ 1 ° 1 ~ ° ~ · fi fi/fi ~/
 · 3* 9+3. · fi 1 fi L~ # # fi # fi "
 ~ Š L 1 , # Ž ! % ° 1 / ~ Ž Ž fi "
 46/4; 84 51(*, (3 46, 6-46(3<
 # --0, -46" (843(1%8 80807
 59) 10(843~
 51 (7, *438 *81
 437L 5(1 6:, , *42
 46: 008
 ; ; ; 5(1 6:, , 42 ~ # " %

° \$ & " \$ & ž # \$ & 1 (ž # 1 / \$) ((Ž ž # L + % & # L & Ž ž % 1 # fi 1 \$ &) !!
 fi L (1 ž fi ž # \$ & 1 (ž # 1 / \$) (, fi fi L 1 \$ & " 1 (ž # 1 ! ~ (1 (ž (fi
 % / 1 fi (ž # ~ * ž ž
 ; ; ; 5(1 6:, , *42 ~ # " %

