

## Analysis of financial statistics: January-March 1970

This analysis deals mainly with flows of funds between the various sectors in the first quarter of 1970, the latest period for which complete statistics are available. There is some limited comment on the second quarter, most particularly on the banking sector, central government finances and domestic credit expansion. The analysis uses seasonally adjusted figures. Unadjusted figures are given in Table J.

### The background

Output grew slowly in the financial year 1969/70 – the gross domestic product measured from expenditure figures grew by about 1½% (at constant prices) between the first and second halves of the year. Prices rose more quickly as the year developed and, measured at current prices, the increase

**Table A**  
**Income and expenditure**  
£ millions

Seasonally adjusted

	Income from employment and trading <sup>a,b</sup>	Transfer incomes etc. <sup>b</sup>	less Consumption <sup>c</sup>	less Current transfer payments	equals Saving	less Gross domestic capital formation <sup>a,d</sup>	less Capital transfers (net payments -)	equals Financial surplus/deficit <sup>e</sup>
<b>Personal sector</b>								
1969 1st qtr.	6,621	2,843	-6,924	-1,825	715	- 309	-142	264
2nd qtr.	6,672	2,793	-7,108	-1,841	516	- 284	- 86	146
3rd qtr.	6,802	2,836	-7,216	-1,897	525	- 314	- 78	133
4th qtr.	7,014	2,908	-7,342	-1,968	612	- 330	- 78	204
1970 1st qtr.	7,186	2,968	-7,430	-2,066	658	- 304	-105	249
<b>Company sector</b>								
1969 1st qtr.	1,213	952	—	-1,363	802	- 991	87	-102
2nd qtr.	1,301	951	—	-1,412	840	-1,014	119	- 55
3rd qtr.	1,233	979	—	-1,427	785	- 981	132	- 64
4th qtr.	1,310	981	—	-1,443	848	-1,136	194	- 94
1970 1st qtr.	1,317	973	—	-1,478	812	-1,101	- 65	-354
<b>Public sector</b>								
1969 1st qtr.	414	4,185	-1,982	-1,727	890	- 903	55	42
2nd qtr.	391	4,390	-1,988	-1,702	1,091	- 916	- 33	142
3rd qtr.	387	4,562	-2,059	-1,738	1,152	- 947	- 54	151
4th qtr.	373	4,611	-2,104	-1,798	1,082	- 977	-116	- 11
1970 1st qtr.	402	4,681	-2,116	-1,815	1,152	- 909	170	413
<b>Overseas sector<sup>f</sup></b>								
1969 1st qtr.								- 23
2nd qtr.								- 74
3rd qtr.								-147
4th qtr.								-171
1970 1st qtr.								-144

<sup>a</sup> Before providing for depreciation and stock appreciation.

<sup>b</sup> Rent and income from self-employment are included with transfer incomes and not with income from trading.

<sup>c</sup> Other than depreciation.

<sup>d</sup> Including stocks.

<sup>e</sup> The sum of the sector surpluses and deficits corresponds to the residual error in the national income accounts.

<sup>f</sup> An overseas sector deficit corresponds to a balance of payments surplus on current account.

in output was around 5%. The growth of exports of goods and services, which had earlier been the most dynamic component of demand, slowed down during the course of the year. Personal expenditure on consumption did not react immediately to the steep rise in incomes which began in the third quarter of 1969 (see Table A), but had clearly started to increase in the second quarter of 1970.

Companies had to meet greatly increased tax payments in 1969/70 – they paid over 25% more corporation tax, including tax on capital gains, than in the previous year. Their income grew very slowly and they were barely able to maintain their rate of saving, which did not keep pace with the increasing cost of capital goods. Receipts of investment grants increased less than capital formation,<sup>1</sup> and the company sector moved further into financial deficit. The strain on company finances was particularly severe in the first quarter of 1970, when receipts of investment grants were low – capital formation had been depressed in the first quarter of 1969 – and financial institutions paid a large amount of corporation tax on their capital gains.<sup>2</sup> Unlike corporation tax in general, the flow of tax on capital gains – previously not very large – has not yet been adjusted in these calculations to take account of its strongly seasonal pattern. As a result, these payments accounted for rather more than half the very large deficit of companies (including financial institutions) in the revenue quarter. Even apart from this, the deficit was very much bigger than in other recent quarters.

The personal sector also paid much larger sums to the Exchequer as incomes rose during 1969/70. Personal consumption increased too, but not as fast as incomes, and savings recovered. This was not matched by increases in capital formation in housing, and the sector's continuing financial surplus was very large in the latter half of the year.

Because of the United Kingdom's improved balance of payments, the overseas sector was in deficit throughout the year, although less so in the March quarter when the growth in exports of goods and services slackened appreciably.

The public sector was in financial surplus in 1969/70; the inflow of taxation was very heavy, and public consumption, transfers and capital expenditure did not increase correspondingly. The surplus was particularly large in the revenue quarter, because of heavy receipts of taxes on capital gains and relatively low payments of investment grants.

### Overseas sector

A financial deficit for the overseas sector corresponds to a surplus on the current account of the U.K. balance of payments.

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<sup>1</sup> Not all types of capital formation qualify for grants, and the amount received in a period depends very much on the amount of investment a year earlier. What is more, the rate of grant was reduced for investment after the end of 1968.

<sup>2</sup> In the national accounts, this element of corporation tax is treated separately from taxes on company income and is attributed to the capital account of the company sector – line 2 of Table J.

The financing of the deficit in recent quarters is shown in Table B.

The sector's deficit increased throughout 1969, but fell somewhat (though it remained substantial) in the first quarter of 1970, when net U.K. receipts of interest, profit and dividends from abroad were lower. In the second half of 1969/70 domestic liquidity shortages were relieved by net capital inflows on an unprecedented scale. Some of these inflows were recorded, and occurred mainly as additions to overseas balances with banks or other financial institutions and movements between U.K. companies and related companies overseas. Others have not yet been recorded and so contribute to the very large balancing item in the estimates for these six months. In part, these unidentified inflows no doubt reflected changes in the timing of commercial payments attributable both to the restoration of confidence in sterling and to liquidity shortages in the United Kingdom.

Investment transactions between the private and overseas sectors fluctuated during the financial year, but in total yielded an investment inflow of about £75 million – a most unusual situation. To a great extent this can be traced to sizable purchases of British equities and, because of the weakness

**Table B**  
**Overseas sector<sup>a</sup>**

£ millions  
Seasonally adjusted

	1968		1969				1970	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
<b>Financial surplus +/deficit –</b>	<b>+ 10</b>	<b>+ 68</b>	<b>- 23</b>	<b>- 74</b>	<b>-147</b>	<b>-171</b>	<b>-144</b>	
<b>Financial transactions by overseas sector</b>								
Claims on U.K. increase + /decrease –								
Liabilities to U.K. increase –/decrease +								
<b>Transactions with the U.K.</b>								
<b>private sector</b>								
Capital issues in the United Kingdom	+ 30	—	- 4	-10	+ 22	—	- 4	+ 2
Other transactions in company and overseas securities	+ 24	- 61	- 15	+ 61	+ 67	+ 27	+ 3	
Miscellaneous private investment	+ 72	- 42	- 1	- 50	- 32	- 48	+ 39	
Deposits with U.K. banks /less claims of U.K. banks <sup>b</sup>	+ 90	- 79	-114	- 47	- 95	+120	+183	+147
Other	- 38	- 80	+ 95	+ 14	+ 12	- 2	+ 93	
Balancing item	- 15	+ 58	+ 98	- 52	-118	+292	+339	
	<b>+163</b>	<b>-204</b>	<b>+ 59</b>	<b>- 84</b>	<b>-144</b>	<b>+389</b>	<b>+653</b>	
<b>Transactions with the U.K. public sector</b>								
Lending etc. <sup>c</sup>	- 3	- 9	+ 1	+ 11	- 29	- 30	- 47	
External finance of: <sup>d</sup>								
Central government	-155	+270	- 83	- 32	- 37	-535	-755	- 86
Local authorities	+ 5	+ 11	- 7	+ 1	+ 35	—	+ 5	- 19
Public corporations	—	—	+ 7	+ 30	+ 28	+ 5	—	+ 25
	<b>-153</b>	<b>+272</b>	<b>- 82</b>	<b>+ 10</b>	<b>- 3</b>	<b>-560</b>	<b>-797</b>	

<sup>a</sup> It has not been possible to include in this table the balance of payments estimates for the second quarter of 1970 and revisions to previous quarters which were released in September and appear in the annex, Table 18.

<sup>b</sup> Other than purchases of securities.

<sup>c</sup> Those overseas transactions of the public sector which are not included in D.C.E.

<sup>d</sup> Those overseas transactions of the public sector which are included in D.C.E.

of the New York stock market, to disinvestment there by U.K. institutions. The resulting accumulation of short-term liquid funds was retained in foreign currencies, and began to be reinvested towards the end of 1969/70.

The large inflow of foreign exchange to the private sector during 1969/70, most particularly in the second half of the year, enabled the public sector to repurchase correspondingly large amounts of its own debt from overseas holders. In particular, externally-held debt of the central government (including gilt-edged stocks, Treasury bills and U.K. liabilities to the I.M.F.) fell by about £1,300 million.

In the second quarter there was a further, though more modest, inflow and overseas holdings of central government debt fell a little further.

### Public sector

The public sector's current surplus (saving) was much greater in 1969/70 than in the previous financial year – it increased by around £1,100 million. Similarly, the financial deficit of previous years gave way to a surplus, which was largest in the revenue quarter.

Although the central government had a very large surplus with which to repay debt in the revenue quarter, an even larger amount of sterling had to be found to finance foreign exchange inflows following the improvement in the balance of payments and the restoration of confidence in sterling. As a result, there was a domestic borrowing requirement of

**Table C**

#### Public sector

£ millions	1968		1969				1970	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Seasonally adjusted								
Saving (current surplus)	+781	+930	+890	+1,091	+1,152	+1,082	+1,152	
Capital transfers (net)	- 49	- 39	+ 55	- 33	- 54	- 116	+ 170	
Capital expenditure	-942	-958	-903	- 916	- 947	- 977	- 909	
<b>Financial surplus +/deficit -</b>	<b>-210</b>	<b>- 67</b>	<b>+ 42</b>	<b>+ 142</b>	<b>+ 151</b>	<b>- 11</b>	<b>+ 413</b>	
Lending and other transactions (increase +) <sup>a</sup>	+ 91	+114	+130	+ 50	+ 61	+ 153	+ 147	
Import deposits (increase -)	—	- 77	-268	- 217	+ 7	+ 10	+ 11	+ 44
Central government's borrowing requirement (increase in liabilities -):								
External finance	+155	-270	+ 83	+ 32	+ 37	+ 535	+ 755	+ 86
Notes and coin with the public	- 11	- 43	- 22	- 2	- 10	- 107	- 46	- 32
Bank borrowing	-216	+235	+211	+ 305	+ 264	- 128	+ 109	- 1
Other domestic borrowing	- 38	+187	+207	- 2	- 104	- 181	- 345	+ 135
	-110	+109	+479	+ 333	+ 187	+ 119	+ 473	+ 188
Local authorities (increase -): <sup>b</sup>								
External finance	- 5	- 11	+ 7	- 1	- 35	—	- 5	+ 19
Bank borrowing	- 80	- 54	-134	- 88	+ 103	- 196	- 168	- 89
Other domestic borrowing	- 46	- 90	- 74	- 30	- 123	- 30	+ 59	
	-131	-155	-201	- 119	- 55	- 226	- 114	
Public corporations (increase -):								
External finance	—	—	- 7	- 30	- 28	- 5	—	- 25
Domestic borrowing	- 34	- 27	+ 11	+ 8	- 30	+ 37	- 4	
	- 34	- 27	+ 4	- 22	- 58	+ 32	- 4	
<b>Identified financial transactions</b>	<b>-184</b>	<b>- 36</b>	<b>+144</b>	<b>+ 25</b>	<b>+ 142</b>	<b>+ 88</b>	<b>+ 513</b>	
<i>Unidentified</i>	- 26	- 31	-102	+ 117	+ 9	- 99	- 100	

<sup>a</sup> Consisting principally of lending by the public sector (including public corporations' identified trade credit) and changes in bank deposits.

<sup>b</sup> Including the Northern Ireland Government.

about £280 million. This was less than the amount required in the December quarter, and the pattern of the borrowing changed considerably between the two quarters. In the March quarter, the authorities were able to sell almost twice as much debt (excluding notes and coin) as in the previous three months to domestic sectors other than banks; this was mainly because of large sales of gilt-edged stocks to persons and to the institutions (about £170 million in each case). Thus it proved possible to repay debt to the banks in the March quarter, in place of earlier borrowing.

In the March quarter, local authorities borrowed quite heavily from the banks and repaid debt to the private sector. Their external indebtedness rose only slightly.

In the second quarter the central government had a large surplus and were able to repay £190 million of debt, of which £135 million represented net disinvestment in government debt by the general public.

### Personal sector

Although the personal sector received a rapidly rising income in the last two financial years, its financial surplus did not follow this trend because of taxation and higher prices. Thus by the first quarter of 1970, steep increases in wages and social security payments had brought personal incomes to a level much higher than at the start of the period; the sector's surplus had not grown correspondingly, but had fluctuated a great deal over the period.

**Table D**

#### Personal sector

£ millions

Seasonally adjusted

	1968		1969				1970
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Saving	+546	+577	+715	+516	+525	+612	+658
Capital transfers (net)	- 55	- 73	-142	- 86	- 78	- 78	-105
Capital expenditure	-316	-356	-309	-284	-314	-330	-304
<b>Financial surplus</b>	<b>+175</b>	<b>+148</b>	<b>+264</b>	<b>+146</b>	<b>+133</b>	<b>+204</b>	<b>+249</b>
<b>Borrowing -</b>							
For house purchase	-245	-195	-219	-201	-214	-186	-220
Bank borrowings <sup>a</sup>	- 70	+ 85	+ 93	+ 20	+ 55	- 91	+ 42
Hire purchase debt	+ 4	- 14	+ 9	+ 12	+ 17	- 13	- 3
Other	- 9	- 14	- 18	- 48	- 17	- 17	+ 7
	-320	-138	-135	-217	-159	-307	-174
<b>Acquisition of financial assets +</b>							
Life assurance and pension funds	+384	+406	+390	+420	+375	+400	+410
Government stocks	+ 51	-180	-161	+ 30	+101	+112	+169
Company and overseas securities	-195	- 97	-184	- 74	-146	-196	-275
Unit trust units	+ 68	+ 72	+ 91	+ 42	+ 29	+ 24	+ 33
Bank deposits, notes and coin	+274	+ 46	+137	+ 24	+ 42	+178	+ 85
Building society shares and deposits	+166	+241	+204	+255	+204	+251	+269
National savings	- 19	- 18	+ 4	-103	- 50	- 75	- 5
Local authority debt	+ 93	- 19	+ 37	+ 23	+130	+ 23	+ 28
Other	+ 40	+ 65	+ 56	+ 14	- 1	+ 30	+ 37
	+862	+516	+574	+631	+684	+747	+751
<b>Identified financial transactions</b>	<b>+542</b>	<b>+378</b>	<b>+439</b>	<b>+414</b>	<b>+525</b>	<b>+440</b>	<b>+577</b>
<i>Unidentified</i>	-367	-230	-175	-268	-392	-236	-328

<sup>a</sup> Other than for house purchase.

During the first quarter of this year, persons managed to borrow about the same amount as in the third quarter of 1969 (the fourth quarter figure was affected by a temporary swing in borrowing from banks). The amount borrowed for house purchase had remained fairly steady for a year or so, but related to fewer houses: however, it has grown markedly in the first half of 1970.

The drastic falls in the prices of ordinary shares early in 1969 made personal investors much more enthusiastic about fixed interest investments; the long-term downward trend of the personal sector holdings of ordinary shares was strengthened, and purchases of unit trust units fell away sharply after the first quarter of the year. By contrast, there was a very large inflow to building societies; and over the financial year individuals bought a substantial volume of gilt-edged stocks (now exempted from long-term capital gains tax), whereas in most recent years they had reduced their holdings.

Meanwhile, the largest single item in this sector's acquisition of financial assets continues to be its net transfer to life assurance and pension funds, which mainly represents the surplus of contributions over benefits received.

### Industrial and commercial companies

Industrial and commercial companies had a financial deficit of record size in the first quarter of 1970. Even though they acquired only a small amount of financial assets in total, they still had to borrow or obtain credit on a fairly large scale relative to other recent quarters.

**Table E**

#### Industrial and commercial companies

£ millions

Seasonally adjusted	1968		1969				1970
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Saving	+761	+702	+711	+767	+726	+747	+689
Capital transfers (net)	+105	+112	+128	+123	+134	+200	+121
Capital expenditure	-770	-953	-884	-872	-865	-1,035	-996
<b>Financial surplus +/-deficit -</b>	<b>+ 96</b>	<b>-139</b>	<b>- 45</b>	<b>+ 18</b>	<b>- 5</b>	<b>- 88</b>	<b>-186</b>
<b>Increase in liabilities -</b>							
Overseas investment in U.K. companies	-143	- 95	-129	- 72	- 84	- 96	-185
Bank borrowing	+ 90	-362	-255	- 4	-388	+ 20	-165
Capital issues and long-term borrowing abroad	-162	-194	-190	-172	- 77	- 79	- 22
Identified overseas trade credit	+ 5	+ 51	- 40	- 69	- 91	- 26	-134
Other borrowing	- 25	- 92	- 74	- 43	- 23	+ 22	- 19
	<u>-235</u>	<u>-692</u>	<u>-688</u>	<u>-360</u>	<u>-663</u>	<u>-159</u>	<u>-525</u>
<b>Acquisition of financial assets +</b>							
Import deposits		+ 76	+242	+193	- 16	- 11	- 10
Bank deposits, notes and coin	-195	+238	-106	-199	+ 93	+ 57	-139
Other liquid assets <sup>a</sup>	- 38	- 34	+ 42	- 18	- 55	- 34	- 18
Investment abroad	+ 83	+192	+156	+133	+162	+148	+178
Company securities	+ 96	+100	+ 91	+ 68	+ 75	+ 56	+ 89
Other	- 59	- 5	- 46	- 33	+ 18	- 17	- 26
	<u>-113</u>	<u>+567</u>	<u>+379</u>	<u>+144</u>	<u>+277</u>	<u>+199</u>	<u>+ 74</u>
<b>Identified financial transactions</b>	<b>-348</b>	<b>-125</b>	<b>-309</b>	<b>-216</b>	<b>-386</b>	<b>+ 40</b>	<b>-451</b>
<i>Unidentified</i>	<i>+444</i>	<i>- 14</i>	<i>+264</i>	<i>+234</i>	<i>+381</i>	<i>-128</i>	<i>+265</i>

<sup>a</sup> Treasury bills, local authority debt, tax reserve certificates and deposits with other financial institutions.

To a great extent the borrowing in the first quarter of this year was from banks and from abroad. Companies obtained £165 million from the banks, compared with a small net repayment made in the previous quarter. Finance from overseas was obtained partly by way of settlements in favour of U.K. companies from related companies abroad; these intra-company transactions had already been sizable at the end of 1969 and became exceptionally large in the first quarter. In addition an extra £100 million of identified trade credit was extended by overseas traders or withdrawn by U.K. companies. The balancing item in the balance of payments accounts suggests that companies also received substantial benefit from unidentified overseas transactions. Among other sources of finance, an unusually small amount was raised on capital issues, a continued reflection of the depressed equity and debenture markets. As well as borrowing from banks, companies also ran down their bank deposits as they paid their taxes; in the middle quarters of 1969/70 they had disposed of other liquid assets and increased their bank deposits.

### Financial institutions other than banks

The institutions received more funds in the first quarter of 1970 than in any previous quarter. Compared with the fourth quarter of last year, there were increases in all types of deposits, including considerable receipts from abroad. The inflow to building societies had risen in the previous quarter, and rose further still; investment in the societies had become more attractive as competing rates of interest eased. Insurance companies and pension funds received

**Table F**  
**Financial institutions other than banks**

£ millions

Seasonally adjusted

	1968		1969				1970
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
<b>Sources of funds</b> (increase -)							
Life assurance and pension funds	-384	-406	-390	-420	-375	-400	-410
Building society shares and deposits	-167	-242	-205	-256	-205	-253	-270
Other deposits	-19	-48	-113	+5	-9	-45	-96
Capital issues	-61	-32	-47	-22	-15	-11	-21
Unit trust units	-68	-72	-91	-42	-29	-24	-33
Other (mainly bank) borrowing	+50	+6	+24	-2	-8	+9	-36
	<b>-649</b>	<b>-794</b>	<b>-822</b>	<b>-737</b>	<b>-641</b>	<b>-724</b>	<b>-866</b>
<b>Acquisition of financial assets +</b>							
Short-term assets <sup>a</sup>	-29	+149	+59	+55	+83	+31	-100
Government stocks	+21	-17	-29	+76	+93	+138	+177
Company and overseas securities:							
Ordinary	+188	+150	+171	+18	+38	+145	+168
Debentures	+84	+81	+134	+103	+15	+36	+29
Other	-15	-14	+3	-5	-12	-5	+2
Loans for house purchase	+225	+185	+224	+207	+218	+197	+214
Long-term lending to local authorities	+28	+29	+25	+11	+6	+18	+6
Hire purchase claims	+3	+6	-5	-15	-3	+2	+1
Other lending	+34	+34	+74	+73	+41	-14	+70
	<b>+539</b>	<b>+603</b>	<b>+656</b>	<b>+523</b>	<b>+479</b>	<b>+548</b>	<b>+567</b>

<sup>a</sup> Bank deposits, tax reserve certificates, Treasury bills and local authority temporary debt.

much the same volume of funds as they had in other recent quarters. The unit trusts continued to suffer from the depression in sales of units which began in the second quarter of 1969 and which stemmed from the fall in equity prices at that time; though a little larger than in recent quarters, their net sales remained low.

In spite of their large receipts, the institutions did not greatly increase their identified expenditure on financial assets. The difference is accounted for mainly by purchases of property, payments of taxes, and unidentified movements. Among recorded transactions in financial assets, the institutions bought more gilt-edged stocks and equities, and increased their longer-term lending; but their holdings of short-term assets were sharply reduced. This movement back into longer-term assets had begun in the previous quarter and was in direct contrast with the institutions' behaviour in the first half of the financial year, when they had built up short-term assets as they withdrew, or held back, from falling equity markets in London and abroad. The reduction in short-term assets was most marked with the investment trusts – which not only switched funds back into longer-term assets but also had to meet very large payments of taxes on capital gains – and least marked with insurance companies and pension funds. Although the institutions' purchases of equities rose to more normal levels in the latest months, the recovery did not extend to debentures; there was only a small number of new issues of fixed interest securities in the first quarter despite a slight easing of rates. Capital issues of all kinds by quoted companies were very small, but direct lending to companies by the institutions (included in 'other lending') was much larger than in the two previous quarters. Lending for house purchase was also higher than in the fourth quarter of last year, although much the same as in other recent quarters.

### **Banking sector**

After two quarters of modest growth, the banks' domestic business grew strongly in the second quarter of 1970 although, for the reasons given on page 262 of the Commentary, it is probable that the figures for the calendar quarter which are discussed here to some extent exaggerate the rise in both lending and deposits.

Subject to these reservations, total lending to persons and companies increased by more than in any quarter for two years. Companies borrowed nearly as much as in the whole of the previous financial year. Their deposits rose almost as steeply, so that the net amount of finance extended by the banking sector to companies was comparatively small; companies' liquidity was, however, improved. Persons, too, borrowed much more heavily than for a long time but built up their deposits even more strongly; as a result the net amount of bank finance extended to persons fell at a much faster rate than in 1969/70. Public corporations and local authorities also borrowed more from the banks, but by contrast they ran

down their deposits. The central government's surplus was used to repay debt to other holders, and so was not available to reduce outstanding borrowing from the banks.

As in the two previous quarters, the banks increased their net indebtedness to the overseas sector as funds continued to flow in from abroad.

**Table G**  
**Banks**

£ millions

Lending: increase +/decrease -

Deposits: increase -/decrease +

Seasonally adjusted

	1968		1969				1970	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Private sector:								
Persons:								
Lending	+ 80	- 75	- 98	- 20	- 50	+ 86	- 37	+103
Deposits	-269	- 25	-126	- 23	- 37	-122	- 62	-279
Net lending	-189	-100	-224	- 43	- 87	- 36	- 99	-176
Companies:								
Lending	-119	+368	+251	+ 14	+406	- 24	+215	+514
Deposits	+167	-237	+ 51	+160	-158	- 4	+188	-446
Net lending	+ 48	+131	+302	+174	+248	- 28	+403	+ 68
Public sector:								
Lending	+332	-159	- 86	-224	-336	+284	+ 58	+163
Deposits	- 14	- 10	- 73	+ 50	- 22	- 22	- 70	+ 57
Net lending	+318	-169	-159	-174	-358	+262	- 12	+220
Total domestic lending	+293	+134	+ 67	-230	+ 20	+346	+236	+780
Total domestic deposits	-116	-272	-148	+187	-217	-148	+ 56	-668
Net lending to overseas <sup>a</sup>	- 91	+ 86	+116	+ 63	+ 91	-116	-178	-129
Non-deposit liabilities (net)	- 86	+ 52	- 35	- 20	+106	- 82	-114	+ 17

<sup>a</sup> Claims on overseas net of overseas deposits.

### Domestic credit and money supply

Table H shows the relationship between domestic credit and money supply. The very large expansion of domestic credit in the second quarter was reflected in an approximately equal growth in the money supply (as most broadly defined - M<sub>3</sub> - in the article on page 320). Both increases are probably overstated because of the end-quarter distortions already referred to.

The increase in lending by banks to the private sector was by far the largest factor in the growth in domestic credit. The central government's surplus was a contractionary influence; but it was more than offset by repurchases of debt from the general public and by borrowing on the part of the rest of the public sector.

Table H

## Domestic credit expansion and increase in the money supply

£ millions

	Public sector borrowing				Bank assets	
	Total public sector borrowing (= Cols. 2 to 5)	Sales + of debt to private sector (other than banks)	Currency in circulation with the public	External finance of public sector	Bank lending to public sector	Bank lending to private sector <sup>a</sup>
Changes in period	1	2	3	4	5	6
<b>Financial years</b>						
1967/68	+1,957	+431	+106	+1,446	- 26	+685
1968/69	+ 451	-144	+ 69	+ 417	+109	+506
1969/70	- 536	+781	+131	-1,245	-203	+582
<b>Quarters (unadjusted)</b>						
1969 Jan.-Mar.	-1,180	-241	+ 56	- 207	-788	+309
Apr.-June	- 85	+ 76	- 4	- 55	-102	+ 50
July-Sept.	+ 227	+279	- 50	+ 102	-104	+109
Oct.-Dec.	+ 567	+222	+144	- 428	+629	+ 15
1970 Jan.-Mar.	-1,245	+204	+ 41	- 864	-626	+408
Apr.-June	..	..	+ 40	- 140	+271	+659
<b>Quarters (seasonally adjusted)<sup>c</sup></b>						
1969 Jan.-Mar.	- 282	-135	+ 22	- 83	- 86	+118
Apr.-June	- 192	+ 31	+ 2	- 1	-224	- 21
July-Sept.	- 74	+226	+ 10	+ 26	-336	+346
Oct.-Dec.	+ 75	+214	+107	- 530	+284	+ 52
1970 Jan.-Mar.	- 355	+291	+ 46	- 750	+ 58	+163
Apr.-June	..	..	+ 32	- 80	+163	+587

## Money supply

	Total money supply (= Cols. 13 + 14)	Currency in circulation with the public	Bank deposits of domestic sectors
	12	13	14
<b>Financial years</b>			
1967/68	+1,326	+106	+1,220
1968/69	+ 915	+ 69	+ 846
1969/70	+ 291	+131	+ 160
<b>Quarters (unadjusted)</b>			
1969 Jan.-Mar.	- 387	+ 56	- 443
Apr.-June	- 18	- 4	- 14
July-Sept.	+ 244	- 50	+ 294
Oct.-Dec.	+ 615	+144	+ 471
1970 Jan.-Mar.	- 550	+ 41	- 591
Apr.-June	+ 870	+ 40	+ 830
<b>Quarters (seasonally adjusted)<sup>c</sup></b>			
1969 Jan.-Mar.	+ 170	+ 22	+ 148
Apr.-June	- 185	+ 2	- 187
July-Sept.	+ 227	+ 10	+ 217
Oct.-Dec.	+ 255	+107	+ 148
1970 Jan.-Mar.	- 10	+ 46	- 56
Apr.-June	+ 700	+ 32	+ 668

.. not available.

<sup>a</sup> Other than in foreign currency for investment abroad.<sup>b</sup> D.C.E. also equals columns 1 - 2 + 6 + 7.<sup>c</sup> The adjustments are those used for the flow of funds matrix and are therefore based on calendar years. Because the seasonal pattern may change from year to year, the adjusted figures cannot be expected to add to the unadjusted totals over financial years, even apart from minor differences due to day-of-the-week effects (see note on page 283).

**included in D.C.E.**

**Other bank assets**

Bank lending in sterling to overseas	Total D.C.E. <sup>b</sup> (= Cols. 3 to 7)	Bank lending in foreign currency to overseas	Bank lending in foreign currency to private sector for investment overseas	Total bank assets = liabilities (= Cols. 5 to 7, 9 and 10)
7	8	9	10	11
+ 61	+2,272	+1,492	+ 80	+2,292
+ 71	+1,172	+3,161	+160	+4,007
+119	- 616	+3,807	+ 50	+4,355
- 9	- 639	+1,096	+ 35	+ 643
+ 43	- 68	+2,330	+ 15	+2,336
+ 60	+ 117	+ 995	+ 10	+1,070
+ 56	+ 416	+ 306	+ 10	+1,016
- 40	-1,081	+ 176	+ 15	- 67
+ 3	+ 833	+1,289	+ 30	+2,252
- 9	- 38	+1,156	+ 35	+1,214
+ 43	- 201	+2,303	+ 15	+2,116
+ 60	+ 106	+ 974	+ 10	+1,054
+ 56	- 31	+ 294	+ 10	+ 696
- 40	- 523	+ 248	+ 15	+ 444
+ 3	+ 705	+1,258	+ 30	+2,041

**Changes in period**

**Financial years**

1967/68  
1968/69  
1969/70

**Quarters**

(unadjusted)  
1969 Jan.-Mar.  
Apr.-June  
July-Sept.  
Oct.-Dec.  
1970 Jan.-Mar.  
Apr.-June

**Quarters**

(seasonally adjusted)<sup>c</sup>  
1969 Jan.-Mar.  
Apr.-June  
July-Sept.  
Oct.-Dec.  
1970 Jan.-Mar.  
Apr.-June

**Bank liabilities**

Bank deposits of overseas	Non-deposit liabilities (net)	Total bank liabilities = assets (= Cols. 14 to 16)
15	16	17
+1,121	- 49	+2,292
+3,059	+102	+4,007
+4,078	+117	+4,355
+1,061	+ 25	+ 643
+2,325	+ 25	+2,336
+ 912	-136	+1,070
+ 425	+120	+1,016
+ 416	+108	- 67
+1,441	- 19	+2,252
+1,031	+ 35	+1,214
+2,283	+ 20	+2,116
+ 943	-106	+1,054
+ 466	+ 82	+ 696
+ 386	+114	+ 444
+1,390	- 17	+2,041

**Financial years**

1967/68  
1968/69  
1969/70

**Quarters**

(unadjusted)  
1969 Jan.-Mar.  
Apr.-June  
July-Sept.  
Oct.-Dec.  
1970 Jan.-Mar.  
Apr.-June

**Quarters**

(seasonally adjusted)<sup>c</sup>  
1969 Jan.-Mar.  
Apr.-June  
July-Sept.  
Oct.-Dec.  
1970 Jan.-Mar.  
Apr.-June

**Table J**  
**Flow of funds: quarterly figures**

£ millions

*Not seasonally adjusted*

Line	Public sector			Overseas sector <sup>a</sup>		
	1969	1970		1969	1970	
	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.
<b>Financial surplus +/deficit -</b>						
Saving	1	+ 835	+2,052			
Taxes on capital and capital transfers	2	- 116	+ 170			
<i>less:</i>						
Gross fixed capital formation at home	3	- 972	- 992			
Increase in value of stocks and work in progress	4	+ 3	+ 30			
<b>Financial surplus +/deficit -</b>	<b>5</b>	<b>- 250</b>	<b>+1,260</b>	<b>- 167</b>	<b>- 134</b>	
<b>Changes in financial assets and liabilities</b>						
Assets: increase +/decrease -						
Liabilities: increase -/decrease +						
<b>Net indebtedness of Government to Bank of</b>						
England, Banking Department	6	- 39	+ 142	- 70		
Life assurance and pension funds	7					
Government loans	8	+ 64	+ 61	- 60	- 48	
Official reserves	9	+ 39	- 95	+ 34	- 39	+ 95
Government transactions with I.M.F.	10	+ 11	+ 104	+ 8	- 11	- 104
Miscellaneous investment overseas (net)	11	+ 159	+ 156		- 215	- 102
Notes and coin	12	- 263	+ 78	- 76		
Bank deposits	13	+ 21	+ 46	- 21	+ 425	+ 416
Deposits with other financial institutions	14				+ 3	+ 84
National savings	15-1	+ 93	- 16	+ 58		
Tax reserve certificates	15-2	- 36	+ 135	- 34		
Import deposits	15-3	+ 10	+ 11		+ 1	- 1
Bank lending	16	+ 40	+ 1	- 73	- 358	- 131
Hire purchase debt	17	+ 2				
Loans for house purchase	18	- 6	+ 1			
Other loans and accruals	19	+ 161	+ 16			
Marketable government debt:						
Treasury bills	20	- 47	+1,267	- 123	- 264	- 753
Stocks	21	- 428	- 309	+ 283	+ 73	+ 28
Local authority debt	22	- 113	- 205		- 8	+ 21
U.K. company and overseas securities:						
Capital issues	23					
Other transactions	24	+ 1	+ 1		+ 27	+ 3
Unit trust units	25					
<b>Identified financial transactions</b>	<b>26</b>	<b>- 331</b>	<b>+1,394</b>	<b>- 426</b>	<b>- 496</b>	
<i>Unidentified</i>	27	+ 81	- 134	+ 259	+ 362	
<b>Total = Financial surplus +/deficit -</b>	<b>28</b>	<b>- 250</b>	<b>+1,260</b>	<b>- 167</b>	<b>- 134</b>	

— nil or less than £½ million.

<sup>a</sup> It has not been possible to incorporate in this table the revised balance of payments estimates released in September.

Private sector

Persons			Industrial and commercial companies			Banks			Other financial institutions			Line
1969	1970		1969	1970		1969	1970		1969	1970		
4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	
+451	+896		+1,003	+ 45		+206	-155					1
- 78	-105		+ 200	+ 121		- 6	-186					2
-268	-264		- 770	- 688		-115	-106					3
- 39	- 49		- 240	- 281		-	-					4
<b>+ 66</b>	<b>+478</b>		<b>+ 193</b>	<b>- 803</b>		<b>+ 85</b>	<b>-447</b>					5
						1969	1970		1969	1970		
						4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	
						+ 39	-142	+ 70	-400	-410		6
+400	+410		- 4	- 11					+ 1	- 2		7
- 1	-											8
			+ 54	- 38					+ 2	- 16		9
												10
												11
+ 72	+ 23	+ 20	+ 72	+ 18	+ 20	+119	-119	+ 36	+ 48	- 98	+209	12
+249	- 80	+315	+ 153	- 459	+327	-896	+175	-2,271	-315	-351		13
+300	+315		+ 12	- 48								14
- 93	+ 16	- 58	+ 20	- 65	+ 18	+ 1	- 37	+ 5	-	+ 3	+ 3	15.1
+ 15	- 36	+ 8	- 11	- 10								15.2
												15.3
- 82	+ 36	-123	+ 27	- 381	-543	+344	+532	+2,029	+ 29	- 57	- 16	16
- 42	+ 30		+ 60	- 29					- 20	- 1		17
-187	-208		- 90	- 230		- 5	+ 5	+ 5	+198	+202		18
- 3	- 44					- 92	+112	- 113	+ 24	+146		19
			- 1	- 1		+314	-509	+ 225	- 2	- 4		20
+112	+169		- 48	- 35		+105	- 65	- 218	+138	+177		21
+ 79	+ 15					+ 86	+252	+ 76	+ 4	- 48		22
			- 84	- 30	- 23	- 3	- 11	- 15	- 11	- 21	- 28	23
-196	-275		+ 76	+ 101		+ 9	+ 29	+ 38	+181	+207		24
+ 24	+ 33	+ 30							- 24	- 33	- 30	25
<b>+647</b>	<b>+404</b>		<b>+ 236</b>	<b>-1,218</b>		<b>+ 21</b>	<b>+222</b>	<b>- 133</b>	<b>-147</b>	<b>-306</b>		26
-581	+ 74		- 43	+ 415					+211	-363		27
<b>+ 66</b>	<b>+478</b>		<b>+ 193</b>	<b>- 803</b>					<b>+ 85</b>	<b>-447</b>		28

## Notes on sources, definitions and seasonal adjustments

### Sources

The main statistical series used in compiling Table J appear in the statistical annex to this *Bulletin* or in the following publications prepared by the Central Statistical Office: *Financial Statistics* and *Economic Trends*.

### Definitions (line numbers refer to Table J)

#### Public sector

- (i) Central government, including the National Insurance Funds, the Exchange Equalisation Account, the National Savings Bank Fund and the Issue Department (but not the Banking Department) of the Bank of England.
- (ii) Local authorities including such local bodies as water boards, harbour boards and passenger transport authorities.
- (iii) Nationalised industries and other public corporations.

*Overseas sector* Non-residents as defined for the balance of payments estimates (see *United Kingdom Balance of Payments 1970*, H.M.S.O., September 1970).

*Persons (or personal sector)* Individuals, unincorporated businesses, charities and private trusts, private non-profit-making bodies serving persons, and private trusts.

*Industrial and commercial companies* All corporate bodies other than public corporations, banks and other financial institutions.

*Banks* The banking sector, as in Table 8 of the annex.

*Other financial institutions* Insurance companies, pension funds, building societies, investment trusts, finance houses, National Savings Bank (investment account only), special investment departments of trustee savings banks, authorised unit trusts, property unit trusts, special finance agencies (e.g. the Agricultural Mortgage Corporation) and certain other institutions which accept deposits but which are not included in the banking sector.

*Line 1 Saving* The surplus of current income over current expenditure before providing for depreciation and stock appreciation. It includes additions to tax, dividend and interest reserves.

*Line 5 Financial surplus/deficit* The financial surplus (deficit) of a domestic sector measures the excess (shortfall) of its saving and net receipts of capital transfers over its capital expenditure at home on fixed assets and on stocks and work in progress. For the overseas sector a financial surplus is the counterpart of a deficit on current account in the U.K. balance of payments, and equals net overseas investment in the United Kingdom. An overseas sector deficit represents a U.K. current account surplus and hence net U.K. investment abroad. For all sectors combined, financial surpluses/deficits should add to nil, but in practice they do not, because of the discrepancy between estimates of total saving and total investment (the residual error in the national income accounts).

*Line 6 Net indebtedness of Government to Bank of England, Banking Department* The Banking Department's holdings of government debt and of notes and coin—regarded here as government liabilities—less the deposits of the National Loans Fund and the Paymaster General with the Bank.

*Line 8 Government loans* Lending (net of repayments) to building societies, industrial companies, etc.; and intergovernment loans (net). Loans to housing associations are in line 18.

*Line 9 Official reserves* Changes in the sterling equivalent of gold, convertible and non-convertible currencies and Special Drawing Rights held by the Exchange Equalisation Account. The initial allocation of Special Drawing Rights is excluded.

*Line 10 Government transactions with I.M.F.* The United Kingdom's subscription to the International Monetary Fund, less changes in the Fund's holding of interest free notes issued by the U.K. Government.

*Line 11 Miscellaneous investment overseas (net)* Balance of payments items not elsewhere included.

- (i) From investment and other capital flows: U.K. official long-term capital (other than intergovernment loans); private investment (inward/outward) other than portfolio investment (but including all overseas borrowing by nationalised industries) and excluding the share and loan element of direct and oil investment (entered in lines 23 and 24); part of other short-term flows; the overseas transactions of some institutions which contribute to the statistics of external sterling liabilities and claims but which are not included in the financial sectors; and part of identified import and export credit (export credit refinanced by the Issue Department of the Bank of England and transactions in commercial bills between non-residents and companies).
- (ii) From official financing: changes in official liabilities in foreign currencies arising from drawings on central bank facilities.

*Line 12 Notes and coin* Changes in Bank of England notes—treated here as liabilities of the public sector—in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin. Changes in holdings outside the banking sector have been arbitrarily divided between persons and industrial and commercial companies, but some allowance has been made for movements brought about by the different days of the week on which the periods end.

*Line 13 Bank deposits* Changes in gross current and deposit accounts, except for the banking sector and industrial and commercial companies. The entries for the banking sector are changes in net deposits, i.e. current and deposit accounts after allowing for transit items (see the additional notes to Table 8 of the annex). The proper allocation of transit items is not known, but it is assumed that most of the changes in the figures arise from transactions between companies. The entries for industrial and commercial companies are the changes in their gross current and deposit accounts less the total change in transit items. Changes in negotiable dollar certificates of deposit held outside the banking sector are attributed to non-residents, and changes

in negotiable sterling certificates to residents. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through other U.K. banks as agents; because of this, the figures in this table will differ from changes derived from Table 8 (2) of the annex.

*Line 14 Deposits with other financial institutions* Shares and deposits with building societies, deposits in National Savings Bank investment account, deposits with special investment departments of trustee savings banks, with hire purchase finance houses (other than those by banks, which are included in line 16) and with some other institutions.

*Line 15.1 National savings* All forms of national savings (including accrued interest) other than deposits in National Savings Bank investment account and with special investment departments of trustee savings banks (included in line 14).

*Line 15.3 Import deposits* Entries for the overseas sector relate to deposits made directly to H.M. Customs by overseas residents on behalf of U.K. companies.

*Line 16 Bank lending* The banks' advances and overdrafts, money at call and short notice other than to U.K. banks (excluding tax reserve certificates), and transactions in commercial bills, excluding estimates of loans for house purchase (included in line 18) and all lending to local authorities (included in line 22). The distribution of advances between debtor sectors is taken from comprehensive statistics for the banking sector (see Table 8 of the annex). The overseas sector figures for call money and commercial bills are taken from returns made by the banks; the figures for commercial bills for other financial institutions from returns made by the institutions. The residual commercial bill figures are attributed to industrial and commercial companies; the division of the residual call money figures between persons and industrial and commercial companies has been roughly estimated.

*Line 17 Hire purchase debt* Changes in hire purchase and other instalment credit extended by finance houses, household goods shops (including nationalised gas and electricity undertakings in the public sector as well as companies) and other retailers. Entries relate to capital sums only; unearned finance charges are excluded.

*Line 18 Loans for house purchase* New loans, less repayments, by building societies, insurance companies, pension funds and local authorities; estimated changes in bank lending; and loans to housing associations by the Government and by public corporations.

*Line 19 Other loans and accruals* Loans between domestic sectors not elsewhere included. The most important of these are by other financial institutions to persons and industrial and commercial companies. The entries also include net trade credit given or received by public corporations, borrowing by the Northern Ireland Government and the difference between accruals of local authority rates, purchase tax and interest charges (the basis on which these items are entered in the national income accounts) and the corresponding cash payments.

*Lines 20 and 21 Marketable government debt* As defined in the additional notes to Table 3 (1) of the annex. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The changes in overseas holdings of Treasury bills include the sterling counterpart of inter-central bank swap transactions. The entries for stocks under public sector consist of net sales by the central government less purchases by public corporations and local authorities. The entries for stocks under persons are residuals and include any transactions by industrial and commercial companies and unidentified overseas transactions.

*Line 22 Local authority debt* Total identified borrowing by local authorities from outside the public sector, including bank advances and overdrafts and excluding lending by public corporations. Figures for changes in the banks' and other financial institutions' holdings are taken from their statistical returns; changes in overseas holdings are as in the balance of payments statistics; and changes in company holdings are taken from local authority returns. The entries for persons are residuals.

*Lines 23 and 24 U.K. company and overseas securities: capital issues* Excludes international issues (see Table 14 of the annex) and issues abroad.

*Other transactions* For the overseas sector the entries comprise transactions by overseas residents in U.K. company securities and by U.K. residents in overseas securities; they are taken from the balance of payments estimates for private investment. The entries for the banking sector are the change in the banks' securities other than government stocks and local authority securities. The figures for other financial institutions are taken from their statistical returns; beginning with 1968, commissions and other costs paid by the institutions have been deducted from their transactions. The estimates for industrial and commercial companies relate to their cash payments for the acquisition of subsidiaries and of unincorporated businesses; to their purchases of trade investments; to their acquisition of share and loan capital in overseas companies (part of direct investment abroad); and to their capital issues in overseas centres. The entries for persons are obtained as residuals from the estimates in lines 23 and 24 for all other sectors.

*Line 25 Unit trust units* Purchases less sales of units of authorised unit trusts. It is assumed that all transactions are between unit trust managers and persons.

*Line 27 Unidentified* The net total for all sectors together corresponds to the residual error in the national income accounts referred to in the note on line 5. The entry for the overseas sector is the counterpart of the balancing item in the balance of payments accounts. Figures for individual sectors reflect deficiencies in the sector division both of the national income accounts and of the estimates of financial transactions.

#### Seasonal adjustments

Financial series are peculiarly difficult to adjust satisfactorily, for two main reasons: firstly, there

tend to be large erratic movements between a sector's holdings of one asset and of another, which obscure the trends; and secondly, the 'seasonal' patterns can so easily be changed by administrative action (for example tax changes). This contrasts with other economic series, whose seasonal variation is more a function of weather and social custom. Moreover, for most items in the United Kingdom flow of funds accounts figures are available from 1963 onwards, though estimates of the net financial surpluses of certain sectors are available for a much longer run of years.

Preliminary adjustments have been obtained independently for each item which displays seasonality. Consistent seasonal adjustments have then been estimated simultaneously for all the entries in the accounts by a system of balancing which provides that:

- (i) the sum of the adjustments for each item over the four quarters of each calendar year is zero;
- (ii) in any quarter, the sum of the adjustments of all sectors for a particular asset/liability is zero; and
- (iii) in any quarter, the sum of the adjustments for the identified assets/liabilities of a particular sector is related, where possible, to the adjustment for the sector's financial surplus.

In addition, certain series (for example notes and coin) are markedly affected by the days of the week on which a quarter begins and ends, and – at end-March – by the closeness of Easter. Adjustments have been made to allow for these distortions also; but, of course, they will not usually cancel out over the year, because this must end on a different day of the week from the preceding year.