BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28th FEBRUARY

1967

Issued by Order of the Court of Directors, 6th July 1967

Court of Directors

28th February 1967

Sir Leslie Kenneth O'Brien, G.B.E., Governor
Sir Maurice Henry Parsons, Deputy Governor
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Sir William John Carron
Jasper Quintus Hollom, Esq.
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Michael James Babington Smith, Esq., C.B.E.
Sir Henry Wilson Smith, K.C.B., K.B.E.
Sir Ronald George Thornton

On 1st July 1966 Sir Leslie O'Brien succeeded the Earl of Cromer as Governor and Sir Maurice Parsons succeeded Sir Leslie O'Brien as Deputy Governor, each for a period of five years. On the same date Mr. J. Q. Hollom was appointed to the Court for the remainder of Sir Maurice Parsons' term of office as a Director, namely until 28th February 1969.

The term of office of Lord Kindersley expired on 28th February 1967 and Mr. G. W. H. Richardson was appointed in his place for a period of four years.

The terms of office of Mr. W. J. Keswick, Lord Nelson of Stafford and Sir William Carron also expired on 28th February 1967 and they were reappointed for a period of four years.

Bank of England

Report for the year ended 28th February 1967

The first part of this Report *discusses the main monetary developments during the year, most of which have already been reported more fully in the Bank's* Quarterly Bulletins. *The second part, which begins on page 13 with the Bank of England Return for 28th February 1967, deals with some particular aspects of the Bank's work.*

The first half of the year was dominated by the difficult situation in the foreign exchange market. Sterling weakened under the pressure of a series of unsettling influences—the impending general election at the end of March, events in Rhodesia, and finally the seamen's strike, which renewed doubts about the prospects for the balance of payments. The situation was aggravated by tight money conditions and high interest rates overseas. Moreover, there was growing unease abroad about the rise in incomes and prices and the level of aggregate demand, and their implications for the balance of payments. In July there was an acute crisis of confidence in sterling, and strong measures were taken by the Government.

After these measures, the second half of the year saw a radical change. By February 1967, the balance of payments showed a marked improvement, and there had been a significant easing in the pressure of demand. Interest rates, both at home and overseas, had declined substantially from the peaks that they had reached in the late summer. The gilt-edged market was very firm and active. Confidence in sterling had greatly recovered.

The external situation

Foreign exchange market

Demand for sterling, which had been strong in the months after September 1965, slackened in February 1966. At the end of February the spot rate for U.S. dollars fell below \$2·80 for the first time since the previous September. During March it was allowed to fall further, the pressure to sell sterling being contained at only modest cost to the reserves. The uneasy tone in the foreign exchange market persisted during April and the first half of May, and the spot rate continued to fall, but sales of sterling were never very heavy. They increased, however, later in May—after the seamen's strike had begun.

The market improved a little after the middle of June, following the announcement that new international credit facilities had been made available to the United Kingdom; these facilities were related mainly to fluctuations in overseas countries' sterling balances, and were thus specifically designed to counter the strains to which sterling is subject as a reserve and international trading currency. The spot rate, which had fallen earlier in the month to $\$2{\cdot}78\frac{25}{32}$, recovered to above \$2·79. But the recovery was short-lived. Interest rates overseas were rising, and money was very tight both on the Continent and in the United States. American banks were bidding strongly for euro-dollars, and a further substantial amount of foreign currency deposits, previously employed by London banks in sterling, was switched back into foreign currency—continuing the movement that had begun in the second quarter of 1965. The demand for dollars contributed to the heavy pressure on sterling. Between the end of March and the end of June 1966 the reserves fell by £106 million, after the equivalent of £45 million had been acquired through swaps with the U.S. authorities.

July was a very bad month. Money abroad was still very tight. But the main reason for sterling's weakness lay in continued doubts about the domestic economy and the prospects for the balance of payments. There was fresh talk about the possibility of devaluation. The pressure against sterling was at its highest between 14th July, when Bank rate was increased from 6% to 7% and there was an accompanying call for Special Deposits,[1] and 20th July, when the Prime Minister announced further measures, described later, to reduce domestic demand and to cut back spending abroad. Substantial support, both spot and forward, was given to the market.

The pressure then eased, but the market remained uncertain, partly because of doubts as to whether the standstill on incomes, included in the Government's measures, would succeed. Dollars were still in demand and from time to time there were renewed sales of sterling. On 13th September it was announced that, in order to provide a broader margin of safety for the stability of the world monetary system, swap arrangements between the Federal Reserve System and other central banks (including the Bank of England) had been increased, while the Bank of England had also arranged additional facilities with other central banks. There was then some demand for sterling: conditions in the euro-dollar market had eased a little and it became apparent that sterling itself was in short supply. By the end of the month, it seemed too that pressures at home were beginning to ease. The undertone in the foreign exchange market became stronger.

In the two months of July and August there were very substantial drawings on central bank facilities, although the reserves still fell. During September new drawings and repayments under these facilities cancelled out; and, for the first time since early in the year, the reserves rose, by £3 million.

Sterling remained steady during the rest of 1966 and strengthened considerably during the first quarter of 1967. An important reason for the improvement after the turn of the year was the sharp decline in interest rates overseas, and the slackening in demand for euro-dollars. At the same time, the outlook for the balance of payments seemed hopeful; and at home, resources were less strained and the standstill on prices and incomes was working well. During the six months to the end of March 1967, repayments of earlier drawings on central bank facilities totalled the equivalent of £463 million: a comparatively small amount of drawings which were linked specifically to changes in overseas countries' sterling balances—under the facilities arranged in June 1966, which were of a continuing nature—remained outstanding. In the same six months, the Exchange Equalisation Account's oversold forward position with the market was very substantially reduced. In addition, the reserves increased by £35 million; they rose in each month except December, when there was a payment of £69 million of principal and interest on the North American loans. The spot rate rose to \$2·79¾.

Gold Private demand for gold, which had been moderate in the early part of 1966, became very heavy in July, as the nervousness in the exchange market became widespread, and towards the end of July the dollar equivalent of the daily fixing price had risen to \$35·18⅝ per fine ounce. Later in the year it rose a little higher: demand was particularly strong just before and during the annual meeting of the International Monetary Fund in September, and again in December, when it was stimulated by uncertainties over Rhodesia, political troubles in the Middle East, and end-year influences. Just before Christmas the price touched \$35·19¾. Purchases of gold by the market continued to be heavy on occasions during January and February 1967, and the price was again above \$35·19 at times. In March the price eased, as low as \$35·14¼, before increased demand brought it back to \$35·18 at the end of the month.

Balance of payments There was a further substantial improvement in the balance of payments during 1966. The deficit on current and long-term capital account was £187 million, compared with £357 million in 1965 and £763 million in 1964. The surplus in the last quarter, of £128 million, was the best result in any quarter since 1959: although it owed much to special factors, it also reflected a stronger trend. Imports fell sharply, influenced no doubt by the removal of the import surcharge at the end of November but partly reflecting the deflationary measures taken in

(1) 1% from the London clearing banks and ½% from the Scottish banks, doubling the call which had been made in April 1965.

July. At the same time, exports were buoyant, partly because the measures had led to an easier supply position at home.

Among long-term capital transactions, the outflow on official account was slightly less in 1966 than in 1965. Most of the improvement on capital account, however, was attributable to private transactions: investment abroad, which was being officially discouraged, was reduced, and private investment in the United Kingdom increased.

Monetary movements over the year were unfavourable by some £170 million, about £80 million less than in 1965: the favourable balancing item in 1966 was small. The reserves rose by £34 million, after the transfer to them in February of £316 million of the liquid part of the official dollar portfolio.[1] Meanwhile net external liabilities in sterling increased by £135 million—though they would have fallen but for drawings on central bank facilities. Net liabilities to countries outside the sterling area fell during the first half of the year, reflecting partly a net repayment of earlier drawings on central bank facilities and partly the lack of confidence in sterling. But they rose sharply in the second half—when the balances of central monetary institutions, including the counterpart of the amounts borrowed from other central banks, increased substantially: private holdings rose a little after September from the very low point that they had then reached—but by much less than they had fallen in the third quarter. Net liabilities in sterling to sterling area countries were little changed; they rose sharply in the first half of the year but were then drawn down equally sharply, partly for seasonal reasons.

The banks' net external liabilities in foreign currencies were very substantially reduced during 1966. The banks continued to switch a large amount of foreign currency deposits, previously employed in sterling, back into foreign currency.[2] The comparison between interest rates on euro-dollars and on local authority temporary money, after allowing for the cost of forward cover, favoured euro-dollars for almost the whole of 1966: euro-dollar rates rose until the end of November, and then declined considerably, while local authority rates, apart from a sharp increase after Bank rate was raised in July, were little changed—partly because local authorities were able to satisfy much of their need for funds by drawing on the Public Works Loan Board. There was also a sizable reduction during 1966 in the banks' net external liabilities in overseas sterling area currencies.

World interest rates

A feature of the year under review was the world-wide tightness and high cost of money. Interest rates, both short and long-term, rose particularly sharply during the first half of 1966; there was a steady and substantial increase in euro-dollar rates until the autumn. These developments largely reflected the re-emergence or intensification of inflationary pressures, and the reliance placed on monetary policies to contain excess demand, in a number of major industrial countries. Interest rates generally reached their peak during the third quarter, and towards the end of 1966 the trend was downwards.

Monetary policy was relaxed in the United States, beginning as early as November; and American banks became less eager bidders for euro-dollars. By early January 1967, euro-dollar rates had fallen by over 1% from the peak that they had reached late in 1966. On 6th January, the West German discount rate was lowered from 5% to 4½%, and on 26th January Bank rate in the United Kingdom was reduced from 7% to 6½%. By early April there had been reductions in official discount rates, in some countries twice, in Belgium, Canada, the Netherlands, Sweden, the United States and Western Germany. The U.K. Bank rate was cut to 6% on 16th March, and to 5½% on 4th May.

During the week-end of 21st-22nd January 1967 the Chancellor of the Exchequer held informal discussions with Ministers from France, Italy, the United States and Western Germany about the interaction of their countries' economic and monetary policies. The Ministers agreed to co-operate, within the limits of their respective responsibilities, ". . . in such a way as to enable interest rates in their respective countries to be lower than

(1) The transfer did not affect the total of monetary movements.

(2) By the end of 1966 the banks had net external claims in foreign currency of £34 million, compared with net external liabilities of £128 million a year earlier and the peak figure of £305 million of net external liabilities at the end of March 1965.

they otherwise would be". Monetary developments and the problem of high interest rates were also discussed at international financial meetings, including those of the Economic Policy Committee of the Organisation for Economic Co-operation and Development.

International monetary co-operation Inter-central bank operations continued to play an important part in helping to maintain the stability of the world monetary system. The arrangements for such operations were both modified and enlarged during 1966.

On 13th June it was announced that the credit facilities made available to the United Kingdom in September 1965 by the central banks of Austria, Belgium, Canada, Italy, Japan, the Netherlands, Sweden, Switzerland and Western Germany, and by the Bank for International Settlements, were shortly to expire and that new facilities had been arranged. The purpose of these new facilities was to enable the United Kingdom to meet pressure on the reserves which might develop through fluctuations in the sterling balances of overseas countries, and so to give added strength to the sterling system. At the same time the Bank of England announced that a separate credit facility had been arranged with the Bank of France: the facilities made available in September 1965 by the United States, which were supplementary to the reciprocal swap facility with the Federal Reserve System for $750 million, continued alongside the new arrangements.

During the summer of 1966, rising interest rates and large international movements of funds made for nervousness in world financial markets, and on 13th September the Federal Reserve System announced a substantial increase, from $2,800 million to $4,500 million, in their reciprocal swap arrangements with other central banks; within this increase the arrangement between the System and the Bank of England was enlarged from $750 million to $1,350 million. The Bank of England also arranged additional facilities with other central banks.

During the early part of 1967 the arrangements which the Bank of England had entered into in June 1966 were reviewed, and on 13th March it was announced that they were being continued for a further year. The September 1965 facilities with the U.S. authorities, noted above, also continued, as did the renewable three months' credit facility with the Bank of France. It was disclosed that the total of these facilities, which were additional to the reciprocal swap arrangement with the Federal Reserve System for $1,350 million, remained at $1,000 million.

During the year, the increase in I.M.F. quotas which came into effect in February 1966 was gradually implemented, raising total quotas from about $16,000 million to approaching $21,000 million. As a result, member countries have greater access to the Fund to meet short-term balance of payments difficulties. The Fund's resources were also augmented in August 1966 by a special transaction with Italy, under which the I.M.F. borrowed the equivalent of $250 million in lire to meet a U.S. drawing of the same amount. This was the first time that the Fund had borrowed outside the framework of the General Arrangements to Borrow.(1)

In September 1966 a number of changes were made in the drawing facilities available under the I.M.F. compensatory finance scheme, which is designed to provide assistance for members, mainly primary producing countries, experiencing temporary shortfalls in export earnings for reasons outside their control. The principal measure was the doubling of the amount which a member may draw under the scheme.

International monetary reform Further discussions took place during the year on ways to improve the international monetary system. In September 1965 Ministers and Governors of the Group of Ten countries(2) had instructed their Deputies to determine the likely areas of agreement, including arrangements for the future creation of reserve assets; and the Deputies published their Report in August 1966. This Report discussed the need for better processes to adjust balance of payments disequilibrium, and 'multilateral surveillance' of the means by which surpluses and deficits are financed. The Deputies foresaw no immediate shortage of reserve assets but, with one exception, considered that it would be

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(1) The General Arrangements to Borrow were referred to on page 4 of last year's *Report*.

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

prudent to establish a 'contingency plan' for the creation of new reserves. Little agreement was reached, however, on details.

The Ministers and Governors, in approving this Report, recommended (one country abstaining) that discussions should move to a wider framework through a series of joint meetings between the Deputies and the Executive Directors of the I.M.F. This proposal was approved at the annual meeting of the I.M.F., and joint meetings were held in Washington in November 1966, in London in January 1967, in Washington again in April, and in Paris in June. Discussions have also continued between the Group of Ten countries.

Methods by which countries could achieve a faster and more effective adjustment of balance of payments disequilibrium were considered in a Report by Working Party No. 3 of the Economic Policy Committee of the O.E.C.D., also published in August 1966. The Report called for the continued development of international co-operation and urged countries to give proper weight to the need to maintain or restore equilibrium.

Aid to developing countries As part of the measures announced in July 1966 for restricting government expenditure overseas, noted later, disbursements under the United Kingdom's official aid programme[1] are to be related to a target of £205 million in 1967/68, compared with £225 million in 1966/67, the reduction falling mainly on bilateral financial aid. The policy of making interest free loans to less developed countries in appropriate cases has continued, and the United Kingdom has played a full part in arrangements for co-ordinating aid activities with other donors. These include participation in the consortia for India and Pakistan and in the more informal group for Ceylon, sponsored by the International Bank for Reconstruction and Development; and in the consortia for Greece and Turkey, sponsored by the O.E.C.D. In April 1966 the United Kingdom signed an agreement to lend £4·1 million to finance projects agreed with the Inter-American Development Bank; and in September made the initial contribution (the sterling equivalent of $3·0 million) of a $30 million capital subscription to the new Asian Development Bank. The second instalment (£11·5 million) of the United Kingdom's additional contribution to the International Development Association—part of a further $745 million being made available over three years by the industrial members of the I.D.A.—was provided in November 1966.

During the past year several new consultative groups have been formed under I.B.R.D. initiative to discuss the longer-term problems arising from development programmes of individual countries, and the United Kingdom is participating in these various groups. The burden of maturing debt obligations continues to be a serious problem for some developing countries, and action to grant debt relief to several countries has been concerted internationally, the United Kingdom playing the major role in the case of Ghana.

The domestic economy

1966 Budget In the spring of 1966, before the Budget on 3rd May, the pressure on resources in the economy seemed still very high. Consumer spending, admittedly, was expected to fall back after the Budget. But unemployment was very low; and imports of manufactures—primarily of capital goods but also for consumption—continued to be heavy. The Budget was designed to ensure that the pressure of demand eased—thus helping the trade balance—while at the same time encouraging a redeployment of labour in favour of manufacturing industry.

Corporation tax was set at 40%, and a selective employment tax was introduced, payable from September 1966, which would increase the cost of labour in service industries and in construction but would reduce it somewhat in manufacturing. The new tax would have a significant deflationary effect; the net yield was estimated at £315 million in the current financial year, and £240 million in a full year.

The Chancellor stressed the need to encourage saving, and announced that from July 1966 there would be a new issue of national development bonds, carrying a higher rate of interest. A new tax reserve certificate for companies, with improved terms, was also to be introduced.

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[1] The programme is described in the Ministry of Overseas Development publication *Overseas Development: The Work in Hand* (Cmnd. 3180, January 1967).

The Budget also contained measures aimed directly at improving the balance of payments: it was hoped to save up to £100 million a year. In order to reduce further the outflow on capital account, the Chancellor announced a voluntary programme of restraint—for the next year or two—on direct and portfolio investment in the more developed countries of the sterling area, namely Australia, New Zealand, South Africa and the Irish Republic, and on portfolio investment outside the sterling area; and further restrictions were imposed on direct investment outside the sterling area.

Finally, the Government would review their own expenditure abroad—on such activities as overseas representation and military aid—with the firm objective of reducing it; and they would ask for early negotiations with the Federal German Government with a view to securing relief from the whole foreign exchange cost of keeping British forces in Western Germany.

It was also announced that the temporary import surcharge would lapse at the end of November 1966.

July measures

During the months immediately after the Budget there were some signs—notably in the labour situation and in surveys of private investment intentions—that home demand was beginning to ease. However, consumers' expenditure fell back less than had been expected; incomes seemed to be increasing much faster than prices and, in view of current wage negotiations, were likely to continue to do so. The prospective level of public spending seemed likely to add to the pressure on domestic capacity. There were doubts whether the Budget measures, the effects of which had yet to be felt, would in fact be sufficiently disinflationary. These doubts, combined with the pressure on sterling caused by the seamen's strike and by high interest rates abroad, led to the severe crisis in the exchange market in July.

The measures announced by the Prime Minister on 20th July were intended to act directly on the balance of payments and to deal with the problem of internal demand. Terms control on hire purchase contracts was tightened further; repayment periods were shortened and down-payments were increased. A surcharge of 10% was imposed on existing rates of purchase tax and on the duties on alcohol and on petrol and oil; certain Post Office charges were raised; and a one-year surcharge of 10% was imposed on surtax due for 1965/66. Greater restraints were placed on private building, other than housing and industrial building, outside the development areas.

Further reductions in demand would be achieved by cuts in investment expenditure by central and local government and by the nationalised industries. These were to have a significant effect in the year 1966/67, and would amount to savings of some £150 million in 1967/68. The building of houses, schools and hospitals, and of government-financed factories in development areas, would not be affected.

The Prime Minister estimated that these measures, in aggregate, would reduce demand by over £500 million; and the balance of payments would benefit. To help the balance of payments more directly, the Government had prepared firm programmes to reduce their expenditure overseas, both military and civil, by at least £100 million in 1967/68. Private expenditure abroad was also cut. For the year commencing 1st November, the basic travel allowance for holidays in countries outside the sterling area was reduced to £50 per person; there was also some restriction on the amount available before November (see page 21). Exchange control was tightened on capital transfers by emigrants to countries outside the sterling area; and the limit on cash gifts to residents of those countries was reduced.

Lastly, the Government called for a six-months' standstill on wages, salaries and other types of income, followed by a further six months of severe restraint. Companies were required to hold down their dividends during this twelve-month period. The Government similarly called for a twelve-months' standstill on the prices of all goods and services, except to the limited extent that rises were necessitated by increases in the cost of imported materials, by seasonal factors, or by government action, for example through increased taxation. Powers to enforce this policy were subsequently taken, for one year, by strengthening the provisions of the Prices and Incomes Bill then before Parliament.

These measures had a significant effect on home demand. The prices and incomes standstill was very effective. There was some rise in retail prices after July, but this was almost wholly due to the effects of tax changes and to seasonal factors. Hourly wage rates remained virtually unchanged between July and December, while average earnings declined, largely because of reductions in overtime and increases in short-time working. After January, when the standstill was replaced by a period of severe restraint, wage rates rose only slowly. Consumers' expenditure—affected by the reduction in real earnings, by the restrictions on hire purchase, and by uncertainty about the future—fell away sharply in the second half of 1966, but began to pick up early in 1967. Private investment in manufacturing industry remained steady in the fourth quarter of 1966, though spending by the distributive and service trades fell: surveys of investment intentions indicated that the trend in 1967, for both manufacturing and other industrial investment, would be downwards. The volume of stocks fell during the fourth quarter. Private housebuilding was particularly depressed, although it recovered a little early in 1967.

The number of wholly unemployed, after seasonal adjustment, rose sharply between July and November and, more slowly, into 1967. The seasonally adjusted index of industrial production fell up to November; but by the end of the year production seemed to have steadied, at a level some 2% lower than a year earlier. The decline in activity towards the end of 1966 would have been greater had it not been for the buoyancy of exports and of public expenditure, especially on investment, both of which were well maintained into 1967.

Exchequer finance

In the financial year 1966/67 the Exchequer's surplus of revenue over ordinary expenditure was not far short of £750 million. Loans from the Consolidated Fund, however, totalled just over £1,475 million; rather more than half of this was to finance the investment programmes of the nationalised industries and over one third the capital expenditure of local authorities. The central government's borrowing requirement was almost £740 million: this was substantially more than estimated in the 1966 Budget, partly because of a shortfall in revenue and partly because loans to local authorities and to nationalised industries were greater than expected.

The fall in the foreign exchange reserves during the year was partly matched by a reduction in overseas holdings of government debt, so that the central government's net receipts from external transactions were small: the domestic borrowing requirement was about £685 million. An outstanding feature of the year was that sales of gilt-edged stock to domestic holders were far larger than the entire borrowing requirement, and bigger than in any previous year since the war; investors outside the banking sector bought some £560 million and the banks a similar amount. These purchases were concentrated in the second half of the financial year, and owed much to the improved prospects for sterling, to the prevailing poor outlook for equities, and to expectations that interest rates would fall further.

In contrast to their purchases of stocks, investors outside the banking sector reduced their holdings of other forms of government debt, by £80 million. Holdings of notes and coin rose; but for the second successive year there was a large net withdrawal from national savings (nearly £200 million). Some forms of small savings did relatively well: there were net sales of national savings certificates of £14 million—a big improvement on the previous year, thanks mainly to the new issue at the end of March 1966; and premium savings bonds, which have brought money into the Exchequer in every year since their inception in 1956, contributed nearly £40 million. But there were heavy repayments of defence bonds and national development bonds; and both the Post Office Savings Bank ordinary accounts and the ordinary departments of the trustee savings banks lost deposits.(1)

The banking sector was left to take up a fairly small amount of government debt, some £200 million. As the banking sector, too, purchased a large amount of gilt-edged stock, its Treasury bill holdings declined sharply—by £450 million, or over one third of the amount that it had held at the beginning of the financial year.

(1) Some £47 million was transferred from P.O.S.B. ordinary accounts to Post Office investment accounts between June 1966 and March 1967: deposits in investment accounts are not treated here as national savings because they are only partly invested in central government debt—but their investment in government debt is included in the figures for holders outside the banking sector.

Main sources of credit

The banks The large official sales of gilt-edged stock were reflected not only in the banks' holdings of government debt, but also in bank deposits. Net deposits with the *London clearing banks* rose by only £48 million, or about ½%, during the year to mid-March 1967,[1] compared with £534 million (6½%) during the previous year. Investments rose by £172 million, almost entirely government stocks, and the banks were required to place an additional £95 million of Special Deposits with the Bank of England. But total liquid assets decreased by £36 million; the fall of £253 million in the clearing banks' holdings of Treasury bills, to the lowest figure for over twenty years, more than offset a rise in call money and in other liquid assets. Advances were down by £187 million.

The pattern of advances changed quite sharply during the year. Seasonal adjustment of the monthly figures is complicated by the change in the timing of company tax payments, noted below. Neverthless, after rough seasonal adjustment,[2] advances to borrowers other than the nationalised industries rose by about £100 million in the four months to mid-July 1966. They then fell steeply until after the turn of the year; but in the early months of this year the trend seemed to be levelling out.

The increase in advances up to July had brought the banks very close to the limit on their lending, of 105% of the level at March 1965,[3] which they had been asked to observe. On 12th July the Chancellor announced that he had agreed with the Governor that this ceiling should remain at least until March 1967; there would be no general arrangements to offset the intended effect of the selective employment tax, the first payments of which were to be made in the autumn. Companies would then also be due to pay to the Exchequer the tax that they had deducted between April and August from their dividend and interest payments; so that demand for bank finance might be expected to increase. On 9th August the Bank issued a press announcement, emphasising that the needs of priority borrowers should be met within the limit imposed: there was thus a need for the banks to review existing advances and advance facilities in order to secure early and substantial reductions in lending to other customers. This reminder, together with some slackening in the demand for new advances, as business opinion about the future level of activity became less optimistic after the measures taken in July, led to the substantial fall in advances during the late summer. The decline was concentrated on lending to personal and professional and financial borrowers, and to retailers. Advances to industry were little changed; although tax payments by companies were larger than usual, they were significantly smaller than had earlier been expected, and some companies almost certainly reduced their stocks in order to cut down their need for finance.

On 1st November, the Bank issued a further press announcement, reminding priority borrowers that the banks should have sufficient funds available over the next few months to meet all their requests for finance which satisfied normal banking criteria. Within the categories which should be given priority, exports took first place, followed by lending in support of productive investment by manufacturing industry and agriculture: temporary bridging finance for house purchase was also of special importance, because of the need to encourage mobility of labour. By then the banks had ample leeway, within the 105% limit, to accommodate priority borrowers; and had less need to press for a further reduction in their non-priority lending. By the early months of 1967 the downward trend in advances seemed to have ceased.

Net deposits with the *Scottish banks* also grew very little (by ½%) during the year to mid-March 1967; and these banks' advances, after seasonal adjustment, followed much the same pattern as the clearing banks'. During the year as a whole, their advances to borrowers other than the nationalised industries fell by £22 million (some 4%, compared with a fall of about 3% in the clearing banks' advances).

Sterling advances by the *accepting houses and overseas banks* were little changed over the year

(1) Deposits were reduced on 31st March 1966 by the transfer of the National Bank's Irish business to the National Bank of Ireland. But for this the rise over the year would have been about £130 million, or 1½%.

(2) Including an adjustment for the transfer of the National Bank's Irish business.

(3) Described in last year's *Report*.

to the end of March 1967. The series of figures for these banks is of too recent origin to be capable of seasonal adjustment: the unadjusted figures, however, show that after increasing between March and June 1966 advances fell in the following quarter, and then levelled out. Sterling deposits by U.K. residents, other than banks, continued to grow; but the rise of £114 million (11%) over the year to March 1967 was considerably less than during the previous year (£175 million, or 21%).

Hire purchase finance houses Total lending by the finance houses—both on hire purchase and credit sale agreements and in other ways—which they had been asked to restrict to within 105% of the level at March 1965, had grown by £74 million, or $7\frac{1}{2}$%, in the year to March 1966. In the following quarter it grew further, partly reflecting the demand for new cars, which was particularly heavy before the Budget in anticipation of possible tax increases. After the tightening of terms control in July, however, the total of outstanding hire purchase debt owed to finance houses started to fall; and by the end of March 1967 it was £150 million below the peak of £869 million reached in July 1966: the houses' total lending was well below the level of two years earlier.

Rates offered for three months' deposits increased during April 1966, partly because of the continuing demand for hire purchase credit, and rose again sharply after Bank rate was raised in July. They reached a peak in August, in common with other short-term rates; but thereafter, when the houses' business was contracting, they declined. By the end of March 1967 the spread of rates for three months' deposits quoted by the main houses was $6\frac{3}{8}$%-$6\frac{1}{2}$%, some $\frac{3}{8}$% lower than a year before.

Building societies The net inflow of funds to building societies, after seasonal adjustment, had started to fall off in the early months of 1966, though demand for mortgages remained strong. The inflow continued to slacken appreciably during the summer, when other interest rates were rising.

The societies had raised their borrowing rates by $\frac{1}{4}$% in mid-1965, but the mortgage rate recommended by the Building Societies Association had remained unchanged; and the narrowing of the margin beween receipts and outgoings, at a time when there was a marked growth in lending, led to further pressure on reserve ratios. On 19th May, the Association recommended a rise in the mortgage rate, from $6\frac{3}{4}$% to $7\frac{1}{8}$%; the higher rate was applied to most new mortgages after June but for existing borrowers the increase was deferred while the Prices and Incomes Board investigated the financial position of the societies. The Board's report, in November, suggested that mortgage rates should be raised only if it became necessary for the societies to increase the rates for shares and deposits.

In November, the net inflow of funds dropped considerably; and on 9th December the Association recommended that rates paid to shareholders and depositors should be raised by a further $\frac{1}{4}$% from 1st January 1967—to $4\frac{1}{4}$% on shares and 4% on deposits, both income tax paid. They also recommended that the mortgage rate charged to existing borrowers should be increased to $7\frac{1}{8}$% at the same time. After the increases had been announced, the net inflow of funds to the societies rose quite sharply. Net advances on mortgage, which had been very low in the last quarter of 1966, also picked up again.

Money and capital markets

Bill markets The discount houses' Treasury bill tender rate had already risen slightly between the end of March 1966 and the middle of June. Then, after sterling had come under renewed pressure in the foreign exchange market, some of the discount houses were forced to borrow at Bank rate, for the first time for nearly five months; the tender rate increased until, by early in July, it was closer to Bank rate than at any time since the war. After Bank rate was increased to 7% on 14th July, the Treasury bill rate rose further; the Bank's technique of lending to the discount market overnight at Bank rate, described on page 17, enabled money to be kept both tight and dear; and by September the Treasury bill rate had risen to the exceptionally high level of just over $6\frac{3}{4}$%.

After the middle of September, however, the amounts of bills offered at the tenders steadily declined, mainly because of the very large official sales of gilt-edged stock; and in October the discount market reduced the rate at which it tendered, in order to obtain larger allotments of bills. The houses were again forced to borrow heavily at Bank rate, and by the end of November the tender rate had risen again to above $6\frac{3}{4}$%. This proved to be the peak. From December onwards, following the reduction in interest rates abroad, there were strong hopes that Bank rate would be reduced; and the Treasury bill rate declined at each successive tender up to early February. By the end of March—after the two reductions of $\frac{1}{2}$% in Bank rate—it had fallen to $5\frac{1}{2}$%.

The discount market's buying rate for three months' prime bank bills had risen to $5\frac{31}{32}$% by the end of June, following the increase in the Treasury bill rate; and early in July it was increased to $6\frac{1}{16}$%, the first time since the war that it had been above Bank rate. Throughout the rest of 1966 it was maintained below, but very close to, Bank rate—for the discount houses, aware that the 105% limit on credit applied to commercial bill finance as well as to advances, did not wish to encourage bill finance unduly. By the end of March 1967, however, when it seemed to the market that a further reduction in Bank rate was not unlikely, the market's buying rate for prime bank bills, at $5\frac{11}{16}$%, had fallen well below Bank rate.

Gilt-edged During the early months of 1966, yields on gilt-edged stocks had increased quite sharply. By the end of March, those on short-dated securities had risen above the levels of August 1965—the highest point reached during that year—while prices of other stocks had lost almost all the ground that they had gained since then. There was a check to the upward movement in yields during April 1966, and the market remained quiet but fairly firm throughout May and much of June, despite such unsettling influences as the seamen's strike, disappointing figures of overseas trade, and the weakness of sterling. Towards the end of June, however, prices began to decline more sharply: the situation in the foreign exchange market was worsening, interest rates abroad were still rising, and there was growing expectation that Bank rate would be increased. By the end of August, after Bank rate had been raised to 7%, yields on many stocks had risen to historically high levels. Net official purchases of stock, to steady the market and to restrain prices from falling faster and further than seemed justified by the economic situation, were quite small, however, during these months. Turnover, which had been very low in May to July, dropped further in August—to the lowest monthly figure recorded since the series became available nearly two years earlier.

The market began to strengthen early in September, helped by the improved outlook for sterling and by the general feeling among investors that interest rates, both at home and abroad, might have passed their peak. Turnover picked up sharply and net official sales of stock were very large; the authorities encouraged a moderate fall in yields, though only to a level consistent with Bank rate at 7%. Two new government stocks were issued during October: £700 million of $6\frac{3}{4}$% Exchequer Loan 1971 and £400 million of $6\frac{3}{4}$% Treasury Loan 1995/98.

The market was quieter during November, and yields were little changed; but in late December demand for gilt-edged increased again and in January it became very strong. The demand was partly for investment and partly speculative, for the current high yields were not expected to be available much longer. In the four weeks before Bank rate was reduced on 26th January, net official sales of stock were on a larger scale than ever before. Turnover fell away a little in February, and fell again in March, in advance of the Budget; but the market remained firm and yields continued to decline—though at a somewhat slower pace than in January.

Official supplies of the two stocks issued in October became exhausted around the end of January; and early in February 1967 two further issues were made—£400 million of $6\frac{1}{4}$% Exchequer Loan 1972 and £500 million of $6\frac{1}{2}$% Funding Loan 1985/87. In addition to the amounts offered for cash, holders of $2\frac{1}{2}$% Savings Bonds 1964/67—a stock due for redemption in May—were invited to convert into either or both of the new stocks. The offer of conversion into the shorter-dated stock was accepted by official and private holders in respect of about £515 million of $2\frac{1}{2}$% Savings Bonds; and that into the longer maturity by holders of a further £60 million. There remained about £175 million of $2\frac{1}{2}$% Savings Bonds, some of which was already in official hands, to be redeemed on 1st May.

Local authorities Local authority borrowing from the Public Works Loan Board during the financial year 1966/67 was heavier than had been anticipated in the 1966 Budget. Local authorities had an incentive to draw as much as possible in this way, rather than from the market, because the disparity between market rates and the rates—last changed in August 1964—at which they could borrow under their P.W.L.B. quotas, was especially wide during most of the year. Moreover, the quotas were bigger than had been foreseen, because they were related to local authorities' gross long-term borrowing in the market, and new mortgages—which formed part of such borrowing—were large, particularly during the summer of 1966. Many mortgages, though nominally for a fixed term, contain an option clause allowing the lender to seek repayment at any time after a stated period. In the middle of last year this option was being freely exercised, for rates were probably much higher than when the mortgages were originally contracted; and, after allowing for the additional quota loan which could be obtained at a lower rate from the P.W.L.B., it was probably cheaper for local authorities to borrow again on mortgage, rather than on temporary money.

The heavy borrowing on mortgages, and from the P.W.L.B., may well have left local authorities with little need to resort to the temporary loan market during much of the year. The rate for three months' temporary money, which was $6\frac{3}{8}\%$ at the end of March 1966, was little changed until July, when it rose sharply after the increase in Bank rate: by early in August, when other short-term rates were very high, it had reached $7\frac{1}{2}\%$-$7\frac{5}{8}\%$. During the rest of 1966 it fluctuated mostly between $7\frac{1}{4}\%$ and $7\frac{1}{2}\%$. In January, expectation of an early reduction in Bank rate led local authorities to seek accommodation for shorter periods than three months; and although the rate for seven-day money was 7%, the three months' rate fell back to about $6\frac{7}{8}\%$ by the middle of the month. It fell further during February and March, and by the end of March it was down to $6\frac{1}{4}\%$, still slightly below the seven-day rate.

Debentures and equities Movements in debenture yields broadly followed those in gilt-edged. At the end of March 1966 the yield on 20-year debentures and company loan stocks, according to the F.T.-Actuaries index,(1) was about $7\frac{5}{8}\%$. It then fell a little, but early in June it started to rise quite sharply; and by the middle of August the index had reached $8\frac{3}{8}\%$, an exceptionally high rate for first-class industrial stocks. This, however, was the peak; by the end of March 1967 the yield on 20-year stocks had fallen by a full 1%, to just above $7\frac{1}{4}\%$.

Turnover in the market for company fixed interest securities, however, unlike that in the gilt-edged market, did not fall off after April 1966, for despite rising yields there was no lack of new issues: many of the borrowers must have found it difficult to obtain bank finance. Indeed, by the middle of July the queue of prospective borrowers, regulated by the Bank, was such that most of the latest applicants had to wait at least three months before coming to the market; normally the queue is not very long, and it is possible to make issues at quite short notice. Turnover was exceptionally high in the last quarter of 1966 and in January 1967, partly because buyers sought the current high yields while they were still available, and partly because of heavy dealings in new issues, notably a large issue by Imperial Chemical Industries. In February and March activity declined a little; by then the queue of prospective borrowers had dwindled appreciably, as some companies—perhaps because projects had been postponed or perhaps because they hoped to borrow more cheaply later on—deferred or cancelled their borrowing.

Over the year to the end of March 1967, new issues of company fixed interest stocks raised a net total of just over £460 million, only a little below the very high figure for the previous year. New issues of equities raised under £100 million, about one third less than in each of the two previous years. The fall was attributable partly to the change in company taxation; for most companies corporation tax had the effect of making it even cheaper to borrow on loan capital than to raise finance by issuing shares. It must also have owed something, however, to

(1) This index is based on representative stocks bearing various coupons but all issued before April 1964; the calculated yield on these stocks was somewhat higher than the yield on stocks issued more recently.

the weakness of equity markets. Equity prices rose up to the beginning of July, but then started to fall. By early November the F.T.-Actuaries industrial share price index had dropped to $93\frac{1}{4}$, the lowest point for four years. Thereafter the market was firmer, and by the end of March 1967 the index had recovered to 105; but this was still about 12% below the peak reached during the previous July. Turnover was generally low throughout the year; from August to December 1966 it was very low indeed.

Bank of England

28th February 1967

Issue Department

	£		£
Notes issued:		Government debt	11,015,100
In circulation	2,869,612,994	Other government securities ...	2,888,012,329
In Banking Department	30,749,104	Other securities	712,201
		Coin other than gold coin	260,370
		Amount of fiduciary issue ...	2,900,000,000
		Gold coin and bullion ... ... (@ 251*s*. 8*d*. per fine ounce)	362,098
	2,900,362,098		2,900,362,098

1st March 1967 J. S. Fforde, *Chief Cashier.*

Banking Department

		£			£
Capital		14,553,000	Government securities		458,268,438
Rest		3,922,835	Other securities:		
Public deposits ... ... (including Exchequer, savings banks, Commissioners of National Debt, and dividend accounts)		11,597,178	Discounts and advances	92,611,451	
Special Deposits		201,400,000	Securities	27,402,133	120,013,584
Other deposits:			Notes		30,749,104
Bankers	268,300,535		Coin		800,772
Other accounts ...	110,058,350	378,358,885			
		609,831,898			609,831,898

1st March 1967 J. S. Fforde, *Chief Cashier.*

Half-yearly payments of £873,180 were made to H.M. Treasury on 5th April and 5th October 1966 in pursuance of Section 1 (4) of the Bank of England Act 1946.

Note circulation

The note circulation reached a peak of £3,069 million on 20th December 1966; this was £57 million higher than the previous peak of £3,012 million reached on 26th July 1966 and £123 million higher than the Christmas peak in 1965.

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	1963	1964	1965	1966	1967
Issued:					
New notes	2,280	2,585	2,707	2,971	2,633
Reissued notes	123	87	129	140	311
Paid	2,396	2,551	2,662	2,931	2,858
In circulation at the end of year	2,309	2,430	2,604	2,784	2,870
Percentage increase in circulation over the year ...	*0·3*	*5·2*	*7·2*	*6·9*	*3·1*

Value of notes issued by denominations

£ millions

Year to end of February	1963	1964	1965	1966	1967
10*s.*	239	245	245	256	219
£1	1,301	1,380	1,415	1,551	1,319
£5	863	1,024	1,069	1,217	1,296
£10[(a)]	—	16	107	87	110
Other notes[(b)]	—	7	—	—	—

(a) The issue of £10 notes was suspended between 1943 and 21st February 1964.

(b) The issue of £20, £50, £100, £500 and £1,000 notes was discontinued in 1943; but notes of over £1,000 are still used within the Bank of England on behalf of customers *e.g.* they are held for banks of issue in Scotland and Northern Ireland as cover for their excess note issues.

Value of notes in circulation by denominations

£ thousands

End of February	1963	1964	1965	1966	1967
10*s.*	95,481	96,985	99,638	104,731	104,470
£1	982,963	1,024,525	1,012,485	1,024,270	971,966
£5	1,124,132	1,179,277	1,274,344	1,397,612	1,490,147
£10	400	16,012	105,107	147,387	193,406
£20	185	178	170	166	162
£50	357	339	310	297	286
£100	628	586	558	532	512
£500	52	50	46	46	45
£1,000	74	73	71	70	69
Over £1,000	105,050	111,950	111,650	109,200	108,550
	2,309,322	2,429,975	2,604,379	2,784,311	2,869,613

Proportion of notes in circulation by denominations

Per cent by value of total circulation

End of February	1956(a)	1963	1964	1965	1966	1967
10s.	5·3	4·1	4·0	3·8	3·7	3·6
£1	75·9	42·6	42·2	38·9	36·8	33·9
£5	13·5	48·7	48·5	48·9	50·2	51·9
£10	} 0·2	} 0·1	0·6	4·0	5·3	6·7
£20–£1,000			0·1	0·1	0·1	0·1
Over £1,000	5·1	4·5	4·6	4·3	3·9	3·8
	100·0	100·0	100·0	100·0	100·0	100·0

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

Fiduciary issue

The fiduciary issue rose on balance over the year by £100 million, to £2,900 million. The changes were as follows :

					£ millions
1966	February	28th ...			2,800
	March	7th ...	+50		
	April	4th ...	+50		
	May	24th ...	+50		
	June	28th ...	+50		
	July	18th ...	+50		
	August	12th ...		−50	
	September	9th ...		−50	
	November	29th ...	+50		
	December	9th ...	+50		
	December	16th ...	+50		
1967	January	2nd ...		−50	
	January	6th ...		−50	
	January	11th ...		−50	
	January	17th ...		−50	2,900

Demand for new notes

The demand for new bank notes has increased greatly in recent years, partly because of a rapidly growing preference by the public for new notes rather than used ones. As a result, an increasing number of notes of all denominations were being sent back to the Bank for destruction while still clean, and long before the end of their useful life; between 1957 and 1966 the average life of a £1 note fell from nineteen months to eight, and that of a 10*s.* note from six months to five. It was necessary for the Bank to print about four times as many notes per head of the population as are issued in comparable countries abroad, and this also presented serious problems of transport, handling and security to the commercial banks and to the Bank.

With the co-operation of the commercial banks, the Bank have therefore taken steps to encourage the public to accept more used, but clean, notes and to make greater use of £5 and £10 notes. As part of this campaign, the Bank asked the commercial banks to refrain from issuing new £1 and 10*s.* notes during certain short periods of the year.

This campaign for economy is proving successful; the tables above show that there has been a substantial reduction in the number of new notes issued during the year compared with preceding years, while the number of used notes returned to the Bank for destruction has also fallen. It is too early to assess the extent to which this will result in a permanent lengthening of the life of £1 and 10*s*. notes. The popularity of £5 and £10 notes has continued to grow steadily, and it is hoped that the public will make increasing use of them.

Tax reserve certificates

The change in company taxation led to the issue, from 27th June 1966, of separate tax reserve certificates for companies and for persons. Company certificates were made available for payment of corporation tax and for any remaining liability to profits tax: personal certificates could be used to pay income tax, surtax and capital gains tax, due from individuals, partnerships, trustees and others not liable to corporation tax. The previous series of tax reserve certificates, which were issued up to 25th June 1966, continued to be usable in accordance with the terms of their prospectuses and to be available also for payment of corporation tax.

Until 25th June 1966 the rate of interest on certificates (provided that they were used in payment of taxes) was $3\frac{1}{2}$% free of tax; and this rate also applied to the new personal certificates. From 27th June until 2nd August, company certificates carried interest at $4\frac{3}{8}$%; from 3rd August 1966 to 24th February 1967 at $4\frac{3}{4}$%; and thereafter at $4\frac{1}{4}$%.(1)

The total number of applications for tax reserve certificates during the year was higher than in the previous year; and the total value of certificates applied for was considerably higher. The value of certificates surrendered was rather lower than in earlier years; and the amount of certificates outstanding, which had fallen substantially in each of the four previous years, rose by £88 million, to £285 million. Details for the past two years are shown in the table: figures for earlier years were given in last year's *Report*.

Year to end of February	Applications			Surrenders			Change during year	Outstanding at end of period
	Number	Average value	Total value	Cancelled in payment of taxes	Repaid without interest	Total		
	000's	*£000's*	*£ millions*					
1966: Old series	115	1·7	191	239	2	241	− 50	197
1967: Old series(a)	40	1·0	38	155	3	158	−120	77
New series:(b)								
Company	15	14·5	218	62	2	64	+154	154
Personal	80	0·8	62	8	—	8	+ 54	54
Total	135	2·4	318	225	5	230	+ 88	285

(a) From 1st March to 25th June 1966.
(b) From 27th June 1966 to 28th February 1967.

(1) The rate was changed in the 1967 Budget, with effect from 15th April 1967; changes were also made in the terms on which certificates might be held.

Local authority bills

On 14th November 1966, a tender was held at the Bank for an issue of £25 million 91-day bills on behalf of the Greater London Council. The last bill issue for the London County Council was made in 1936. Local authority bills are eligible for discount at the Bank by the discount market —or as security for advances by the Bank to the market—provided that certain conditions are satisfied, the most important of which is that there must be at least sixty days in each financial year during which the local authority has no bills outstanding.

The total amount of G.L.C. bills applied for at the tender was nearly £50 million. The average rate of discount on allotment was just over $6\frac{5}{8}\%$; this was $\frac{3}{32}\%$ above the Treasury bill rate at the previous tender but about $\frac{1}{2}\%$ below the rate for three months' temporary money. A further tender was held on 13th February 1967, for £25 million of bills to replace those issued in November. Applications this time totalled over £63 million; the average rate of discount was just over $6\frac{1}{16}\%$, again some $\frac{3}{32}\%$ above the Treasury bill rate.

Loans to the discount market

From the end of June 1966, the Bank began to lend on occasion to the discount houses overnight: previously such lending had been for a minimum period, usually of seven days. The new practice was first used to balance out an exceptional shortage of money on one day with an expected corresponding surplus on the next—the surplus funds being absorbed by the discount houses' repayments to the Bank. In July, however, overnight loans were being made by the Bank more generally, to ensure that money remained tight and short-term interest rates firm.

Money can be kept tight by using overnight lending to transfer a shortage of funds from one day to the next, so that such a shortage can make its weight felt repeatedly if necessary. Loans have also been made on occasion for two business days, if money was already expected to be short on the intervening day. Rates can be kept firm by applying Bank rate to such lending—as was done on numerous occasions between early July and early September. This not only has the effect of directly raising the average cost of the discount houses' borrowing, but it also encourages other lenders to the houses to stand out for high rates at the end of the day's business. On 6th September, for the first time, overnight loans were made at a market rate, because the Treasury bill rate was already exceptionally high, and it was not necessary to influence the market to raise it any further.

Towards the end of 1966, and early in 1967, there was a growing shortage of Treasury bills in the market—mainly because of the very large net official sales of gilt-edged stock, which coincided with the start of the Exchequer's main revenue season. It became increasingly difficult for the Bank to purchase sufficient Treasury bills from the market to offset daily shortages of money; and extensive use was made of overnight lending. During the first quarter of 1967 the discount houses were borrowing in this way from the Bank, mainly at market rates, on most working days. The houses were charged Bank rate for their overnight borrowing when it seemed to the Bank that some hardening influence on short-term rates was required; on other occasions, when short-term rates were regarded as high enough, the houses were charged a rate below Bank rate, which normally reflected the rate at which the banks were lending to the discount market the proceeds of Treasury bills sold to the Bank earlier in the day.

Management of stock registers

The nominal totals in recent years (and, for 1967, the number of accounts) of the different groups of stocks managed by the Bank are given below:

				£ millions	Number of accounts 000's
End of February	**1964**	**1965**	**1966**	**1967**	**1967**
British government securities:					
Stock[a]	17,965	17,578	18,663[b]	19,595	2,015
Bearer bonds	15	17	16	15	—
Total	17,980	17,595	18,679	19,610	2,015
Other securities:					
Government guaranteed	1,837	1,833	1,777[b]	1,762	248
Commonwealth etc.	251	236	216	221	92
Local authorities	352	421	473	542	166
Public boards etc.	88	98	107	123	34
Miscellaneous	15	15	15	15	1
Total	2,543	2,603	2,588	2,663	541
Grand Total	20,523	20,198	21,267	22,273	2,556

(a) 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.

(b) As from 1st April 1965, the full liability for stocks of the British Overseas Airways Corporation (amounting to £52 million) was assumed by H.M. Treasury under the Air Corporations Act 1966.

The number of transfers registered by the Bank, which had declined in each of the last three years, rose by 9% in the year under review, to just over 675,000. There was a marked rise during the last five months (from October 1966 to February 1967), when the gilt-edged market was very active: the average number of transfers registered during these five months was 23% greater than during the previous seven months.

Operations undertaken during the year included:

Repayments

At par

		£ millions nominal
Swansea Corporation 6⅞% One-Year Bonds repayable 10th March 1966	1966 10th March	1·0
5½% Exchequer Stock 1966	15th March	969·7
Liverpool Corporation 3½% Stock 1961/66	15th June	3·0
Liverpool Corporation 6⅞% One-Year Bonds repayable 11th August 1966	11th August	1·0
British Overseas Airways 4½% Stock 1965/66	20th September	14·6
North of Scotland Electricity 4½% Guaranteed Stock 1965/66 ...	20th September	13·2
Swansea Corporation 3% Redeemable Stock 1963/66	30th September	2·5
New Zealand Government 3½% Stock 1963/66	15th December	6·7

Issues

For cash				£ *millions nominal*
Swansea Corporation 6½% One-Year Bonds repayable 10th March 1967	@ £99 : 17*s.* 6*d.*%	1966	10th March	0·5
Swansea Corporation 6¾% Two-Year Bonds repayable 11th March 1968	@ £99 : 17*s.* 6*d.*%		10th March	0·5
Ireland 7½% Stock 1981/83	@ £97%		4th August	5
Liverpool Corporation 7⅝% One-Year Bonds repayable 11th August 1967	@ £99 : 18*s.* 9*d.*%		11th August	1
Agricultural Mortgage Corporation Limited 7¾% Debenture Stock 1981/84	@ £99 : 5*s.*%		22nd September	17
New Zealand Government 7½% Stock 1983/86 ...	@ £98%		12th October	12
6¾% Exchequer Loan 1971	@ £99 : 5*s.*%		13th October	700
Liverpool Corporation 7% Stock 1976/77	@ £98%		20th October	15
6¾% Treasury Loan 1995/98	@ £97 : 10*s.*%		28th October	400
6¼% Exchequer Loan 1972	@ £98 : 10*s.*%	1967	3rd February	400
6½% Funding Loan 1985/87	@ £98 : 15*s.*%		3rd February	500
Greater London 6½% Stock 1977	@ £97 : 5*s.*% (allotment price %, by tender)		15th February	20
Greater London 6¾% Stock 1990/92	@ £99 : 15*s.*% (allotment price %, by tender)		15th February	40

Bearer facilities were made available on the four issues of British government stock.

Issues by tender

Following the experience gained early in 1966 when the Bank issued a loan by tender for the Greater London Council, this method of issue was used again in April 1966 by the Midland Bank on behalf of the Surrey County Council and by the Bank in February 1967 for the issue of two more stocks, listed above, for the G.L.C. Both the latter issues were oversubscribed.

The procedure adopted for these issues is as follows. A minimum price is announced at which stock will be allotted if the issue is undersubscribed; the balance of the issue will be taken by the underwriters at the same price. If the issue is oversubscribed, stock is allotted to applicants tendering at the highest price or prices; all allotments to these applicants, however, are made at the same price —the lowest price at which any tender for the stock is accepted—but those tendering at prices above that allotment price receive preferential treatment as regards the proportion allotted to them. For the two issues by the Bank in February 1967, noted above, the 'minimum tender price' was £96 : 15*s.*% for the 1977 Stock and £98 : 15*s.*% for the 1990/92 Stock; 10*s.*% and £1% respectively below the allotment price.

One advantage of this method of issue is that, when a stock is likely to be popular and heavily oversubscribed, applicants do not need to tender for more stock than they want in order to increase their chance of an allotment; they can instead tender for the amount they require but at a higher price than the minimum announced. It follows that the allotments made are much less arbitrary than with oversubscribed conventional issues and are more closely related to the amounts which applicants actually require.

The method of issuing by tender also provides borrowers with protection against having to borrow too expensively if interest rates fall sharply in the interval between the fixing of terms and the receipt of applications.

Southern Rhodesia

No funds were received during the year to meet interest on the Government of Southern Rhodesia Stocks for which the Bank act as paying agent; and the gross interest due but unpaid on these stocks up to the end of February 1967 totalled approximately £2,926,000. In addition, the redemption money for Southern Rhodesia 3½% Stock 1961/66, amounting to £1,378,400, was not received in July 1966 when the stock fell due for repayment; the register for this stock is being kept open for transfers until further notice.

Finance for exports

The main development during the year was the agreement of the London clearing banks and the Scottish banks to continue to provide medium and long-term export finance at a fixed rate of 5½% per annum, for a further period of one year from January 1967. As mentioned in last year's *Report*, this facility is supplemented by the arrangements introduced in March 1966, under which these banks and the Northern Ireland banks will provide finance at Bank rate (but with a minimum of 4½%) for exports on credit terms of thirty days to two years, where the transaction is evidenced by bills of exchange or promissory notes. Both facilities depend on the availability of unconditional guarantees to banks from the Export Credits Guarantee Department.

The Bank of England's refinancing facilities, described in the *Quarterly Bulletins* for March 1961 and March 1965, have continued unchanged. At the end of March 1967 the total of export credit eligible for refinance with the Bank, by all the commercial banks taking part in the scheme, stood at £114 million. The clearing banks and the Scottish banks may regard their share in this total as part of their liquid assets; so far the facility for refinance has not been used.

Exchange control

The main changes in the administration of exchange control during the year are set out below.

27th April 1966

Gold coins

Restrictions were placed on the holding and buying of gold coins minted after 1837: exemption from these restrictions would be granted administratively to those who satisfied the Bank that they had a developed and continuing interest in numismatics, while persons holding not more than four post-1837 gold coins on 26th April 1966 would be permitted to continue to hold them. Sales of post-1837 gold coins require permission unless made to an authorised dealer in gold or a trader in coin: authorised dealers in gold may permit sales to be made to a coin dealer, or through an auctioneer, specifically authorised by the Bank.

A ban was imposed on the sale or use of gold for the manufacture of medals, medallions (including imitation coins), and similar pieces—apart from those for export or for use as academic or sporting awards. In February 1967, sales of gold for the manufacture of articles not exceeding 5 dwts. in weight and £2 in value were excepted from this ban.

3rd May 1966

Direct investment

The use of investment currency by U.K. residents to make direct investments over £25,000 outside the Scheduled Territories would be confined to projects which promised to show an early, substantial and continuing benefit to the balance of payments in the form of remittances to the United Kingdom (such as increased export earnings, dividends, royalties, etc.); the return would be expected to equal or exceed the original outlay from the United Kingdom within two or three years and to continue thereafter. Investments of over £25,000 which did not satisfy this criterion would have to be financed by appropriate borrowing abroad.

21st July 1966

Travel

For the year commencing 1st November 1966, the issue of foreign currency for private travel outside the Scheduled Territories would be restricted to a basic allowance of £50 per person, to cover all the traveller's requirements except for fares paid in sterling in the United Kingdom. The limits on the export by travellers of sterling notes and of other currency notes were reduced from £25 to £15 and from £250 to £50 respectively. Under interim arrangements covering the period from 21st July to 31st October 1966, foreign currency facilities would be made available up to £50 per person regardless of the amount paid in sterling in the United Kingdom for hotel and other travel services: additional foreign exchange would be provided where firm arrangements had been made before 21st July.

From 1st November 1966:

(i) Form V was reintroduced in respect of travel services purchased for sterling but chargeable against the basic allowance or against special allotments issued for business and other travel;

(ii) the amounts which banks and authorised travel agents could issue for business, health and other forms of travel and for education abroad were reduced; and

(iii) the rules governing exports of notes were further revised; the £15 limit on the export of sterling notes, mentioned above, included also notes expressed in the currencies of other Scheduled Territories.

Cash gifts

The total amount of cash gifts that a U.K. resident could make during each calendar year, to individuals and organisations regarded for exchange control purposes as resident outside the Scheduled Territories, was reduced from £250 to £50.

Emigration facilities

The transfer of assets in excess of £5,000 of emigrants to countries outside the Scheduled Territories was restricted for four years from the date of re-designation as a non-resident. During that period such assets could be made available to the emigrant only through the investment currency market; previously they could be realised through the security sterling market. At the end of the four-year period any remaining sterling assets would be accorded the same treatment as then applied to the sterling assets of any other non-resident.

The treatment of assets of foreign nationals returning to their own countries for permanent residence was unaffected by this change.

19th October 1966

Burma

The list of Scheduled Territories was amended to exclude Burma.

23rd December 1966

Rhodesia

Attention was drawn to the Southern Rhodesia (Prohibited Trade and Dealings) Order 1966, which imposed further restrictions on the export of certain goods from Rhodesia, their import into the United Kingdom, and payments in connection with them. The general permission for transfers from External accounts to Rhodesian accounts was withdrawn, in so far as such transfers related to the specified goods.

2nd January 1967

London dollar certificates of deposit

The terms on which applications by authorised banks to issue U.S. dollar certificates of deposit would be approved were set out in a Notice, which also laid down the procedures governing transactions in, and holdings of, such certificates.

26th January 1967

Rhodesia

A reissue of the Notice relating to Rhodesia:

(i) withdrew the permission for transfers between Rhodesian accounts and between Rhodesian blocked sterling accounts;

(ii) withdrew all existing permissions relating to security transactions by or on behalf of residents of Rhodesia; and

(iii) reduced the list of permitted debits to Rhodesian accounts and restricted the majority of remaining debits to payments in the United Kingdom.

Voluntary programme of restraint

In the Budget statement on 3rd May 1966, noted on page 6, the Chancellor of the Exchequer called for a programme of voluntary restraint, for the next year or two, on investment in the more developed countries of the sterling area (namely Australia, New Zealand, South Africa, and the Irish Republic).

The Chancellor asked all companies and firms which had plans for direct investment, costing over £25,000 a year, in the four countries mentioned to consider whether they could postpone them for the time being. If they could not, he asked them to make every effort to finance their investment from local sources of capital rather than from the United Kingdom. Where companies and firms nevertheless wished to proceed with their investment plans, the Chancellor invited them to submit their schemes to the Bank of England, who would examine them, with the firms concerned, to see whether they promised a quick, substantial and continuing benefit to the balance of payments. Such benefit should take the form of additional earnings from exports or invisibles, or profit remittances, which would equal or exceed the original outlay from the United Kingdom within two or three years and would continue thereafter.

Developments in financial statistics

During the year some further additions were made to the statistical information which is available. The Bank gratefully acknowledge the co-operation of the banks and other financial institutions which have agreed to contribute to these new series and which have continued to provide statistics for the guidance of policy and for publication.

Banking statistics

A new quarterly analysis of bank advances was developed during the year to replace that formerly published by the British Bankers' Association. The new analysis covers an appreciably wider circle of banks, and is based on the Standard Industrial Classification, to facilitate comparison with other economic series. The first figures, relating to mid-February 1967, were issued by the Bank in the middle of March. A full description of the new series had been published earlier that month in the *Quarterly Bulletin*.

The confidential monthly analysis of clearing bank advances mentioned in last year's *Report* continues to be provided to the Bank for the time being, to help in assessing developments in the credit situation. Among a number of other detailed improvements in the information made available to the Bank is a new confidential monthly analysis of the commercial banks' outstanding forward purchases and sales of foreign currencies.

Since the summer of 1966, the General Managers of the eleven clearing banks have been meeting informally each month at the Bank to discuss the development of the credit situation and kindred questions. These joint meetings are in addition to the day-to-day contacts which the Bank maintain with the commercial banks. In addition, discussions between the Bank's economic and statistical staff and the economists of the Big Five clearing banks, mentioned in last year's *Report*, have continued.

Sector financing

Work on statistics covering the financial transactions of the various sectors of the economy has continued, and a further effort has been made to improve the quality of the sector financing accounts. Special exercises were undertaken to carry back to the early 1950's the main items in the personal and company accounts; the results were published in articles in the *Quarterly Bulletins* for September 1966 and March 1967. A detailed examination of seasonal fluctuations in the figures has made it possible for the quarterly analysis of financial statistics in the *Bulletin* to concentrate on comparison of one quarter with another, rather than with the corresponding quarter a year earlier.

Staff and other internal matters

The total staff of the Bank at 28th February 1967 was about 7,000, much the same as a year earlier. Within the total, however, there was a decrease of about 150, to around 1,900, in the number employed at the Printing Works and an increase of a similar amount in the banking staff, to approximately 4,200, including 2,500 women. The increase in the banking staff was largely due to a rise of about 100, to 390, in the number engaged on exchange control.

At the end of February, the Accountant's Department employed 1,400; the Cashier's Department about 1,280, including 320 at the Branches; the Overseas Department, including exchange control, 630; and the Economic Intelligence Department, 180. An outline of the work of each Department was given in an article, describing the functions and organisation of the Bank, in the *Quarterly Bulletin* for September 1966.

Apart from the normal recruitment of graduates, it has been the Bank's practice for some years now (noted in an earlier *Report*) to have temporarily on their staff, normally for a period of two years, one or two members of the teaching staff of the universities; and the Bank are seeking to continue this useful practice. The latest of the staff engaged on this basis has now left to take up an appointment as Professor of Economics at the University of Stirling. The Bank have continued to second a member of their staff, serving in the Economic Intelligence Department, to the Department of Applied Economics, Cambridge University, to work with that Department on a study of the financial aspects of British economic growth. Two members, also from the Economic Intelligence Department, have been seconded temporarily to H.M. Treasury.

Automation

Since August 1966, all dividend payments on stocks managed by the Bank have been prepared on the two new computers which, as noted in last year's *Report*, were installed in March and April of that year. By the end of February 1967, testing of the programmes for the transfer of the stock registers to magnetic tape was nearing completion. 3½% War Stock, which comprises about a quarter of the total number of stock accounts, was selected as the first stock to be transferred.

A third computer is on order, for installation in Head Office in 1968, which will at first handle current account banking and cheque-clearing operations, and the payment of salaries. Other banking and statistical work will be transferred to this computer in due course.

Relations with central banks and other institutions abroad

The Bank continued to foster close and cordial relations with overseas central banks and international financial institutions: over 400 visitors from some 80 countries were received in the Bank during the year, while visits were made to about 70 countries by officials from the Bank, in their normal course of keeping in touch at first hand with developments abroad, and to participate in international discussions and negotiations.

The Bank continue to meet, so far as possible, requests from overseas countries for advice and practical help in banking and currency matters. At 28th February 1967, 30 members of the Bank's staff, who had been released for this purpose, were serving with central banks and other financial institutions overseas.

The Bank's archives

Last year's *Report* mentioned that it was hoped to produce, from the Bank's archives, a consistent series of historical figures of the Bank's liabilities and assets. An explanatory note—and an illustrative series of figures, at roughly five-year intervals from 1696 to 1845—was published in the *Quarterly Bulletin* for June 1967.

In addition, a long series of Bankers' balances at the Bank of England, which have always been of special interest to monetary historians, has now been extracted from the Bank's books, quarterly from 1819 to 1828 and then weekly up to 1966. This series, together with a full set of annual figures of the Bank's liabilities and assets, from 1696 to 1966, is available on request from the Bank's Economic Intelligence Department.

The co-operation received from various quarters in the provision of financial statistics has already been acknowledged. In other respects, too, the Bank have continued to receive much help from the associations of banks and other financial institutions. This has brought many advantages in the execution of monetary policy, and the Bank welcome this opportunity of recording once again their appreciation of the co-operation 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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