BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28th FEBRUARY

1965

Issued by Order of the Court of Directors, 1st July 1965

Court of Directors

28th February 1965

The Rt. Hon. the Earl of Cromer, M.B.E., Governor

Leslie Kenneth O'Brien, Esq., Deputy Governor

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The Rt. Hon. Lord Bicester

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John Maurice Laing, Esq.*

Christopher Jeremy Morse, Esq.

The Rt. Hon. Lord Nelson of Stafford

Maurice Henry Parsons, Esq.

Sir William Henry Pilkington

The Rt. Hon. Lord Sanderson of Ayot, M.C.

Michael James Babington Smith, Esq., C.B.E.

Sir Henry Wilson Smith, K.C.B., K.B.E.

* Created a Knight Bachelor in June 1965.

On 15th January 1965 Mr. J. M. Stevens, D.S.O., O.B.E., ceased to be a member of the Court on appointment as Head of the Treasury Delegation and Economic Minister in Washington: Mr. C. J. Morse was appointed to the Court in his place and for the remainder of his term of office as a Director, namely until 28th February 1965.

The term of office of Mr. M. H. Parsons and Mr. M. J. Babington Smith expired on 28th February 1965 and they and Mr. Morse were reappointed for a period of four years.

The term of office of Lord Sanderson of Ayot also expired on 28th February 1965 and Mr. Cecil Harmsworth King was appointed in his place for a period of four years.

Bank of England

Report for the year ended 28th February 1965

The first part of this Report summarises briefly the main economic and financial developments of the year, most of which have already been discussed more fully in the Bank's Quarterly Bulletins. The second part, starting with the Bank of England Return for 27th February 1965, deals with various other aspects of the Bank's work.

General economic background

At the beginning of the period under review the economy had completed a year of unusually rapid expansion. But it appeared unlikely that the same pace of expansion could be sustained for much longer. Sterling, after holding steady for nearly a year, had come under some pressure during February 1964. In these circumstances, Bank rate was raised on 27th February from 4%, at which it had stood since January 1963, to 5%. This move helped to relieve the pressure on sterling in the foreign exchange market and also allowed a greater freedom of manoeuvre to be restored in the money market, where the Treasury bill rate had been for some months unusually close to Bank rate.

The Budget The Budget seven weeks later contained further measures intended to moderate the growth of demand at home and to keep it within the growth of resources. The Chancellor proposed an increase of about £100 million in 1964/65 in the duties on tobacco and alcoholic drink; and to encourage savings he increased the limits on holdings of national savings certificates and premium savings bonds and introduced a new and more attractive national development bond to take the place of defence bonds.

Progress of home demand In fact, during much of 1964 the pace of economic expansion was appreciably slower, although it quickened again at the end of the year. Expenditure on fixed investment was the main expansionary force. Public spending, both on housing and other work, which had accelerated during 1963, continued to rise strongly; private house building increased further; and industrial fixed investment, which had ended a two-year decline in 1963, also grew vigorously.

Although defence expenditure scarcely rose, there was a greater increase than before in other forms of public authorities' current spending. On the other hand, the volume of personal consumption, which had increased markedly during 1963, grew little further until the autumn. Personal incomes rose at the same rate as before, but more was absorbed by higher prices (including the effect of the budget increases) while personal saving was maintained at a high rate.

The slower growth of total home demand helps to explain the apparent stability in industrial output during the second and third quarters, as measured by the official index (although the subsequent rise in the index was such as to confirm other evidence that there may have been some underlying upward trend throughout the year). The shift in emphasis from consumption to investment also played some part, because it led to overloading in the building and engineering industries. Labour was scarce and delays were reported in the delivery of materials and components.

Overseas trade The slowing down in the growth of output was also connected with the disappointing performance of exports at a time when conditions abroad and new orders received appeared to offer a good prospect of further expansion. After a rise in the first quarter, the trend during the next six months was flat or even a little downward. It was chiefly exports of heavy machinery and other capital goods that lagged behind. These were the branches of engineering that had suffered some congestion; moreover an unusually large proportion of the engineering order book was for heavy goods which take a long time to manufacture.

Meanwhile, imports continued upwards after exports had ceased to rise until they in turn flattened out at a high level after the middle of the year. Imports of industrial materials rose very steeply between the middle of 1963 and the middle of 1964 to sustain both the expansion in industrial output and a concomitant resumption of stockbuilding. Other kinds of imports also continued to grow until the middle of 1964, especially finished manufactures. Most of the increase was in capital goods, in keeping with the greater emphasis on investment expenditure.

Developments in other parts of the balance of payments were also unfavourable, as described later, and as the year progressed sterling came under increasing pressure.

The new Government's measures

To improve the balance of overseas trade the new Government, on 26th October, announced a temporary surcharge of 15% on most imports except food and raw materials and the remission of certain indirect taxes to exporters to give them some additional incentive. These measures were shortly followed by a special Budget on 11th November which included an immediate increase of 6*d*. a gallon in the tax on road fuel. Taking account of all these measures, and of the fact that the budget deficit for 1964/65 seemed likely in any case to turn out some £250 million smaller than had been allowed for in April, the Chancellor said that the overall budget deficit for the financial year might now be of the order of £400-450 million, well below the original estimate of £791 million. (The deficit was in fact £428 million)

Besides these immediate measures, the Chancellor proposed to increase the standard rate of income tax by 6*d*. from April 1965. This would be more than enough to offset the net cost of increases in social benefits, which he also proposed and which would mainly start in March. He also announced that he intended in the spring to extend the scope of the capital gains tax and to introduce a new corporation tax to take the place of the income and profits taxes levied on the income of companies. On 23rd November, to help counter the crisis of confidence in sterling, Bank rate was raised from 5% to 7%.

Later developments

The last few months of the year under review saw a marked improvement in the balance of overseas trade. Imports were reduced fortuitously by the U.S. dock strikes but, apart from this, there was a decline in imports of food and also in some categories of goods subject to the import surcharge. Exports of capital goods grew again after their long stagnation and there was also a further encouraging rise in orders from abroad for engineering products.

After its earlier pause, the official index of production rose sharply towards the end of the year and during the three months ended February 1965 it was, on average, about 5% higher than a year earlier. Some of this acceleration was associated with the better exports but it also owed something to a rise in consumers' spending that developed in the autumn of 1964. Meanwhile expenditure on fixed investment by private industry and the public sector continued to rise.

At the end of the period under review the economy thus remained very active. Unemployment had declined steadily during the year, if seasonal influences are allowed for, and in February 1965 the total represented no more than 1·6% of all employees. As for the future, in the forefront was the need to improve the balance of payments. The effects of the corrective measures taken in the autumn were likely to become increasingly apparent as time went on. On the other hand there were prospects of a continuing rise in central and local government expenditure, both current and capital. There were also signs that manufacturers' expenditure on investment would rise further in 1965. This, together with a heavy commitment of housing work, would fall on an already overloaded building industry.

Prices and incomes Developments during the year under review helped to emphasise the need for an agreed policy on prices and incomes, on which new initiatives were taken by the Government towards the end of the year. Though wage settlements affected much the same number of workers as in the previous year, the average size of increase negotiated tended to get larger. Actual weekly earnings—taking account of overtime and other special payments but before taxation—appeared to be rising by about 7%-8% a year, or appreciably faster than basic wage rates. This was much more than it would be reasonable to expect productivity to rise except perhaps at times (as in 1963) when slack in the economy is being taken up.

Prices generally rose more quickly than during the previous year. Retail prices were 4½% higher in February than a year earlier, about one-quarter of the rise being attributable to increased indirect taxes. Manufacturers' selling prices, which were also affected by the tax increases, were up by about 4¾%. This was probably to some extent a delayed reaction to the strong rise in import prices during 1963; during 1964 itself import prices as a whole rose little. Companies' gross trading profits (seasonally adjusted), which had increased sharply during 1963, changed little further during 1964 though the year's total was, of course, much higher than in the previous year.

In February 1965 the Government announced, in agreement with both sides of industry, that the National Economic Development Council would keep under review the general movement of prices and of money incomes of all kinds, and that a National Board for Prices and Incomes would be set up to examine particular cases to see whether the behaviour of prices or of money incomes was in the national interest.

External situation

Balance of payments The deficit on current and long-term capital account in 1964 amounted to £745 million. A visible trade deficit of £553 million was only partly offset by net invisible earnings of £179 million; and the net outflow of long-term capital at £371 million was about the same size as the current account deficit. This outflow included exceptionally heavy direct investment abroad by the oil companies, and net sales of U.K. portfolio securities by overseas residents in contrast to the net purchases of previous years. Net invisible earnings were adversely affected by the rephasing of tax payments to one of the large oil-producing countries. On the other hand both accounts benefited from the deferment of North American debt service (totalling some £62 million) in December.

Several factors combined to insulate the reserves from the full impact of the deficit in the first nine months of the year: the favourable payments position of the overseas sterling area countries for most of this time; some accumulation of sterling by other countries, notably in the third quarter; and the conversion by the banks of a substantial amount of foreign currency deposits for employment in sterling. None the less the reserves, after rising by £17 million in the first half of the year, fell by £59 million in the third quarter as the deficit, mainly for seasonal reasons, widened sharply; in addition, £71 million (or U.S. $200 million) of special assistance was taken from overseas central banks, nearly all in the third quarter (see next section). In the fourth quarter, as described later, the reserves came under very heavy pressure and would have fallen by some £580 million but for the net receipt of a further £502 million ($1,405 million) of special assistance (including the drawing from the International Monetary Fund).

Although the trade deficit improved up to February 1965, as already described, confidence in sterling remained weak before the Budget. In January and February the reserves rose by £17 million after the net receipt of a further £64 million ($180 million) of short-term assistance.

Special assistance In May 1964 the $500 million swap arrangement with the Federal Reserve Bank of New York was extended for a further year. The United Kingdom made a small drawing of $15 million under this facility at the end of June, but repaid it within a fortnight.

During the autumn sterling came under increasing pressure and facilities totalling a further $500 million were arranged in September with the central banks of Belgium, Canada, France, Italy, the Netherlands, Switzerland and Western Germany. The $1,000 million thus available was exhausted in November, and was repaid in December when the United Kingdom, as noted below, drew an equivalent amount from the I.M.F.

On 25th November it was announced that the central banks which had already provided assistance, together with those of Austria, Japan and Sweden, the Bank for International Settlements and the U.S. Export-Import Bank, had made available a further $3,000 million. This figure included the swap arrangement with the F.R.B., which was increased to $750 million.

On 2nd December the United Kingdom drew the equivalent of $1,000 million from the I.M.F. under the standby facility which had been renewed in August. The drawing, which is repayable within three years, was made in eleven currencies, which the Fund provided from their existing holdings, from the sale of gold and, as to $405 million, from activation of the General Arrangements to Borrow. This was the first occasion on which the Arrangements, which date from 1962, had been used. At the same time Switzerland, which, although not a member of the Fund, is associated with the General Arrangements to Borrow, provided the United Kingdom with a three-year bilateral credit in Swiss francs equivalent to $80 million. Of this credit, $50 million was used to repay an earlier loan made by Switzerland in 1961.

Those of the credit facilities which expired in February 1965 were replaced, so that $3,000 million of facilities remained available until the end of May. In the meantime the United Kingdom sought a further drawing from the I.M.F.

Assistance outstanding at the end of each month between August 1964 and February 1965 is shown below.

Foreign exchange market Sterling was firm for some months after the rise in Bank rate at the end of February 1964, but it began to weaken at the end of May. The spot rate against the U.S. dollar then fell steadily from a little below \$2·80 to about \$2·78$\frac{5}{16}$ by the middle of September. It remained around this level, occasionally touching \$2·78$\frac{1}{4}$, until Bank rate was raised again in November. The authorities intervened from time to time during the summer to moderate the fall in the rate, but did not seek to arrest it by drawing unduly on the reserves. From August onwards selling pressure became more noticeable; and in September the reserves on isolated occasions suffered substantial losses.

The root cause of the weakness of sterling between June and October was the very heavy deficit in the balance of payments. As already described, the deficit had been partially masked earlier in the year by the buoyant payments position of the overseas sterling area countries. But about the middle of the year, mainly for seasonal reasons, the foreign exchange earnings of these countries began to dwindle. Moreover, some tightness developed in a number of continental money markets as measures to contain inflationary pressures exerted increasing influence. The pronounced seasonal deterioration in the U.K. balance of payments helped to make sterling still more

Special assistance outstanding

$ millions

	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Federal Reserve Bank of New York	15	35	5	675	200	200	105
Other short-term assistance ...	—	165	410	525	325(a)	600	600
Total short-term	15	200	415	1,200	525	800	705
Swiss three-year credit(b)	—	—	—	—	80	80	80
I.M.F.	—	—	—	—	1,000	1,000	1,000
Total	15	200	415	1,200	1,605	1,880	1,785
£ millions	*5*	*71*	*148*	*429*	*573*	*671*	*637*

(a) Made up as follows: Belgium 75, Canada 50, France 30, Italy 30, the Netherlands 25, Sweden 20, Switzerland 20 and Western Germany 75. The total comprised 200 in the form of foreign currency deposits and 125 in the form of swaps against sterling.

(b) The repayment of the earlier Swiss loan is not offset as it was a contractual repayment.

vulnerable in the autumn. Sporadic withdrawals of foreign funds occurred in September and October, partly because confidence began to falter; but there was little evidence at this time of outright speculation against sterling. The discount on forward sterling moved in a narrow range between March and September, and some increase in October seemed to be associated mainly with market expectations of higher U.K. interest rates.

The announcement of the introduction of the import surcharge, towards the end of October, briefly eased the strain on sterling. But, despite the Government's avowed determination to maintain sterling at its existing parity, the market was not convinced that it would in fact be possible to avoid an exchange rate adjustment. Selling pressure mounted during November, and the drain on the reserves was exceptionally severe between Friday 20th and Wednesday 25th November. The crisis fed upon itself and the increase in Bank rate to 7% on the intervening Monday afforded only a short respite. At this point demand for forward exchange began to build up and the authorities started to support the forward market. The intense pressure was relieved once the $3,000 million support arrangements already mentioned became known, but the market remained very uneasy.

Spot sales of sterling, though still large, were much diminished in December. They showed mainly as a sizeable reduction in the sterling balances of overseas sterling area countries, some of which was due to a deterioration—partly seasonal—in their balance of payments. Confidence, however, remained weak and there was a persistent and very strong demand for forward exchange, which the authorities continued to meet. In January official intervention both spot and forward was required much less frequently; and in the latter part of that month, after the better export performance in December became known, there was some improvement in sentiment. February saw a moderate inflow of funds and at one point the spot rate, which had risen above $2·79 at the end of November and been held at that level in December, reached $2·79⅝. This better appearance owed much to the conversion of currency deposits into sterling by the banks, which increased their lending to local authorities and other U.K. residents. There was as yet little sign that the funds withdrawn earlier were being returned, although in due course the reversal of leads and lags in commercial payments and the covering of short positions could be expected to strengthen sterling considerably.

Gold Private demand for gold was moderate in the spring of 1964, but increased later. The dollar equivalent of the daily fixing price, which averaged rather less than $35·08 per fine ounce between March and August, began to rise in September at the approach of the U.K. and U.S. elections. Around this time also there was a seasonal revival of demand from the Middle and Far East. During November the market, though still fairly active, was remarkably little affected by the sterling crisis. But increasing disquiet about the stability of the international monetary system caused demand to strengthen considerably in December. Early in January the market was further affected by rumours that the French authorities intended to convert all their U.S. dollar holdings into gold: on 8th January turnover was slightly higher than on any day during the Cuban crisis of October 1962 and the authorities met demand up to $35·19. French criticisms of the gold exchange standard led to a renewal of very strong demand during February, when the daily fixing price ranged up to $35·17.

Steadily rising supplies of newly produced gold, together with substantial sales by the U.S.S.R. early in the year, more than met private demand in 1964 as a whole. As a result gold amounting to more than $600 million, much the same amount as in 1963, was shared out amongst central banks participating in the gold pool.[1] Early in 1965, however, as demand was then persistently exceeding supplies from producers, the sales consortium began to operate again for the first time since 1962.

Exchequer finance

The pattern of Exchequer finance in the financial year 1964/65 was dominated by the very large sums of sterling which became available to the Exchequer as the counterpart to

[1] See article "The London gold market" in the *Quarterly Bulletin* for March 1964.

the loss of foreign currencies through the Exchange Equalisation Account. These receipts amounted to about £850 million. The Exchequer had a surplus on Revenue account of £444 million; but Consolidated Fund loans cost £830 million (net).(1) Allowing also for extra-Exchequer funds and external items,(2) the Exchequer Group had a total cash surplus for the year of £220 million, as against a cash deficit in the previous financial year of £450 million.

Notes and coin in circulation increased by £143 million, and there were net receipts of £144 million from national savings and tax reserve certificates. Among these, the new national development bonds proved particularly attractive to the public, and sales of premium savings bonds also kept up well; there was, however, some decline in the volume of tax reserve certificates outstanding. These accruals, added to the cash surplus already described, were associated with a very large net repayment of marketable debt. The total of market Treasury bills fell by £500 million over the year, and there were small net official purchases of stock, amounting to £6 million. There was virtually no change in Exchequer indebtedness to the Bank of England.

The year's figures for the changes in the amount of Treasury bills and stock in the market's hands conceal very different experiences in the first and second halves of the financial year. In the six months to the end of September the authorities, on balance, bought £138 million of stock, but they sold almost the same amount—£132 million—in the following six months. In the same two periods the total of market Treasury bills first rose by £384 million, and then fell by £884 million. The turn-round was partly seasonal, reflecting the large receipts of tax monies in the early months of 1965, but it also owed much to the worsening external situation in the latter part of 1964. Over £600 million of the £850 million which, as mentioned above, became available on external account during the year, was concentrated in the three months October to December.

Money and capital markets

Treasury bills

The increase in Bank rate from 4% to 5% in February 1964 was followed by a long period of settled conditions in the money markets. Bill rates had previously been uncomfortably close to Bank rate but now the discount houses raised their rate at the Treasury bill tender by only $\frac{1}{2}$%, to $4\frac{5}{16}$%, and other rates generally moved accordingly, leading to a more normal pattern of short-term rates. The houses left their bid unchanged for as long as ten weeks before raising the rate a further $\frac{3}{8}$% between the middle of May and the end of July. Then again they made no marked change for a long time, until Bank rate was raised to 7% in November. The authorities were content with the tender rate; and for an unusually long spell the houses did not have to borrow at the Bank. Indeed, except at the end of June and again at the end of December—which were occasions when the Bank were unwilling to meet in the open market the full demand for the usual end or mid-year make-up operations of the banks' customers—there was no borrowing at Bank rate between January 1964 and January 1965.

The sterling crisis created very difficult conditions in the money markets and there was a concurrent shortage of both money and Treasury bills. Money was short owing to the exodus of foreign funds, and overnight rates were very high on occasion. The chief sufferers were the local authorities, which borrow extensively from the accepting houses and overseas banks, the channel for most overseas deposits in London. By making large purchases of Treasury bills from the market the monetary authorities alleviated the shortage as much as was consistent with maintaining firm control. But this greatly reduced the volume of bills in the market, which was cut further, particularly in January and February, by much smaller offerings at the tender. These fell from £260 million or £250 million a week in October to £160 million a week at the end of January: this was larger than the normal seasonal drop because, as seen above, the

(1) Under the new form of presenting the Exchequer accounts the sum of the surplus on Revenue account and the deficit on Consolidated Fund loans is broadly equivalent to the former "overall budget deficit".

(2) Including the counterpart of special assistance from overseas, except that in the form of currency swaps against sterling. The statistical treatment of aid is described in the *Quarterly Bulletin* for March 1965, page 15.

Government needed to market fewer bills owing to the sterling inflow to the Exchange Equalisation Account. As a result, the holdings of the discount houses and the clearing banks fell to an exceptionally low point, which restricted the houses' scope of operations and put pressure on the banks' liquidity ratios.

In the last weeks of the period under review, largely because of the shortage of bills, but also because a reduction in Bank rate was widely expected, the houses began to lower their tender rate. Owing to the still unsettled state of overseas opinion, the authorities did not wish to see this go too far, and the houses were several times obliged to borrow at the Bank, ending the year-long respite.

Commercial bills The volume of commercial bills in the market grew for much of the year. From May onwards more use began to be made of them by borrowers expecting a rise in interest rates and therefore in the cost of bank loans, which were in any case becoming more difficult to obtain as the banks' liquidity positions tightened. The clearing banks' demand for these bills was much stimulated later in the period by the shortage of Treasury bills.

Gilt-edged At the beginning of 1964 the gilt-edged market had been weak for some time, but the rise in Bank rate at the end of February made for greater confidence, and prices soon began to rise. The mood changed again when the continued growth of Exchequer requirements was disclosed in the Budget, and thereafter the market remained dull. It grew weaker in the middle of the year when a rise in Bank rate became widely expected, but held reasonably steady as the general election approached. After a brief period of strength, the sterling crisis overshadowed all else and the market lost confidence. In these circumstances the authorities bought stock on a number of occasions in the middle of November and during December. Official policy sought not to obstruct the strong move to a lower level of prices, but rather to ensure that the fall in prices was orderly. The market began to recover in January, when it appeared that the worst of the crisis had passed and that the underlying situation was growing stronger. This recovery was helped by the success of two large stock issues by the London County Council.

Over the year to the end of February 1965 the net rise in yields was substantial. The yield on 2½% Consols rose by ¼% to a little over 6¼%. On 20-year stocks the rise was about ½%, and there were proportionately larger rises on those nearer the influence of Bank rate. Yields on short-dated stocks, which at the beginning of the year had been around 1% below that on Consols, were by the end of the period ⅛% or more above.

Official portfolios of long-dated stocks were replenished by an issue of £400 million of 5¾% Funding Loan 1987/91 in May 1964, shortly before the two May maturities (4½% Conversion Stock 1964 and 2½% Exchequer Stock 1963/64) were redeemed. No conversion offer was made for the 4% Treasury Stock 1965 which matured on 1st February; by early February, however, the market had improved and a further tranche of £450 million of 5% Exchequer Stock 1967 was issued, mainly to replenish official holdings of short-dated stocks.

Local authority borrowing A number of new arrangements for local authority borrowing, which had been put forward in a White Paper in October 1963 (Cmnd. 2162), began to come into effect during the period. The aim of the arrangements is to reduce the dependence of the local authorities on temporary money (the amount of which is being restricted in the course of a four-year period); to lessen the cost of their borrowing; and to give the monetary authorities more effective control over local authority borrowing by containing the growth of the temporary-money and mortgage markets, which has in recent years been rapid.

The local authorities will eventually be allowed to obtain up to 50% of their long-term borrowing in any one year from the Public Works Loan Board at a favourable rate. To introduce the scheme gradually, the ceiling for such borrowing in the financial year 1964/65 was put at 20%, or £50,000, whichever was the greater. The latter figure was raised to £100,000 in January 1965. The P.W.L.B. continue to act also as lender of last resort at a higher rate.

A second development was the general extension of the power to issue bonds, previously confined to a handful of authorities only. This became effective during July 1964 in England and Wales and during January 1965 in Scotland. The terms and timing of market issues are agreed with the Bank of England,(1) acting on behalf of the Treasury, which can thereby exercise some influence over the flow of bonds in much the same way as they do for stocks. Such issues have been largely made on the stock exchange or to the discount houses, with maturities of from one to five years. At the same time, the minimum maturity allowed for new stock issues in the market has been cut from ten to five years. There is therefore a possible alternative to the mortgage market across the whole range of maturities; and market bonds and stocks, being more easily transferable, are distinctly cheaper for the borrower than mortgages. Issues of market bonds had to be curtailed before the election owing to the general congestion in the market, and there were none in the last quarter of 1964; they were resumed in February 1965.

Equities and debentures Concern about the underlying economic situation, and alternating hopes and fears, first about the outcome of the election and then about the impact on earnings of the crisis measures, influenced the markets thoughout the period. Broadly speaking, equity prices, though fluctuating, were on a slightly upward trend until the autumn of 1964, but they were depressed during November and December by fears of economic restraint and by uncertainty about the new capital gains and corporation taxes proposed in the November budget speech. The low point was reached on 18th December, when the F.T.-Actuaries index of industrial share prices fell to 103 (it had reached 119 in August and again in early October). Prices recovered somewhat in the New Year, when the external position appeared a little easier.

Debenture yields moved in broad sympathy with the gilt-edged market. Thus there was some rise after the Budget in April 1964 and again in July, followed by a slight fall during the late summer and early autumn. The crisis produced a strong rise which continued into January. On 29th January, the average yield on 20-year stocks stood as high as $6\frac{7}{8}\%$. Thereafter, a recovery in sentiment began to be felt and yields eased a little.

There were many new issues in the first half of the period, both of equities and of debentures. But in the second half of the period equity issues were very few. Debenture issues also fell away at the end of 1964, but they were resumed following the improvement in the gilt-edged market in January. By that time the total amount of funds awaiting investment that had been held back from the capital markets during the preceding months must have been very large, which helped the market to recover.

Sources and use of credit

The banking situation The London clearing banks' advances (excluding those to the nationalised industries) rose by £490 million (12%) in the twelve months to mid-March 1965. (The quarterly analysis issued by the British Bankers' Association suggests that throughout the year the emphasis in lending was shifting increasingly towards industrial borrowers, although until the late autumn lending to other borrowers—in particular those coming within the building and property and consumption categories—continued to rise) Late in 1964, however, the growth of advances began to slacken as the banks' liquidity ratios came under pressure. Throughout August to December, for example, the clearing banks' combined ratio varied from 30·0% to 30·6%, and was in each month from $1\frac{1}{2}$ to 2 points lower than in the comparable months of 1963. (The new minimum of 28% had been announced in September 1963)

The change of trend in advances was reinforced by the increase in Bank rate to 7% in November and the Governor's letters early in December to the banks and some other financial institutions. The banks were asked to reduce the rate of increase of advances, by curtailing their lending for purposes of lesser national importance whilst giving priority to credit for exports and for productive invest-

(1) There is, however, no such control on issues made by local authorities direct to lenders, *i.e.*, not through a bank, discount house, issuing house, or broker.

ment by manufacturing industry. Allowing for seasonal changes, the B.B.A. analysis for the quarter to mid-February suggested that there had indeed been a sharp turn-round in advances to consumers, retailers, and building and property developers; within manufacturing industry, the engineering and metal trades continued to borrow heavily but other sections, on balance, repaid borrowing.

The pressure on the banks' liquidity which developed in the latter part of 1964 was associated with the external deficit and the consequent sharp reduction, already described, in the Exchequer's need to borrow from the market through Treasury bills. The clearing banks' holdings of such bills fell between March 1964 and March 1965 by rather more than £100 million. In this situation, there was some increase in the use of commercial bill finance, and the total of commercial bills held by these banks rose in this period by some £80 million. From November onwards, too, they were selling gilt-edged investments, and their total holdings were reduced in the twelve months by just over £150 million. In March 1965 the ratio of investments to gross deposits for the clearing banks combined was 12%, the lowest figure then recorded.

Net deposits with the clearing banks rose by £422 million, or 5½%, in the year to March 1965.

Other financial institutions Financial institutions other than banks obtained over £2,000 million of new funds in 1964. Most of this sum accrued from the personal sector by way of premiums on life assurance policies, contributions to pension funds, and savings deposits. In addition they raised slightly more than in 1963 on capital issues (including sales of unit trust units); and the hire-purchase finance companies sharply increased their bank borrowing. About half of the total of new funds was invested in public sector debt and company shares and debentures. The fastest growing section of the institutions' assets in 1964, however, was that covering direct loans to the private sector—hire-purchase debt, loans for house purchase and loans to industrial and commercial companies. The building societies did not find funds easy to obtain and, faced with growing demands for mortgages, they had to draw on their liquid resources.

Companies Industrial and commercial companies' financial requirements increased as a result of the rapid rise in their expenditure on fixed investment and stockbuilding. As well as drawing extensively on credit from banks and other financial institutions, they borrowed more on capital issues than they had done in 1963 and reduced their more liquid assets. They were thus able to finance the growth of their physical assets, to increase their overseas investments, and to carry out further mergers at home by buying up shares held by private shareholders.

Persons Like companies, persons were able to add more to their financial assets than they had done in 1963. Not only did they save more but they borrowed more too. They continued to show a strong preference for the more liquid assets: holdings of notes and coin, and deposits with banks and other financial institutions all increased more than in the previous year. Persons also, on balance, lent more to the public sector in 1964: a somewhat lower take-up of local authority debt was more than matched by larger purchases of national savings (especially the new national development bonds) and, it is estimated, fewer sales of government stocks. Unit trust units remained a popular form of investment, but the personal sector is thought to have increased its net sales of company securities in other forms, largely because of the company mergers referred to above. Bigger investment in life assurance and pension funds meant, however, that individuals retained an indirect holding in such securities.

International developments

Co-operation The public debate on the future of the international payments system, including the role of gold, assumed increasing importance in a year when the existing system came under severe strain. The fact that it was possible to avert the worst dangers of the November sterling crisis—which came at a time when the world's other leading reserve currency, the dollar, was itself under pressure —is a signal tribute to the effectiveness and speed of the international financial co-operation which has been developed since the war, and more especially in the last six years.

The aid made available to the United Kingdom during the year has already been described. Early in the year, assistance had also been mobilised to help Italy overcome a crisis of confidence which had arisen as a result of its balance of payments deficit. Credit or swap facilities totalling $1,275 million were made available in March by the United States, Western Germany and the United Kingdom, and from a drawing on the I.M.F. In June the Swiss authorities also gave help by means of a swap arrangement for $100 million. Thanks to the improvement in Italy's balance of payments following the Italian authorities' remedial measures, the swap arrangements made in March were put on a standby basis after June.

The U.S. balance of payments deficit appeared to be well contained during the first three quarters of 1964, but in the last quarter it deteriorated abruptly so that the deficit for 1964 as a whole reached $3 billion. In February 1965, the President announced an important programme of measures designed to bring about a substantial improvement. Earlier, however, the existing monetary defences of the dollar had been consolidated. The reciprocal currency agreements negotiated by the Federal Reserve Board with certain major industrial countries and with the B.I.S. were increased from a total of $2,050 million to $2,350 million (although the major part of this increase was to buttress sterling) and the period of validity of most of them was extended. The U.S. standby from the I.M.F. of $500 million (arranged in 1963) was renewed in July 1964; drawings on it were so arranged as to enable third countries to repay their drawings from the Fund without having to convert dollars into gold. The U.S. Treasury's sale of special bonds denominated in foreign currencies also continued, though on a smaller scale than in 1963: nearly $325 million net was raised in this way, bringing the total of bonds outstanding at the end of 1964 to nearly $1,100 million.

I.M.F. The ten countries which are parties to the I.M.F. General Arrangements to Borrow (known as the Group of Ten)[1] reported in August 1964 on the functioning of the international monetary system. Their conclusions were that existing supplies of liquidity were adequate for the present, but that a moderate general increase, and some special increases, in I.M.F. quotas would be justified, and that a working group should be set up to study various proposals for creating new reserve assets. It was also agreed that ways and means of financing balance of payments disequilibria should be kept under regular multilateral surveillance.

Following the Annual Meeting of the I.M.F. in September, it was agreed that there should be a 25% general increase in quotas and special additional increases for sixteen countries. The new quotas will not come into effect until individual countries having between them two-thirds of existing quotas have consented to the increases, which they may do up to 25th September 1965. In that event, the United Kingdom's quota will go up from $1,950 million to $2,440 million; and if all the increases are taken up, total quotas will rise from approximately $16,000 million to $21,000 million. Special procedures were agreed to facilitate, in case of need, the payment by members of their additional gold subscriptions, and also to ease the strain which might be put on the reserve currency countries should other countries convert foreign exchange holdings in order to meet their gold subscriptions.

O.E.C.D. In the Organisation for Economic Co-operation and Development, ways of dealing with payments disequilibria were examined by Working Party No. 3 of the Economic Policy Committee, which works closely with the Group of Ten. A study has been initiated on the workings of capital markets to see whether they could do more to promote desirable international flows of capital. The Organisation also adopted a new code of liberalisation of capital movements.

Development aid The International Bank for Reconstruction and Development adopted new policies giving them greater latitude in lengthening the maturities of loans, financing local costs, granting loans not tied to specific projects, and lending for

(1) Belgium, Canada, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom, the United States, and Western Germany.

agricultural and educational purposes. They have been empowered to transfer part of their income to the International Development Association and to make loans to the International Finance Corporation; and will charge higher rates of interest to countries able to cover their needs for external capital mainly in private capital markets.

The industrial members of the International Development Association have agreed to subscribe an additional $753 million, spread over three years. The United Kingdom's share is just under $97 million, payable in three equal annual instalments from November 1965. The United Kingdom paid the final instalment, amounting to $25 million, of its $131 million initial subscription in November 1964. These new resources will enable the I.D.A. to maintain their important role of low-cost lending to developing countries.

The United Kingdom continued to support the consortia sponsored by the I.B.R.D. for aiding India and Pakistan, and during 1964 agreed to make £30 million and £8 million available to these two countries respectively. The Government also supported the work of the Inter-American Development Bank by allowing them to issue £3 million of stock on the London market in September 1964, and by offering them a loan of just over £4 million to be spent on U.K. goods and services.

The general co-ordination of donor countries' aid efforts continued to be discussed in the Development Assistance Committee of the O.E.C.D.

Debt problems of developing countries The growth of the external debt service obligations of many of the developing countries remains a serious problem, which has been aggravated by the excessive amounts of commercial credit which developing countries have obtained from suppliers. Considerable attention was given to these issues at the first U.N. Conference on Trade and Development in the spring of 1964, and the I.B.R.D. were asked to study some particular aspects of them. Various existing international groups have continued to deal with the problems of particular countries: these include the O.E.C.D. consortia for Turkey and Greece, the latter being joined by the United Kingdom in October 1964; and the so-called Paris and Hague Clubs in which Chile and Brazil, respectively, reached agreement with their creditor countries, including the United Kingdom, about re-financing certain of their debts.

Bank of England

27th February 1965

Issue Department

	£		£
Notes issued:		Government debt	11,015,100
In circulation	2,604,378,796	Other government securities ...	2,637,961,181
In Banking Department	45,982,942	Other securities	761,399
		Coin other than gold coin	262,320
		Amount of fiduciary issue ...	2,650,000,000
		Gold coin and bullion ... ... (@ 251*s.* 5*d.* per fine ounce)	361,738
	2,650,361,738		2,650,361,738

1st March 1965

J. Q. Hollom, *Chief Cashier.*

Banking Department

		£			£
Capital		14,553,000	Government securities		233,471,754
Rest		3,920,156	Other securities:		
Public deposits ... ... (including Exchequer, savings banks, Commissioners of National Debt, and dividend accounts)		11,260,411	Discounts and advances	71,993,048	
			Securities	26,212,740	98,205,788
Other deposits:			Notes		45,982,942
Bankers	262,585,158		Coin		838,905
Other accounts ...	86,180,664	348,765,822			
		378,499,389			378,499,389

1st March 1965

J. Q. Hollom, *Chief Cashier.*

Half-yearly payments of £873,180 were made to H.M. Treasury on 6th April and 5th October 1964 in pursuance of Section 1 (4) of the Bank of England Act 1946.

Note circulation

Changes in the note circulation in recent years are shown in the following tables :

Value of notes issued, paid and in circulation

£ millions

Year to end of February	1961	1962	1963	1964	1965
Issued	2,067	2,268	2,403	2,672	2,836
Paid	1,970	2,179	2,396	2,551	2,662
In circulation at the end of year	2,213	2,302	2,309	2,430	2,604
Increase in circulation as % of previous year's total	*4·6*	*4·0*	*0·3*	*5·2*	*7·2*

Value of notes in circulation by denominations

£ thousands

End of February	1961	1962	1963	1964	1965
10*s.*	99,468	103,714	95,481	96,985	99,638
£1	1,153,329	1,091,365	982,963	1,024,525	1,012,485
£5	848,649	998,491	1,124,132	1,179,277	1,274,344
£10	476	447	400	16,012	105,107
£20	199	193	185	178	170
£50	397	382	357	339	310
£100	690	660	628	586	558
£500	61	57	52	50	46
£1,000	82	82	74	73	71
Over £1,000(a)	109,150	106,750	105,050	111,950	111,650
	2,212,501	2,302,141	2,309,322	2,429,975	2,604,379

(a) Held within the Bank of England on behalf of customers, *e.g.*, for banks of issue in Scotland and Northern Ireland as cover for their excess note issues.

The issue of £20, £50, £100, £500 and £1,000 notes was discontinued in 1943. The issue of £10 notes was suspended between 1943 and 21st February 1964.

Denominations of notes

Per cent. by value of total circulation

End of February	1956(a)	1963	1964	1965
10*s.*	5·3	4·1	4·0	3·8
£1	75·9	42·6	42·2	38·9
£5	13·5	48·7	48·5	48·9
£10	0·2	0·1	0·6	4·0
£20–£1,000			0·1	0·1
Over £1,000	5·1	4·5	4·6	4·3
	100·0	100·0	100·0	100·0

(a) Before the introduction, in February 1957, of the coloured £5 note.

The note circulation reached a peak of £2,766 million on 23rd December 1964; this was £60 million higher than the previous peak figure of £2,706 million reached on 29th July 1964 and £168 million higher than the Christmas peak in 1963.

The fiduciary issue rose on balance over the year by £200 million to £2,650 million. The changes were as follows :

					£ millions
1964	February	29th ...			2,450
	March	2nd ...	+50		
	March	23rd ...	+50		
	May	12th ...	+50		
	July	6th ...	+50		
	July	20th ...	+50		
	July	27th ...	+50		
	August	11th ...		−50	
	August	19th ...		−50	
	September	11th ...		−50	
	November	9th ...	+50		
	December	1st ...	+50		
	December	8th ...	+50		
	December	14th ...	+50		
	December	31st ...		−50	
1965	January	7th ...		−50	
	January	13th ...		−50	2,650

Tax reserve certificates

The following table shows the number and value of applications for certificates received in the Bank over the last seven years and the value of certificates surrendered :

Year to end of February	Rate of interest in force at end of February	Applications		Surrenders			Change during year	Outstanding at end of period
		Number	Total value	Cancelled in payment of taxes	Repaid without interest	Total		
	%	*000's*			*£ millions*			
1959	$2\frac{1}{2}$	73	371	304	4	308	+63	396
1960	$2\frac{1}{2}$	75	295	341	3	344	−49	347
1961	3	91	391	337	9(a)	346	+45	392
1962	$3\frac{1}{4}$	104	374	364	3	367	+ 7	399
1963	$2\frac{1}{4}$	94	279	323	4	327	−48	351
1964	$2\frac{1}{4}$	92	249	307	3	310	−61	290
1965	$3\frac{1}{2}$(b)	106	270	306	7(a)	313	−43	247

(a) These surrenders were largely offset by purchases of new certificates bearing a higher rate of interest.
(b) Rates increased from $2\frac{1}{4}$% to $2\frac{3}{4}$% on 28th March 1964 and to $3\frac{1}{2}$% on 28th November 1964.

Management of stock registers

The nominal totals in recent years (and, for 1965, the number of accounts) of the different groups of stocks managed by the Bank are given below:

End of February	1962	1963	1964	1965	Number of accounts 000's 1965
				£ millions	
British government securities:					
Stock	15,084	17,716[a]	17,965	17,578	2,136
Bearer bonds	13	13	15	17	—
Total	15,097	17,729	17,980	17,595	2,136
Other securities:					
Government guaranteed	3,300	1,851[a]	1,837	1,833	274
Commonwealth, etc.	230	237	251	236	92
Local authorities	253	298	352	421	137
Public boards, etc.	85	82	88	98	32
Miscellaneous	15	15	15	15	1
Total	3,883	2,483	2,543	2,603	536
Grand Total	18,980	20,212	20,523	20,198	2,672

[a] On 1st January 1963, the full liability for stocks of the British Transport Commission (1,443·6) was assumed by H.M. Treasury under the Transport Act 1962.

Note: The figures for British government stock do not include amounts on the registers of the Bank of Ireland, the Post Office Savings Department and the trustee savings banks.

Operations undertaken during the year included:

Repayments at par

			£ millions
New Zealand Government 3½% Stock 1960/64	1964	1st March	7·3
Corporation of London 3¼% Stock 1959/64		15th March	0·6
Liverpool Corporation 3% Stock 1954/64		1st May	4·0
4½% Conversion Stock 1964		14th May	495·9
2½% Exchequer Stock 1963/64		14th May	273·9
Government of Southern Rhodesia 3% Stock 1959/64		15th June	0·8
4% Treasury Stock 1965	1965	1st February	390·6

Issues for cash

				£ millions
5¾% Funding Loan 1987/91	@ £97%	1964	4th May	400
Liverpool Corporation 5¾% Redeemable Stock 1976/78	@ £97%		15th May	10
Agricultural Mortgage Corporation Limited 6¼% Debenture Stock 1992/94	@ £100%		17th July	12
Liverpool Corporation 5% One-Year Bonds repayable 5th August 1965	@ £99:15*s*.%		5th August	1
London County 5¾% Four-Year Bonds repayable 5th August 1968	@ £99:10*s*.%		5th August	1
London County 6¾% Stock 1974	@ £100%	1965	15th January	25
London County 6¾% Stock 1988/90	@ £100%		15th January	25
5% Exchequer Stock 1967	@ £96:10*s*.%		8th February	450
Corporation of London 6½% Stock 1975/78	@ £99%		11th February	12

Mechanisation

All dividends issued by the Bank (nearly 6 million individual payments annually) are now prepared by computer; the last payments prepared by the old method were made in February 1965. The conversion to the new system has taken five years and has resulted in a saving in staff of nearly two hundred. The new computer mentioned last year was delivered early in 1965 and the records of the $2\frac{3}{4}$ million stock accounts from which dividends are prepared are now being transferred from punched cards to magnetic tape. To complete the mechanisation of the dividend preparation processes, the Bank have also installed new machines which put the dividend warrants into envelopes and count and tie the filled envelopes into convenient packages for delivery to the Post Office.

The Bank continue to take advantage of the opportunities offered by computers to reduce routine clerical work in fields other than dividend preparation. A number of statistical tasks are undertaken for the Economic Intelligence Department of the Bank. In early 1965 a computer was used for the first time for paying redemption money. The next step will be to transfer the stock registers themselves to computers, the planning for which is already well advanced.

Extension of certification facilities

In June 1964 new facilities were provided at the New Change premises of the Bank, making it possible for transfers to be lodged by hand, certified, and collected the same day in those cases where the certificate in the seller's name is still being prepared. The seller's broker can now deliver such a transfer to the market on the same day that he would have delivered it, had the certificate been issued.

Local authority bonds

During the year the Bank undertook for the London County Council and the Liverpool Corporation the issue and management of short-term local authority bonds. Like other registrars of similar issues, they accept transfers lodged by hand (at New Change), and prepare and issue new certificates the same day.

Bearer securities

A detailed report on the progress made up to the end of November 1964 in the reintroduction of bearer securities in the United Kingdom was published in the *Quarterly Bulletin* for December 1964.

In the twelve months to end-February 1965, the Bank continued to develop their programme for reintroducing bearer facilities for British government stocks, and made such facilities available on a further eight stocks. At the end of this period bearer bonds were available for the following stocks:

- 3% Funding Loan 1959/69
- 3% Savings Bonds 1960/70
- 4% Funding Loan 1960/90
- $3\frac{1}{2}$% Conversion Loan 1961 or after
- 4% Exchequer Loan 1968
- 5% Exchequer Loan 1976/78
- $5\frac{1}{4}$% Funding Loan 1978/80
- $5\frac{1}{2}$% Funding Stock 1982/84
- 3% Redemption Stock 1986/96
- $5\frac{3}{4}$% Funding Loan 1987/91
- $5\frac{1}{2}$% Treasury Stock 2008/12
- $2\frac{1}{2}$% Annuities
- $2\frac{3}{4}$% Annuities
- 4% Consolidated Loan
- $2\frac{1}{2}$% Consolidated Stock
- $4\frac{1}{2}$% Guaranteed Bonds
- $2\frac{3}{4}$% Guaranteed Stock
- 3% Guaranteed Stock
- $3\frac{1}{2}$% War Loan

The last stock to be dealt with in the period under review was 3% Savings Bonds 1960/70. The coupons attached to the bonds for this stock were the first to be issued by the Bank printed with magnetic characters to enable them to be handled by an electronic sorter.

As reported in the *Quarterly Bulletin*, demand for bearer bonds since they were reintroduced in 1963 has been relatively small. During the year ended 28th February 1965 some 4,400 British government bearer bonds were issued with a nominal value of £3·5 million; in the same period, more than 3,000 bonds with a nominal value of £1·5 million were converted into registered stock.

Finance for exports

At the same time as the President of the Board of Trade introduced, on 27th January 1965, a number of measures designed to widen the scope of the facilities available to U.K. exporters, the Bank announced a complementary improvement in the arrangements under which export finance is provided at a fixed rate of interest.

The London clearing banks and the Scottish banks had agreed in 1962 to provide such finance, for an initial period of five years, at a rate of 5½% per annum for all contracts where the credit was covered by bank or financial guarantees given by the Export Credits Guarantee Department. In the latter case the banks' participation was limited to the first five years or so of the credit, the balance being provided mainly by the Insurance Export Finance Company at a fixed rate of 6½% per annum. Under the revised arrangements in January the banks agreed, in the national interest, to extend their fixed-rate participation in financial guarantees to the whole life of the insured loans, irrespective of their length, so reducing the cost of the credit element in the price of those larger capital goods which are sold on long-term credit. The Insurance Export Finance Company will now be dropping out of this business as their existing commitments mature.

To help the smaller exporter and to stabilise the cost of credit at the shorter term, the E.C.G.D. bank guarantee has been widened. It was extended in January this year to cover all types of manufactured goods, provided that the minimum value of any one contract is £50,000 (the former minimum was £100,000, for capital goods only). A further extension, in April, allows the guarantee to cover credit periods of two years or more (instead of three years or more). All credit so covered is financed by the banks at their fixed rate of 5½% per annum.

To help the banks to undertake the increased call on their fixed-rate facilities which will result from these new measures, the Bank of England agreed to extend the existing scheme, whereby they were prepared within certain limits to re-finance advances made by the banks. This extension was described in detail in the *Quarterly Bulletin* for March 1965. The scheme now falls into two parts. Under the first, the Bank stand ready to re-finance either an amount equivalent to the aggregate of repayments due within the next eighteen months or 30% of the outstanding loan, whichever is the greater; and advances eligible for such re-financing may be included by the banks as liquid assets when calculating their liquidity ratios. Under the second, the Bank, recognising that the banks may find themselves committing more of their resources at long term than is normally considered prudent, or possibly prejudicing their ability to lend in other important directions, stand ready to re-finance eligible export credit which has been outstanding for at least five years. Amounts eligible for this additional facility do not, however, count as liquid assets. In both cases re-finance would be given at the original rate; and it is understood that the banks will not resort to re-finance merely for the sake of obtaining an interest advantage if rates are high.

The fixed rate offered by the banks now stretches over a very wide field and covers a high proportion of those U.K. goods which are exported on credit terms of two years or more. At a time when credit competition is keen and interest rates in the United Kingdom are historically high, this technique has obvious advantages in helping exporters to compete on credit terms in the world market, while a single fixed rate also enables the cost of credit to be more easily determined from the outset.

Exchange control

There were only relatively minor changes in the administration of exchange control during the year to end-February 1965. The two main changes—relaxations concerning the purchase of houses and flats abroad and the sale or liquidation of direct investments abroad—are set out below for the record. They were, however, substantially modified in April 1965 when, in the changed circumstances then obtaining, it was found necessary to tighten these controls once more.

Purchase of houses and flats abroad by private individuals

6th April 1964

It was announced that U.K. residents would be allowed to use reasonable amounts of ' investment dollars ' for the purchase of a single dwelling outside the Scheduled Territories. As a corollary, the foreign exchange proceeds of the sale of property abroad owned by U.K. residents could be disposed of as investment dollars, and not as ' property dollars ', which ceased to exist. The concession allowing the provision of official exchange for the purchase of ' health houses ' outside the Scheduled Territories was withdrawn.

Sale or liquidation of direct investments abroad

6th April 1964

It was also announced that the foreign exchange proceeds of the sale or liquidation of direct investments abroad would be allowed to be sold in the investment dollar market instead of having to be surrendered at the rates ruling in the official market.

Recent developments in financial statistics

During the year under review further important additions were made to the statistical data available for publication and to guide policy.

U.K. external liabilities and claims

The *Quarterly Bulletin* for June 1964 introduced the quarterly series " External liabilities and claims of U.K. banks in foreign currencies ". These new figures show U.K. commercial banks' liabilities in foreign currencies to, and their claims in foreign currencies on, overseas residents. They also give an analysis by main countries of liabilities and claims in U.S. dollars, the currency principally used, and an analysis by main areas of total foreign currency liabilities and claims. The figures begin in December 1962, as do those of " U.K. external liabilities and claims in sterling " which were introduced in the *Bulletin* for June 1963.

The events in the exchange market associated with the sterling crisis, described in the first part of this *Report*, led to a review of the information currently available to the authorities concerning the United Kingdom's liabilities and claims in sterling and in foreign currencies. Policy decisions in the foreign exchange field have to be taken quickly, and the need became evident for more frequent reports on the state of the country's short-term position, both as an aid to policy and for use in international discussions. Consequently the banks and discount houses, which were already making monthly returns in some detail to the Bank of their external liabilities and claims, were also asked to provide, as from the middle of January this year, provisional information more frequently. The figures are, of course, in time superseded by the fuller returns which form the basis of the published statistics referred to above. The helpful and willing co-operation of the banks and discount houses in this work is gratefully acknowledged.

Stock exchange turnover

During the year both the London and the Scottish stock exchanges began to compile comprehensive statistics of their turnover. The statistics cover both the number of transactions and the value of turnover and distinguish five different groups of securities : British government stocks; U.K. local authorities' securities; overseas government, provincial and municipal securities; companies' fixed-interest stocks, preference and preferred ordinary shares; and ordinary shares. The statistics are published monthly and provide a welcome addition to financial knowledge. The London series started with the figures for September 1964, the Scottish with those for January 1965.

Sector financing

The development of financial statistics in general, and recent extensions of the quarterly estimates of national income compiled by the Central Statistical Office, have made it possible to compile quarterly estimates of the flow of funds between the main sectors of the economy. A run of estimates, starting with the first quarter of 1963, was published in the *Bulletin* for March 1965. Later figures are being included in subsequent issues.

Staff

The total staff of the Bank at 28th February 1965 was about 7,000, of whom over 2,000 were employed at the Printing Works. The banking staff numbered nearly 1,700 men and about 2,600 women.

Interchange of staff with the universities

Besides the normal recruitment of graduates, it has been the Bank's practice for some years now to have temporarily on their staff one or two members of the teaching staff of the universities. The period of service is normally two years. This practice, which started experimentally, has proved fruitful and is being continued. In addition, in 1964 a member of the Bank's staff, serving in the Economic Intelligence Department, was seconded for two years to the Department of Applied Economics, Cambridge University, to work with that Department on a study of the financial aspects of British economic growth.

Relations with banks abroad

In continuance of their policy of maintaining friendly relations with overseas central banks and gaining first-hand experience of conditions in other countries, the Bank have welcomed visitors from overseas and sent their own officials abroad. The meetings of the Board of the Bank for International Settlements provided, as usual, regular opportunities for informal discussions : in addition some 70 countries all over the world were visited by members of the Bank, whilst nearly 300 overseas visitors were received in the Bank.

The Bank continued to receive many requests from overseas to provide help or advice in banking and currency matters. This was especially the case where newly independent countries of the Commonwealth in Africa and elsewhere were setting up central banks. After offering preliminary technical advice, the Bank are also often asked to assist in the staffing or management of these new institutions during their early years. At 28th February 1965 there were over thirty members of the Bank's staff working abroad who had been released for such duties or for work with international institutions such as the I.M.F. and the B.I.S.

The Bank have continued during the year to receive much help and co-operation from the associations of banks and other financial institutions. This co-operation brings many advantages in the execution of monetary policy, and the Bank welcome this opportunity of recording once again their appreciation of the help they have received in this way.

Copies of this Report may be obtained from the Economic Intelligence Department, Bank of England, London, E.C.2.

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