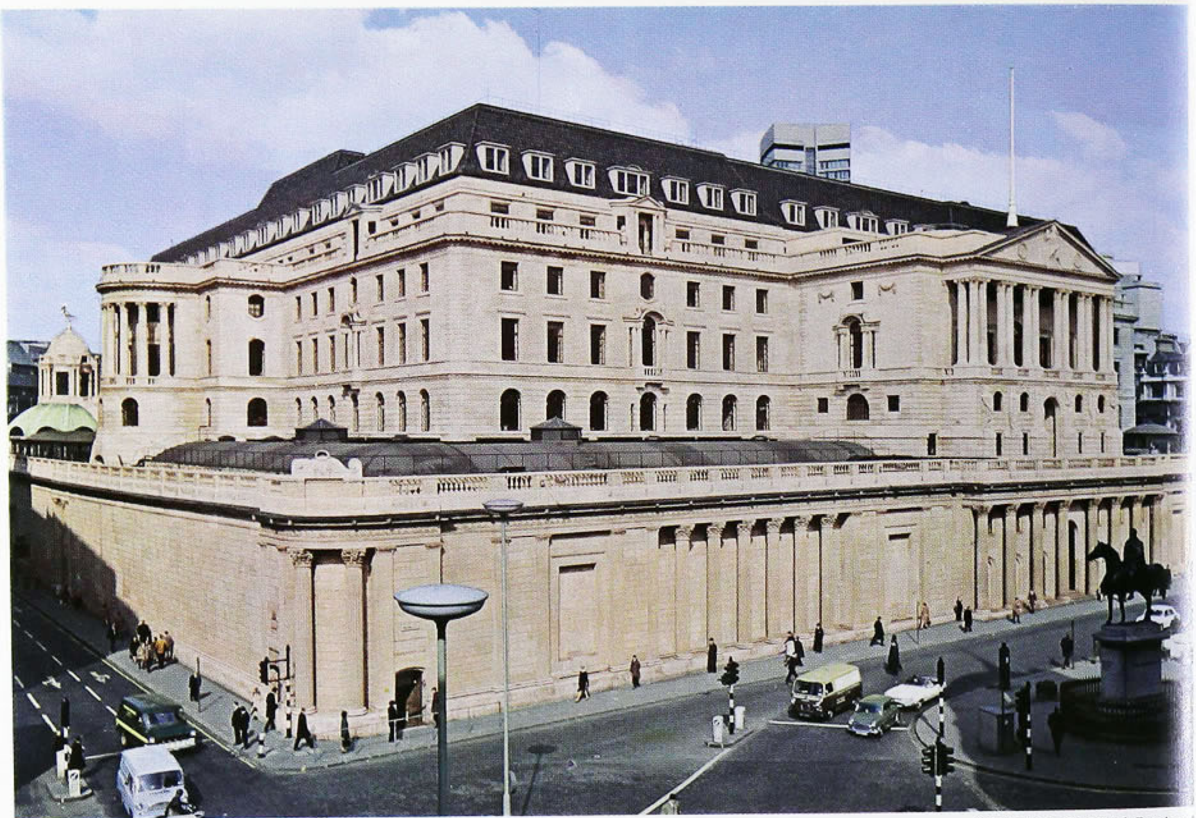
Bank of England

Report for the year ended 28th February 1969

Issued by Order of the Court of Directors 10th July 1969

Copies of this Report may be obtained from the
Economic Intelligence Department
Bank of England London EC2

Printed by Gordon Chalmers Fortin at the
Bank of England Printing Works Debden Loughton Essex



Court of Directors

28th February 1969

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Sir Maurice Henry Parsons, Deputy Governor
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The Rt. Hon. Lord Carron
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Sir Henry Wilson Smith, K.C.B., K.B.E.
Sir John Melior Stevens, K.C.M.G., D.S.O., O.B.E.
Sir Ronald George Thornton

Mr. C. H. King resigned on 9th May 1968 and Sir Eric Roll was appointed to the Court in his place on 21st June 1968 for the remainder of his term of office as a Director, namely until 28th February 1969.

Mr. J. V. Bailey resigned on 28th February 1969 and Mr. J. G. W. Davies, O.B.E., was appointed in his place for the remainder of his term of office, namely until 29th February 1972.

The term of office of Mr. M. J. Babington Smith expired on 28th February 1969 and Sir Val Duncan, O.B.E., was appointed in his place for a period of four years.

The terms of office of Mr. C. J. Morse and Mr. J. Q. Hollom also expired on 28th February 1969 and they and Sir Eric Roll were reappointed for a period of four years.

Economic and monetary review

Most of the developments reviewed in the first part of the Annual Report *have already been reported more fully in the Bank's* Quarterly Bulletins.

Introduction

At the beginning of 1968 the shock of sterling devaluation was still keenly felt; nevertheless, hopes were high that the new rate of exchange would present opportunities which would be quickly grasped, and that there would soon be signs of better economic performance. Some of these hopes were undoubtedly too optimistic: there was, for example, a general tendency to underestimate the time needed for the volume of exports and imports – particularly the latter – to adjust to the new price levels. As a result, the lack of evidence in the first half of 1968 that the economy was responding to devaluation brought renewed disappointment; and though progress was made in the second half, notably in that exports began to take a considerable share of the growth of output, it was apparent that it was not fast enough. By the end of 1968 it seemed that most of the adverse effects of devaluation – some of them perhaps insufficiently appreciated beforehand – had worked through the economy. The expected benefits, however, had been slower to materialise; and though some were doubtless still to come, it was clear that yet more progress would be needed before sufficient improvement in the balance of payments was achieved.

1968 was a year of great turbulence in foreign exchange markets. After devaluation sterling was not always the main point of pressure though it remained very weak; other currencies were now more exposed, and the example of sterling stimulated defensive covering and outright speculation alike. In the early part of the year the U.S. dollar came most under pressure, which took the form of a massive switch into gold; these attacks came to an end in March when the gold pool arrangements were dissolved. In May and June 1968, political and economic disturbances in France brought severe pressures on the franc; these were renewed in November and, to a lesser extent, early in 1969; on both occasions in 1968, and particularly in November, belief that the Deutschemark would be revalued led to large flows of funds into Western Germany. Meanwhile confidence in sterling had not been restored and the pound suffered whenever other currencies were subject to pressure.

There were other consequences of devaluation which clouded external prospects: some overseas sterling area countries had become less willing than before to hold large proportions of their official reserves in London, and during the second quarter of 1968 the run-down of their sterling balances added to the pressures on the pound. It became important, therefore, to reassure these countries and to avert a further decline in their sterling holdings. Arrangements to this end were concluded in September 1968 and notably improved willingness to hold sterling; they are described later.

Until September, when good trade figures for August were announced, the improvement in the United Kingdom's balance of visible trade was slow. The initial effect of devaluation in worsening the terms of trade was aggravated in the first quarter of 1968 by a sharp and unexpected rise in the volume of imports. Thereafter imports remained disturbingly high. Exports on the other hand – allowing for the distortions introduced by the dock strikes late in 1967 – did not attain their fastest growth until the third quarter of 1968; even then, despite the improvement in the United Kingdom's competitive position, growth seemed to owe much to the rapid expansion of world demand.

At the same time, the official post-devaluation strategy, which called for the diversion of considerable resources from satisfying home demand – both public and private – into improving the balance of payments, had been made more difficult by an unexpected growth in personal spending. In the early months of the year consumer spending rose rapidly in the expectation of a severe Budget and general apprehension about rising prices; this kept domestic activity high but also made an unwelcome contribution to the sharp increase in imports. Despite some reaction after the Budget consumer spending continued strong in the second half of the year, pre-empting a substantially larger share of available resources than had been allowed for and serving to keep imports high. The buoyancy of consumer spending seems to have been associated – certainly in the last quarter – with a reduction in the rate of saving; (however, the personal savings ratio probably recovered to a more normal figure in the first quarter of 1969). Meanwhile, the fear of price increases provided the main incentive for the consumer to spend, even though in fact companies were proving more successful in holding down prices than earnings. Moreover, efforts to restrict credit for less essential purposes were only partially successful and it became necessary to tighten restraints on lending by the banks and finance houses. In November measures were introduced to do this and to act directly on consumer spending and on imports.

Short-term domestic interest rates tended to fall during the first nine months of 1968; Bank rate was reduced from 8% to 7½% on 21st March and to 7% on 19th September. From November onwards, however, interest rates rose quite fast, partly because domestic credit was tighter, partly to keep pace with key international rates. Consequently the rates of interest charged by the clearing banks for advances – which are directly linked with Bank rate – were soon exceeded by the cost of most other forms of borrowing. The official policy of severe credit restraint was therefore reinforced by an increase in Bank rate from 7% to 8% on 27th February 1969. Interest rates at home and abroad continued to rise swiftly in March.

External developments

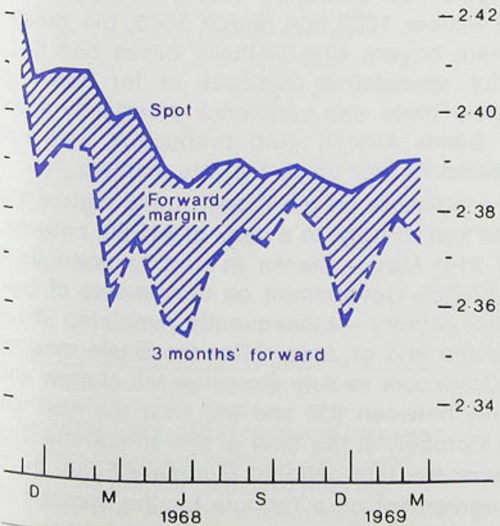
Foreign exchange market

An improvement in sterling after the Budget in March 1968 died away in April: disappointing trade figures for the United Kingdom and an increase in Federal Reserve discount rates in the United States came as sharp reminders that neither of the reserve currency countries had yet solved its problems; and before long, rumours that the Deutschemark might be revalued brought selling of the dollar and the pound. By the middle of May the spot rate for sterling against the U.S. dollar had fallen below \$2·39. Political demonstrations and industrial disputes in France, giving rise to fears that the franc might be devalued followed by other currencies, put heavy pressures on both the reserve currencies before the bank holiday week-end at the beginning of June, and the spot rate for sterling fell further, to below \$2·38$\frac{3}{8}$. Confidence remained low throughout June – forward sterling staying at a substantial discount – and it was not until early July, when the situation in France seemed to have stabilised and when it was announced that agreement in principle had been reached at Basle on a medium-term credit facility to underpin the sterling balances of sterling area countries, that there was any appreciable improvement. During that month the spot rate rose from \$2·38$\frac{1}{4}$ to \$2·39$\frac{1}{2}$ and discounts on forward sterling were considerably reduced.

The second half of August saw the pound again under some pressure: the trade figures for the months up to July had continued to show at best only fitful progress and the invasion of Czechoslovakia by other Warsaw Pact countries, followed by another crop of rumours of a possible Deutschemark revaluation, contributed to the underlying nervousness. By the time of the central bankers' meeting at Basle in September the spot rate was back to almost \$2·38$\frac{1}{4}$. Confirmation at Basle of the medium-term credit facility for sterling, and better trade figures, brought some revival of confidence and a stronger tone generally persisted until about the middle of November; by then forward discounts against the pound were the narrowest for a year. By the end of October the Exchange Equalisation Account's outstanding forward commitments to take sterling from the market had been reduced to about one fifth of the peak reached before devaluation.

Confidence waned in the second half of November as rumours spread of imminent changes in the parities of the French franc and of the Deutschemark; pressures against the franc mounted quickly and funds moved on a large scale into Western Germany. The pound was not strong enough to be unaffected by these pressures and substantial sums were soon withdrawn from London; the spot rate fell to \$2·38$\frac{1}{4}$ and heavy official support was required to hold it there. The situation became such that foreign exchange markets in London, France and Western Germany were closed from 20th to 22nd November (other continental markets suspended quotations in the three currencies) while the Finance Ministers of the Group of Ten countries

Spot and 3 months' forward rates for U.S. dollars in London [a]



After falling rapidly in the first half of 1968, the spot rate for the U.S. dollar was mostly below \$2·39 until early in the new year. Lack of confidence was also reflected in wide discounts on forward sterling.

[a] Monthly, averages of working days.

met in Bonn and agreed on support for the franc. The measures announced by the United Kingdom on 22nd November and those taken at this time by Western Germany and by France succeeded in calming the markets; but though funds began to flow out of Western Germany there was little to attract them to London, and sterling made only a partial recovery – by the end of November the spot rate was still below $2·38½. Early in December a strong demand for dollars aggravated the weakness of the pound, and though there was later a reaction the rate rose only slowly and forward margins remained wide.

By the middle of January there were signs of improvement, and although dollars continued in strong demand steady commercial buying of pounds – some of it seasonal – pushed up the rate to $2·39 by the end of the month. In February it strengthened further and sterling showed a growing resilience – surviving renewed uncertainty about the franc in March – as the Budget approached.

Gold market

The last *Annual Report* described the events leading up to the Washington conference in the middle of March 1968 and the ending of the central bank gold pool arrangements: at that time central banks announced that they did not propose to deal in gold markets, in which prices would be determined by other sources of supply and demand. The new arrangements have continued to operate without excessive fluctuations in free market prices. Until December the price in the London market mostly ranged between $38·50 and $41 per fine ounce and turnover remained moderate.[1] Prices in free markets were restrained by the knowledge that members of the gold pool had sold over $3,000 million of gold between November 1967 and March 1968, the greater part of it to private buyers who in many cases had been acquiring gold for speculative purposes or for hoarding. Throughout the year there was continued uncertainty about the disposal of South African gold production and how much of it would find its way on to the free markets.

In May 1968 the pressure on the French franc caused the price in London to rise sharply, to a peak of $42·60; however, it declined after 21st May – thanks in part to restrictions imposed by the French Government on movements of gold into and out of that country – subsequently remaining above $41 until towards the end of June. After the Basle meeting of central bank Governors in July the price fell sharply and it fluctuated mainly between $38 and $40 over the next few months. Early in October, at the time of the annual meeting of the Governors of the International Monetary Fund, there were reports of agreement on a formula for the disposal of South African gold; but these were quickly followed by the news that no agreement had been reached and on balance the price was not much affected.

1 When the London gold market reopened on 1st April 1968 there were two major changes of procedure: two fixings daily, at 10.30 a.m. and 3 p.m., replaced the single morning fixing; and prices were fixed in U.S. dollars and not, as before, in sterling.

Though prices rose during the currency crisis in November, increases were moderated by what seemed to be a ready supply through Zurich – it was assumed that South Africa was the source – whenever the price reached $40 per fine ounce. From December onwards, however, prices rose steadily, more because of a lack of sellers than of any great increase in demand. In London, the price reached $42·50 in January, and it went as high as $43·82½ in early March when the French franc came under pressure, falling to around $43 by the end of the month.

The balance of payments

Although real progress was made the result for 1968 as a whole was frankly disappointing: despite several factors making for a more favourable out-turn than in 1967 — notably the faster growth of world demand, the catching up of export shipments after the dock strikes and the deferment of debt service at the end of the year on the 1945-46 North American loans – the deficit on current and long-term capital account, at about £460 million, was not much reduced. The visible deficit alone increased from £635 million in 1967 to nearly £800 million.[1]

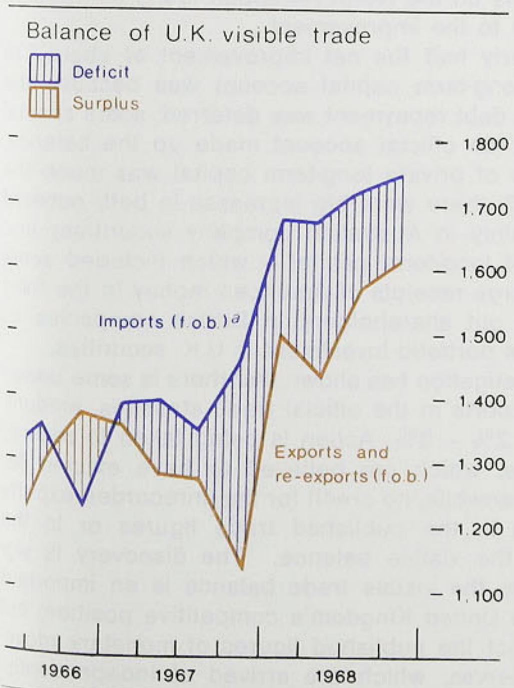
Nevertheless, there was a significant improvement between the two halves of 1968, the overall deficit declining from just over £425 million to little more than £30 million, after seasonal adjustment; the greater part of the improvement was on capital account, but the deficit on visible trade was also reduced.

In the first quarter the deficit on current and long-term capital account was large – despite a substantial rise in exports after the dock strikes – because imports also went up sharply and because of a large net outflow of private long-term capital. Around the middle of the year, however, imports seemed to have levelled out, while exports remained on a rising trend throughout the second half. Moreover, some special capital receipts put the overall balance temporarily into surplus in the third quarter.

By the fourth quarter of 1968 imports were 26% higher in terms of sterling values than before devaluation (taken as the average of the two middle quarters of 1967), increased volume accounting for 11%. In dollar terms there was some fall in prices and the increase in value was about 8%. To some extent the rise in volume – which compares with a growth of about 6% in U.K. domestic output – was a result of special circumstances, such as large imports of silver bullion much of it to be held in the United Kingdom for the account of overseas residents and not, therefore, a cost to the United Kingdom's reserves. Nevertheless, demand for imported goods increased rapidly after devaluation, notwithstanding their higher cost.

In sterling terms, exports were 28% higher over the same period, a rise in volume accounting for 15%; in dollar terms the rise in value was 10%. The fast growth of world demand in 1968 – a large part of it due to the continuing

Seasonally adjusted £ millions



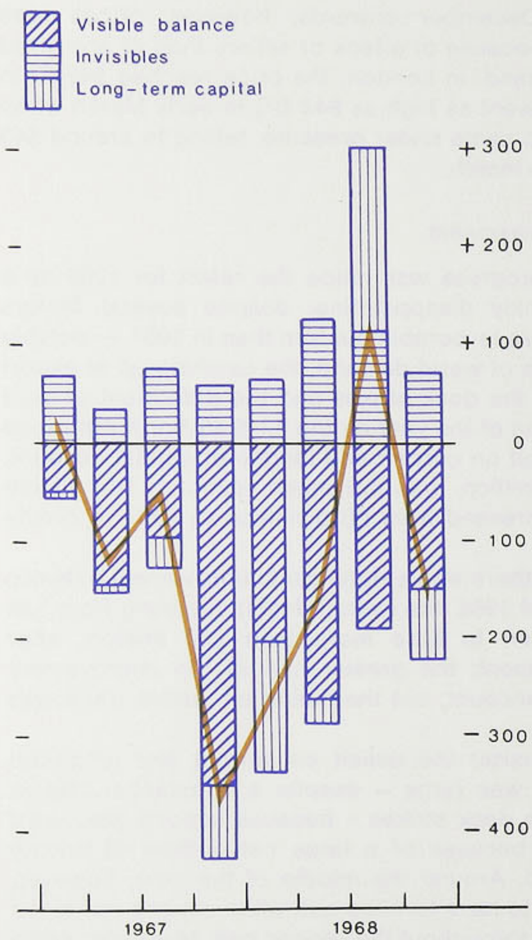
The visible trade deficit narrowed between the first and second halves of 1968, even though the first half benefited from the recovery after the 1967 dock strikes.

[a] Excluding deliveries of, and payments for, military aircraft and missiles from the United States.

1 The visible deficit includes payments for military aircraft and missiles purchased from the United States. These payments are partly financed by drawings on credits from the Export-Import Bank.

Seasonally adjusted £ millions

U.K. balance of payments



Despite the improvement in visible trade the balance of payments remained in deficit in 1968, except in the third quarter when there was a large (net) inflow of capital.

rapid expansion of the U.S. economy – was probably as important in promoting higher U.K. exports as was the competitive advantage afforded by devaluation. However, if the estimated effects of the dock strikes are eliminated, the United Kingdom appears to have at least maintained during 1968 its share of the volume of world trade – as compared with previous periods of rapid growth, when its share had declined.

Looked at in one way, the rise of 15% in the volume of exports between the middle of 1967 and the end of 1968 was barely sufficient to offset the increase of 11% in import volume as well as the deterioration in the terms of trade entailed by the change in the exchange rate in November 1967. Nevertheless, by the fourth quarter of 1968 the increase in the dollar value of exports since devaluation had caught up with that of imports; and since the competitive advantages of devaluation had not all been realised a further rise in exports seemed likely.

The surplus on invisible account was about £140 million greater in 1968 than in 1967. Part of it was a gain in sterling, not dollar, terms, because the change in the exchange rate enhanced the recorded value of the United Kingdom's overseas earnings. Also, the deferment of interest payments on the North American loans contributed over £35 million to the improvement.

Likewise, nearly half the net improvement of about £75 million in the long-term capital account was because the North American debt repayment was deferred; some special capital receipts on official account made up the balance. The net outflow of private long-term capital was much the same as in 1967: there were big increases in both outward investment (mainly in Australian company securities) and in the inflow of long-term capital – which included some exceptionally large receipts of American money in the third quarter to buy out shareholders in British companies as well as overseas portfolio investment in U.K. securities.

A recent investigation has shown that there is some under-recording of exports in the official trade statistics, amounting perhaps to 2% – 3%. Action is being taken to remedy the deficiencies, which are believed to have existed for some years; meanwhile, no credit for the unrecorded exports is being taken in the published trade figures or in the calculation of the visible balance. The discovery is significant because the visible trade balance is an important indicator of the United Kingdom's competitive position; but it does not affect the published figures of monetary movements and reserves, which are arrived at independently. An improvement in the visible trade balance implies a compensating and opposite change in the balancing item, which, although fluctuating, had on average been significantly positive over the years.

Monetary movements

The balance of monetary movements in 1968 was unfavourable to the extent of £518 million, and there was a negative balancing item of £60 million – compared with a positive balancing item of £215 million in 1967. Within the total of monetary movements, the United Kingdom's net liabilities in sterling, excluding those to the I.M.F., rose in aggregate by £164 million; but this was more than accounted for by an increase in the sterling counterpart of special facilities drawn upon by the United Kingdom to reinforce the official reserves. The increase in net sterling liabilities to countries outside the sterling area was as much as £296 million. However, excluding the effects of drawings on special facilities, net liabilities to these countries were sharply reduced: their holdings of sterling fell and there was also a substantial rise in claims by U.K. banks on private overseas residents, as more export credit was provided by the United Kingdom. Net liabilities in sterling to overseas sterling area countries also declined: U.K. claims on private residents in the sterling area increased and there was a fall in liabilities to official holders, most of it during the second quarter. Thereafter the decline in official balances ceased and, following the agreements on sterling holdings between the United Kingdom and other sterling area countries in September described later, balances were rebuilt.

Although the normal interest arbitrage comparisons were almost continuously unfavourable to the employment of short-term funds in the United Kingdom because the cost of forward cover was so high, the banks' net external liabilities in non-sterling currencies increased slightly during the year. (However, their foreign currency lending to U.K. residents – probably at least half of it to finance new investment overseas – increased quite sharply.) In terms of gross figures, the banks' external liabilities in foreign currencies rose by about £2,750 million in 1968 and their claims by £2,735 million – both at about double the rate of the previous year, for their operations in the euro-dollar market continued to expand rapidly. In the first half of the year (and particularly in the second quarter) the increase in business was mainly attributable to the U.S. banks in London which were seeking dollar deposits to relend to their head offices, whose liquid positions were under pressure. Growth in the second half, however, was mainly concentrated in deposits re-lent to Western Europe, where disturbed currency conditions prevailed.

Official liabilities in non-sterling currencies changed little on balance, increasing in the first half of the year – as aid in the form of foreign currency deposits was taken by the United Kingdom – and falling again in the second half as part of this aid and other foreign currency borrowing[1] was repaid.

The largest single element of official financing during the year was a drawing of £583 million from the I.M.F. in June under the standby facility of November 1967; the drawing, in various currencies, was used to reduce the United Kingdom's outstanding short-term indebtedness to central banks; on the other hand, repurchases and other transactions reduced the United Kingdom's liabilities to the Fund by £58 million.

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1 In the second half of the year, six instalments, totalling the equivalent of £54 million, were repaid to the Bank for International Settlements, and the equivalent of £43 million was repaid to three Swiss commercial banks.

As already indicated, the United Kingdom drew a substantial amount during the year under central bank credit facilities, the greater part of it in the first quarter – though drawings were also quite heavy in the fourth. In June the whole of what was then outstanding ($1,200 million, equivalent to £500 million) under the $2,000 million swap facility with the Federal Reserve Bank of New York was repaid out of the proceeds of the I.M.F. drawing; but in the latter part of the year it became necessary to draw again on the F.R.B. facility, and by the end of December $1,150 million (£480 million) was outstanding. Meanwhile, the first drawing was made on the new $2,000 million medium-term facility agreed at Basle in September. However, there were net repayments by the United Kingdom in the second half of the year of other special short-term facilities.

During the year the reserves fell by £114 million, the drop being concentrated in the final quarter.

International monetary developments

During 1968 the Federal Reserve System enlarged its reciprocal swap arrangements with the central banks of other countries to a total of $10,505 million. As noted in last year's *Report*, this included an increase of $500 million (to $2,000 million) in the swap facility with the United Kingdom – one of a number of additional credits extended by the other central banks participating in the Washington conference in March.

More progress was made during the year towards establishing Special Drawing Rights within the framework of the I.M.F. On 31st May the detailed amendments to the Fund Articles which are necessary to set up the new facility, together with certain other changes in the Fund's rules and practices, were approved by I.M.F. Governors. It remained for member countries to take appropriate legislative action. Before the amendments enter into force, they must be accepted by three fifths of the members, having four fifths of total voting power.

As noted earlier, Finance Ministers of the Group of Ten countries, meeting in Bonn from 20th to 22nd November, agreed to assist France, and central bank credit facilities totalling $2,000 million were made available. Ministers also agreed that ways and means of reducing the impact of speculative exchange movements on official reserves should be examined. Accordingly, central bankers from the Group of Ten countries and from Switzerland let it be known in February 1969 that they were ready to meet, should it appear necessary, to arrange additional facilities for dealing with any unusually large speculative movements; details would be worked out as the need arose, and the form and timing of assistance would vary with circumstances. During the year the problems of adjustment between surplus and deficit countries, and of the ways in which policies pursued by one country impinge on others, continued to be the subject of much international study.

From the United Kingdom's point of view, the major developments during the year were the conclusion of arrangements with the overseas sterling area countries relating to their official sterling holdings and the linked medium-term facility of $2,000 million extended by the Basle group of central banks. For some years before the devaluation of sterling a number of sterling area countries had gradually been reducing the proportion of sterling in their total foreign exchange reserves; however, the direct burden on the United Kingdom's gold and convertible currency reserves had been fairly small, mainly because only net accruals to national reserves were held in, or converted into, non-sterling currencies. After the devaluation of sterling, continued nervousness about the pound and about the stability of the international monetary system caused these countries to speed up the process of reserve diversification, and it became necessary to reduce the drain on the United Kingdom's resources. The method adopted was to negotiate first for a 'safety net' facility, which, by providing an assured means of financing unavoidable falls in the sterling balances, was designed to dispel most of the fears that had promoted the earlier decline.

Discussions in Basle between the central bank Governors who regularly meet there led to an agreement in principle in July 1968. The central banks and the B.I.S. were willing to provide jointly a facility on which the United Kingdom could draw during a three-year period in order to offset fluctuations below an agreed base level in the sterling balances of sterling area holders, both official and private; the net amount drawn on this facility at the end of three years would be repayable in instalments spread over five years, starting five years after the arrangements were concluded. Before finally agreeing, the central banks wished to be assured that sterling area countries were also willing to make some contribution to this stabilising process: first, by refraining from making excessive calls on the United Kingdom's reserves simply for the sake of diversifying their own, so that the Basle facility would be left to finance only unavoidable falls in their holdings such as those caused by balance of payments difficulties; second, by some of them placing part of their non-sterling reserves on deposit with the B.I.S. to help finance U.K. drawings on the facility.

A series of agreements was therefore negotiated between the United Kingdom and individual overseas sterling area countries: each of these countries formally undertook to hold a specified proportion of its total official external reserves in sterling, the proportion being based on the position at the middle of 1968; in return, the United Kingdom guaranteed the value, in terms of the U.S. dollar, of the country's official holdings of sterling that exceeded 10% of its total official external reserves – provided that the minimum sterling proportion was maintained throughout the period of the agreement. Thus, taking account of their existing gold and non-sterling currency reserves, together with guaranteed sterling, 90% of each country's reserves would be safeguarded, in one way or another, against any loss that might be directly entailed by a future devaluation of sterling against the U.S. dollar. By early September it was clear that agreement was sufficiently advanced for the necessary assurances to be given in Basle, and the conclusion of the $2,000 million facility was announced on 9th September. At the same time it was announced that the earlier, short-term, facility negotiated in June 1966 and subsequently renewed, which related to fluctuations in all overseas countries' sterling balances, would be progressively liquidated and ended by 1971.

The formal agreements with sterling area countries came into force on 25th September. Most are initially for three years, with a possible extension for two more years; some are for five years but provide for review in 1971; all are uniform in substance.[1]

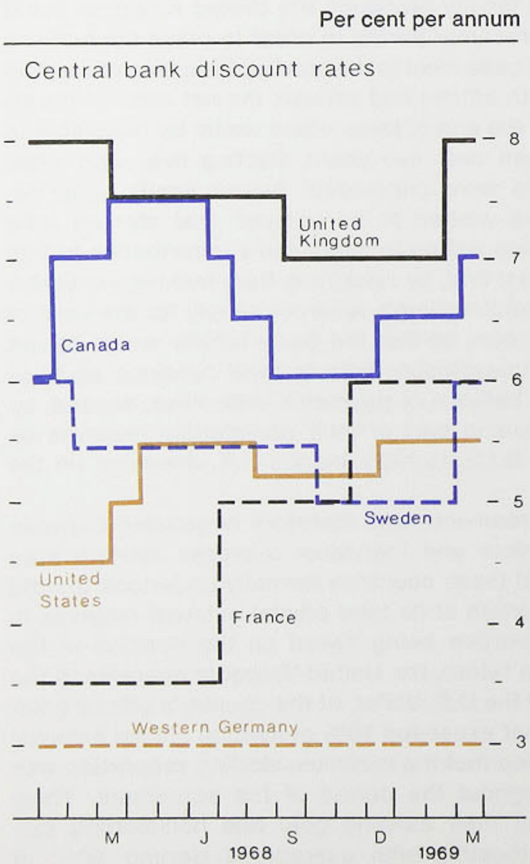
The arrangements helped to give some stability to the international monetary system. By the time the supporting facility had been concluded at Basle, the United Kingdom was entitled to draw some $600 million to finance earlier reductions in the sterling balances. Afterwards, as already noted, sterling holdings increased and this reduced the United Kingdom's net entitlement to draw on the facility.

World interest rates

The two main influences on short-term interest rates in 1968 were the severe disturbances in foreign exchange markets and monetary conditions in the United States. When the March gold crisis ended, short-term interest rates generally eased, but very soon pressures on rates within the United States were renewed and Federal Reserve discount rates, which had risen to 5% in March, were raised to $5\frac{1}{2}$% from 19th April. U.S. Treasury bill rates rose to a new peak towards the end of May, as did rates in the euro-dollar market where, as already mentioned, U.S. banks had become heavy borrowers.

Euro-dollar rates began to ease in June, partly because funds were flowing out of France – the Bank of France did not raise its discount rate until 3rd July.[2] The easier position in the euro-dollar market was helped by an improvement in sentiment in the United States, where the approval by Congress of a 10% surcharge on income taxes, coupled with substantial cuts in Federal expenditures, gave hope that pressures in the economy would soon moderate. Most key interest rates declined somewhat during the third quarter, despite the occasional flurries in foreign exchange markets. Federal Reserve discount rates were reduced by $\frac{1}{4}$% in August, and, as noted earlier, U.K. Bank rate was cut in September.

Seasonal pressures brought a tightening of the three months' euro-dollar rate late in September and soon afterwards U.S. domestic interest rates began to move upwards again as the economy continued to expand more strongly than expected. In November the currency crisis intensified pressures in the euro-dollar market. The Bank of France raised its discount rate to 6% on 12th November and French money rates went up sharply. The rise in euro-dollar rates was checked as the exchanges quietened down but soon the



Most central bank discount rates eased in the middle months of 1968; from November onwards they rose, however, as world monetary conditions became tighter.

1 The texts of the agreements are set out in two White Papers (Cmnd. 3834 and Cmnd. 3835); a third White Paper (Cmnd. 3787) gives more general information about the arrangements.

2 From $3\frac{1}{2}$% to 5%.

U.S. authorities were obliged to tighten monetary policy. Federal Reserve discount rates were raised again to 5½% soon after the middle of December, and the existing ceilings on rates offered by U.S. banks for time and savings deposits were maintained, thus exerting considerable pressure on their liquidity. The effects on interest rates in international centres were far-reaching: U.S. banks began to bid heavily for euro-dollar deposits and as soon as the seasonal flow of dollars into the market after the turn of the year had dried up rates rose rapidly. Measures taken independently by various Western European countries – including France, Western Germany and Italy – during the first quarter also contributed to the rise in rates by effectively restricting the supply of euro-dollars. The increase in euro-dollar rates was particularly sharp in February, when the rate for three months' deposits rose by over ¾%, to 8½%. The rise in U.K. Bank rate on 27th February was followed swiftly by increases in other central bank discount rates. Meanwhile, the determination of the U.S. authorities to contain inflationary pressures suggested that the upward tendency of international short-term interest rates would continue for some time.

International capital markets

Medium and long-term international issues on Continental capital markets amounted to some $5,000 million in 1968, or more than double the total for the previous year. Most of this remarkable increase was attributable to the programme to improve the U.S. balance of payments, which obliged U.S. corporations seeking additional finance for their overseas operations to borrow abroad. Because the euro-bond market is narrow and the cost of borrowing there on loan stock was relatively high, U.S. corporations raised most of their requirements through dollar-denominated convertible bonds, which investors found particularly attractive while the U.S. stock market was firm and foreign exchanges were unsettled.

Another reason for the rapid growth of borrowing was an increase in issues of Deutschemark bonds; some were made by borrowers who previously had raised substantial amounts in other currencies, including dollars, but were now attracted by relatively favourable long-term interest rates in the West German market – a consequence partly of Western Germany's continuing external surplus on current account and of the German authorities' deliberately easy monetary policy.

The rapid growth of borrowing on the Continent continued into 1969; in both January and February new issues were announced totalling almost half as much again as the monthly average for 1968, and the increase was largely accounted for by Deutschemark issues, many of them by public authorities and international organisations. On 14th February H.M. Government announced that the nationalised corporations would be encouraged to borrow abroad and that, where necessary, arrangements would be made to relieve them of the exchange risks involved in such borrowing. The Gas Council subsequently announced issues of bearer bonds in Western Germany totalling DM 300 million – two thirds through a public issue, the rest by private placing. The cost of the public issue and of the special exchange arrangement thereon left the Council with an effective saving of $\frac{1}{4}$% per annum on the amount raised, compared with the cost of borrowing through the National Loans Fund. (The Council itself bore the exchange risks on the private placing.)

Aid to developing countries

A notable event during the period was the establishment, under the auspices of the International Bank for Reconstruction and Development, of the Commission on International Development. Under the chairmanship of Mr. Lester Pearson, the Commission will study, in the light of past experience, the requirements of the poorer nations and methods of giving assistance to them. The United Kingdom welcomed the establishment of the Commission and has also continued to support the international approach to aid problems in the various consortia and consultative groups which co-ordinate assistance to less developed countries through the I.B.R.D. and the Organisation for Economic Co-operation and Development.

As in the financial year 1968/69, the planned disbursements under the United Kingdom's official aid programme in 1969/70 are to total £205 million, with certain items, including special assistance to Singapore and Malaysia and aid under the Rome Food Aid Convention, falling outside the basic programme; these items raise the total estimated expenditure to £227 million. The United Kingdom is contributing more to the International Development Association (under the second replenishment of I.D.A. funds), reflecting the increasing emphasis on aid extended multilaterally.

Commodity markets

Although by the end of February 1968 prices had generally settled down after devaluation, uncertainties persisted in several markets. The Bank's offer, noted in last year's *Report*, of up to £5 million in the form of unsecured five-year loans at 5% interest, to cover 80% of losses arising from devaluation on contracts expressed in currencies of the overseas sterling area, was accepted by eighteen firms to the amount of £3$\frac{1}{2}$ million. By the end of February 1969 repayments had reduced the total of such loans outstanding to just over £3 million. No help was given to traders who after devaluation faced demands from suppliers for supplementary payments on contracts expressed in sterling. There were not, to the Bank's knowledge, any bankruptcies as a result of devaluation losses, though many traders had a long way to go to recover their positions. Moreover, confidence in trading in sterling had not been fully restored and there was widespread concern about the lack of availability of forward cover in currencies of the overseas sterling area. These problems are by no means yet resolved, but the two major currency crises during 1968 caused no undue disturbance in most commodity markets.

The markets for silver and cocoa were particularly active. The price of silver rose to a peak of 259 pence per fine ounce in June as speculators, mainly from overseas, bought in

London. To meet the demand, imports of bullion rose to £114 million, from £36 million in 1967. Much of this silver is likely to remain in the United Kingdom even though owned by non-residents. The turnover on the London cocoa terminal market exceeded all records, as an acute shortage developed during the fourth season of poor crops, and the price reached £460 per ton. Both markets had quietened down by the end of the period under review.

The domestic economy

Post-devaluation strategy

The devaluation of sterling in November 1967 provided an incentive and a need to divert additional productive resources to exports and to import saving; other measures were necessary to change the pattern of demand so that the additional resources were made available, and to leave room for the increase in private fixed investment needed to support the growth of exports in the longer term. Meanwhile the Government aimed to achieve quickly a large and continuing balance of payments surplus. As was noted in last year's *Annual Report*, the measures to restrain domestic demand – public and private – announced at the time of devaluation were soon supplemented: in January 1968 plans to reduce the rate of growth of public expenditure were announced, and in March a severely deflationary Budget was introduced with the intention of curbing consumer spending.

As a result of these measures, gross domestic product was expected to grow in real terms[1] at an annual rate of a little over $3\frac{1}{2}$% during 1968 – more or less in line with the estimated average growth of productive potential – with exports of goods and services increasing at an annual rate of 13%. Room was to be made for the rise in exports by a fall of about 2% in the volume of personal spending. In short, over 75% of extra output between the second halves of 1967 and 1968 was to be used to increase exports and to displace imports.

As was noted earlier in this *Report*, the volume of exports grew strongly in 1968 – a good deal faster, in fact, than the forecast. Output, too, expanded more than was expected. Yet the post-devaluation strategy was frustrated in two important respects: consumer spending (which accounts for over one half of total demand) increased instead of declining; and this contributed to – though it by no means wholly accounted for – a sharp rise in imports where no more than a modest increase had been forecast. In consequence only some 50% of extra output, instead of over 75%, went to improve the balance of payments.

The course of home demand

The many warnings that devaluation would raise consumer prices and that the 1968 Budget would be unusually severe almost certainly contributed to a very sharp increase in

1 At 1958 prices.

personal spending in the first few months of the year. There is little doubt, either, that the surge of anticipatory buying had two unfortunate effects: it generated additional imports and it further damaged confidence in sterling.

After the Budget personal spending fell back as sharply as it had risen earlier, but in the second half of the year it again began to expand, as the rate of saving fell; so much so that by late October it was clear that the course of consumer demand had diverged markedly from the path charted at the time of the Budget.

From 2nd November, therefore, terms control was tightened on hire purchase contracts covering a wide range of goods. A week or two later the crisis in foreign exchange markets, which brought renewed pressures on sterling, hastened the need for additional measures and these were announced on 22nd November: through the maximum permitted use of the tax regulator, existing rates of purchase tax and the duties on alcohol, tobacco, petrol and oil were surcharged by 10%; the banks and finance houses were asked to reduce their lending for less essential purposes; and an import deposit scheme was introduced. By the end of the year consumer spending had begun to respond to these measures and was rising less quickly. However, between the second halves of 1967 and 1968 spending had risen by about 1% in real terms instead of falling by the 2% which was intended.

As for the other components of home demand, fixed investment by private industry as a whole rose by about 10% during 1968. In the first half of the year there was only a modest rise, and none of it was attributable to manufacturing industry – no doubt because confidence had been badly shaken by events and because it took time to adjust to the changed circumstances after devaluation; but in the second half manufacturing investment rose strongly and it was expected to continue rising in 1969 – even after allowing for fresh uncertainties in the home market as a result of the November measures. It was significant that the number of firms working to capacity early in 1969 was reported to be the highest for four years.

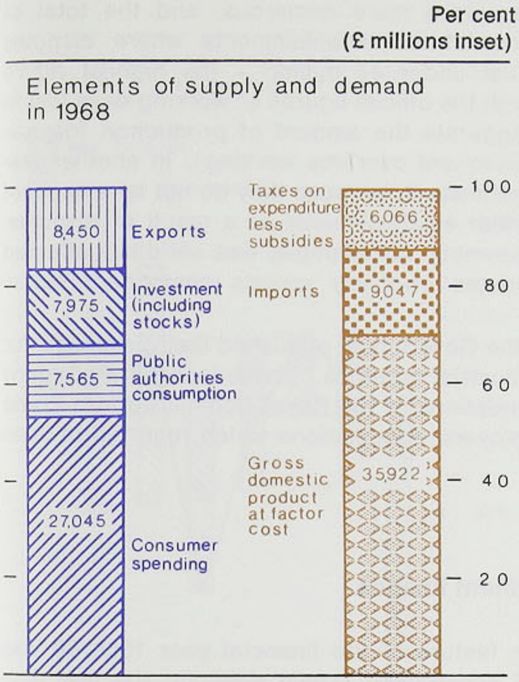
Public expenditure – current and capital – was successfully held down to the planned rate of growth during 1968. The measures announced in January 1968 to reduce the rate of growth were reviewed in last year's *Annual Report*; as a result of these and of earlier cuts in programmes, public expenditure as a whole was expected to rise by 4¾% in real terms in the financial year 1968/69,[1] with a further increase of no more than 1% in 1969/70. In the event the increase in 1968/69 was less than 4¾%.

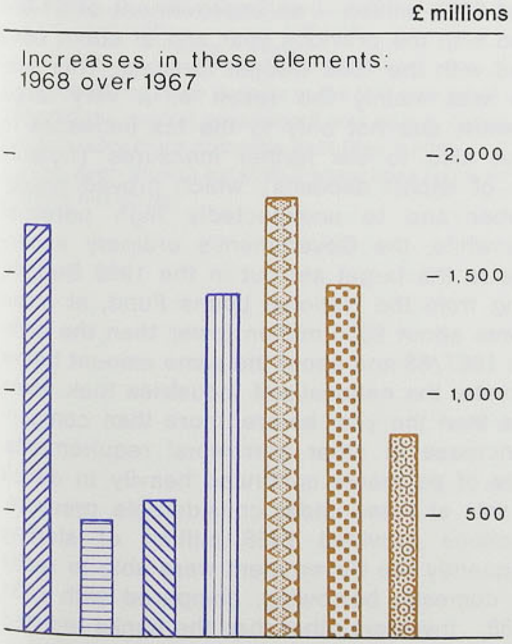
On the other hand, the rate at which manufacturers and others added to their stocks was a good deal faster than expected.

Output, employment and productivity

Because of the sharp rise in consumers' expenditure, home demand in aggregate was considerably greater in 1968 than

1 If payments of investment grants, selective employment tax refunds and regional employment premiums are excluded – so as not to distort the comparison with 1967/68 – the forecast increase was 3¾%, rather than 4¾%.





Despite a large increase in exports, buoyant consumer spending took a substantial part of increased domestic production in 1968 and drew in additional imports besides.

had been forecast; as exports too proved to be more buoyant, total demand – in terms of constant (1958) prices – rose by $4\frac{1}{2}$% during the year against an expected $2\frac{1}{2}$%. But as imports met considerably more of the demand than had been looked for, gross domestic product grew (at 4%) only a little faster between the second halves of 1967 and 1968 than the forecast. Industrial production – which accounts for about half of total domestic output – increased by some 5%.

Employment fell during the year, so that output per man rose faster than total output. Although productivity usually advances quickly at times when output begins to pick up and spare capacity is brought into use, its relatively rapid growth in 1968 was particularly encouraging and, in consequence, pressures on industrial costs, though strong, were not as great as they would otherwise have been, so that the rise in prices was moderated.

In March 1969 the number of wholly unemployed, seasonally adjusted, was a little over 2% of total employees – and only slightly lower than twelve months earlier. However, the shortage of labour early in 1969 – especially in the skilled categories – was probably greater than the figures of unemployment suggested. Other relevant indicators, namely the numbers of unfilled vacancies notified by employers and the extent of overtime working, would in the past have been consistent with unemployment of between $1\frac{1}{2}$% and $1\frac{3}{4}$%, rather than of over 2%. This can probably be explained in part by the temporary response to the change in the pattern of demand – labour having perhaps become scarce in exporting industries but in surplus elsewhere – and it may also have owed something to the effects of the Redundancy Fund, which has allowed workers to be more selective in finding new jobs and has probably made employers readier to stream-line their labour forces.

The Government's incomes policy continued to require that all increases or other significant improvements in personal incomes be justified by prescribed criteria. Beginning in March 1968, settlements – whether national or local – were not to provide for pay increases of more than $3\frac{1}{2}$%, expressed as an annual rate, unless justified on the grounds of substantially greater productivity and increased efficiency.[1] Subsequently, new legislation was introduced to extend the Government's powers to delay awards.

In fact, hourly wage rates (in aggregate) rose by over $4\frac{1}{4}$% between March and December while average weekly earnings, seasonally adjusted, increased by more than $5\frac{3}{4}$%. Between the fourth quarter of 1967 and the fourth quarter of 1968 earnings went up by 8%; however, this high rate of growth was accompanied by a marked increase in productivity – which, as noted above, contributed in turn to the containment of price increases. According to the national income figures, the total wage and salary bill was some 6% higher in the fourth quarter of 1968 than a year earlier – the increase being almost matched by the rise in consumer prices.

1 "Productivity, prices and incomes policy in 1968 and 1969" (Cmnd.3590).

The year was marred by a big increase in industrial disputes. Stoppages were more numerous, and the total of working days lost at the establishments where disputes occurred was just under 4¾ million – the highest figure since 1962. Though the official figures of working days lost in one respect exaggerate the amount of production forgone (because of subsequent overtime working), in another respect they underestimate it, because they do not take account of time lost in other establishments as a result of disputes. Motor vehicle assembly, for example, was seriously affected in 1968 by disputes involving various component manufacturers.

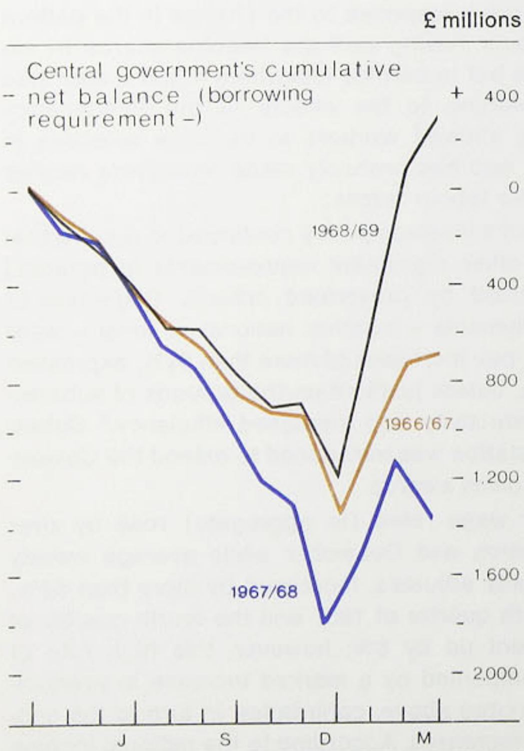
Early in 1969 the Government published their proposals for the reform of industrial relations.[1] These incorporated many of the recommendations of the Royal Commission on Trade Unions and Employers' Associations which reported in June 1968.

Central government finance

The outstanding feature of the financial year 1968/69 was that the central government repaid debt, for the first time since 1962/63 – or, to any appreciable extent, since 1950/51.[2] The central government's net balance in 1968/69 was a surplus of £273 million – an improvement of £1,604 million compared with the previous year and of about £640 million compared with the 1968 Budget forecast. This substantial change was mainly the result of a very large increase in revenue, due not only to the tax increases in that Budget, but also to the further measures (notably the introduction of import deposits) which proved necessary in November and to unexpectedly high personal spending. Meanwhile, the Government's ordinary expenditure was close to the target set out in the 1968 Budget; and their lending from the National Loans Fund, at some £1,425 million, was about £320 million lower than the comparable figure in 1967/68 and about the same amount below the Budget estimate: the nationalised industries took some £475 million less than the year before, more than compensating for an increase in other borrowers' requirements.

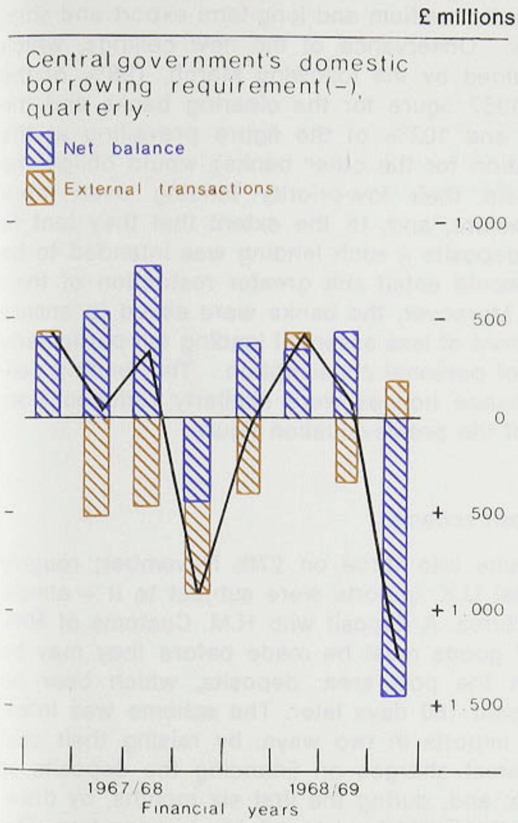
As the balance of payments continued heavily in deficit and the pound was at times under considerable pressure, external transactions provided £456 million of sterling finance. Consequently the Government were able to repay £729 million of domestic borrowing, compared with £131 million in 1967/68. Investors other than the banks reduced their holdings of debt and of notes and coin by £456 million, so that the holdings of the banks and discount houses fell by £273 million.

Notes and coin with the banks rose by £127 million and net claims on the Government by the Banking Department of the Bank of England increased by £177 million; but the



The net balance was in surplus in 1968/69 – for the first time in six years – mainly as a result of a very large increase in revenue. There was an improvement in the net balance of as much as £1,604 million compared with the previous year.

1 "In place of strife: a policy for industrial relations" (Cmnd. 3888).
2 In 1962/63 moreover, in contrast to 1968/69, local authorities had very limited access to central government finance; and in 1950/51 the central government, though meeting the requirements of local authorities, were lending only comparatively small amounts to the nationalised industries.



Because of the large surplus in the last quarter of 1968/69 the central government was able to repay considerably more domestic debt than a year earlier, even though external transactions required sterling financing.

discount houses and, to a lesser extent, the banks, were heavy sellers of gilt-edged except in the third calendar quarter. As a result their Treasury bill holdings were reduced by only £34 million.

Investors outside the banks, too, sold a substantial amount of gilt-edged. They also ran down their national savings – the decline in which had almost halted in 1967/68 – underlining the relative unattractiveness of most types of these assets; only their holdings of premium savings bonds continued to rise, aided by the introduction of a weekly £25,000 prize. However, persons and companies provided some net finance to the Government through tax reserve certificates – the year being one in which their tax liabilities were much increased – and notes and coin in the hands of the public rose over the year by £69 million.

Main sources of credit

Credit restriction

At the time of devaluation the banks were asked to hold down their lending for most purposes to the level then current, allowing for seasonal fluctuations. The ceiling applied to all sterling lending to the private sector and to borrowers abroad, except for fixed rate finance for exports and other lending specifically identified with the finance of export transactions, and fixed rate finance for shipbuilding. Within the ceiling, priority was to be given to those categories of lending which were necessary to improve or sustain the balance of payments. Equivalent restrictions were applied to lending by hire purchase finance houses.

In May 1968 credit restrictions were modified so as to bring all sterling lending by the banks to the private sector and to borrowers abroad, including their previously exempt lending, within new overall ceilings: such lending was not to exceed 104% of the November 1967 figure. Within the new ceilings, banks were asked to give priority to lending directly related to improving the balance of payments, and to make room for it by reducing lending to non-priority borrowers more severely than hitherto; they were asked in particular to restrict credit associated with the import of goods for domestic consumption or for stock accumulation. No change was made to the November 1967 ceiling in the case of the finance houses, who provide relatively little export finance. At the end of August the Bank reminded the various groups of banks that the growing needs of priority borrowers would have to be met from further reductions in low priority categories.

By late November it was clear that credit for less essential purposes would have to be further restrained; such restrictions were announced on 22nd of that month, along with the introduction of the import deposit scheme. The London clearing banks, the Scottish banks and the other banks were asked to bring or to keep their lending in sterling to domestic private borrowers and to overseas borrowers within new, lower ceilings, which, however, would no longer include their lending at a fixed rate ($5\frac{1}{2}$%) under the special schemes for medium and long-term export and shipbuilding finance. Observance of the new ceilings, which were to be attained by the following March, (98% of the mid-November 1967 figure for the clearing banks and the Scottish banks and 102% of the figure prevailing at the time of devaluation for the other banks) would oblige the banks to restrain their low-priority lending even more severely than before; and, to the extent that they lent to finance import deposits – such lending was intended to be very limited – would entail still greater restriction of their other lending. Moreover, the banks were asked to ensure that the curtailment of less essential lending fell particularly on the finance of personal consumption. The lending ceilings for the finance houses were similarly reduced from 100% to 98% of the pre-devaluation figure.

The import deposit scheme

The scheme came into force on 27th November; roughly one third of total U.K. imports were subject to it – almost wholly manufactures. A deposit with H.M. Customs of 50% of the value of goods must be made before they may be withdrawn from the port area; deposits, which bear no interest, are repaid 180 days later. The scheme was intended to reduce imports in two ways: by raising their cost because of interest charges on financing the deposits or interest forgone; and, during the first six months, by drawing off some of the liquid funds available to importers. The banks are required to be very restrictive about lending for import deposits except where the imports clearly contribute to activities having a high national priority.

The scheme was reinforced on 18th December, when it was announced that U.K. importers would no longer be allowed to borrow foreign currency, or sterling owned by overseas residents outside the sterling area, in order to pay deposits. During the first few weeks of the scheme permission for such borrowing was given freely, smoothing its introduction; but it would not have been appropriate to allow the continued use of such facilities to frustrate the intended reduction in imports.

By the end of the financial year import deposits had contributed some £340 million to central government receipts – a monthly rate of accrual of roughly £85 million. The extent to which the scheme reduced imports during this period is less easy to calculate; for one thing, the burden for U.K. importers was undoubtedly eased through overseas associates and suppliers providing increased credit or paying deposits direct to H.M. Customs – a development which no doubt contributed to the stronger tone of sterling in the early months of 1969.

The banks and discount houses

Despite the central government's surplus and the finance made available to it from external transactions, domestic deposits with the banking sector increased by £880 million (or 7½%) during the year ended in March 1969, reflecting in part a reduction in investors' holdings of marketable government debt and in part an increase in bank lending to private residents. Advances to domestic private borrowers rose by about £425 million. As noted earlier, foreign currency lending to U.K. residents for investment overseas was probably substantial, and there was also a sizable increase in fixed rate lending for export and shipbuilding finance. Lending to local authorities increased by about £340 million, but, as already mentioned, central government debt held by the banks and discount houses was reduced by some £275 million.

The *London clearing banks'* net deposits rose by no more than £245 million, or 2½%, during the year to mid-March 1969, compared with £830 million the previous year. This was rather more than the increase in their advances (£200 million) nearly all of which was to private borrowers, both domestic and overseas. Their investments declined by about £130 million, mainly reflecting their net disposal of gilt-edged in the early months of 1969, but their total liquid assets (notably call money and cash) rose by slightly more than this. In March 1969 the combined liquidity ratio of the clearing banks was 29·4%, as compared with 28·7% a year earlier.

Between mid-November and mid-March the clearing banks' advances, other than to the nationalised industries, rose by as much as £330 million – or by about £150 million more than the seasonal expectation. Virtually the whole of this was in lending for purposes exempt from restriction; nevertheless, in mid-March restricted lending – although declining – was still above the new limit (98% of the mid-November 1967 figure) to which the banks had been asked to reduce it.

By late February it was already clear that the banks' efforts to secure reductions of less essential borrowing were unlikely to take effect in time to bring them below the ceiling by mid-March; moreover, the cost of bank borrowing was by then well exceeded by that of most other forms of finance. It was therefore decided that the official policy of credit restraint should be supported by an increase in Bank rate and in those interest rates directly linked to it – which include the banks' lending rates. Thus, as noted earlier, Bank rate was raised by 1% on 27th February. At the same time the Chancellor of the Exchequer reminded the banks of the great importance that the Government attached to the achievement of the required reduction in lending as soon as possible, and the banks, while emphasising the difficulties, undertook to intensify their efforts. In the month to mid-March the rise in advances, other than to the nationalised industries, was some £35 million less than the normal seasonal movement.

Net deposits with the *Scottish banks* rose by about £55 million (5½%) during the year to mid-March 1969. Their advances changed little in total over the year, and by the end their restricted lending was at the ceiling. Their liquid assets rose by £25 million – mainly call money, other than with the discount market, and balances with other banks – and they bought over £35 million of gilt-edged.

Sterling deposits of U.K. residents, other than banks, with the *accepting houses, overseas banks and other banks* continued to expand strongly, increasing by nearly £400 million (24%) during the year ended in March. Sterling deposits of overseas residents, however, declined by about £110 million, reflecting the withdrawal of funds from London. These totals do not include sterling certificates of deposit:[1] a market in such certificates opened on 28th October and by the end of March these banks had issued some £260 million of certificates, about half to holders outside the banking sector. The banks' sterling advances to the U.K. private sector increased during the year by a little over £140 million, but their lending in sterling to overseas residents declined, and at the end of March their restricted sterling lending was in aggregate somewhat below the ceiling that they had been asked to observe. Their lending to local authorities (which is exempt from the ceiling) increased over the year by more than £360 million. The banks were net sellers of marketable government debt, slightly reducing their holdings of Treasury bills and running down their gilt-edged holdings by as much as £118 million. But they increased their money at call and they expanded their lending in the sterling inter-bank market by £580 million. Their sterling deposits from other banks (through the inter-bank market) rose by about £440 million.

The *discount market's* assets fell in total by about £100 million during the year ended in March, and their composition altered quite markedly. The houses sold almost £320 million of gilt-edged and, overall, were not able to increase their Treasury bill holdings during the second half of the period because of the shortage of bills. However, their holdings of commercial bills rose substantially as the banks reduced their normal bill purchases from the market in their efforts to keep their own total sterling lending within the required ceilings. The discount houses borrowed some £95 million more at call from the clearing banks, but slightly reduced their borrowing from the other banks collectively. The net increase in their borrowing from the banks, however, was outweighed by the fact that in November the Bank ceased to lend on overnight terms to the market; at 30th March 1968 such lending had totalled £210 million.

In May 1968 those houses which have no financial interests in firms of foreign exchange and currency deposit brokers were given exchange control permissions to run books in bills denominated in foreign currencies. When the banks introduced sterling certificates of deposit towards the end of October 1968, the discount houses established a secondary market in which the certificates, once issued, may be readily traded.

In October the *National Giro*, which is managed by the Post Office, began operations. By the end of March deposits totalled £16 million, of which £7 million had been attracted from members of the public and from industry. The Giro employed these funds mainly in short-term assets, in

1 A certificate bears witness that a deposit of a round amount – the minimum is £50,000 – has been made at the London office of the issuing bank and will be repaid to bearer, with interest, on a specified date – which may be three months or more from the date of deposit.

particular money at call with the discount market and temporary loans to local authorities; but it is also authorised to invest in other forms of public sector debt.

Hire purchase finance houses

The total of outstanding hire purchase debt increased until the 1968 Budget – bringing the houses' lending in aggregate well above the ceiling which they had been asked to observe in November 1967. During the spring and summer consumer spending slackened and the usual seasonal rise in the houses' aggregate lending did not take place; however total debt outstanding remained several percentage points above the ceiling.

The tightening of terms control on 2nd November restored broadly the same degree of restraint as in July 1966. For cars the minimum deposit was raised from $33\frac{1}{3}$% to 40%, with a maximum repayment period of twenty-four months instead of twenty-seven; and for most other durable goods the new minimum deposit became $33\frac{1}{3}$% (formerly 25%) and the maximum repayment period twenty-four months instead of thirty. These measures, combined with the increased taxation announced on 22nd November, brought some reduction in the amount of new credit extended by the houses, and the total of outstanding debt fell a little. In February the Bank reminded houses which were above the limit that they must reduce their lending without delay. At the end of March, however, the houses collectively had still not quite come down to the 98% ceiling introduced in November.

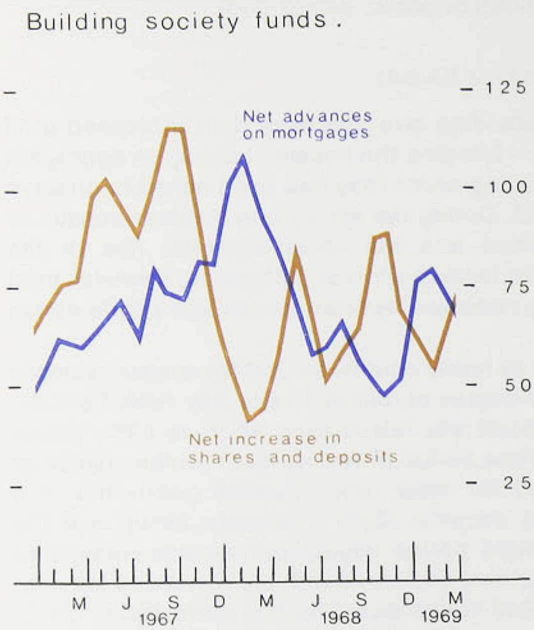
For most of the year finance houses paid slightly more for short-term deposits than did local authorities, though the margin disappeared in the summer when the houses were not bidding actively for funds. Rates for three months' deposits rose to over $8\frac{1}{2}$% in the early part of the year, and then gradually declined to $7\frac{1}{8}$%-$7\frac{1}{4}$% in November. From then on the general scarcity of funds, rather than the houses' need for them, pushed up the three months' rate, to $9\frac{1}{8}$%-$9\frac{3}{8}$% by the end of March.

Building societies

The reduction in Bank rate on 21st March 1968, together with the slackening in consumer spending after the Budget, helped to improve the net inflow of building society funds, which had been falling since the autumn of 1967. Nevertheless, receipts remained too low to meet the expected demand for mortgages, so from 1st May the societies increased the interest rates paid to investors from $4\frac{1}{4}$% to $4\frac{1}{2}$%, tax paid. They also raised mortgage rates charged to new borrowers from $7\frac{1}{8}$% to $7\frac{5}{8}$%; existing borrowers began to pay the new rate later in the year.

For a time the inflow of funds improved a little, but by July net receipts had again fallen below net advances, with a consequent drop in the societies' liquidity ratios. There was some improvement in the last quarter, helped, no doubt, by the reduction in Bank rate on 19th September and by the more uncertain course of equities, but by the beginning of

Seasonally adjusted £ millions



The improvement in the inflow of funds to building societies, following the increase in their interest rates in May 1968, was not sustained; further increases in rates were announced in March 1969.

1969 the inflow was again lower than advances. Early in the new year some societies were obliged to ration mortgages, for rising interest rates and heavy transfers of funds to the central government further reduced net deposits.

On 14th March, therefore, it was announced that the tax paid rate to investors would be raised to 5% from 1st April, while the rate for new mortgages would become 8½%. The wider margin between the societies' borrowing and lending rates was intended to help offset the effects of increases in corporation tax, in selective employment tax, and in the amount of income tax payable by the societies at the composite rate – which would go up with the increased rate of interest. The composite rate for the financial year 1968/69 was 6*s*. 5*d*. in the pound, an increase of 2*d*. over the previous year.

In October the Inland Revenue raised from £5,000 to £10,000 the limit in any one society on individual holdings on which interest is taxable at the composite rate. The relaxation may have had some marginal effect in increasing the inflow of funds to the societies.

Money and capital markets

Bill markets

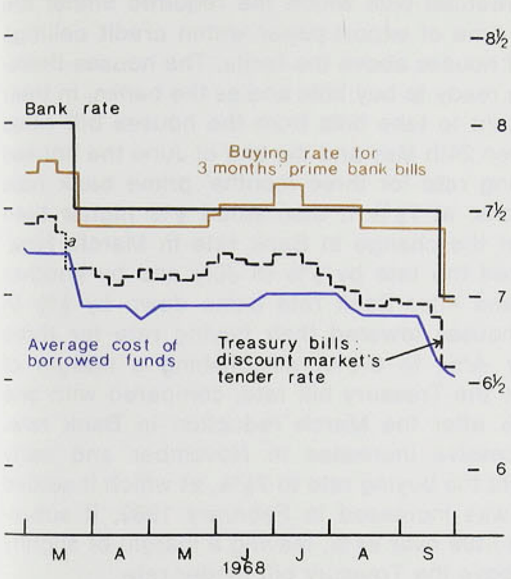
The reductions made by the discount houses in their tender rate after Bank rate was cut on 21st March 1968 brought the tender rate down to $7\frac{1}{16}$% ($\frac{7}{16}$% below Bank rate) by early April. Thereafter, the number of Treasury bills on offer increased slightly, while expectations of a fall in interest rates diminished, so that the houses reduced their bids, allowing the rate to rise. During this time money generally remained short; but the assistance given by the Bank was seldom heavy and it was more frequently in the form of bill purchases than during the early months of 1968 when the Bank had lent heavily and continually at market rates.

The pressures on sterling in May and June induced the houses to keep their tender rate up – at around 7¼% – but the generally better tone in July and the downward trend of interest rates at the time brought some reduction, the houses raising their bids gradually in face of increased competition for bills. A shortage of funds at the half-year end when the banks were calling in money continued into July, as the authorities were selling a substantial amount of gilt-edged. Similarly, gilt-edged sales also made shortages more acute in early August and just after the middle of September. However, though the Bank lent a good deal at market rates at this time, it was still less than earlier in the year.

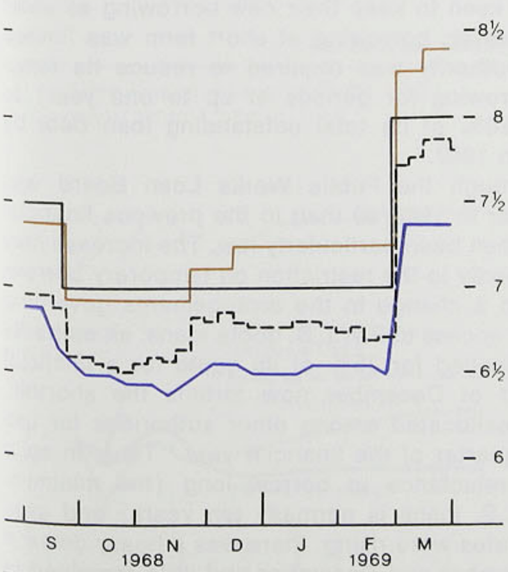
Meanwhile, expectations of a cut in Bank rate had revived and in face of keener outside competition the discount houses raised their tender bid sharply on 9th August, bringing the rate down from just under $7\frac{1}{16}$% to below $6\frac{15}{16}$%. After a short set-back brought about by disappointing trade figures and the crisis in Czechoslovakia the market's hopes were again raised, for Federal Reserve discount rates had been

Per cent per annum

Bank rate and discount market's rates, March – September 1968



September 1968 – March 1969



Though the discount market increased its tender rate in November, the houses still found conditions fairly easy until Bank rate was raised on 27 February. However, as credit restrictions were tightened the houses were obliged to raise their buying rates for commercial bills.

a There was no tender on 15 March 1968.

cut and there was confirmation in early September of the Basle agreement to assist sterling. The reduction in Bank rate shortly afterwards caused the houses to bring their tender rate down to just under $6\frac{5}{8}$%. The average cost of the houses' borrowed funds, which had stood at about $6\frac{13}{16}$% since early March, was soon reduced to about $6\frac{1}{2}$%.

Conditions were generally easier for the houses after September; and in November they substantially reduced their bond portfolios and so improved their liquidity. When shortages did occur, notably when sterling was under pressure late in November, they were virtually all relieved by the Bank through purchases of bills; overnight lending by the Bank was smaller and less frequent than earlier in the year – indeed, as mentioned earlier, there was no lending after November. After the middle of December, the settlement of foreign exchange transactions turned for a time in the market's favour, and easier conditions persisted into the earlier part of January, the Bank on occasion absorbing quite large surpluses by sales of bills. In November the houses allowed their tender rate to rise, but outside competition had become weak and they generally obtained a reasonable proportion of their applications. Even so, the quantity of bills that they secured was not large because of the smallness of the amounts offered for tender. During December, therefore, the houses reduced their tender rate – despite the rise in dollar interest rates – and by the end of the year it had fallen below $6\frac{13}{16}$%.

After the early part of January funds became scarcer, though the situation was eased to some extent by continuing official purchases of short-dated stocks in the gilt-edged market, by the smallness of the tenders and by the maturities of the Treasury bills which the Bank had earlier sold to the houses. The houses made little change in their tender rate in January; their bill holdings had grown but they also realised that they would soon need to sell bills back to the Bank and that maturities would exceed their take-up of bills. As they sold bills the houses became readier to see the rate fall, and by the middle of February it had declined to just over $6\frac{11}{16}$%. The increase in Bank rate from 7% to 8% on 27th February – which was not foreseen by the market – caused the houses to raise their tender rate by a full 1%; by the end of March it stood at nearly $7\frac{13}{16}$%.

By the middle of February the Treasury bill holdings of the discount houses and banks had fallen to a very low figure. Maturities of bills substantially exceeded issues, with no more than £100 million on offer at succeeding tenders. Even so, market shortages, principally on account of heavy revenue transfers to the central government, were so large that the Bank's purchases of Treasury bills bit deeply into dwindling holdings. It therefore seemed to the Bank unwise to rely for the rest of the revenue quarter on Treasury bill purchases alone to relieve market shortages. As they were unwilling to resume large and persistent overnight lending at market rates, and saw no need for penal lending, they decided that after buying as many Treasury bills as practicable they would, exceptionally, stand ready to buy substantial quantities of commercial and local authority bills at market rates. During the last two weeks of February and the first week of March the Bank bought prime bank bills at market rates on several occasions.

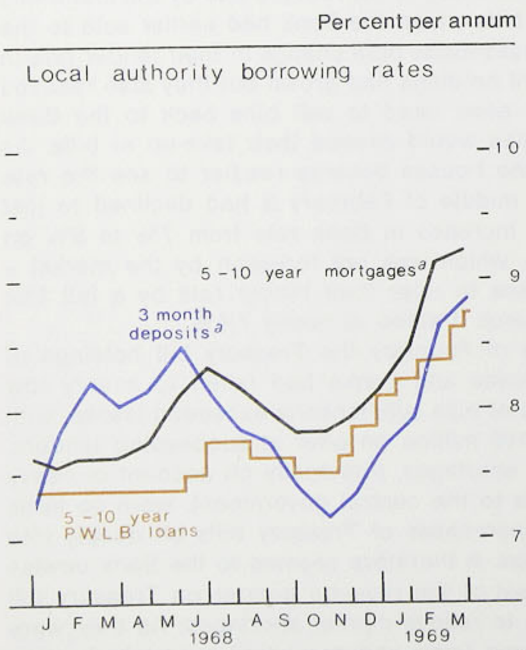
Even before the change in credit restrictions on 23rd May 1968 the discount houses had difficulty in keeping their holdings of commercial bills within the required limits; the inclusion at that time of export paper within credit ceilings took a number of houses above the limits. The houses therefore became less ready to buy bills and as the banks, in their turn, were reluctant to take bills from the houses bill rates hardened. Between 24th May and the end of June the houses raised their buying rate for three months' prime bank bills on three occasions; at $7\frac{5}{8}\%$ it then stood $\frac{1}{4}\%$ higher than immediately after the change in Bank rate in March. However, they reduced the rate by $\frac{1}{8}\%$ in July and by another $\frac{1}{8}\%$ in August; and after Bank rate came down by $\frac{1}{2}\%$ in September the houses lowered their buying rate for three months' bills by $\frac{7}{16}\%$, to $6\frac{15}{16}\%$, establishing a margin of about $\frac{5}{16}\%$ above the Treasury bill rate, compared with one of just over $\frac{3}{16}\%$ after the March reduction in Bank rate. Thereafter, successive increases in November and early December brought the buying rate to $7\frac{1}{4}\%$, at which it settled until Bank rate was increased in February 1969; it subsequently rose to a little over $8\frac{3}{8}\%$, leaving a margin of slightly more than $\frac{1}{2}\%$ above the Treasury bill tender rate.

Local authorities

Interest rates were high throughout the period, and local authorities were keen to keep their new borrowing as short as possible. However, borrowing at short term was limited because each authority was required to reduce its temporary debt (borrowing for periods of up to one year) to not more than 20% of its total outstanding loan debt by the end of March 1969.

Borrowing through the Public Works Loan Board was appreciably larger in 1968/69 than in the previous financial year, but it had then been particularly low. The increase may have been due partly to the restriction on temporary borrowing and partly to a change in the arrangements governing local authorities' access to P.W.L.B. quota loans: an authority which has not applied for 75% of its quota for a financial year by the end of December now forfeits the shortfall, which may be reallocated among other authorities for use during the last quarter of the financial year.[1] Thus, in spite of the general reluctance to borrow long (the minimum period for P.W.L.B. loans is normally ten years) and even though interest rates were rising, there was a heavy demand for loans in November and December and little remained to be reallocated. From November onwards the P.W.L.B. raised its lending rates sharply and by the end of March rates for quota loans stood at $8\frac{3}{4}\%$-9%, some $1\frac{1}{2}\%$ above the range twelve months earlier. Nevertheless, quotas had been reasonably fully utilised by the end of the financial year, in contrast to March 1968 when over £140 million was left undrawn.

1 The object of the new rule is to enable authorities wishing to take full advantage of P.W.L.B. lending to benefit from quotas not required by other authorities.



The cost of local authority borrowing declined during the summer but rose very sharply from November onwards.

a End-month rates.

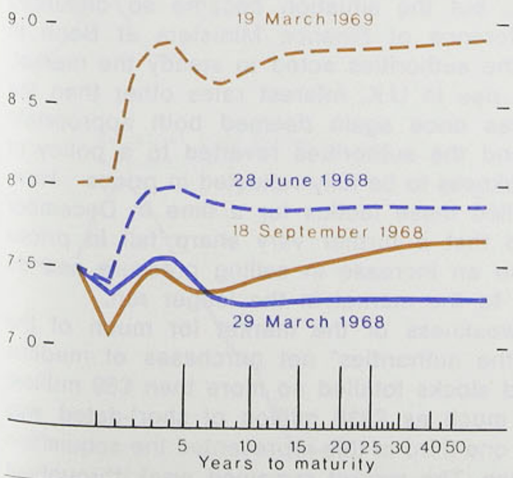
With the stock market weak,[1] P.W.L.B. quotas used up, and temporary money subject to limitation, borrowing on mortgage was often the only remaining source of finance. More was therefore borrowed on mortgage than in the previous year – for a time towards the end of 1968 local authorities were probably raising as much as £30 million a week (net) in this manner, though borrowing subsequently eased. Mortgage rates were generally somewhat higher than those charged by the P.W.L.B., but authorities were not deterred from borrowing even when the difference was as much as $\frac{5}{8}$%, as it was for shorter dates at the end of June 1968.

The net amount raised on new issues of marketable bonds in 1968/69 was comparatively small (about £53 million) and only a little higher than in the previous year. By the end of March 1969 one-year bonds were yielding $9\frac{3}{8}$% compared with $7\frac{9}{16}$% twelve months earlier.

Temporary borrowing continued to increase, though less so than in the previous year. The amount owed by local authorities to the deposit banks fell over the twelve months – such borrowing had increased sharply in the early months of 1968 and in May the clearing banks were asked to reduce it to 'normal' levels – but they borrowed a good deal more from the accepting houses and overseas banks. Rates fluctuated widely: early in March 1968, and again in the following month, seven-day money cost as much as $9\frac{1}{2}$% – partly because of seasonal pressures – but by the middle of November the rate had fallen to $6\frac{1}{2}$%. After the currency crisis in that month lenders became unwilling to lay out funds for more than one month; rates for seven-day money rose to about $7\frac{1}{2}$%, with three months' money usually about $\frac{1}{2}$% higher. The difference narrowed after the rise in Bank rate on 27th February, and by the end of March three months' money at $8\frac{7}{8}$% was only $\frac{1}{8}$% higher than the seven-day rate.

Per cent per annum

Time/yield curves of British government securities [a]



Gilt-edged yields were on a rising trend except in the third quarter of 1968. During the year to March 1969 yields on longer-dated stocks appreciated by as much as $1\frac{1}{2}$%.

[a] The lines begin at Bank rate and continue through the yield on 91-day Treasury bills to those on British government stocks.

Gilt-edged

For much of the twelve months under review the gilt-edged market was weak; only in the third quarter of 1968 did the authorities consistently sell net amounts of stock. Yields increased moderately during the second quarter of 1968 and then fell back a little until the latter part of September. From then on they rose sharply, to reach the highest figures since the year in which the Bank was founded (1694). By mid-March 1969 the calculated gross redemption yield on short-dated stocks stood at nearly $8\frac{3}{4}$% – about $1\frac{1}{4}$% higher than a year earlier. The corresponding yield on long-dated stocks rose by more than $1\frac{1}{2}$%, to stand at over $8\frac{3}{4}$%; on occasion in March certain stocks yielded over 9%. Turnover in 1968, though lower than in the previous year, was heavy, particularly among the short-dated stocks.

The market's firmness following the 1968 Budget did not last long and, with key short-term international interest rates still rising and prospects for the U.K. economy uncertain, the authorities' tactics in quoting for the stock

[1] There were no local authority stock issues between the end of October 1968 and the end of March 1969.

which was offered to them were reflected in quite a sharp rise in yields. The market rallied early in July after better trade figures and the preliminary announcement of the new $2,000 million Basle facility, and considerable pent-up institutional demand was released; but the buying also contained a strong speculative element which the authorities sought to discourage by reducing, into line with the market level, the declared price at which they were prepared to sell the long-dated tap stock, 6¾% Treasury Stock 1995/98 (this price had stood at a considerable margin above the market price since early April). This move led to a temporary fall in prices before the market steadied. Over the next two or three months official sales were helped by a decline in short-term interest rates abroad and by better prospects for the balance of payments. The reduction in Federal Reserve discount rates in August, followed in September by better U.K. trade figures, encouraged hopes of a cut in Bank rate, and some speculative switching into the long-dated tap stock took place. This was again discouraged by the authorities, and profit-taking after the reduction in Bank rate on 19th September brought buying to a halt. During the third quarter the authorities sold (net) £316 million of medium and long-dated stock; they also sold £328 million of short-dated but paid £231 million in respect of a redemption and purchases of near maturing stock.

Official sales in October, on the other hand, were small and sporadic, and by the end of the month the undertone had been weakened by fears of a national strike in the engineering industry and by a renewed rise in short-term interest rates abroad. Thereafter the market became increasingly depressed; the authorities began to be offered stock, and their purchases – mainly of short-dated – became very heavy as the crisis in currency markets developed. Until then the market's sales had been allowed to have their effect on yields, but the situation became so disturbed during the conference of Finance Ministers at Bonn in November that the authorities acted to steady the market. Subsequently, a rise in U.K. interest rates other than the very shortest was once again deemed both appropriate and tolerable, and the authorities reverted to a policy of allowing any weakness to be fully reflected in prices. However, they modified these tactics for a time in December when it seemed that a further very sharp fall in prices could well cause an increase in selling pressure and do serious damage to the market in the longer run.

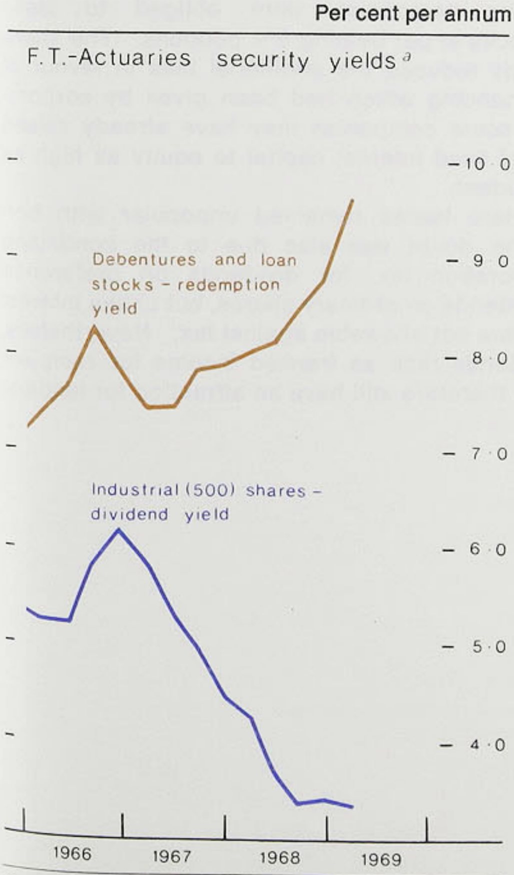
Despite the weakness of the market for much of the fourth quarter, the authorities' net purchases of medium and longer-dated stocks totalled no more than £69 million; and though as much as £336 million of short-dated was purchased, over one third of this represented the acquisition of early maturities. The market remained weak throughout the greater part of January and the authorities did not resist the tendency for yields to rise. Revenue pressures during the first calendar quarter undoubtedly led to some enforced selling by the market, particularly of stocks maturing in 1969. During the quarter £53 million was paid to the market on the redemption of 3½% Conversion Stock

1969 and the authorities acquired £430 million of short-dated stocks in the market, including £303 million of stocks due to mature in twelve months or less. They acquired no more than £23 million of medium and longer-dated stocks.

A clause in the 1968 Finance Act effectively abolished the 'neutral' (tax-free) zone[1] in respect of short-term capital gains; since 1965 certain stocks, as they neared maturity, had been rendered particularly attractive to surtax payers and to tax-paying financial institutions, and prices had risen beyond what the authorities were prepared to pay before redemption.

3% Funding Stock 1966/68 was redeemed on 1st August; at the due date only a little over one fifth of the stock was still in the hands of the market. In the case of 3½% Conversion Stock 1969, redeemed on 1st March 1969, the proportion held by the market at redemption was even smaller.

There were no new issues of government stock during the period save for some £60 million of steel compensation stock (6½% Treasury Stock 1971) issued in exchange for the remaining unquoted steel company securities acquired by the British Steel Corporation.



Fixed interest borrowing became still more costly in relation to equity finance; however, the fall in dividend yields was arrested towards the end of 1968.

a Quarterly, average of working days.

Equities and debentures

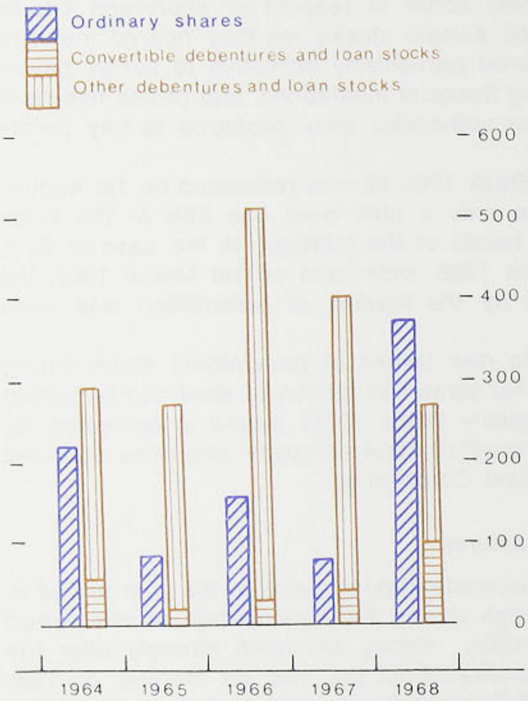
The *equity market* made striking gains in the year ended in March 1969, though during the second half of the period progress was erratic. Prices advanced strongly after the 1968 Budget and throughout the next six months: on 19th September the F.T.-Actuaries industrial share price index reached 183·6 – a gain of nearly 35% since Budget day. The next two months saw a reaction, touched off by profit-taking and industrial unrest; and though prices resumed their rise in December and January – to a new peak of 193·7 – it was not long sustained. In terms of value of turnover the calendar year 1968 was a record one for ordinary shares on the London stock exchange and a new monthly record was set in January 1969.

There were a number of reasons for the market's strength during the period under review: good company results undoubtedly helped; the measures taken in the 1968 Budget, and later, to strengthen the economy were regarded as favourable to equities in the longer run; and the economic difficulties which they underlined also emphasised the value of equities in the shorter term as a hedge against a fall in the value of money. (Sales of unit trust units, for example, reached new peaks during the year.) The exceptional number of take-over bids made during the year – and the anticipation of future bids – also attracted buyers. Underpinning the strength of the market, moreover, was a continuing shortage of stock: though new issues of ordinary shares in 1968 totalled more than in the previous three years put together, existing issues continued to disappear rapidly from the market as companies took over other firms for cash or for fixed interest securities. The continuing shortage was aggravated by the large and growing requirements of institutional investors.

1 The band between the lowest price of issue and the redemption price, in which a stock could appreciate without attracting capital gains tax.

£ millions

Capital issues by quoted U.K. public companies[a]



There was a sharp increase in issues of ordinary shares during 1968, while those of fixed interest stocks fell back, despite a larger number of convertible issues.

a Issues on the U.K. market excluding preference shares. Debenture and loan stock issues are net of redemptions; convertibles net of cash redemptions only.

It is possible that the more irregular course of the market from September 1968 onwards owed something to the fact that more stock had by then become available. It also seems that the market had paused to reassess and readjust after the broad advance that had persisted so long. By the end of 1968, moreover, investors were past the point at which they would be subject to short-term capital gains tax if they sold stock acquired during the period of heavy buying just after devaluation. Finally, large tax payments and tighter credit in the first quarter of 1969 may, together, have obliged some investors to realise assets.

New issues of *company fixed interest securities* were lower in calendar year 1968 than in any year since before corporation tax was introduced. This reflected the rising cost of fixed interest borrowing relative to equity finance: according to the F.T.-Actuaries calculation (which is based on representative stocks bearing various coupons but giving a yield somewhat higher than that on stocks issued recently), the redemption yield on twenty-year debenture and loan stocks went up from just under 8% at the end of March 1968 to over $9\frac{3}{4}$% by the end of March 1969. (The margin over the yield on gilt-edged stocks of comparable term widened from under $\frac{3}{4}$% to 1%.) In the early months of 1969 leading companies were obliged to issue fixed interest stocks at par bearing 9% coupons. The sharp increase in yields reduced the additional bias in favour of fixed interest financing which had been given by corporation tax – and some companies may have already raised the proportion of fixed interest capital to equity as high as they judged prudent.

Preference share issues remained unpopular with borrowers. This no doubt was also due to the continuing effects of corporation tax, for dividends on preference shares (like dividends on ordinary shares, but unlike interest on debentures) are not allowable against tax. Nevertheless, preference dividends rank as franked income for recipient institutions, and therefore still have an attraction for lenders.

The work of the Bank

During the year ended 28th February 1969 the series of currency crises into which sterling was drawn and the implementation of the post-devaluation strategy increased the demands on the staff of the Bank. In an eventful year two particular developments call perhaps for special mention. First, the Bank were heavily and continuously engaged over many months in the negotiations at Basle and in the linked negotiations with countries in the sterling area that were described in the first half of this *Report*; moreover, the execution of the arrangements of September 1968 involves the Bank in statistical and other work of a continuing kind. Second, quantitative credit restrictions – a vital part of present demand management – have given rise to a considerable amount of work including liaison, at several levels, with the institutions concerned.

Meanwhile the other work of the Bank does not grow less. In the pages that follow there is some statistical and other information relating to the note issue, the Bank's management of British Government obligations and the administration of exchange control. Other features of the Bank's work, and certain developments in capital markets and in banking, are also mentioned.

The last section of the *Report* deals with staffing and other matters of an internal nature. In the last few years total numbers of staff have remained fairly stable, despite the marked increase in the work that the Bank carry out. It is hoped that the progress towards greater productivity may be increased as a result of the study of the Bank's organisation and methods of work now being made by McKinsey and Company.

During the year the Bank continued to receive much help and co-operation 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. They also wish to thank the banks, other financial institutions and companies both for continuing to provide statistics for the guidance of policy and for publication, and for supplying new information.

The note issue

Note circulation

The note circulation reached a peak of £3,385 million on 21st December 1968; this was £172 million higher than the Christmas peak in 1967.

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	1965	1966	1967	1968	1969
Issued:					
New notes	2,707	2,971	2,633	2,833	2,958
Used notes	129	140	311	323	374
Paid	2,662	2,931	2,858	3,010	3,208
In circulation at the end of year	2,604	2,784	2,870	3,016	3,140
Percentage increase in circulation over the year	*7·2*	*6·9*	*3·1*	*5·1*	*4·1*

Value of notes issued by denominations

£ millions

Year to end of February	1965	1966	1967	1968	1969
10*s.*	245	256	219	221	227
£1	1,415	1,551	1,319	1,374	1,403
£5	1,069	1,217	1,296	1,427	1,554
£10	107	87	110	127	146
Other notes[a]	—	—	—	7	2

a 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	1965	1966	1967	1968	1969
10*s.*	99,638	104,731	104,470	107,258	109,223
£1	1,012,485	1,024,270	971,966	972,251	956,887
£5	1,274,344	1,397,612	1,490,147	1,577,541	1,677,518
£10	105,107	147,387	193,406	242,451	278,072
£20-£1,000	1,155	1,111	1,074	1,026	985
Over £1,000	111,650	109,200	108,550	115,650	117,665
	2,604,379	**2,784,311**	**2,869,613**	**3,016,177**	**3,140,350**

Proportion of notes in circulation by denominations

Per cent by value of total circulation

End of February	1956[a]	1965	1966	1967	1968	1969
10*s.*	5·3	3·8	3·7	3·6	3·6	3·5
£1	75·9	38·9	36·8	33·9	32·2	30·5
£5	13·5	48·9	50·2	51·9	52·3	53·4
£10	0·2	4·0	5·3	6·7	8·0	8·9
£20-£1,000		0·1	0·1	0·1	0·1	—[b]
Over £1,000	5·1	4·3	3·9	3·8	3·8	3·7
	100·0	**100·0**	**100·0**	**100·0**	**100·0**	**100·0**

a Before the introduction, in February 1957, of the smaller £5 note.
b Less than half the final digit shown.

Fiduciary issue

The fiduciary issue rose on balance over the year by £150 million, to £3,200 million. The changes were as follows:

					£ millions
1968	February	29th			3,050
	March	11th	+50		
	April	8th	+50		
	May	6th		−50	
	May	28th	+50		
	July	2nd	+50		
	July	22nd	+50		
	August	13th		−50	
	September	27th		−50	
	November	11th	+50		
	December	2nd	+50		
	December	9th	+50		
	December	13th	+50		
	December	16th	+50		
1969	January	1st		−50	
	January	6th		−50	
	January	9th		−50	
	January	15th		−50	
	January	21st		−50	
	February	26th	+50		3,200

New series of bank notes

As noted in last year's *Report*, the Bank intend to introduce a new series of bank notes, generally smaller in size than the notes at present in issue, over the next few years. The new £20 note will be the first of the series to be issued – in 1970.

Treasury bills

The amount of Treasury bills offered during the year ended 28th February 1969 was £3,000 million less than in the previous year: at no tender in January and February 1969 did the amount of bills on offer exceed £100 million – the lowest figure since 1944, apart from one occasion in April 1968.

Tenders in 1968/69

Date	Amount offered £ millions	Number of applications	Amount applied for £ millions	Amount allotted £ millions	Lowest price accepted	Average rate of discount per cent
1968 Mar. 1	140	229	288	140	£98:2:11	£7: 7:11·32
8	170	246	332	170	£98:3: 3	£7: 7: 3·17
15	No tender[a]					
22	170	256	341	170	£98:4: 3	£7: 2:10·01
29	150	265	300	150	£98:4: 6	£7: 2: 1·95
Apr. 5	140	224	296	140	£98:4: 9	£7: 1: 1·41
11	140	211	290	120	£98:4: 6	£7: 1: 0·49
19	100	220	227	100	£98:4: 4	£7: 2: 8·26
26	140	249	286	140	£98:4: 8	£7: 1: 7·21
May 3	140	252	281	140	£98:4: 5	£7: 1:10·11
10	150	241	280	150	£98:4: 8	£7: 1: 7·13
17	150	249	290	150	£98:4: 5	£7: 2: 4·09
24	150	227	243	150	£98:4: –	£7: 4: 0·76
31	150	190	262	150	£98:3:10	£7: 4: 9·88
June 7	160	256	277	160	£98:4: –	£7: 4: 3·30
14	150	246	269	150	£98:4: 1	£7: 3: 9·58
21	150	241	282	150	£98:4: 1	£7: 3: 8·57
28	170	239	290	170	£98:3:10	£7: 4:10·04
July 5	150	238	279	150	£98:3:10	£7: 4: 9·70
12	150	287	325	130	£98:4: 2	£7: 3: 5·60
19	150	268	303	150	£98:4: 5	£7: 2: 5·25
26	150	247	281	150	£98:4: 9	£7: 1: 2·22
Aug. 2	150	263	336	150	£98:4:10	£7: –: 4·48
9	150	262	310	120	£98:5: 5	£6:18: 6·27
16	140	265	280	140	£98:5: 5	£6:18: 1·79
23	170	236	285	170	£98:5: 3	£6:19: 0·42
30	170	196	310	170	£98:5: 4	£6:18:10·73
Sept. 6	160	237	312	160	£98:5: 4	£6:18: 7·99
13	160	256	332	160	£98:5: 9	£6:17: 2·34
20	160	238	288	100	£98:7: 1	£6:12: 1·75
27	150	276	272	150	£98:7: 1	£6:11: 6·52
Oct. 4	150	258	264	150	£98:7: 4	£6:10: 9·56
11	150	235	282	150	£98:7: 5	£6:10: 6·79
18	160	216	265	160	£98:7: 7	£6: 9:10·44
25	130	230	263	130	£98:7: 3	£6: 9:10·28
Nov. 1	120	248	236	120	£98:7: 1	£6:11: 0·67
8	120	230	234	120	£98:7: 2	£6:11: 5·81
15	120	216	239	120	£98:6:11	£6:12: 6·03
22	140	89	218	140	£98:5:11	£6:16: 6·68
29	120	229	237	120	£98:6: –	£6:15: 9·47
Dec. 6	120	140	195	120	£98:5:10	£6:16:11·07
13	120	184	222	120	£98:6: 1	£6:15:11·39
20	110	125	172	110	£98:6: 2	£6:15: 7·50
27	110	167	191	110	£98:6: 2	£6:15: 6·50
1969 Jan. 3	100	178	196	100	£98:6: 2	£6:15: 5·70
10	100	205	188	100	£98:6: 1	£6:15:10·69
17	100	213	205	100	£98:6: 1	£6:15:10·10
24	100	233	227	100	£98:6: 2	£6:15: 5·49
31	100	225	225	100	£98:6: 5	£6:14: 6·81
Feb. 7	100	211	207	100	£98:6: 2	£6:15: 2·11
14	100	233	227	100	£98:6: 6	£6:14: 2·21
21	100	193	220	100	£98:6: 7	£6:14: 0·69
28	100	167	190	100	£98:1: 6	£7:14: 2·54

a The London gold market was closed and 15 March was declared a bank holiday.

On 1st April 1968 bills of different colours for each denomination were introduced, saving much time in counting and sorting. A new denomination bill – for £250,000 – appeared at the same time. This proved popular and produced economies in printing and handling – in January and February 1969 the average number of bills issued per £100 million allotted at tenders was 3,209, compared with 3,506 a year earlier.

Tax reserve certificates

The total number of applications for tax reserve certificates during the year ended 28th February 1969 was again higher than in the previous year but the total value of certificates applied for fell slightly; outstanding certificates in the hands of the public at the end of December 1968 reached, for the first time, a quarter of a million. The number of certificates cancelled in payment of taxes in the first two months of 1969 totalled some 93,000 as against 79,000 in the same period last year, reflecting to some extent, no doubt, the effect of the special charge on investment income due on 1st January 1969.

	Applications			Surrenders					
	Number	Average value	Total value	Cancelled in payment of taxes	Repaid without interest	Repaid with interest	Total	Change during year	Outstanding at end of period
Year to end-February	000's	£000's	£ millions						
1968									
Old series[a]	—	—	—	56	1	—	57	−57	20
New series:[b]									
Company	23	8·6	198	145	6	14	165	+33	187
Personal	134	0·7	93	39	1	—	40	+53	107
Total	**157**	**1·8**	**291**	**240**	**8**	**14**	**262**	**+29**	**314**
1969									
Old series[a]	—	—	—	15	—	—	15	−15	5
New series:[b]									
Company	23	6·2	141	144	—	3	147	− 6	181
Personal	162	0·8	137	76	2	—	78	+59	166
Total	**185**	**1·5**	**278**	**235**	**2**	**3**	**240**	**+38**	**352**

a Issued before 27.6.66.
b Issued from 27.6.66.

The prospectuses for both company and personal tax reserve certificates remained unchanged during the year but the following changes in the rates of interest paid on company certificates were made:

Per cent	Interest rate when used in payment of taxes	Interest rate for cash repayments
Until 27.8.68	$4\frac{3}{8}$	3
From 28.8.68	$4\frac{5}{8}$	3
From 21.12.68	$4\frac{7}{8}$	3

All rates tax free

The rate of interest on personal certificates used in payment of taxes remained unchanged at 4% tax free throughout the year; in their case no interest is allowed on certificates encashed.

Management of stock registers

The nominal totals in recent years (and, for 1969, the number of accounts) of the different groups of stocks managed by the Bank are given below:

£ millions End of February	1966	1967	1968	1969	Number of accounts 000's 1969
British government securities:					
Stock[a]	18,663	19,595	20,288	19,223	1,932
Bearer bonds	16	15	15	15	
	18,679	**19,610**	**20,303**	**19,238**	**1,932**
Other securities:					
Government guaranteed	1,777	1,762	1,759	1,758	218
Commonwealth etc.	216	221	242	229	85
Local authorities	473	542	549	591	183
Public boards etc.	107	123	121	139	35
Miscellaneous	15	15	15	15	1
	2,588	**2,663**	**2,686**	**2,732**	**522**
Total	**21,267**	**22,273**	**22,989**	**21,970**	**2,454**

a The figures for British government stock do not include amounts on the Post Office register and the registers of the Bank of Ireland and the trustee savings banks.

Transfers

The number of transfers registered fell to a more normal figure after the sharp increase in the previous year:

000's

Year ended February	1966	1967	1968	1969
	623	678	752	678

Operations

Operations undertaken during the year included:

£ millions nominal			
Repayments			
At par			
Swansea Corporation $6\frac{3}{4}$% Bonds 11th March 1968		1968 11 March	0·5
Swansea Corporation $6\frac{5}{8}$% Bonds 13th March 1968		13 March	0·5
4% Exchequer Stock 1968		15 March	499·9
3% Funding Stock 1966/68		1 August	527·3
London County $5\frac{3}{4}$% Bonds 5th August 1968		5 August	1
Liverpool Corporation $6\frac{1}{4}$% Bonds 14th August 1968		14 August	1
New Zealand Government 3% Stock 1966/68		1 September	15·2
Swansea Corporation $6\frac{3}{4}$% Bonds 23rd October 1968		23 October	0·5
Issues			
For cash			
Swansea Corporation $7\frac{5}{8}$% Bonds 19th March 1969	@ £$99\frac{15}{16}$%	1968 13 March	1
Liverpool Corporation $7\frac{1}{2}$% Bonds 2nd April 1969	@ £$99\frac{15}{16}$%	27 March	2
Greater London $7\frac{1}{4}$% Stock 1977	@ £98:5:–%	28 March	40
Agricultural Mortgage Corporation Limited $7\frac{3}{4}$% Debenture Stock 1991/93	@ £100%	9 May	20
Liverpool Corporation $7\frac{3}{4}$% Bonds 20th August 1969	@ £100%	14 August	2
Swansea Corporation $7\frac{3}{4}$% Bonds 29th October 1969	@ £100%	23 October	0·5
Trinidad and Tobago Government $8\frac{1}{4}$% Stock 1978/80	@ £95:10:–%	30 October	3

Iron and Steel Act 1967

During the year ended 28th February 1969 compensation terms were agreed for the remaining unquoted steel companies' securities which vested in the British Steel Corporation on 28th July 1967, and further issues of 6½% Treasury Stock 1971 totalling £59·5 million were made – bringing the total issue to some £568 million:

£ millions nominal		
1967 28 July	quoted securities	485·7
1968 29 January	unquoted securities	22·5
		508·2
29 July	,,	3·1
10 December	,,	13·3
1969 28 January	,,	43·1
		567·7

In all, some 200,000 accounts were removed from the steel companies' registers to the Bank by reason of the vesting; but as the result of market activity in 6½% Treasury Stock 1971, and the amalgamation of identical accounts received from different company registrars, the register at the end of February comprised no more than 108,000 accounts.

Southern Rhodesia stocks

No funds have been received since November 1965 to meet interest on or sinking fund contributions to Government of Southern Rhodesia stocks for which the Bank act as paying agent. The gross interest due but unpaid on the stocks up to the end of February 1969 totalled approximately £7,851,000 and the total of contributions outstanding for those sinking funds managed by the Bank was some £1,044,900.

The registers for Southern Rhodesia 3½% Stock 1961/66, which fell due for repayment in July 1966, and Southern Rhodesia 3½% Stock 1967/69, which in normal circumstances would have been repaid on 15th March 1969, remain open because no funds to meet the redemption of the securities have been received. The total amount involved is some £5,691,000.

Automation in the Accountant's Department

The transfer of the stock registers to magnetic tape has proceeded steadily: by the end of February 1969 the registers of 89 stocks, comprising approximately 2·1 million accounts (87% of the total) were on tape, and the programme was completed in June this year. The transfer to the new system of the registers of all British government stocks and nationalised industry stocks guaranteed by H.M. Government will not only facilitate the management of the stock registers but will also benefit the Bank's statistical work on the distribution of the National Debt by providing a breakdown by types of holder at a common date. This information will supplement, rather than replace, that provided from other sources, since it is not possible with certainty to establish beneficial ownership of stock by reference to the registers.

Since the middle of March this year a new design of certificate has been used for stocks whose registers are held on magnetic tape. The new certificate has a coloured background at its head where the name of the stock appears; it is also slightly larger than the old type of certificate to accommodate the 'security code' – an identification introduced by the Stock Exchange as an aid to processing by banks and others. From the autumn of 1969 the security code will be shown on dividend warrants and vouchers issued by the Bank; these will also be altered in other minor respects in connection with the transfer to the computer of the work of accounting for paid dividend and redemption warrants.

Some new equipment – paper tape recorders and verifiers – has recently been brought into service. In the past, information on the magnetic tape registers has been recorded and amended through the use of punched cards; experiments have shown, however, that the alphabetical part of the Bank's records (names, addresses and so on) can be more efficiently dealt with by means of paper tape.

Exchange control

The number of applications referred to the Bank of England has expanded rapidly in the past few years and continued to be heavy during the twelve months under review. Meanwhile, changes in official policy and the greater complexity of the operations of banks and other financial institutions have made the work of exchange control more intricate.

The main changes during the year in the administration of the control were as follows:

26th July 1968

The Finance Act 1968

The Finance Act 1968 amended the Exchange Control Act 1947 by bringing certificates of deposit, Treasury bills and such promissory notes as may be prescribed by H.M. Treasury within the exchange control definition of securities.

17th September 1968

The National Giro

A new notice was issued so that the Post Office might effect exchange control transactions within the National Giro.

11th October 1968

Dealings in foreign currency

The general permission under which residents of the United Kingdom were allowed to purchase foreign currency spot, to hold on an account in cover of payments under credits, was withdrawn. Also, new rules were introduced for granting forward cover in respect of capital repayments in foreign currency.

11th October 1968 (continued)

Sterling usance facilities for trade between non-residents

The authority to banks to provide sterling credit for the finance of trade between countries outside the Scheduled Territories was withdrawn for the time being.

28th October 1968

Sterling certificates of deposit

Permission was given to a number of authorised banks to issue certificates of deposit denominated in sterling. No limit was placed on the total value of such certificates – which are in bearer form – that might be issued. As mentioned earlier in this *Report*, a secondary market in this paper was formed by members of the London Discount Market Association, several of whom had since the autumn of 1966 been dealing in similar instruments denominated in U.S. dollars.

22nd November 1968

Import deposit scheme

There were no changes initially in exchange control as a result of the scheme; however, on 18th December 1968 the authorities under which residents of the United Kingdom had been able to borrow foreign currency, or sterling from non-residents, to finance import deposits were withdrawn.

Codification of exchange control notices

The programme of revising and simplifying notices was continued, and towards the end of the year exchange control manuals were issued to authorised banks and to authorised depositaries. The manuals – over 50,000 of which were distributed – contain all notices issued by the Bank of England under the Exchange Control Act, together with a comprehensive index and an explanatory guide to exchange control; they have been welcomed by those in day-to-day contact with the control. The guide to exchange control, a 23-page booklet containing a summary of exchange control practice, is available to the general public, and demand for it has been considerable.

Capital markets and local authority finance

Panel on take-overs and mergers

The Panel, established in March 1968, had a very active first year during which it handled some 500 take-over operations. A report on its first twelve months was published in April 1969. On 25th February 1969 the Bank announced that the administrative organisation of the Panel was to be strengthened. Lord Shawcross accepted the Governor's invitation to become Chairman in place of Sir Humphrey Mynors who, however, agreed to continue for a year as Deputy Chairman. Mr. Ian Fraser, M.C. a Director of S. G. Warburg & Co. Ltd., and Mr. W. S. Wareham, O.B.E., Head of the Quotations Department of the London Stock Exchange, agreed to accept appointment as Director-General and Deputy Director-General respectively.

The City Code on Take-overs and Mergers was revised during the year in the light of experience of the working of its provisions, and the new Code and the reconstituted Panel came into operation at the end of April 1969.

Local authority bills

Three tenders, each for £25 million 91-day bills, were held during the year on behalf of the Greater London Council. The average rates of discount on allotment varied between $\frac{1}{8}$% and $\frac{1}{4}$% above the most recent comparable Treasury bill tender rates, but were around $\frac{3}{4}$% below the corresponding rates that local authorities were then paying for three months' temporary money.

£3$\frac{3}{4}$ million of 91-day bills were placed with the discount market in April 1968 on behalf of the Liverpool Corporation; they were not renewed on maturity. £3,950,000 bills were issued in October and replaced in January. The discount rates at the three placings ranged from about $\frac{3}{16}$% to about $\frac{3}{8}$% above the most recent Treasury bill rates.

On 1st February 1969 the Bank announced a change in the conditions under which they are prepared to discount local authority bills – or to accept them as security for advances to the discount market. The requirement that there must be at least sixty days in the year during which the local authority concerned has no bills outstanding was revoked. It was emphasised that the change – which was designed to help the smooth running of the market – did not mark a departure from the principle that bills should be issued for revenue purposes only.

Banking and other developments

The Head Office computer

The Bank's third computer, which was installed in Head Office early in 1968, became operational during the year. The main tasks which have so far been transferred to it include current account banking and cheque clearing and an exchange with the Inter-Bank Computer Bureau of magnetic tapes containing details of payments under standing order. By the end of the year preparations for transferring two other major tasks – dividend warrant accounting and the payment of salaries and pensions – were well advanced, and a wide range of the Bank's work was being studied in order to select future projects for automation and to determine priorities.

Finance for exports

In November 1968 agreement in principle was reached between the Bank of England and the London clearing banks and the Scottish banks on certain modifications to the Bank of England facilities for refinancing export credit, and discussions began on the implementation of the agreement.

(These facilities were described in the Bank's *Quarterly Bulletins* for March 1961 and March 1965.) It is intended to publish details of the modifications in due course in the *Bulletin*.

At the end of March 1969 the total of export credit eligible for refinance with the Bank stood at £219 million, compared with £156 million at the end of March 1968. The refinance facility continued unused during the year.

Relations with central banks and other institutions abroad

The events of 1968/69 again proved the value of the close and continuing relations which the Bank have fostered over the years with overseas central banks and other monetary authorities; during the year demands on the Bank's resources on the overseas side were heavy. In the negotiations with sterling area countries that accompanied the negotiations at Basle for a $2,000 million medium-term credit facility, each team included an official from the Bank to assist H.M. Government personnel. Nearly eighty countries were visited by the Bank's officials in the course of these negotiations and on other occasions throughout the year, enabling them to obtain personal impressions of conditions and developments abroad.

In return, the Bank welcomed 470 visitors from well over 100 countries, for some of whom special training courses were arranged within the Bank.

The Bank continue to provide overseas countries with practical help and advice on banking and currency matters. However, there are now fewer countries attaining independence, and local staff are increasingly replacing expatriate staff in many central banks and currency boards which previously made use of Bank personnel. Consequently, a smaller number (twenty-one) of the Bank's staff were serving abroad at 28th February 1969 than in recent years.

Bank mergers

During 1968 three mergers were planned by various clearing banks and Scottish banks.

Two mergers were approved by shareholders and by the High Court to take effect in July. The first was between National Provincial Bank and Westminster Bank, which have combined to form the National Westminster Bank. A private bill was promoted to permit full integration of the banking businesses of these banks and of the District Bank, which is wholly owned by National Provincial Bank; the intention is that the new structure should become effective in January 1970. The second merger entailed the creation of the National and Commercial Banking Group as a holding company for the Royal Bank of Scotland and the National Commercial Bank of Scotland. These two banks have now been amalgamated under the name of The Royal Bank of Scotland Limited and it is proposed that their clearing bank subsidiaries, Williams Deacon's Bank, Glyn Mills & Co. and the National Bank should likewise be merged into a single bank, to be called Williams and Glyn's Bank and to become also a direct subsidiary of the holding company.

A third proposed merger was between Barclays Bank, Lloyds Bank and Martins Bank. The proposal was referred by the President of the Board of Trade to the Monopolies Commission, which reported on it in July 1968. The Commission, by a majority, recommended against the merger of Barclays and Lloyds, with or without Martins; the Government accepted their conclusion and the banks concerned were persuaded to drop the proposal. Subsequently, a merger between Barclays Bank and Martins Bank was approved by shareholders and by the High Court in October.

When these arrangements have become fully effective, the present eleven London clearing banks will have been reduced to six.[1]

Developments in financial statistics

As noted earlier in this *Report*, the inter-governmental agreements with sterling area countries related to the Basle medium-term credit facility of $2,000 million came into force on 25th September. Each agreement provides for a dollar-value guarantee by H.M. Government of any sterling held on official account in excess of 10% of a country's total reserves, the guarantee being conditional on the country maintaining at all times an agreed minimum proportion of its reserves in sterling. The Bank have a number of responsibilities for the operation of the sterling area agreements, including the collection and processing of the essential statistics – a task which has added substantially to their work.

During October 1968 members of the Bank took part with others from H.M. Treasury and the International Monetary Fund in a joint study held at the Treasury of economic forecasting techniques and the theories which underlie them. Discussion centred on the significance of financial factors in the forecasts of national income and the balance of payments. Particular attention was paid to the institutional structure of the monetary system and the relevance of this structure to the financial transactions of the main sectors of the economy.

At the request of the Government the Bank have been investigating how the statistics of portfolio investment included in the official balance of payments estimates might be improved. Although adequate information is derived from exchange control sources about U.K. residents' purchases and sales of foreign currency securities, the estimates of other outward investment – principally purchases and sales of overseas sterling area securities – are much less reliable. Estimates of inward portfolio investment – purchases and sales of U.K. securities by overseas residents – are also deficient. Discussions were therefore held during 1968 with representatives of the main associations of British banks and of the London stock exchange to devise a new method of collecting the necessary figures; and under an experimental scheme which began in January 1969, banks and brokers in London have been reporting to the Bank the

1 The six clearing banks will be Barclays Bank/Martins Bank; the National Westminster Bank; the Midland Bank; Lloyds Bank; Williams and Glyn's Bank; and Coutts and Co., a wholly owned subsidiary of National Westminster.
The Scottish banks now comprise the Bank of Scotland; the British Linen Bank; the Clydesdale Bank; and The Royal Bank of Scotland Limited.

value of transactions (though not the names of the buyers or sellers) in all U.K. and overseas securities[1] carried out on behalf of overseas residents, and also all deals done in such securities in markets outside the United Kingdom. The returns are being analysed with the aid of the Head Office computer, and it is hoped to publish the results in due course.

Following a recommendation of the Committee on Invisible Exports, work has begun on a programme of direct enquiries into the invisible earnings of certain financial and allied industries. The results from the first enquiries – covering the earnings in 1969 of banks, members of the Baltic Exchange and Lloyd's Register of Shipping – are expected in 1970.

A new series of statistics analysing turnover in British government securities by main type of holder has been published in the Bank's *Quarterly Bulletin* since March 1968. The figures, which relate to the cash value of purchases plus sales on the London stock exchange, run from the second quarter of 1966, and distinguish between official holders, banks, the discount market, other financial institutions and other holders.

Since the December 1968 issue of the *Quarterly Bulletin*, the regular analyses of financial statistics have featured seasonally adjusted figures for the financial transactions of the various sectors of the economy; previously the discussion was in seasonally adjusted terms but the figures on which it was based were not published. The seasonal adjustments are still very uncertain, and can only be improved over time as experience in their use increases and a longer run of figures becomes available. In spite of the present imperfections, however, it seems helpful to disclose the seasonally adjusted figures on which the discussion is based.

As mentioned earlier in this *Report*, the market in sterling certificates of deposit opened on 28th October 1968; since then, issues of these certificates and transactions in the secondary market, analysed according to maturity, have been reported each month to the Bank and published by them in the form of a press release. During the year the published statistics relating to the banking sector were enlarged to include the transactions of the National Giro.

The Bank have accepted an invitation to give evidence to the committee which, as announced by the President of the Board of Trade in July 1968, has been set up under the chairmanship of Lord Crowther to make a wide-ranging enquiry into consumer credit.

Staffing and other internal matters

Numbers of staff

The staff of the Bank on 28th February 1969 numbered approximately 7,000 in full-time employment; another 700

1 Other than foreign currency securities.

women worked part time; the combined total included about 1,900 non-clerical staff employed at the Printing Works. The Banking Staff employed full time numbered just over 4,500, of whom 2,750 were women. Of this total, 1,350 were employed in the Accountant's Department; about the same number in the Cashier's Department, including some 330 at the branches; about 770 in the Overseas Department, of whom nearly 500 were engaged on exchange control work; nearly 250 in the Secretary's Department; and about 200 in the Economic Intelligence Department.

The transfer of the stock registers to magnetic tape has already made it possible to reduce the staff of the Accountant's Department (which numbered nearly 1,700 five years ago) and numbers are likely to continue falling. On the other hand, the work connected with the administration of exchange control has increased considerably, and the numbers of staff engaged on it have risen by some 220 over the past five years.

Secondments, recruitment and training

Three members of the Economic Intelligence Department have been seconded temporarily to H.M. Treasury and one each to the National Economic Development Office and the Central Statistical Office. The Bank have also lent seven of their staff to form the Secretariat of the Panel on Take-overs and Mergers. Two other members of the staff were lent to the Monopolies Commission for a period of six months.

Each year the Bank recruit some twenty men and ten women with honours degrees and about thirty men and fifty women who have undertaken a full General Certificate of Education advanced level course in two or more subjects. Approximately 350 other women who have reached the ordinary level of the General Certificate of Education are recruited; during the year ended 28th February 1969 about 100 of these were trained as punch operators and seventy-five as typists; the remainder were employed on the more routine clerical work, which they share with supplementary and part-time staff. Job evaluation systems, long employed in the Bank, have been used to adapt the staff structure so as to improve career opportunities for both men and women and to place staff where their abilities are best matched with the demands of the work.

Management consultants

The Bank announced in October that preliminary discussions were taking place with McKinsey and Company with a view to their undertaking a study of the organisation and methods of work of the Bank. Early in January the consultants submitted outline proposals which were accepted by the Court. Work began in February 1969 and is likely to take about one year.

Meanwhile, P.A. Management Consultants Ltd. continued with an assignment at the Bank's Printing Works at Debden; and Deloitte, Plender, Robson, Morrow and Co. gave further assistance in transferring work to the Head Office computer.

The change-over to decimal currency

The Bank's plans for converting their records to decimal currency on 15th February 1971 and for working in that currency subsequently are well advanced. Arrangements are being completed for training staff, for adapting machines and for reprinting stationery, and a start has been made on the necessary redesigning of computer systems and on rewriting programs.

Premises

The building of new premises for the Bank's branches at Manchester, Birmingham, Leeds and Newcastle is proceeding; and all should be ready for occupation by the end of 1970.

A major event during the year was the external cleaning of the Head Office building in Threadneedle Street. For the first time since the Bank was rebuilt between 1925 and 1939 the whole exterior presents a uniformly clean appearance, setting off the regilded statue of Ariel by Sir Charles Wheeler on the Tivoli Corner and the newly gilded crown surmounting the rotunda on the corner of Bartholomew Lane and Lothbury.

If there were earlier attempts to clean the 'Old Lady' they are not well chronicled. During the rebuilding, a certain amount of work was done to the boundary wall (which was built by Sir John Soane, the architect to the Bank from 1788 to 1837) and some cleaning was also apparently done, no doubt so that the new stone should harmonise more easily with the old.

The present cleaning operation began in March 1968. Treatment of the stonework consisted of water-spraying and scrubbing the upper elevations, and dry grit-blasting the Soane wall. The latter method was considered, after trial, to be better suited to the age of the stonework of the wall, parts of which, notably at the north end of the Bartholomew Lane side, date from the end of the 18th century. Whilst the external scaffolding was in position, the opportunity was taken to clean the metal window frames and other fittings and to treat them with bronze metallic cellulose and protective lacquer. The whole operation was complicated by considerations of security and the need to avoid any interruption to the daily activities of the Bank. The result may be judged from the photograph which appears at the beginning of this *Report.*

Bank of England

Friday the 28th day of February 1969

Issue Department

	£		£
Notes issued:			
In circulation	3,140,350,017	Government debt	11,015,100
In Banking Department	60,069,633	Other government securities	3,188,050,340
		Other securities	674,560
		Coin other than gold coin	260,000
		Fiduciary issue	3,200,000,000
		Gold coin and bullion	419,650
	3,200,419,650		**3,200,419,650**

Banking Department

		£			£
Capital		14,553,000	Government securities		486,665,735
Rest		3,925,168	Other securities:		
Public deposits (including Exchequer, National Loans Fund, National Debt Commissioners and Dividend Accounts)		12,244,465	Discounts and advances	70,222,594	
			Securities	88,698,727	158,921,321
Special Deposits		230,990,000	Notes		60,069,633
Other deposits:			Coin		734,756
Bankers	300,733,511				
Other accounts	143,945,301	444,678,812			
		706,391,445			**706,391,445**

Dated the 1st day of March 1969

J. S. Fforde, *Chief Cashier*

Half-yearly payments of £873,180 were made to H.M. Treasury on 5th April and 5th October 1968 in pursuance of Section 1 (4) of the Bank of England Act 1946.

Senior officials

28th February 1969

Heads of Departments

Chief Cashier	J. S. Fforde
Chief Accountant	R. E. Heasman
Chief of the Overseas Department	R. P. Fenton, C.M.G.
Chief of the Economic Intelligence Department	M. J. Thornton, M.C.
Secretary	P. A. S. Taylor
Chief of Establishments	K. J. S. Andrews, M.B.E.
General Manager of the Printing Works	G. C. Fortin
Auditor	E. de M. Rudolf

Assistants to the Governors

R. A. O. Bridge, C.M.G.

J. G. W. Davies, O.B.E.[1]

Advisers to the Governors

J. B. de Loynes, C.M.G.

E. P. Haslam

P. R. W. Legh

C. W. McMahon

R. G. Raw

[1] Mr. Davies was appointed to the Court of Directors from 1st March 1969.