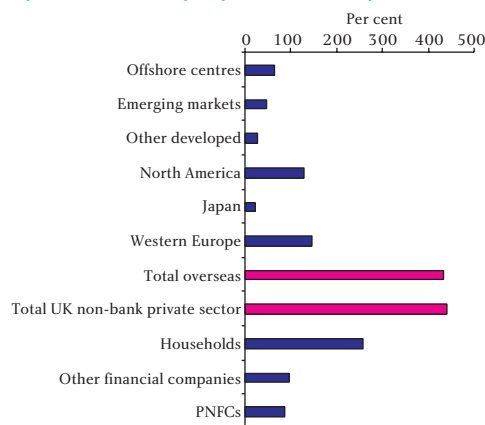


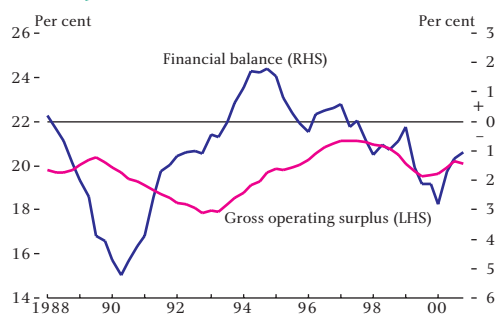
Chart 122:
UK-owned banks' domestic and overseas exposures as a proportion of capital^(a)



Source: Bank of England.

(a) Data are for December 2000. Total overseas exposures include inter-bank.

Chart 123:
PNFCs' profits and financial balance^{(a)(b)}

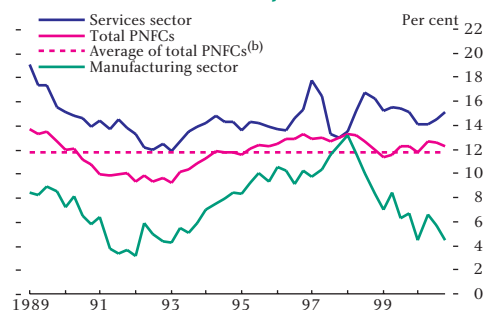


Source: ONS.

(a) As a percentage of GDP. Data are quarterly, seasonally adjusted.

(b) Data show a four-quarter, backward-looking moving average.

Chart 124:
Net rate of return on capital of PNFCs^(a)



Sources: ONS and Bank of England.

(a) Net operating surplus, divided by net capital employed.

(b) Average is from 1989 Q1 to 2000 Q4.

VII UK corporate and personal sectors

The domestic exposures of UK-owned banks are broadly similar in size to their total international loan exposures (Chart 122). This section switches the focus to the United Kingdom. The overall assessment of the UK corporate and household sectors does not suggest a high level of financial risk, although the imbalances in the economy may, if they persist, create some risks looking further ahead.

The corporate sector

Last December's *Review* concluded that the vulnerability of the corporate sector to a rise in interest rates or some other shock had increased. Since then, slowing growth has further constrained profitability, especially in manufacturing, and profit warnings have increased. The underlying financial deficit has fallen back somewhat and the growth of bank borrowing has eased, but debt remains high relative to trading profits. Balance sheet indicators present a mixed message on capital gearing, while income gearing remains low historically, mainly because of the level of interest rates. Liquidity is generally still relatively high.

Profitability and the macroeconomic environment

GDP growth declined from 3.2 per cent in 2000 Q1 on the same quarter a year earlier to 2.6 per cent in 2001 Q1; and, according to the modal projection of the Bank's Monetary Policy Committee in the May *Inflation Report*, is likely to fall a little further during 2001. The Foot and Mouth epidemic²⁷ is likely to have a relatively modest impact on growth, but it may nevertheless increase credit risk in those sectors particularly affected (agriculture, tourism and leisure).

Slower GDP growth may constrain firms' profitability and financial position. There was a renewed fall in the gross operating surplus of private non-financial companies (PNFCs) in 2000 Q4, excluding the alignment adjustment in the national accounts. A smoothed measure of the financial balance shows a reduction in the deficit in 2000 Q4 to around 1 per cent of GDP (Chart 123). A large part of this change reflected a fall in dividends.

The rate of return on capital of PNFCs (net of depreciation) fell slightly in 2000 Q4. Profitability in manufacturing companies is much lower, relative both to its own level in the past and also in relation to other sectors (Chart 124), partly reflecting the persistently high sterling effective exchange rate. The slowdown in US growth will affect the profitability of UK companies both directly through their activity in the United States and indirectly through lower demand in the United Kingdom. Just under one fifth of FTSE-350 companies derived at least 40 per cent of their

²⁷: See page 19, *Inflation Report*, May 2001.

turnover from the United States in 1999/2000. Against this background, it is perhaps not surprising that the frequency of profit warnings has risen since the December Review. Consensus forecasts for profits in 2001 fell during 2000, but forecasts for 2002 are currently higher than for 2001 and not far below the level implied by the average profit growth since 1993 (Chart 125). So the recent rise in profit warnings may reflect adjustment from earlier optimistic expectations for earnings growth, rather than an absolute weakening of corporate profitability.

The rate of company insolvencies recorded by the Department of Trade and Industry (DTI) has fallen almost continuously since its peak in 1992, to an annual level of around 1 per cent of active registered companies in 2001 Q1. The Dun and Bradstreet measure of business failures, which includes both incorporated and unincorporated businesses, fell by nearly 6 per cent in Q1. But bad trade debts, according to the Euler Trade Indemnity Survey, rose by around 7 per cent in 2001 Q1. This survey also suggests that risks from trade credit may have increased since the December Review, with a further rise in Q1 in delays of payments to suppliers across all sectors, and continued high growth in payment delays from domestic customers.

External financing, capital gearing and income gearing

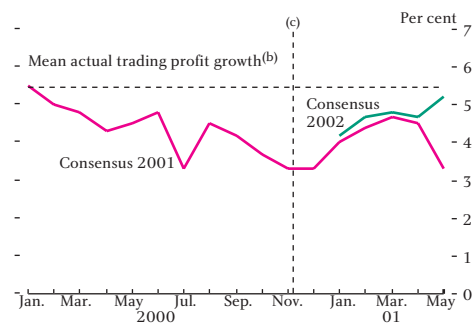
The slowing in the economy comes after a period in which PNFCs' debt had risen to historically high levels in relation to trading profits (Chart 126). This may conceivably have raised the external finance premium; and it may have been one factor behind the sharp increase in the number of rating downgrades this year (Chart 127).

Other measures of corporate indebtedness present a mixed picture. Capital gearing on a replacement cost definition fell marginally in 2000 Q4, but remains close to the highest levels recorded over the past 30 years (Chart 128). The growing difficulty of measuring assets in company balance sheets may make debt in relation to the market value of capital a more relevant measure of balance sheet strength. But although this measure might appear less worrying, it relies on current market values being sustainable (see Section II). The recent rise in gearing (on both measures) may be an adjustment to lower interest rates and a more stable macroeconomic environment, rather than a sign of incipient financial fragility. It has not led to significantly greater difficulties in companies' ability to service debt. Income gearing – the ratio of interest payments to pre-tax profits – has risen a little recently but remains low in relation to historical experience (Chart 129).

Liquidity

Further rises in capital and income gearing may not imply greater risk of default if companies have liquid assets that could

Chart 125:
PNFC profit growth forecasts for 2001/2002^(a)



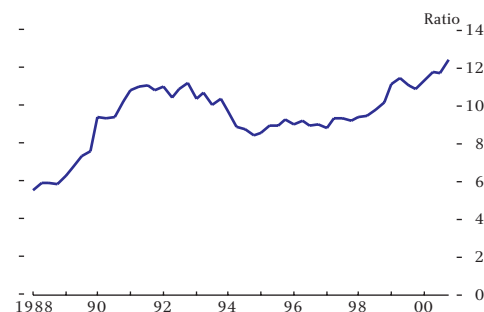
Sources: Consensus Forecasts and Bank of England.

(a) Average percentage change on previous year.

(b) Average annual growth rate of non-oil company trading profits from 1993 to 2000.

(c) December 2000 Review.

Chart 126:
PNFCs' debt-to-profits ratio^{(a)(b)}

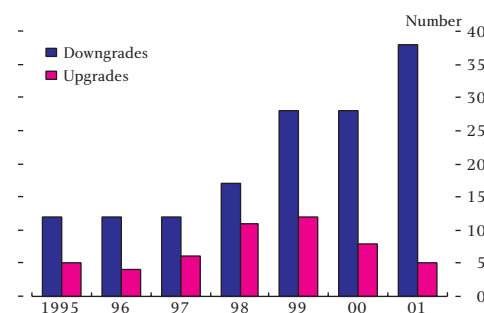


Sources: ONS and Bank calculations.

(a) Seasonally adjusted.

(b) Ratio of gross debt to operating profits.

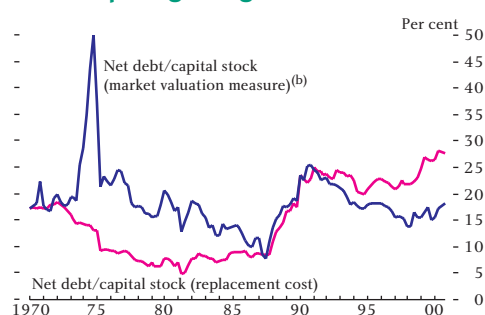
Chart 127:
Number of Moody's ratings changes^(a)



Source: Moody's Investors Service.

(a) 2001 figures are estimates based on the total for the first five months of the year at an annual rate.

Chart 128:
PNFCs' capital gearing^(a)

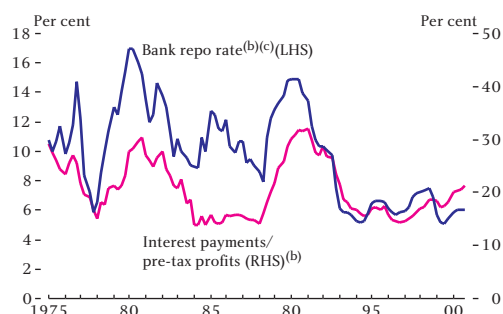


Source: ONS.

(a) Seasonally adjusted.

(b) PNFCs' net debt divided by the sum of net debt and the market value of equity.

Chart 129:
PNFCs' income gearing^(a)



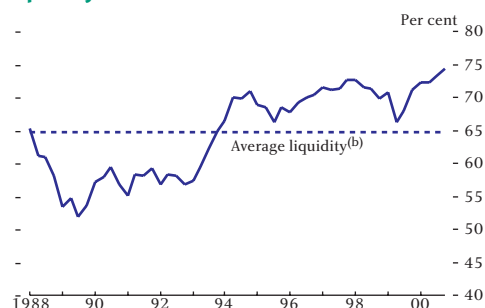
Source: ONS.

(a) Seasonally adjusted.

(b) Data are quarterly averages.

(c) Or equivalent in earlier periods.

Chart 130:
Liquidity of PNFCs^(a)



Sources: ONS and Bank of England.

(a) Liquidity ratio is sterling and foreign currency deposits and money market instruments (MMIs), divided by sterling and foreign currency short-term bank and building society lending and MMI liabilities.

(b) Average from 1988 Q1 to 2000 Q4.

be used to service or repay debt if necessary. National accounts data cannot easily be translated into measures of corporate liquidity, but the ratio of total corporate sector short-term deposits to an estimate of short-term bank lending rose further in 2000. On this measure, liquidity remains well above the average of the most recent ten years (Chart 130). But deposit growth has fallen in recent months. Lending growth has remained robust in services and real estate/construction; the manufacturing sector made net repayments of bank debt in 2000 Q4 and 2001 Q1.

Over the longer term, high aggregate liquidity since the early-1990s contrasts with low liquidity in the mid-to-late 1980s, when the debt-income ratio, capital gearing and income gearing all rose to high levels. Combined with low income gearing, this implies that the corporate sector in aggregate should be better placed than in the late 1980s to absorb the impact of unexpected declines in income or cash flow.

Dispersion in corporate performance

Aggregate data may, however, mask underlying developments. Previous *Reviews*²⁸ have noted a sharp widening in the dispersion of UK corporate financial performance in recent years. Table 15 shows profit margins for smaller quoted companies, larger quoted companies, and old and new economy sectors. The least profitable tenth percentile of quoted companies in 1999 was concentrated in the smaller quoted company and new economy sectors. Available information for 2000 (covering around 80 per cent of listed companies) suggests a modest decline in sales-weighted profitability at the tenth percentile (Chart 131); a further increase in the dispersion of liquidity, associated entirely with higher liquidity at the top of the distribution; and a marked increase in the dispersion of capital gearing (Chart 132). At the highest decile, the changes in net gearing largely reflect rising

Table 15:
Operating Profit Margins (1999) by types of firms^{(a)(b)}

Percentile	All quoted firms	Smaller quoted	Larger quoted	New economy	Old economy
10th	-11.6	-18.6	2.2	-15.3	-10.8
50th	7.5	5.9	11.9	7.9	7.5
90th	20.8	17.5	25.9	19.9	21.0

Source: Thomson Financial Datastream and Bank of England.

(a) The OECD definition of new economy firms includes firms operating in information and communication technology sectors, specifically with the following SIC codes: 3000, 3130, 3210, 3220, 3230, 3320, 3330, 516, 6420 and 7133. Old economy firms are defined as all other non-financial firms.

(b) Profit margin is earnings before interest and taxes divided by turnover.

²⁸ Benito, A and Vlieghe, G, 'Stylised facts on UK corporate financial health: evidence from micro data', *Financial Stability Review*, June 2000, 83-93 and *Financial Stability Review*, December 2000, 67.

gross debt, whereas at the lower percentiles they are largely accounted for by increased cash holdings.

National accounts data for 2000 Q4 suggest that, in aggregate, companies have reacted to the build-up of debt by reducing dividend payments. Company accounts data for 2000 show that over 19 per cent of quoted companies cut their dividends, compared with a 25-year average of about 12 per cent. A further 30 per cent of quoted companies paid no dividend at all last year, against a 25-year average of just under 13 per cent (Chart 133). There are several possible explanations for these developments.

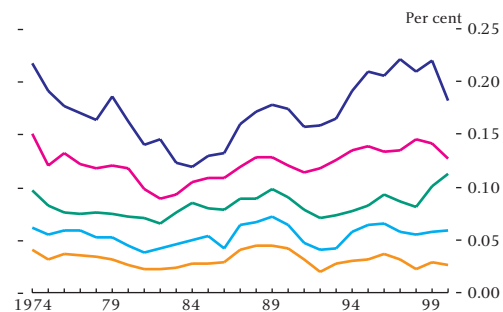
Recent changes to the tax treatment of dividends may have encouraged companies to distribute returns to shareholders in different ways. But this cannot explain the increasing tendency to omit dividends over a longer period. Another possible explanation is increased financial fragility. Or, alternatively, it could signal a desire to retain more earnings to finance future investment at rates of return that at least match those more generally available to shareholders. The increases in dividend omission in the recessions of the early 1980s and early 1990s were attributable largely to companies that had previously paid dividends and reflected financial fragility. But the more recent rise in dividend omission is mainly attributable to companies that have never paid dividends and may therefore be more structural in nature (Chart 133). Bank discussions with FTSE-350 companies suggest that they increasingly regard dividends as one among several components of total shareholder compensation. Share buy-backs have become more popular, increasing in value from £2.5 billion in 1997 to £8.4 billion in 2000, although this remains small compared with total dividend payments of £56 billion.

Disaggregated data, then, continue to show evidence of wide dispersion of financial strength among sectors, with a further deterioration in the performance of the externally-exposed industrial sector combining with continuing growth in services. In these circumstances, the corporate sector may again have become more vulnerable to an unexpected fall in income or cash flow, partly because the more benign aggregate indicators are masking increasing divergences within the sector. The implications for banks remain limited, however, because bank loans appear not to be concentrated among the more vulnerable companies.

The commercial property sector

The commercial property sector has been a material source of loss to banks in the past. A substantial fall in property prices adversely affects banks by reducing the net worth of PNFCs and by increasing the probability of default of real estate investors, as

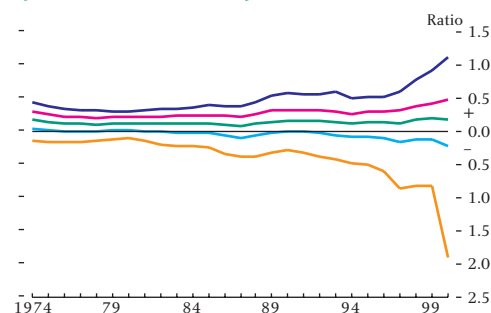
Chart 131:
Distribution of weighted operating profit margins of quoted PNFCs^{(a)(b)(c)}



Sources: Thomson Financial Datastream and Bank of England.

- (a) 90th, 75th, 50th, 25th and 10th percentiles shown.
- (b) Earnings before interest and taxes divided by turnover; sales weighted.
- (c) Data for 2000 are provisional estimates, based on 1,103 company accounts. The sample size reflects available information.

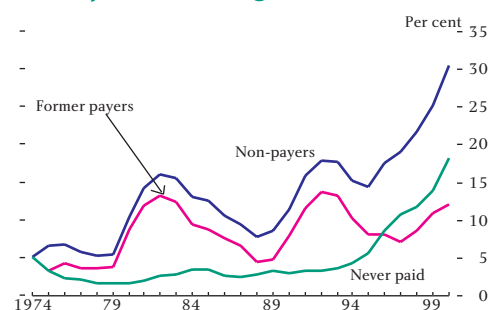
Chart 132:
Distribution of capital gearing at replacement cost of quoted PNFCs^{(a)(b)(c)}



Sources: Thomson Financial Datastream and Bank of England.

- (a) 90th, 75th, 50th, 25th and 10th percentiles shown.
- (b) Net debt divided by capital stock at replacement cost.
- (c) Data for 2000 are provisional estimates, based on 1,075 company accounts. The sample size reflects available information.

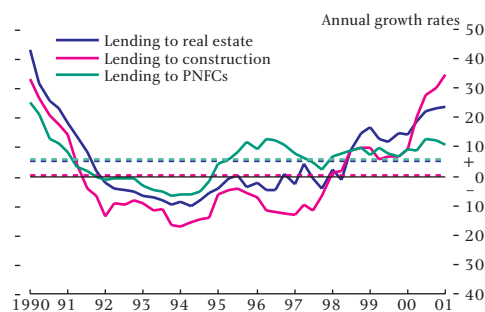
Chart 133:
UK companies omitting a dividend^(a)



Sources: Thomson Financial Datastream and Bank of England.

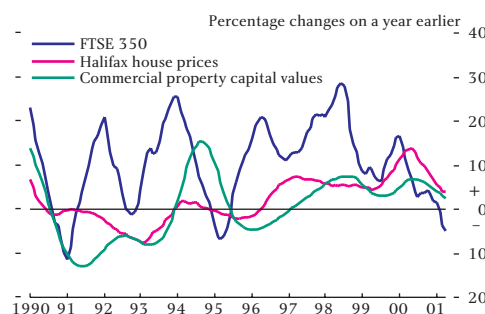
- (a) Data for 2000 are provisional estimates, based on 1,102 company accounts. The sample size reflects available information.

Chart 134:
Lending to real estate, PNFCs and construction^{(a)(b)(c)}



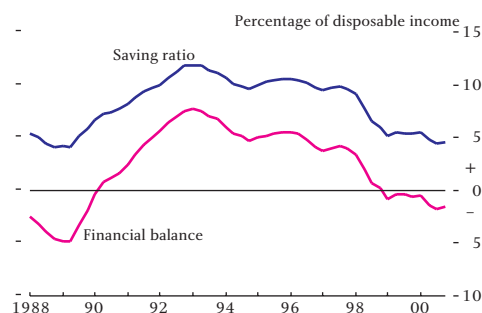
Source: Bank of England.
(a) Not seasonally adjusted.
(b) Lending to PNFCs includes banks' holdings of securities, but lending to real estate and construction do not.
(c) Dashed lines indicate respective averages, from 1990 Q1 to 2001 Q1.

Chart 135:
Asset values



Sources: Investment Property Databank, Halifax and Thomson Financial Datastream.

Chart 136:
UK household saving ratio and financial balance^{(a)(b)}



Sources: ONS and Bank of England.
(a) Seasonally adjusted.
(b) Data are a four-quarter, backward-looking moving average.

well as reducing the value of a standard form of collateral for loans not directly related to property.

Annual growth in bank lending to real estate was over 23 per cent in both 2000 Q4 and 2001 Q1, a marked increase on a year earlier and well above the growth of lending to PNFCs in aggregate (Chart 134). Loans to construction rose by 35 per cent in the year to 2001 Q1, coinciding with strong growth in public expenditure²⁹. The acceleration in bank lending to the property sector has occurred in an environment of low and stable borrowing costs relative to property yields and continuing difficulties in raising capital market finance by property companies trading at discounts to net asset value. An apparent low willingness to lend on a speculative basis (compared with the late 1980s), reported by market contacts and discussions at the Property Forum hosted by the Bank, may provide some comfort³⁰. But the same contacts also report more aggressive lending by some institutions and an increase in residual value risk³¹.

The December *Review* reported a combination of strong tenant demand and tight supply, consistent with the lowest vacancy rates since the 1980s. But there are indications that the balance of demand and supply is changing. Demand in London and the M4 corridor may be particularly sensitive to a slowdown in the United States. Data on take-up of City offices suggest a weakening in Q2, and market contacts confirm a weakening of demand more generally. On the supply side, new orders placed for commercial properties rose by about 16 per cent in 2001 Q1. There has also been a marked increase recently in City offices planned but not started.

These changes in demand and supply have been associated with a slowing of capital value growth (Chart 135). Annual growth in retail capital values has been negative in 2001 for the first time since 1996. Total capital values rose by less than 1.5 per cent in the year to April 2001, down from around 7 per cent in the year to April 2000.

Greater availability of finance, and perceived low nominal funding costs relative to the past, may also encourage supply, putting further downward pressure on capital values and so potentially weakening the balance sheet of the corporate sector in general. The potential exposure of UK banks to property might also increase if real estate investors take on more debt because they have unrealistic assumptions of continuing rises in capital

²⁹: Although lending for construction includes some commercial property activity, it also covers activities such as construction under government contracts, private civil engineering projects and construction for residential property.

³⁰: See *Financial Stability Review*, November 1999, 72, for a description of the Property Forum.

³¹: The risk that the value of outstanding debt does not cover the market value of the property at the contractual maturity date.

values. These factors taken together suggest some rise in financial risks from the commercial property sector since the *December Review*.

The household sector

Like the corporate sector, the household sector has continued to run a significant underlying financial deficit; secured and unsecured debt-income ratios have risen further. Balance sheet and debt-service indicators appear more benign, underpinned by earlier increases in wealth and lower interest rates. Disaggregated data are more reassuring than in the corporate sector. Overall, however, developments since the *December Review* reinforce the conclusion that continued rapid growth in household borrowing has somewhat increased the sector's vulnerability to an economic downturn or market correction, or an increase in interest rates.

Saving and the household sector financial balance

The household sector saving ratio rose in 2000 Q4. However, part of the rise reflected erratic income flows; smoothing these, the underlying saving ratio was close to 4 per cent, compared with its post-1988 low of 3.4 per cent in 2000 Q3. The household sector has been running a financial deficit since 1998 Q2, which (on a smoothed estimate) amounted to 1.5 per cent of disposable income in 2000 Q4 (Chart 136).

Debt-income ratios

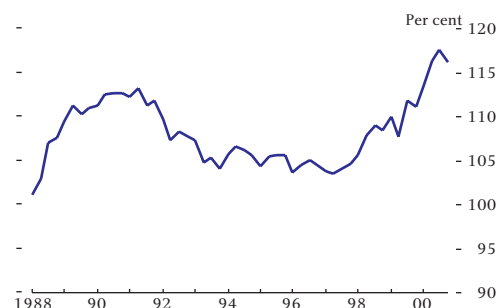
Household wealth-income ratios have risen almost continuously since 1996 and have been accompanied by a sustained rise in the debt-income ratio to historical highs (Chart 137). As noted in the *December Review*, debt-income ratios have been increased by the substantial rise in the share of mortgages repaid through endowment policies in the mid-1980s. But, other things being equal, the subsequent fall in this share will tend to reduce debt-income ratios over the next two decades.

Unsecured debt

While secured debt dominates, the ratio of unsecured debt to income has risen rapidly since 1994 from under 12 per cent to around 20 per cent in 2000 (Chart 138). This reflects increases in both credit card and other unsecured lending (Chart 139). Growth in credit card outstandings in part reflects the increased use of cards as a payment medium. But, over the past year, there has been a greater rise in interest-bearing balances (Chart 140), and the average life of credit card debt has also risen (Chart 141). The average life of other unsecured consumer loans has also risen over the past three years (Chart 142).

The decision by households to make greater use of unsecured credit, and over longer periods, will have been driven in part by the more attractive terms that have been offered in a competitive market. According to banks, past experience suggests that credit card debt and other unsecured personal lending are more likely

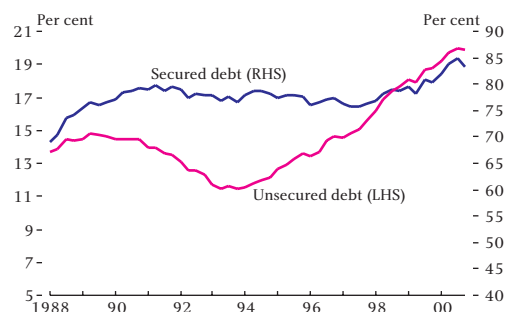
Chart 137:
UK household sector debt-to-income ratio^(a)



Source: ONS.

(a) Gross debt as a percentage of disposable income.

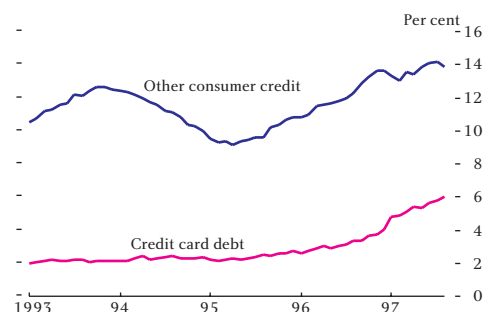
Chart 138:
Household sector secured and unsecured debt-to-income ratios^(a)



Sources: ONS and Bank of England.

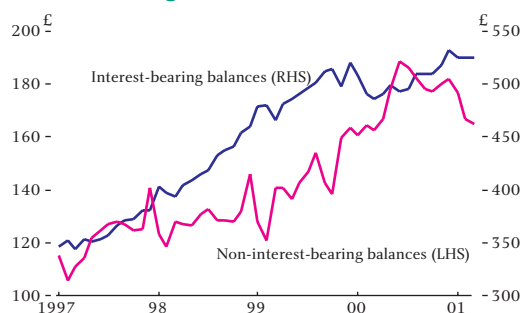
(a) Percentage of disposable income.

Chart 139:
Other consumer credit and credit card debt as a percentage of post-tax income



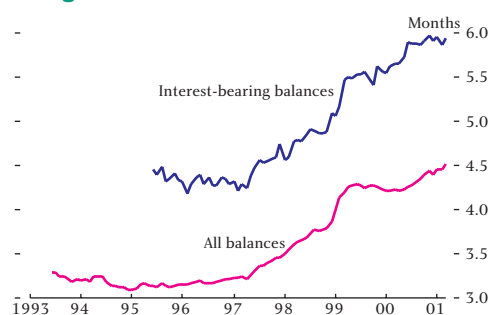
Sources: ONS and Bank of England.

Chart 140:
Average non-interest-bearing and interest-bearing credit card balances



Sources: BBA and Bank of England.

Chart 141:
Average life of consumer credit card debt^(a)



Sources: BBA and Bank of England.

(a) Average life is the average turnover of debt, estimated by the stock of debt divided by new credit extended, using data which are three-month averages.

Chart 142:
Average life of other consumer credit^(a)



Source: Bank of England.

(a) Average life is the average turnover of debt, estimated by the stock of debt divided by new credit extended, using data which are three month averages.

to default in times of financial stress than secured lending. Default rates on credit cards have risen since 1999.

Housing

That part of lending secured on housing but not used to fund investment in housing is called mortgage equity withdrawal (MEW). This adds to unsecured borrowing to augment the resources available for consumption or investment in financial assets. MEW in 2000 Q4, in relation to total household resources, was however well below its peak in 1988. A recent survey carried out by MORI for the Bank and the Council of Mortgage Lenders found that the majority of households who withdrew equity between June 1998 and September 2000 used the proceeds for home improvements, furnishings, appliances etc³².

If buyer expectations about future house prices or future income proved to be unrealistic, households might find they had taken on more mortgage debt than prudent. Advance-to-income ratios have risen, for both first-time buyers and existing owner-occupiers, moving house since the previous *Review*, to historically high levels (Chart 143). Although advance-to-income ratios for all buyers have risen across the whole of the UK since 1998 Q3, loan-to-value ratios have fallen almost continuously from 1996 (see Section VIII). This probably reflects house prices rising more rapidly than income, rather than a tightening of credit conditions in the mortgage market, although the house-price-to-earnings ratio is close to its long-run average (Chart 144).

Capital and income gearing

Although household debt is historically high relative to income, capital and income gearing remain relatively low, implying that households are not over-indebted in relation to their balance sheets, at least provided capital values and incomes are broadly maintained. Capital gearing has risen a little since the previous *Review* (Chart 145), but past increases in equity and house prices have kept gearing low. Prospects depend on the outlook for both equity and house prices.

Recent low income gearing reflects low nominal interest rates and robust household income growth. Income gearing in 2001 H1 is likely to fall further following the MPC's recent reductions in interest rates (75bp since the December *Review*), although this effect will be offset to some degree by rising gross debt. The interest rate effect may also be limited because recent cuts in rates have not yet been fully reflected in average mortgage rates³³. Average mortgage rates being paid by borrowers in aggregate are likely to fall further as more borrowers transfer to new lower

³²: For further details see the article in the *Bank of England Quarterly Bulletin* by Melissa Davey, 'Mortgage equity withdrawal and consumption', Spring 2001 100-103.

³³: *May Inflation Report*, page 9.

standard variable rates, and as recent cuts in the Bank's repo rate are passed through.

Evidence from the British Household Panel Survey (BHPS) also provides a reassuring picture of mortgage income gearing (see Table 16). Income gearing fell across all deciles of the distribution in 1999. Over the whole of the 1990s, the fall has been most marked among heavily geared households. But nominal measures of mortgage debt service costs do not take into account movements in the real cost of servicing a mortgage, and so do not necessarily mitigate concerns over rising debt-income ratios.

Table 16:
Distribution of mortgage income gearing (per cent)^{(a)(b)}

Year	10th	30th	50th	70th	90th
1992	5.5	9.9	14.8	21.3	38.3
1994	5.0	9.0	12.8	18.2	31.2
1996	5.3	9.0	12.5	17.4	28.3
1998	6.2	10.4	14.3	19.4	29.4
1999	5.5	9.0	12.6	17.2	29.0

Sources: British Household Panel Survey and Bank of England.

(a) Data for some years have been omitted for space reasons.

(b) 10th, 30th, 50th, 70th and 90th percentiles shown.

Bankruptcies and distress

Given the recent strength of the economy, it is perhaps unsurprising that house possessions have continued to fall from already low levels. The number of new bankruptcies, including voluntary arrangements, has remained around 7,000 since 1998, compared with a peak of just below 11,000 in 1993 Q1. The BHPS survey also provides indicators of financial mortgage

Table 17:
Indicators of mortgage financial distress (%)^(a)

Year	Payment problems ^(c)	Arrears of 2 or more months ^(b)	Payment required borrowing ^(c)	Payment required cutbacks ^(c)
1992	16.2	3.8	2.3	13.4
1994	10.6	2.5	1.3	8.4
1996	7.2	1.3	1.2	6.0
1998	7.0	0.9	1.4	5.8
1999	6.1	0.9	1.1	4.6

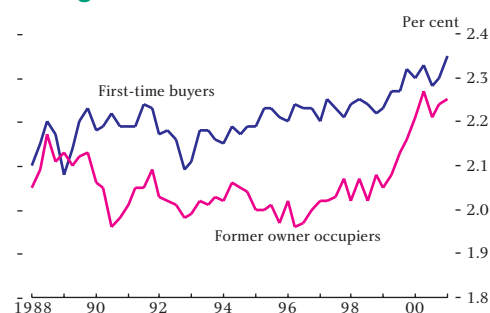
Sources: British Household Panel Survey and Bank of England.

(a) Data for some years have been omitted for space reasons.

(b) Percentage of those renting or with a mortgage.

(c) Percentage of those with payment problems.

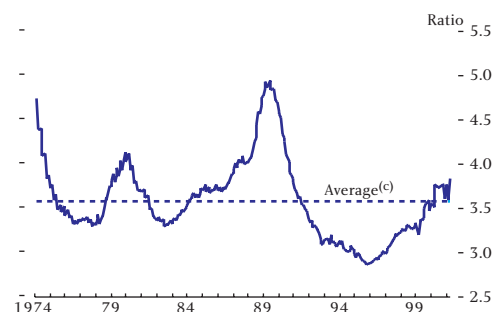
Chart 143:
Average advance-to-income ratios in the housing market^(a)



Source: Council of Mortgage Lenders.

(a) Data prior to 1992 are for building societies. Thereafter they cover all lenders.

Chart 144:
House price-to-earnings ratio^{(a)(b)}



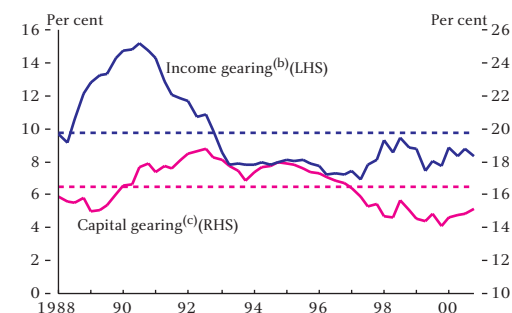
Sources: Halifax and ONS.

(a) Data for April 2001 are provisional.

(b) Halifax house prices divided by ONS whole economy earnings, seasonally adjusted.

(c) Average from January 1985 to April 2001.

Chart 145:
Household sector income and capital gearing^(a)



Sources: ONS and Bank of England.

(a) Dashed lines indicate respective averages from 1988 Q1 to 2001 Q1.

(b) Income gearing is total household interest payments as a percentage of total household disposable income.

(c) Capital gearing is total liabilities as a percentage of total financial assets plus housing wealth.

distress across households. The proportion of households who had mortgage arrears of two months or more, or payments problems, fell to 7 per cent in 1999 from 8 per cent in 1998 and 20 per cent in 1992 (Table 17).

Risks to the outlook

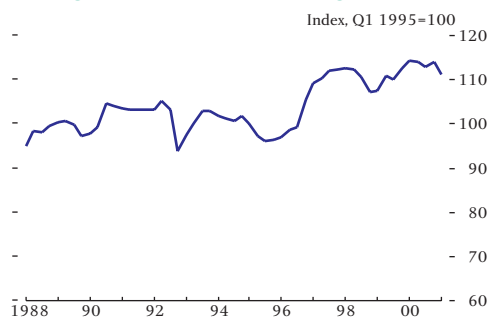
As described above, the balance sheets of both the corporate and household sectors, in aggregate, seem to be robust at the moment, notwithstanding an extended period of rapid debt accumulation (Charts 126 and 137). A forward-looking view needs, however, to take account of how prospective developments in the economy might affect sectoral balance sheets. The imbalances which have for a while characterised the economy are relevant in this context since, as discussed by the Monetary Policy Committee³⁴, they seem set to persist. Final domestic demand has grown more rapidly than the economy's productive capacity for some while. If robust household spending were to continue, it may well be accompanied by continuing high rates of borrowing, but in an environment where output and so income growth are expected to slow at some stage and where domestic demand will itself eventually need to slow, it would seem prudent for bankers and households to take this into account.

The counterpart to above-trend domestic demand growth has for a while been, and is likely to continue to be, an increasing negative contribution to output growth from net trade. This will tend to increase the pressure on, and so – other things being equal – raise credit risks in those parts of the corporate sector which are exposed to external competition; for example, manufacturing, where output has recently been falling. Whether adjustment to these imbalances, including possibly via sterling's exchange rate (Chart 146), occurs smoothly over time or abruptly will be important to the management of risks in the corporate and financial sectors.

For the economy as a whole, these developments have entailed growing net external liabilities from cumulative current account deficits. It is potentially helpful in this respect that the composition of the UK's external balance sheet would seem to imply falling net external liabilities if sterling were to depreciate, as it has recently against the dollar³⁵.

Chart 146:

Sterling real effective exchange rate^(a)



Sources: ONS and Thomson Financial Datastream.

(a) Exporters' real exchange rate measure: the relative price of tradeable goods and services in common currency.

³⁴: See for example the Minutes of the Monetary Policy Committee meeting 9-10 May, and 5-6 June 2001.

³⁵: See Senior, S and Westwood, R (2000): 'The external balance sheet of the United Kingdom: implications for financial stability?' *Bank of England Quarterly Bulletin*, November, pp 351-364.