Bank of England

Report for the year ended 28th February 1970

Issued by Order of the Court of Directors 9th July 1970

Court of Directors

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Copies of this *Report* may be obtained from the
Economic Intelligence Department
Bank of England London EC2R 8AH

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

Court of Directors

28th February 1970

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Sir John Melior Stevens, K.C.M.G., D.S.O., O.B.E.

Sir Ronald George Thornton

Mr. de Rothschild was appointed on 23rd January 1970, until 28th February 1971, in the place of the late Lord Carron.

Sir Maurice Parsons retired as Deputy Governor on 28th February 1970 and Mr. J. Q. Hollom was appointed in his place for a period of five years from 1st March 1970. Mr. C. W. McMahon was appointed to the Court for the remainder of Mr. Hollom's term of office as a Director until 28th February 1973.

The term of office of Lord Robens of Woldingham expired on 28th February 1970 and he was reappointed for a period of four years.

The terms of office of Sir Henry Wilson Smith, Mr. W. M. Allen and Sir Ronald Thornton also expired on 28th February 1970 and Mr. G. A. H. Cadbury, Mr. J. S. Fforde and Sir Sidney Greene, C.B.E. were appointed in their places for a period of four years.

Introduction

The first part of this *Report* describes some of the main economic and financial developments during 1969 (or, where appropriate, the financial year from April 1969 to March 1970). These developments have already been reported more fully in the Bank's *Quarterly Bulletin*, and the *Report* therefore concentrates particularly upon features which can, with advantage, be viewed over a rather longer period than in the quarterly Commentaries.

The second part of the *Report*, beginning on page 24, describes aspects of the Bank's work over the past year and a number of internal matters affecting organisation and staffing.

Economic and monetary review

External developments

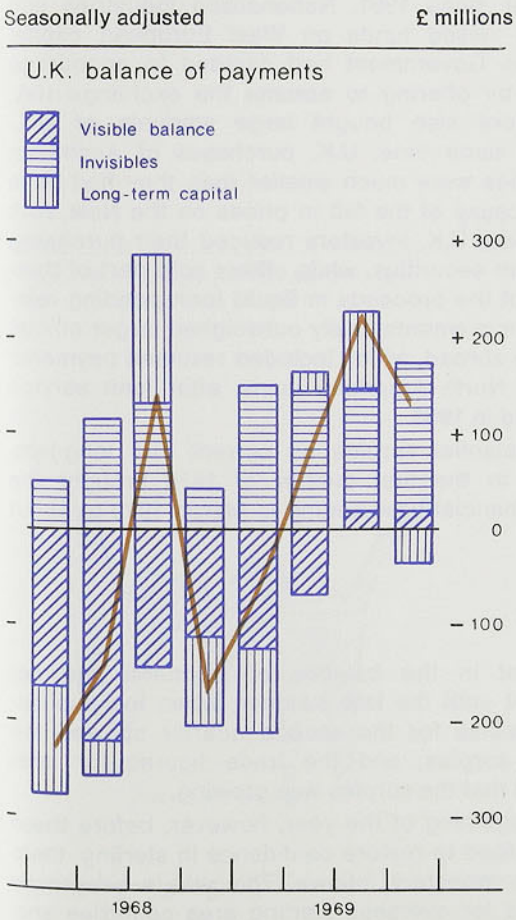
The balance of payments

The United Kingdom's balance of payments was transformed in 1969. Current and long-term capital transactions yielded a surplus of nearly £400 million, compared with a deficit of the same order in 1968.

The current account, seasonally adjusted, moved into surplus at the beginning of the year, and the surplus increased thereafter. On visible trade, a deficit of nearly £650 million in 1968 was reduced to one of a little over £150 million in 1969; and by the second half of last year, the trade balance was in small surplus. Net invisible earnings, already very high in 1968, increased by some £225 million, to about £575 million.

The improvement in visible trade was attributable to a steep rise in exports. The volume of shipments rose by 10% in 1969 and, with prices also higher, the increase in value was 12½%.[1] This large increase reflected a continued competitive advantage from devaluation, at a time when world trade was expanding unusually rapidly and when there was some spare capacity at home and supply constraints in some competing countries abroad. As in 1968, the United Kingdom virtually maintained its share of world markets, in contrast to the fall which had been usual in earlier periods of rapid expansion of world trade. Towards the end of last year, U.K. export prices were still 4%-5% lower in dollar terms than on the eve of devaluation whereas, for industrial countries as a whole, prices were about 5% higher.[2] How long this competitive advantage can be retained depends upon the development of costs and prices in this country and abroad. The United Kingdom is by no means the only country to have experienced very large wage and salary increases since the latter part of 1969; indeed, the acceleration of earnings began earlier in the year in some overseas countries. Further large increases are in prospect, both in this country and among overseas competitors. Unless productivity rises as much in this country as abroad, however – and that would require a great improvement on the past – pressure on industrial costs might be heavier in the United Kingdom. In such circumstances, the United Kingdom's competitive advantage would be whittled away.

Imports grew by 5% in 1969, but most of this was because of higher prices; the volume increased by only 1½%, and was in fact fairly stable after the middle of 1968. The continued effect of price increases resulting from devaluation was reinforced by the subdued level of activity in the domestic economy, the import deposit scheme, and the shortage of liquidity.

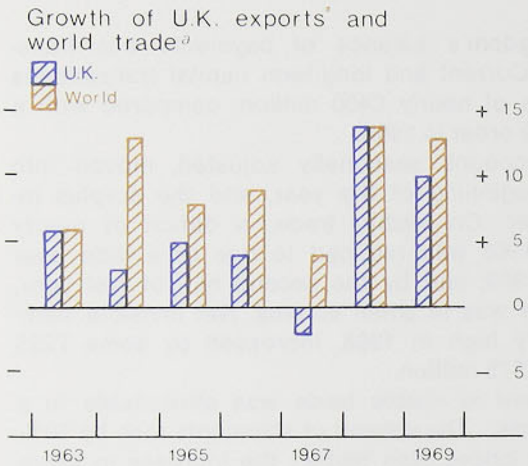


There was a marked improvement in the trade balance in 1969, and the balance of payments on current and long-term capital account moved into large surplus.

1 If exports in 1968 are adjusted to remove shipments at the beginning of that year which had been delayed by the U.K. dock strikes in 1967, the increases become nearly 12% and 14½% respectively.

2 The rise was partly attributable to a 4% border tax on West German exports between December 1968 and October 1969, and to the subsequent 9·3% revaluation of the deutschemark.

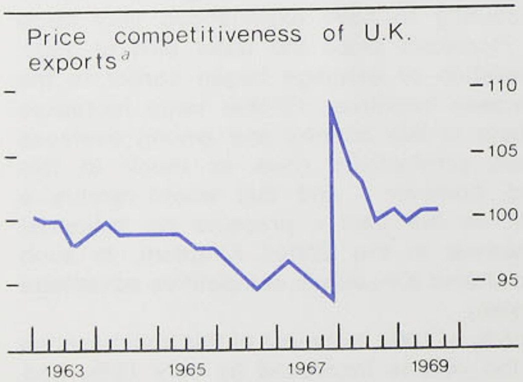
Annual changes Per cent



The volume of world trade expanded rapidly in 1968 and 1969, and U.K. exports grew almost as fast

a The chart shows year-on-year volume changes, derived from the U.K. export volume index and from I.M.F. statistics for the value and price of industrial countries' exports.

Index: 1st qtr. 1963=100



Towards the end of 1969 U.K. export prices were still a great deal more competitive than they were immediately before devaluation.

a Measured by the ratio of industrial countries' export prices to the unit value of U.K. exports, both expressed in dollar terms.

The strong improvement in net invisible earnings last year brought them to a total more than twice as large as in 1967, when earnings were already quite high by previous standards. The increase between 1967 and 1968 was in part simply the automatic and immediate effect of devaluation on earnings expressed in sterling terms, with no corresponding increase in dollar values. But the larger increase between 1968 and 1969 had more significance, and was mainly attributable to increased income from overseas direct investment, and to higher net receipts from abroad by U.K. oil companies.

In addition to the substantial surplus on current account, the net outflow of long-term capital in 1969 was smaller than in any year since 1961. Nationalised industries and local authorities raised funds on West European capital markets after the Government had decided to encourage such borrowing by offering to assume the exchange risk. Overseas investors also bought large amounts of U.K. equities. At the same time, U.K. purchases of Australian company securities were much smaller than they had been in 1968; and, because of the fall in prices on the New York stock market, some U.K. investors reduced their purchases of North American securities, while others sold part of their holdings and kept the proceeds in liquid form pending reinvestment. These movements easily outweighed larger official capital payments abroad, which included resumed payments on the post-war North American loans, after loan service had been deferred in 1968.

A further substantial surplus on current and long-term capital account in the first quarter of 1970 brought the surplus for the financial year ending in March 1970 to about £600 million.

Monetary flows

The improvement in the balance of payments did not become apparent until the late summer, when the publication of the estimates for the second quarter showed the movement into surplus, and the trade figures for later months indicated that the surplus was growing.

Even at the beginning of the year, however, before these developments helped to restore confidence in sterling, there were quite large monetary inflows. This was a seasonally favourable period for overseas sterling area countries and, following the conclusion of the guarantee arrangements in September 1968,[1] they continued to rebuild their sterling holdings. The additions to these balances substantially outweighed a further reduction in the holdings of non-sterling countries, and a continued increase in sterling claims on them as additional export credit was extended. Overseas suppliers also advanced large amounts of trade credit to U.K. importers at this period to help finance the import deposits introduced in the previous November; and the appearance of a substantial favourable balancing item in the balance of payments estimates might indicate that this credit was not fully recorded.

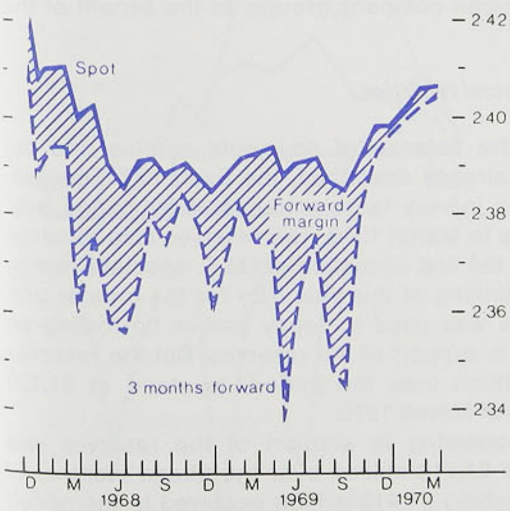
1 See last year's *Report*, pages 12–14.

At the end of April and the beginning of May, sterling and other currencies came under sharp pressure when the exchange markets were disturbed about a possible revaluation of the deutschemark; there was a very large movement of international funds into Western Germany at this time. The pressure quickly subsided, however, when the Federal Government announced their decision not to revalue; and although the speculative funds moving out of Western Germany were mainly re-employed in the euro-dollar market, sterling gradually recovered. On balance over the second quarter there was virtually no recorded withdrawal from overseas monetary balances in London; but the emergence of an unfavourable balancing item suggests that there may have been some unidentified outflows.

Following the devaluation of the French franc early in August, speculation again developed about the deutschemark. Several European currencies came under pressure because of a large movement of funds into Western Germany with the approach of the Federal elections at the end of September. Sterling was already in short supply as a result of the surplus in the U.K. balance of payments, and so was less affected than some other currencies; but the cumulative outflow during the third quarter was nevertheless large. Among identified movements, there were withdrawals from sterling balances, including a small seasonal reduction in the holdings of sterling area countries. At the same time, a very severe increase in the cost of forward cover brought quite unusually large interest differentials against sterling on a covered basis; as a result, banks in the United Kingdom increased their net foreign currency assets to some extent. As well as these recorded movements, the balancing item again indicated that some outflows were unrecorded.

$ to £

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

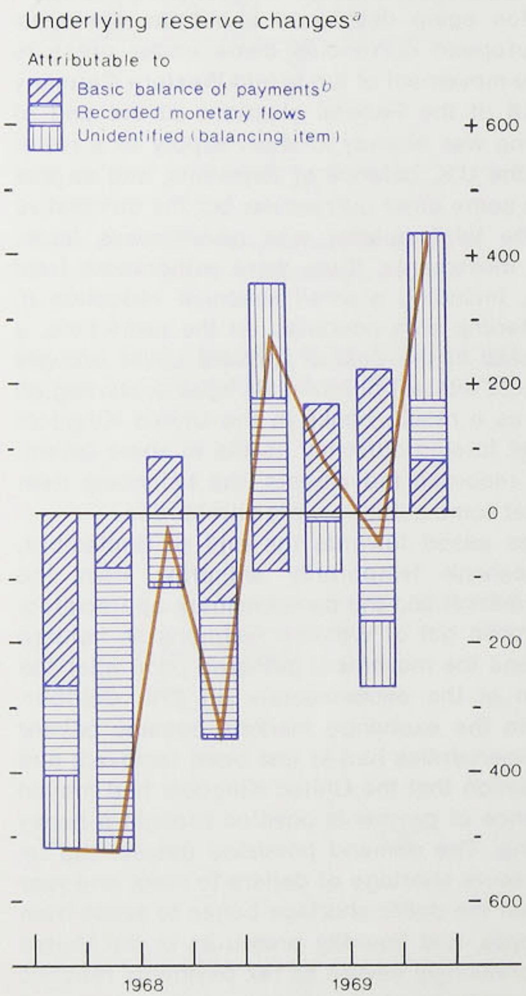


a Monthly, averages of working days.

These pressures eased towards the end of September, when the Bundesbank temporarily withdrew from the foreign exchange market and the deutschemark appreciated. Funds began to move out of Western Germany as holders took their profit, and the movement gathered pace after the formal revaluation of the deutschemark on 27th October. The atmosphere in the exchange markets became calmer now that parity uncertainties had at last been removed; and the growing realisation that the United Kingdom had moved into a strong balance of payments position brought a heavy demand for sterling. The demand persisted despite the re-emergence of an acute shortage of dollars to meet end-year requirements. When the dollar shortage began to abate from mid-January onwards, and liquidity pressures in the United Kingdom grew increasingly severe as tax payments reached their height, the demand for sterling became intense.

Part of the demand over the six months from October to March reflected the identified balance of payments surplus; part was to replenish monetary balances, which increased by over £500 million during this period; and a rather larger amount accrued in ways which have not yet been fully recorded, and so gave rise to a favourable balancing item in the balance of payments accounts. The additions to monetary balances included a substantial increase in the sterling

Not seasonally adjusted £ millions



The movement into balance of payments surplus laid the foundation for a substantial improvement in the reserve position.

a Changes in the official reserves before drawings on, or repayments of, support facilities.
b The balance on current and long-term capital accounts.

holdings of sterling area countries, especially in the seasonally favourable first quarter of 1970; by the end of March these holdings were higher than at any time since May 1966. The sterling holdings of non-sterling countries were also rebuilt during these six months (leaving aside the sterling held as the counterpart of central bank swaps), but were still fairly low by past standards at the end of March; accompanying the increase in gross holdings, U.K. sterling claims on this group of countries continued to rise. Changes in the foreign currency positions of banks in the United Kingdom also contributed to the movement in monetary balances. The banks converted some foreign currency deposits into sterling employment in the first quarter of the year, as a decline in euro-dollar rates markedly reduced the covered interest differentials against sterling and, at times, resulted in a margin in favour of sterling for very short-term funds; but the net amount so converted at the end of March was by no means unusually large.

The unrecorded inflows during these six months probably reflected both the reversal of earlier unrecorded outflows, as confidence in sterling increased, and movements of funds to ease the liquidity pressures on U.K. companies. Movements in the second category are likely to have included variations in the timing of commercial settlements – for example, by delaying payments for imports and requiring prompter payments for exports; and movements of funds over intra-company accounts between U.K. and overseas firms within the same company groups, to the benefit of the U.K. concerns.

Reserves and special facilities

As a result of the balance of payments surplus and the inflows of funds already described, the Exchange Equalisation Account took in very large amounts of exchange over the fifteen months to March 1970. The reserves also received £171 million from the first allocation of I.M.F. Special Drawing Rights at the beginning of this year.[1] By far the greater part of these accruals was used to repay earlier borrowing on special facilities in support of the reserves. But the reserves rose by £120 million over the period, to stand at £1,129 million at the end of March 1970.

Outstanding borrowing in support of the reserves was reduced by some £1,710 million over the fifteen months. Of this total, approaching £1,410 million occurred in the period from October 1969 to March 1970; earlier, there had been repayments of some £350 million in the first half of 1969, but some comparatively small net recourse to borrowing facilities in the troubled conditions in the third quarter of the year.

The reduction of £1,710 million in outstanding borrowing over the period as a whole included a net fall of £134 million in liabilities to the International Monetary Fund.[2] The remaining £500 million of the May 1965 drawing had been discharged by the end of March 1970 (although the final instalment was not due until May this year), and the 1966

1 The activation of the Special Drawing Rights scheme is described on page 11.
2 £27 million of the fall in liabilities to the Fund occurred as the result of sterling drawings by other countries.

drawing of £51 million to finance the United Kingdom's increased gold subscription to the Fund was also repaid; but the credit of £417 million arranged in June 1969 was fully drawn. Drawings on this credit matched the greater part of the repayments on the May 1965 drawing, a significant proportion of which was therefore effectively extended for a further period. At the end of March 1970 drawings outstanding on the I.M.F. totalled £1,000 million, comprising £583 million drawn in June 1968 as well as the June 1969 credit referred to above; repayments on these drawings are not due to begin until June 1971.

Other repayments during these fifteen months included the remaining £10 million due to Switzerland on the credit extended in parallel with the May 1965 drawing from the I.M.F. In addition, £168 million was repaid to the Bank for International Settlements,[1] together with the amount which had earlier been drawn on the Basle facility of September 1968 to finance fluctuations in the sterling balances of sterling area countries (which became due for repayment as balances were rebuilt). Much larger amounts were also repaid on short-term facilities, including the whole of the £479 million ($1,150 million) outstanding on the Federal Reserve $2,000 million swap arrangement; this facility had thus been fully reconstituted by the end of March 1970.

Short-term interest rates

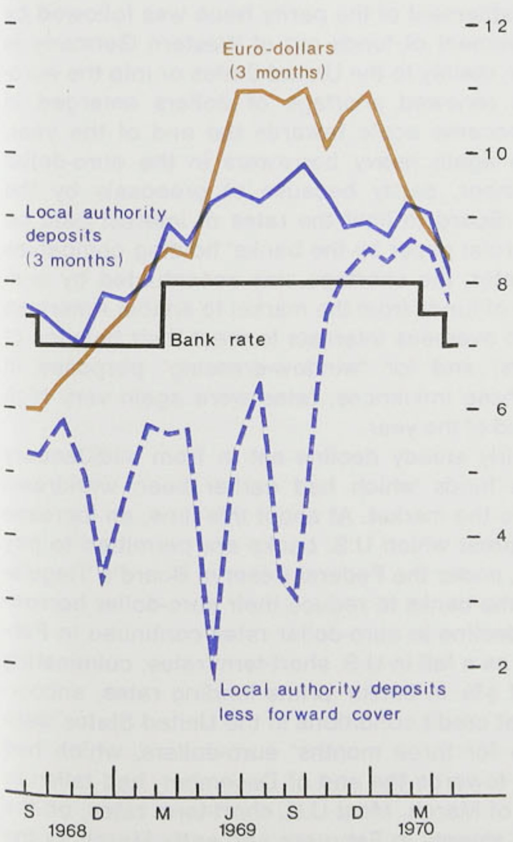
The main international short-term interest rates were moving strongly upwards at the end of 1968, as restrictive monetary policies in the United States led banks there to bid heavily for euro-dollar deposits. This continued to be a dominant influence in international markets throughout much of 1969. Rates had become very high by June, and generally remained so over the remainder of the year.

Euro-dollar rates rose strongly in January and February 1969 – the three months' rate from rather over 7% to about 8½% – partly because of the demand from U.S. banks and partly because of measures taken in a number of West European countries to restrict the flow of funds into the euro-dollar market. Most U.K. short-term rates followed euro-dollar rates upwards, to the point at which they stood well above the lowest rates charged by the London clearing banks for commercial advances (which are customarily related to Bank rate). To restrain the rise in these banks' advances, and to reinforce the policy of severe credit restraint, Bank rate was raised by 1%, to 8%, on 27th February. This movement was shortly followed by increases in the discount rates of a number of other countries.

Euro-dollar rates remained fairly stable in March and April 1969, but there was heavy speculative borrowing of euro-dollars early in May for conversion into deutschemarks. This borrowing, added to the continuing demand from U.S. banks, provoked a renewed rise in euro-dollar rates. Although the deutschemark speculation was short-lived, rates continued to

Per cent

Short-term interest rates in London[a]



Interest rates were unusually high during the second half of 1969.

[a] Monthly, averages of Fridays.

1 Comprising the £43 million outstanding under the credit arranged through the B.I.S. in November 1967, to finance the final repayment of the November 1964 drawing from the I.M.F.; and £125 million as the first four of eight quarterly instalments due under the June 1966 facility to finance fluctuations in sterling balances. (This included the instalment due in June 1970, which was repaid in advance in February.)

rise in May and early June, to reach new heights in the middle of that month – at one point almost 13% for three months' deposits – after U.S. banks had raised their prime lending rates to a record 8½%. Euro-dollar rates eased during the remainder of June and, with some slackening in the demand from U.S. banks, changed little in July. From May onwards, however, most euro-dollar rates were distinctly higher than comparable rates in the United Kingdom so that, even before allowing for the cost of forward cover, interest differentials were markedly unfavourable to sterling. This remained generally true over the remainder of the year.

The renewed speculation about the deutschemark in August and September caused euro-dollar rates to rise again, though not as high as in June; and official discount rates were raised in a number of West European countries and in Japan. When the deutschemark was allowed to appreciate, euro-dollar rates fell quite sharply until towards the end of October. Borrowing by U.S. banks was rather less active at this time; following the imposition by the Federal Reserve Board in mid-October of a 10% reserve requirement on euro-dollar borrowing in excess of the average amount borrowed in May, some banks increasingly resorted to cheaper domestic funds, or found other sources, to meet a heavy demand for credit.

Although the settlement of the parity issue was followed by a very large movement of funds out of Western Germany in the fourth quarter, mainly to the United States or into the euro-dollar market, a renewed shortage of dollars emerged in November and became acute towards the end of the year. U.S. banks were again heavy borrowers in the euro-dollar market in November, partly because of proposals by the Federal Reserve Board to limit the rates of interest paid on issues of commercial paper by the banks' holding companies and affiliates.[1] Later, the shortage was accentuated by end-year withdrawals of funds from the market to enable American corporations with overseas interests to meet their balance of payments targets, and for 'window-dressing' purposes in Europe. Under these influences, rates were again very high just before the end of the year.

However, a fairly steady decline set in from mid-January onwards, as the funds which had earlier been withdrawn began to return to the market. At about this time, an increase in the rate of interest which U.S. banks are permitted to pay on time deposits, under the Federal Reserve Board's 'Regulation Q', enabled the banks to reduce their euro-dollar borrowing a little. The decline in euro-dollar rates continued in February and March as a fall in U.S. short-term rates, culminating in a reduction of ½% in banks' prime lending rates, encouraged the view that credit conditions in the United States were easing. The rate for three months' euro-dollars, which had been over 11½% towards the end of December, had fallen to 8½% by the end of March. Most U.K. short-term rates, on the other hand, rose steeply in February and early March as the main revenue season, with its accompanying liquidity pressures, reached its peak. Domestic rates thus became significantly higher than euro-dollar rates and, even allowing for the cost of forward cover – much reduced now that confidence in sterling had been restored – the earlier margin in favour of

1 These proposals were not implemented.

euro-dollar deposits occasionally disappeared. The U.K. authorities judged that a modest reduction in Bank rate in these circumstances might help to avoid an excessive inflow of interest-sensitive funds and would not be inconsistent with the maintenance of monetary restraint; the rate was lowered in two stages, by $\frac{1}{2}$% on 5th March and another $\frac{1}{2}$% on 15th April, to 7%. The likelihood of a large inflow was further reduced when, following the first of these reductions, the West German and Italian discount rates were increased by $1\frac{1}{2}$%, to tighten credit in the former country and mainly to reduce exchange outflows from the latter.

International monetary developments

The French and German parity changes brought a calmer atmosphere in international monetary affairs. A number of other measures to the same end, which have been introduced or are in prospect, are outlined below. They include the first issue of a new reserve asset, Special Drawing Rights, by the I.M.F.; new arrangements for the sale of South African gold to the I.M.F.; and an increase in I.M.F. quotas.

The long process of obtaining formal agreement to the amendments to the Fund's Articles of Agreement necessary to establish the Special Drawing Rights scheme was completed during the summer of 1969; the amendments became effective on 28th July. At their annual meeting in September, the Fund Governors approved the proposal to activate the S.D.R. scheme, and the equivalent of $3,400 million was accordingly allocated to participants in the scheme on 1st January 1970. Further issues of some $3,000 million each are to follow in 1971 and 1972. Some 12% will thus be added to present world reserves over the three-year period. The new scheme will permit ordered additions to world reserves and will, it is hoped, lessen the risk of a more restrictive attitude to trade. In future, additional S.D.R.s may be created if there is general agreement among Fund members that world liquidity needs to be supplemented. Each member which has elected to participate in the scheme receives a share in total allocations related to the size of its Fund quota, and is then able to use S.D.R.s to meet balance of payments or reserve needs. Participants with strong reserves and balance of payments positions may from time to time be 'designated' to receive other members' S.D.R.s in exchange for convertible currencies, under rules which do not oblige them to take more than twice the amount of their own allocation. S.D.R.s have already been used by a number of participants, including the United Kingdom, both in transactions with the Fund and with other participants.

At the end of December 1969 the I.M.F. announced new arrangements for South African gold sales, under which South Africa may, subject to certain conditions, sell gold to the Fund – sales will not ordinarily be made to other monetary authorities. Newly-mined gold may be sold to the Fund when the market price falls to $35 per fine ounce or below and South Africa indicates that the sales are necessary to meet current foreign exchange needs; and sales may be made from South Africa's reserves, regardless of the market price, to the extent that the country has a foreign exchange requirement, over a six-monthly period, larger than can be met from the sale of all newly-mined gold in the market (or, if the market price is below the agreed minimum, to the Fund). South Africa may also make regular sales of up to $35 million a quarter from the stock of gold it held on 17th March 1968 – when the main central banks decided to withdraw from the gold market – as reduced by subsequent sales to monetary authorities (including the I.M.F.). Finally, South Africa may sell gold to the Fund when designated to receive Special Drawing Rights in return for its currency, and will continue to convert into gold, on request, rand purchased from the Fund by other member countries. Sales under these arrangements take place at the price of $35 per fine ounce, less the Fund's charge of $\frac{1}{4}$% in the case of sales to that organisation, and so put an effective floor to the price South Africa receives for its gold, though not to the market price.

Following the quinquennial review of I.M.F. quotas, aimed at increasing the size of the Fund to reflect the growth in the economies of member countries, formal decisions were taken in February 1970 to raise quotas by an average of 35%. These changes will take effect from the end of October 1970, if members have by then taken the necessary steps (including legislation) to put them into effect. Some adjustment in the relative size of national quotas is involved; the U.K. quota is to be increased by 15% from $2,440 million to $2,800 million.

The more settled conditions in the exchange markets provided an appropriate background for exploratory discussions by the Executive Board of the I.M.F. about a more flexible mechanism for exchange rate adjustments. The preliminary examination of this subject by Executive Directors, agreed upon at the Fund's annual meeting in September 1969, continues.

International capital markets

Medium and long-term international issues on European capital markets fell by over 20% in 1969, to a total of some $4,000 million. The fall was mainly in issues denominated in U.S. dollars, and reflected the sharp rise in U.S. interest rates and the subdued state of U.S. stock markets. The relatively favourable long-term interest rates in Western Germany encouraged a very large volume of borrowing in deutschemarks, which in fact exceeded the total of dollar issues in 1969. Though there were widespread expectations of a deutschemark revaluation, borrowers in the main seem to have judged that the resulting higher costs would be outweighed by the lower interest charges. Borrowing in other European currencies was also affected by higher interest rates, although bonds denominated in European units of account were slightly more popular than in 1968.[1]

As a result of the heavy short-term outflows from Western Germany following the change in parity, the authorities there imposed stricter limits on the raising of new issues, and no foreign issues were made between mid-December and the end of February. Indeed activity in international capital markets as a whole remained low during this period. Although

[1] The value of the unit can only change if all the seventeen European reference currencies change their gold parity, and if at least two thirds of these changes are in the same direction.

there were signs of some recovery in March, the amount of new issues announced in the first quarter totalled only some $850 million, mainly of dollar-denominated issues; this was about half the total announced in the first quarter of 1969.

Borrowing by U.K. public authorities in West European capital markets has already been mentioned as one factor affecting the long-term capital account in 1969. Last year's *Report* noted that nationalised corporations had, since February 1969, been encouraged to borrow funds abroad. They raised the equivalent of £71 million in this way during 1969. The first borrowing by a U.K. local authority in an overseas market occurred in August 1969, when Derbyshire County Council raised DM 50 million (£5·3 million) by way of a medium-term loan from a West German bank.

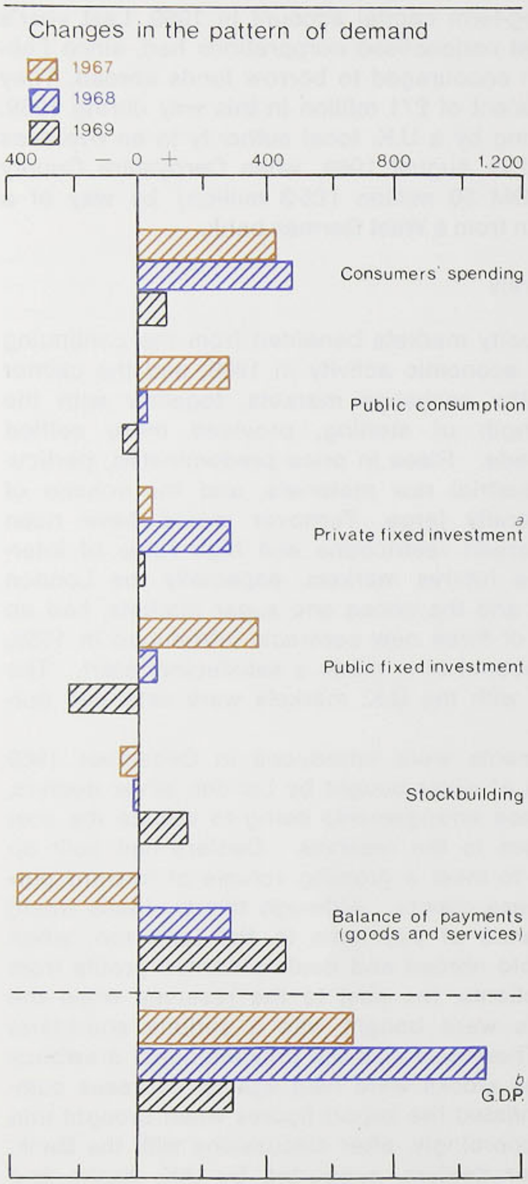
Commodity markets

The U.K. commodity markets benefited from the continuing growth of world economic activity in 1969; and the calmer atmosphere in the exchange markets, together with the increasing strength of sterling, provided more settled conditions for trade. Rises in price predominated, particularly among industrial raw materials, and the volume of trade was generally large. Turnover would have risen further but for credit restrictions and high rates of interest. Most of the futures markets, especially the London Metal Exchange and the cocoa and sugar markets, had an active year; but of three new contracts introduced in 1969, only one – in coconut oil – made a satisfactory start. The Bank's contacts with the U.K. markets were extended during the year.

New arrangements were introduced in December 1969 for the financing of silver bought by London silver dealers, the object of these arrangements being to reduce the cost of such purchases to the reserves. Dealers had built up stocks last year to meet a growing volume of forward purchases by overseas clients. Although this business would benefit the balance of payments in the long run, when the silver was sold abroad and dealers earned profits from their overseas clients, the cost to the reserves when the additional stocks were bought was a serious short-term disadvantage. There was also the presentational drawback that, although the stocks were held against overseas commitments, they inflated the import figures when brought into this country. Accordingly, after discussions with the Bank, the London silver dealers, supported by U.K. banks and other financial institutions concerned with the financing of silver stocks, agreed to reduce their holdings of silver financed in sterling to the level of stocks held at the end of 1968. These arrangements were expected to benefit the reserves, as existing stocks were refinanced in euro-dollars or reduced by sales abroad when forward contracts matured; it was also expected that silver imports would be reduced. Good progress towards both objectives was made during the following months.

Last year's *Report* mentioned that eighteen firms of U.K. commodity traders had accepted the Bank's offer of unsecured five-year loans to cover certain losses arising from

£ millions at 1963 prices



Output grew more slowly in 1969, but there was a significant shift in the pattern of demand away from consumption towards the balance of payments.

a Recorded figures, before adjustment for expenditure of some £30 million brought forward from 1969 into 1968 to benefit from temporarily higher rates of investment grants.

b Gross domestic product at market prices. The increases in G.D.P. at factor cost for the years shown were £515 millions, £900 millions and £370 millions respectively.

the devaluation of sterling in November 1967. Drawings on these loans, which carry interest at 5% per annum, amounted to £3½ million at the outset. As a result of repayments, the total outstanding at the end of February 1970 was less than £2½ million.

The domestic economy

As noted in last year's *Report*, consumer spending proved unexpectedly resilient in 1968, despite the severe measures to restrain it which were taken in the Budget of that year. The buoyancy of consumption contributed to a sharp rise in imports and, although the increase in domestic output exceeded expectations, the proportion of the additional resources which went to improve the balance of payments was smaller than had been intended. Additional measures to curb consumer demand were therefore taken in November 1968.

The Budget of April 1969 was directed mainly to the same ends. It was designed to yield a large surplus in the central government's accounts, and a considerable surplus for the public sector as a whole, in the financial year 1969/70. The main burden of the additional taxation imposed in the Budget fell initially on companies, and it was thought that these would be faced with a severe shortage of liquidity during the financial year. But the basic intention was to reinforce still further the restraints on consumers' expenditure; indeed, the official forecasts at the time of the Budget were that the volume of personal consumption would not increase at all, and might even fall a little. It was expected that output would rise by approaching 2%, compared with about 4% in the previous year, with the additional resources going mainly into exports and private fixed investment.

Broadly speaking, the pattern and growth of domestic activity in 1969 proved to be quite close to these expectations, although there were inevitable differences for particular components. The volume of domestic demand increased only slowly, and the main stimulus to output came from exports which, as already noted, benefited from an unexpectedly vigorous expansion of world trade and grew more strongly than had been foreseen. (However, the growth of exports eased towards the end of the year.) Under these influences, output rose very little in the first half of 1969, but increased moderately in the second half, at a rate broadly in line with productive potential.

The course of home demand

The Budget expectation that the rise in personal consumption would be checked in 1969 was not fully realised. The restraints imposed the previous November led to a fall in the first quarter of the year, but spending rose slowly during the succeeding quarters. Even so, the total for the whole year was less than ½% larger than in 1968, (when the increase had been over 2%). Most forms of personal expenditure grew very little, if at all, last year, and there was a sharp fall in purchases of cars and other durable goods. Consumption was still rising only slowly in the fourth quarter but, to judge from an unusually steep rise in earnings which began during this period and continued in the early months of 1970, a more vigorous increase in consumption could be expected before very long.

Public expenditure on goods and services continued to be severely restrained during 1969. In total, the volume was about 3% lower than in 1968, when growth had already been checked. Current expenditure was again a little lower, and public investment, which had been particularly large in 1967 and 1968, fell by about 7%. Most of this fall was in investment by public corporations – especially gas, electricity and air transport – but housing expenditure by local authorities was also much lower in 1969, mainly because of the stringent financial conditions. However, the fall in public sector investment was checked towards the end of 1969, and some increase in both current and capital expenditure is expected this year.

Despite the slow growth of demand and the shortage of liquidity, private fixed investment continued the recovery which began late in 1968. If rough allowance is made for a bunching of capital expenditure at the end of 1968, before investment grants were reduced at the end of that year, the increase in total expenditure in 1969 was probably about 7%. Within this total, manufacturing investment is thought to have risen by some 10½%, and some further rise is expected this year. Private investment in housing was very depressed in 1969 but an increase in lending by the building societies since the beginning of this year may hold out some promise. The rate of stockbuilding in 1969 was larger than for some years past, but stocks were still fairly low in relation to output at the end of last year.

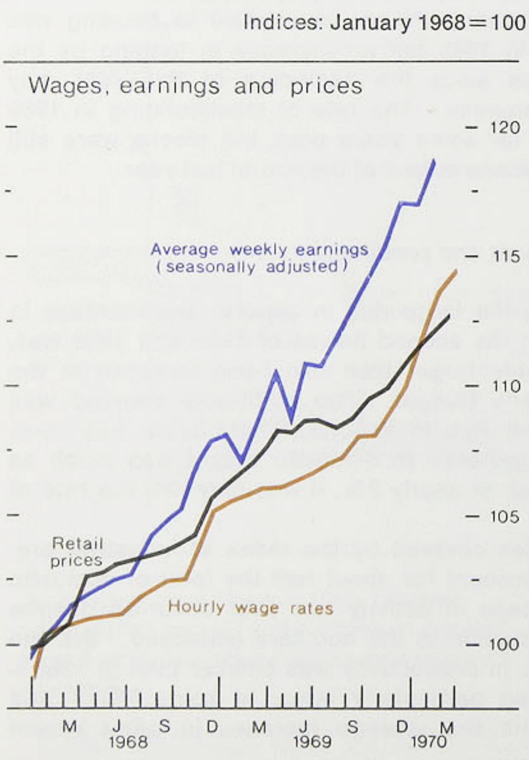
Output, employment and productivity

Mainly reflecting the large rise in exports, the increase in demand between the second halves of 1968 and 1969 was, on balance, a little larger than had been foreseen at the time of last year's Budget. The additional demand was met from a small rise in imports, where none had been expected. The increase in domestic output was much as had been forecast; at nearly 2%, it was only half the rate of growth in 1968.

In the industries covered by the index of industrial production, which account for about half the total of domestic output, the increase in activity last year occurred despite some further reduction in the numbers employed. But the rise of about 3% in productivity was smaller than in 1968 – when it had been particularly large, at some 7% – and more in line with the average increase in other recent years.

The modest rise in output last year was accompanied by a slight fall in the demand for labour. The numbers wholly unemployed in March 1970 – 567,000 (after seasonal adjustment), or 2½% of all employees – were somewhat higher than in March 1968 and 1969 and much higher than in other recent years. Yet the number of unfilled vacancies for adult workers, although a little lower at the beginning of 1970, still indicated a stronger demand for labour than the unemployment figures might suggest. Part of the explanation may be that, because of changes in the structure of industry, more workers have been moving from one job to another in recent years; and some may need a longer period of training before they can find alternative employment. These developments may have been facilitated by redundancy payments and wage-related unemployment benefits, which enable workers to take longer to find new employment matching their particular skills.

There was a very disturbing increase in industrial disputes last year. The number of working days lost had already risen sharply in 1968, when the total was swollen by a one-day stoppage throughout the engineering industries in May. Last year, however, stoppages were more numerous and more widely spread throughout the year. The total of working days lost was 6¾ million, nearly half as many again as in 1968 and the largest since 1957. The total measures only days lost in the plants where the stoppages occurred, and does not include workers laid off in other establishments because of the disruption of supplies; on the other hand, some of the production lost during disputes is made good by subsequent overtime working. The industries mainly affected last year were coal-mining and, once again, engineering and the motor industry. The amount of industrial unrest showed no signs of abating in the early months of 1970.



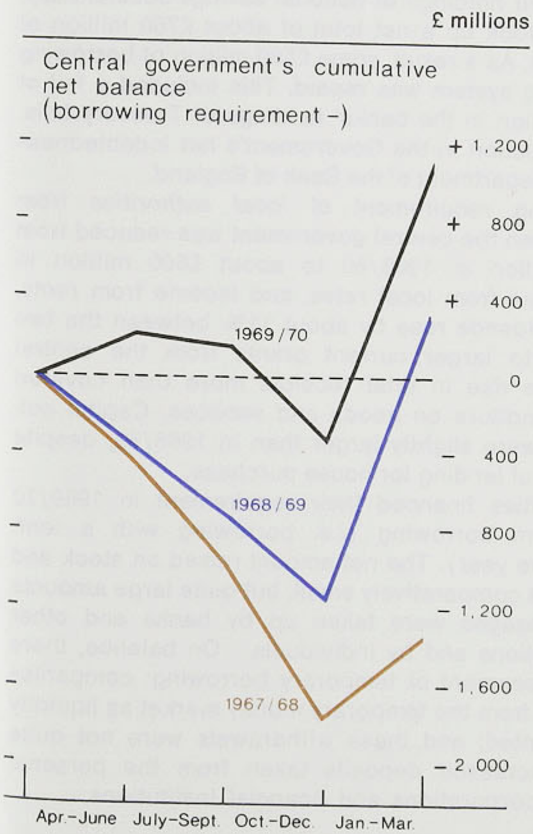
Earnings rose considerably faster than prices in 1969, particularly towards the end of the year.

The Government's powers to delay pay awards and price increases on which the National Board for Prices and Incomes have reported were allowed to lapse at the end of 1969, although increases which are referred to the Board can still be deferred for a maximum of three months. Between the fourth quarters of 1968 and 1969, the wage and salary bill as measured for national income purposes rose by 8%. But other types of income rose only half as fast as wage and salary earnings and, allowing also for larger payments of direct taxes and national insurance contributions, the rise in the total of disposable income was about 6%, or much the same as in other recent years. Consumer prices rose by about 5% during this period, so that the rise in real disposable income was fairly small over the year as a whole. Between the third and fourth quarters of last year, however, disposable incomes rose much faster than prices, so that real incomes began to rise very rapidly; and, to judge from the increase in wages and salary earnings, there was a further rise in real incomes at the beginning of this year.

Public sector finance

In the financial year 1969/70, the public sector was in surplus to the extent of some £550 million. This was a most unusual position – the sector had not been in surplus since the war – and followed a deficit of £450 million in the previous financial year. The improvement last year occurred mainly because of a large increase in the central government's surplus, which was more than sufficient to offset the borrowing requirement of local authorities – itself smaller than in 1968/69 – and of the public corporations.

The movement from deficit into surplus by the public sector was one very important reason for the stringent monetary conditions during the financial year, and for the contraction of domestic credit referred to below; others were the restraints on bank lending and the large official sales of gilt-edged stocks. As already noted, the resulting shortage of company liquidity, especially in the March quarter when tax payments to the Exchequer reached their height, was eased by the very large inflow of funds from overseas.



The central government's accounts were in unprecedentedly large surplus in 1969/70.

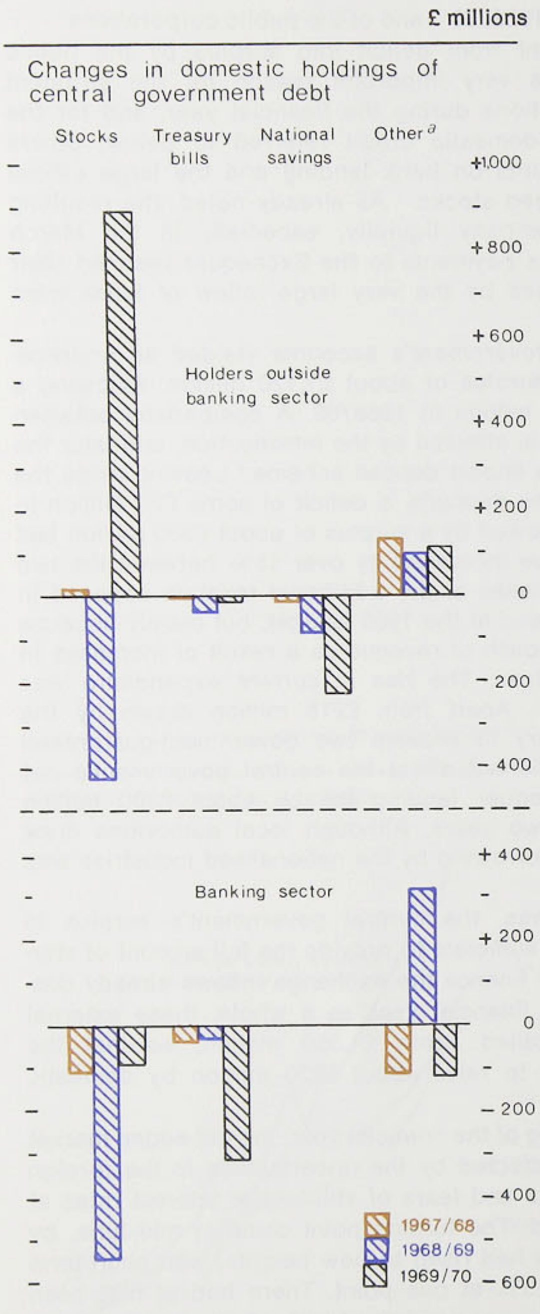
The *central government's* accounts yielded an unprecedentedly large surplus of about £1,120 million, following a surplus of £273 million in 1968/69. A comparison between these two years is affected by the introduction, and later the extension, of the import deposit scheme.[1] Leaving aside the proceeds of these deposits, a deficit of some £70 million in 1968/69 was followed by a surplus of about £930 million last year. Tax revenue increased by over 15% between the two years, partly because of the additional taxation imposed in November 1968 and in the 1969 Budget, but mainly because of the natural growth of revenue as a result of increases in incomes and prices. The rise in current expenditure was smaller, at 10%. Apart from £215 million drawn by the electricity industry to redeem two government-guaranteed stocks (which did not affect the central government's net balance),[2] Exchequer lending fell by about £200 million between these two years. Although local authorities drew more last year, borrowing by the nationalised industries was much smaller.

Large as it was, the central government's surplus in 1969/70 was not sufficient to provide the full amount of sterling necessary to finance the exchange inflows already described. Over the financial year as a whole, these external requirements totalled some £1,350 million, so that the Government had to raise about £230 million by domestic borrowing.

At the beginning of the financial year, the gilt-edged market was still weak, affected by the uncertainties in the foreign exchange markets and fears of still higher interest rates at home and abroad. The turning point came in mid-June, by which time yields had risen to new heights, with short-term yields touching 10% at one point. There had at first been little reaction to the announcement in the Budget that government and government-guaranteed stocks were to be exempted from long-term capital gains tax, and from corporation tax if companies held the securities for more than twelve months. But as sterling recovered from the speculative

1 As noted in last year's *Report*, import deposits became payable as from 27th November 1968 at the rate of 50% of the value of certain categories of U.K. imports – mainly manufactured goods. Deposits are repaid six months later. The scheme was extended in December 1969, but the deposit was reduced to 40%; there was a further reduction, to 30%, from May 1970.

2 Because redemptions of government and government-guaranteed stocks are not treated as a charge on the central government, but rather as a change in the composition of its financing, this amount has been offset elsewhere in the accounts, and has no effect on the net balance.



In 1969/70 investors outside the banking sector bought large amounts of gilt-edged stocks, and the Government repaid debt to banks.

a Tax reserve certificates; notes and coin; and, for the banking sector, net government indebtedness to the Banking Department of the Bank of England.

selling in May, and better trade figures foreshadowed the improvement in the balance of payments in the second quarter, there was a growing demand for gilt-edged stocks. The demand seems to have come first from private investors, and to have been partly at the expense of national savings, but it later spread to include the financial institutions and other investors. Thereafter, although the exchange market uncertainties caused a set-back in August and September, gilt-edged stocks were generally in demand over the remainder of the financial year, and the demand became very strong as the full extent of the recovery in the balance of payments became apparent.

On balance, domestic investors other than the banks and discount houses bought almost £900 million of gilt-edged stocks of all maturities during the financial year. Although they reduced their holdings of national savings substantially, these investors took up a net total of about £760 million of government debt. As a result, some £530 million of borrowing from the banking system was repaid. This included a fall of almost £320 million in the banks' holdings of Treasury bills, and a large reduction in the Government's net indebtedness to the Banking Department of the Bank of England.

The borrowing requirement of *local authorities* from sources other than the central government was reduced from about £675 million in 1968/69 to about £500 million in 1969/70. Revenue from local rates, and income from rents, interest and dividends rose by about 11% between the two years. Thanks to larger current grants from the central government, the rise in total receipts more than covered increased expenditure on goods and services. Capital outlays, however, were slightly larger than in 1968/69, despite net repayments of lending for house purchase.

Local authorities financed their requirement in 1969/70 from longer-term borrowing (*i.e.* borrowing with a term of more than one year). The net amount raised on stock and bond issues was comparatively small, but quite large amounts of market mortgages were taken up by banks and other financial institutions and by individuals. On balance, there was a small repayment of temporary borrowing: companies withdrew funds from the temporary money market as liquidity pressures mounted; and these withdrawals were not quite matched by increased deposits taken from the personal sector, public corporations and financial institutions.

Main sources of credit

Credit restriction

As noted in last year's *Report*, the banks and finance houses had been asked in November 1968 to ensure that their restricted lending – that is sterling lending to the domestic private sector and to overseas borrowers by way of advances and commercial bills, other than fixed rate lending under the special schemes for export and shipbuilding finance – was brought within stipulated limits by March 1969. To support this policy of credit restraint, Bank rate was raised by 1%, to 8%, on 27th February 1969, and there were corresponding increases in the rates directly linked to it – including the clearing banks' lending rates.

For some months thereafter, the clearing banks had considerable difficulty in achieving sustained reductions in their restricted lending because, with credit very difficult to obtain elsewhere and very expensive, companies and others made use of their existing facilities with these banks. After some earlier reduction in lending had been sharply reversed in May 1969, the Bank of England informed the clearing banks that the rate of interest payable on their Special Deposits would be halved with effect from 2nd June. The demand for bank credit from companies was intensified when, from mid-June onwards, other financial institutions found it more attractive to place their funds in gilt-edged stocks than to lend to companies through new issues or in other ways; and the unusually large flows of revenue to the Exchequer last year added to the pressures on the banks. These difficulties were reviewed when the clearing bank chairmen were invited to discuss the position with the Chancellor of the Exchequer and the Governor early in September; but, although the exceptional pressures were acknowledged, it was stressed that there could be no relaxation of credit restrictions at that time. Later, the clearing banks announced that, with the approval of the Bank of England, their lending rates were to be increased by $\frac{1}{2}$% as from 1st October, except where this was not compatible with existing firm arrangements. It was hoped in this way to reduce the demand for facilities from these banks by bringing the rates they charged closer to the rates charged elsewhere in the market. After the increase, the lowest rate charged to first-class commercial borrowers was 1% above Bank rate, with a minimum of 5%; but the banks stated that the 5$\frac{1}{2}$% fixed rate for medium and long-term credits under the special export and shipbuilding schemes, and the arrangements for short-term export finance at Bank rate, would continue. Although the announcement on 21st October of the extension of the import deposit scheme for a further period from December 1969 may have added to the demand for advances, the banks succeeded in reducing their restricted lending somewhat in the closing months of 1969, because the inflow from overseas eased the liquidity pressures on companies; and the increase in lending in the first quarter of this year was comparatively modest, given the exceptionally large tax payments at that time.

Some modifications to credit controls were announced in the Budget last April. Over the year to March 1971, a gradual and moderate increase was envisaged in lending subject to restriction. At the same time, increased use was to be made of the Special Deposits scheme to influence the lending of the clearing banks and the Scottish banks; and Cash Deposits would be called for from other banks if official guidance on lending was not followed. To emphasise the need for continuing restraint the Bank at once called for additions to Special Deposits, to be paid by 6th May: the clearing banks were asked for an additional $\frac{1}{2}$%, making a total equivalent to 2$\frac{1}{2}$% of their gross deposits; as on earlier occasions, the call on the Scottish banks was smaller, at $\frac{1}{4}$%, to a total of 1$\frac{1}{4}$%.

The full rate of interest on the clearing banks' Special Deposits was restored as from 15th April.

The greater use of Special Deposits and Cash Deposits as necessary will give the authorities more flexibility in their control of bank lending. However, it is still desirable to indicate the growth of lending judged to be appropriate in particular circumstances. The Bank therefore asked that restricted lending by the clearing banks and the Scottish banks should rise only gradually and by not more than about 5% in aggregate, over the twelve months from mid-March; other banks were asked individually to keep the increase in their lending over the same period to within 7%. (The higher figure chosen for these banks reflected the fact that, as a group, their restricted lending was somewhat below the earlier ceiling at the starting point for the new arrangements in March 1970, whereas lending by the clearing and Scottish banks was some 6% to 7% above.) The finance houses were asked to keep any increase in their lending to within 5% of the amount outstanding at the end of March 1970. No relaxation was intended on lending, whether by banks or finance houses, for personal consumption or imports (or for the financing of import deposits); additional lending should continue to be directed to the financing of exports not covered by the fixed rate schemes, and of production and investment – both in manufacturing industry and agriculture – which would benefit exports and invisible earnings, or save imports.

Banks and discount houses

Domestic deposits with the banking sector increased by only £170 million ($1\frac{1}{2}$%) in the year ending March 1970, despite the inflow of funds from abroad in the second half of the period. This contrasts strongly with the increase of $7\frac{1}{2}$% in 1968/69, and reflects the movement into surplus by the public sector, the continued restrictions on the availability of credit, and the large purchases of gilt-edged stocks by investors outside the banking sector. Advances to U.K. companies rose by some £550 million, including a large amount of fixed rate lending under the special schemes for export and shipbuilding finance, but other domestic private borrowing was slightly reduced. As already noted, the banks' holdings of government debt, and especially Treasury bills, fell sharply. Lending to local authorities, however, increased.

If allowance is made for the effects of accounting changes associated with the full disclosure of their profits and reserves,[1] the *London clearing banks'* net deposits did not change very much over the year to mid-March 1970. The additions to deposits which might have accompanied the rise of some £300 million over the year in the banks' advances, and the inflow of foreign exchange, seem to have been broadly offset by the contractionary effects of the public sector's surplus and the large purchases of gilt-edged stocks by investors other than banks. The rise in

1 Prior to the accounting changes, the banks' figures of net deposits included not only deposit liabilities but also provisions for contingencies. As from mid-January 1970, these internal reserves have been excluded from the total. Some details of the changes were given in the *Quarterly Bulletin* for June 1970, on pages 244 and 245.

advances reflected increased borrowing by nearly all the main manufacturing industries; most other borrowers reduced their advances during the year, and there was a further reduction in personal lending.

Among liquid assets, a very sharp fall in Treasury bill holdings, reflecting the central government's surplus, was partly offset by a rise in holdings of commercial bills. The banks also drew down their balances at the Bank of England and, in total, liquid assets were reduced by over £180 million. However, the liquidity ratio – the ratio of liquid assets to gross deposits – benefited from the reduction in the total of deposits which resulted from the accounting changes already mentioned; and the ratio was fractionally higher in March 1970, at 29·7%, than it had been a year earlier. As well as reducing their liquid assets, the banks sold well over £100 million of gilt-edged stocks although, as with deposits, the figure can only be approximate because of the accounting changes.

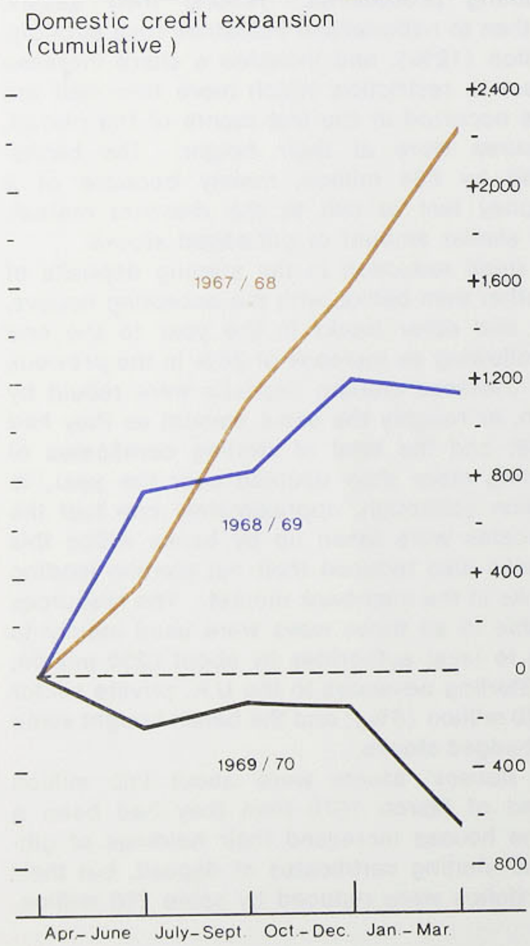
A fall in net deposits with the *Scottish banks* over the year to mid-March 1970 was again mainly connected with changed accounting procedures. Among their assets, advances other than to nationalised industries rose strongly, by over £60 million (12%), and included a sharp increase in lending subject to restriction; much more than half the rise in advances occurred in the last month of the period, when tax pressures were at their height. The banks' liquid assets fell by £34 million, mainly because of a reduction in money lent at call to the discount market, and they sold a similar amount of gilt-edged stocks.

There was a small reduction in the sterling deposits of U.K. residents, other than banks, with the *accepting houses, overseas banks and other banks* in the year to the end of March 1970, following an increase of 24% in the previous year. However, overseas sterling deposits were rebuilt by over £110 million, or roughly the same amount as they had fallen in 1968/69; and the total of sterling certificates of deposit outstanding more than doubled over the year, to nearly £550 million (although, approximately one half the additional certificates were taken up by banks within this group). The banks also reduced their net sterling lending to other U.K. banks in the inter-bank market. The resources becoming available in all these ways were used mainly to increase lending to local authorities by about £250 million, or some 19%. Sterling advances to the U.K. private sector rose by nearly £70 million (6%); and the banks bought some £35 million of gilt-edged stocks.

The *discount houses'* assets were about £60 million larger at the end of March 1970 than they had been a year earlier. The houses increased their holdings of gilt-edged stocks and sterling certificates of deposit, but their Treasury bill portfolios were reduced by some £60 million.

Finance houses

Lending by the finance houses fell by about 2% over the financial year to March 1970. Allowing for seasonal factors, there was a sharp fall in the June quarter of 1969, Seasonally adjusted £ millions



The degree of monetary stringency in 1969/70 is reflected in the contraction of domestic credit.

and the total rose only slightly over the remainder of the period.

During 1969, the Bank agreed that finance houses might transfer their leasing business to separate subsidiaries, in order that they should cease to be at a disadvantage compared with independent leasing companies. A subsidiary's borrowing and lending operations would be entirely independent of those of the parent finance house. Its borrowing from banks and other financial institutions would be governed by the restrictions on lending applicable to those institutions, and its short-term borrowing from the parent company would be set against the parent's lending ceiling. However, these subsidiaries usually obtain most of their finance by medium and long-term borrowing. The parent company's participation in such capital might not exceed a stipulated small proportion of the total, but the amount which the parent was allowed to contribute in this way would not count against its ceiling as restricted lending. A number of finance houses have set up such leasing subsidiaries, and similar arrangements apply to the banks.

As from the beginning of April 1970, the Bank also agreed to the exclusion of interest charges from the calculation of lending by the finance houses for the purpose of credit control. There were a number of reasons for this change. Inclusion of interest charges causes the amount of lending to be overstated when rates are rising or when the terms of business are lengthening; and it may introduce a bias against lending to industry, where terms tend to be relatively long. There was also a particular reason for making the change at that time. For certain forms of lending agreement the interest charge used to be reduced by the amount of tax relief the borrower could claim; but, as a result of the 1969 Finance Act, this deduction of tax relief by the finance houses ceased in April 1970. If the calculation of the houses' lending had continued, as in the past, to include interest charges, there would have been a sudden increase in the total when the tax deductions ceased, which would have reflected not new business but only the changed taxation arrangements.

Domestic credit and money supply

In May 1969, the Chancellor of the Exchequer stated that the Government's objectives and policies implied that domestic credit expansion during the financial year ending in March 1970 would not exceed £400 million.[1] This was only about one third of the amount of credit expansion during 1968/69.

In the event, domestic credit contracted by over £600 million during the financial year 1969/70. The difference compared with the modest expansion which had earlier been contemplated was mainly attributable to the very large purchases of gilt-edged stocks by investors other than banks during the

1 The concept of D.C.E., and the methods of measurement, were described in an article in the September 1969 *Bulletin*. The figures of money supply are based on the definition used in the Central Statistical Office's publication *Financial Statistics*.

year; and to a larger than expected surplus in the public sector because of the extension of the import deposit scheme.

Inflows of funds from abroad do not directly affect the total of domestic credit expansion, but they tend to increase the money supply.[1] The rise in the money supply was nevertheless modest during the financial year; there was an increase of £300 million, or about 2%, compared with 6% in 1968/69. This is another indication of the considerable financial stringency engendered by the public sector surplus, the official sales of gilt-edged stocks, and the restraints on bank credit.

1 See footnote *1* on page 22.

The work of the Bank

This part of the *Report* describes aspects of the Bank's work and internal affairs during the year ended 28th February 1970. Like earlier *Reports*, it contains statistics of the note issue and of various other operations handled by the Bank.

Of particular note this year was the examination of the Bank by the Select Committee on Nationalised Industries. The Committee was appointed by Parliament in February 1969 and was authorised to examine and report, among other things, upon such activities of the Bank of England as were not:

(i) activities in the formulation and execution of monetary and financial policy, including responsibilities for the management of the gilt-edged, money and foreign exchange markets;

(ii) activities, as agent of the Treasury, in managing the Exchange Equalisation Account and administering exchange control; or

(iii) activities as a banker to other banks and private customers.

Sub-Committee B of the Select Committee, under the Chairmanship of Colonel C. G. Lancaster, M.P., was charged with the responsibility for this enquiry and began taking evidence in April 1969. The Bank submitted written evidence to the Sub-Committee and attended to give oral evidence on ten occasions.

The report of the Select Committee, which was published on 28th May 1970, contains a number of recommendations. One major recommendation was that the Bank's accounts should be published as part of their *Annual Report.* The Bank are making preparations to do this in the future.

Another notable feature of the year under review was the study of the Bank's organisation by a firm of management consultants, McKinsey and Company. This is among the topics described in the following pages, which also include a brief outline of the changes which have occurred in departmental responsibilities, partly at the recommendation of McKinsey and Company; the resulting departmental structure is shown in diagram form on page 42.

Once again, the Bank are very pleased to acknowledge the help and co-operation received from banks and other financial institutions, both in the provision of statistics and in other respects. As in the past, the assistance given has been of much value in the formulation and execution of monetary policy.

The note issue

Note circulation

The note circulation reached a peak of £3,485 million on 22nd December 1969; this was £100 million higher than the previous peak, reached on 21st December 1968, and £272 million higher than at Christmas 1967. The Bank ceased to issue 10*s.* notes from 14th October 1969, when 50*p* coins were first issued; 10*s.* notes will remain legal tender until, after the statutory notice has been given, they are called in.

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	**1966**	**1967**	**1968**	**1969**	**1970**
Issued:					
New notes	2,971	2,633	2,833	2,960	2,860
Reissued notes	140	311	323	372	520
Paid	2,931	2,858	3,010	3,208	3,276
In circulation at the end of year	2,784	2,870	3,016	3,140	3,244
Percentage increase in circulation over the year	*6·9*	*3·1*	*5·1*	*4·1*	*3·3*

Value of notes issued by denominations

£ millions

Year to end of February	**1966**	**1967**	**1968**	**1969**	**1970**
10*s.*	256	219	221	227	139
£1	1,551	1,319	1,374	1,403	1,409
£5	1,217	1,296	1,427	1,554	1,642
£10	87	110	127	146	168
Other notes[a]	—	—	7	2	22

a 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. The issue of £20, £50, £100, £500 and £1,000 notes was discontinued in 1943; but £20 notes of a different design began to be issued again on 9th July 1970, as part of a new series of bank notes announced in March 1968.

Value of notes in circulation by denominations

£ thousands

End of February	**1966**	**1967**	**1968**	**1969**	**1970**
10s.	104,731	104,470	107,258	109,223	42,350
£1	1,024,270	971,966	972,251	956,887	949,420
£5	1,397,612	1,490,147	1,577,541	1,677,518	1,796,668
£10	147,387	193,406	242,451	278,072	314,482
£20-£1,000	1,111	1,074	1,026	985	974
Over £1,000	109,200	108,550	115,650	117,665	139,790
Total	**2,784,311**	**2,869,613**	**3,016,177**	**3,140,350**	**3,243,684**

Proportion of notes in circulation by denominations

Per cent by value of total circulation

End of February	1956[a]	1966	1967	1968	1969	1970
10*s.*	5·3	3·7	3·6	3·6	3·5	1·3
£1	75·9	36·8	33·9	32·2	30·5	29·3
£5	13·5	50·2	51·9	52·3	53·4	55·4
£10	0·2	5·3	6·7	8·0	8·9	9·7
£20-£1,000		0·1	0·1	0·1	0·0	0·0
Over £1,000	5·1	3·9	3·8	3·8	3·7	4·3
	100·0	**100·0**	**100·0**	**100·0**	**100·0**	**100·0**

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

Fiduciary issue

The fiduciary issue rose on balance over the year by £50 million, to £3,250 million. The changes were as follows:

				£ millions
1969 February	28			3,200
March	28	+50		
April	3	+50		
April	18		−50	
June	2	+50		
July	14	+50		
July	28	+50		
August	6		−50	
September	11		−50	
September	25		−50	
November	25	+50		
December	3	+50		
December	8	+50		
December	12	+50		
December	16	+50		
1970 January	1		−50	
January	6		−50	
January	9		−50	
January	15		−50	
January	21		−50	3,250

Treasury bills

The larger surplus in the central government's accounts and the substantial official sales of gilt-edged stocks caused a fall in the amount of Treasury bills offered in the year ended 28th February 1970. The total fell by £1,180 million, to £5,920 million, following a reduction of £3,000 million in the previous year. The total of Treasury bills allotted was £30 million less than the amount offered, because the size of the allotment on 9th May 1969 was reduced. In the closing weeks of the period under review, the amount offered at the weekly tenders was no more than £80 million – the smallest figure in post-war years.

Tenders in 1969/70

Date	Amount offered £ millions	Number of applications	Amount applied for £ millions	Amount allotted £ millions	Lowest price accepted for 91-day bills	Average rate of discount per cent
1969 Mar. 7	100	202	206	100	£98:1: 4	£7:14: 7·42
14	120	199	219	120	£98:1: –	£7:15:11·96
21	120	177	223	120	£98:1: –	£7:16: 2·78
28	150	151	238	150	£98:1: 2	£7:15: 7·72
Apr. 3	150	166	247	150	£98:1: 3	£7:15: 2·96
11	130	206	251	130	£98:1: 1	£7:15: 8·02
18	130	204	225	130	£98:1: 1	£7:15:11·45
25	110	163	207	110	£98:1: 1	£7:15:11·45
May 2	100	209	236	100	£98:1: 1	£7:15: 8·54
9	100	175	221	70	£98:1: –[a]	£7:16: 0·83
16	100	145	190	100	£98:–:11	£7:16: 6·67
23	140	79	200	140	£98:–:10	£7:17: 0·11
30	130	123	190	130	£98:–:10	£7:17: 0·10
June 6	140	152	222	140	£98:–:10	£7:16:11·94
13	110	150	161	110	£98:–: 6	£7:18: 2·14
20	140	146	221	140	£98:–: 6	£7:18: 3·87
27	120	164	236	120	£98:–: 8	£7:17: 7·11
July 4	120	169	236	120	£98:–: 8	£7:17: 5·49
11	100	172	201	100	£98:–: 8	£7:17: 5·27
18	100	159	206	100	£98:–: 8	£7:17: 5·41
25	120	166	237	120	£98:–:11	£7:16: 7·27
Aug. 1	100	203	219	100	£98:1: –	£7:16: 1·39
8	150	209	272	150	£98:1: –	£7:15:10·86
15	100	172	234	100	£98:1: 1	£7:15:10·13
22	140	204	237	140	£98:1: 1	£7:15:10·16
29	120	153	237	120	£98:1: 1	£7:15: 9·67
Sept. 5	150	199	227	150	£98:1: 2	£7:15: 8·19
12	120	172	202	120	£98:1: 1	£7:15:10·62
19	130	154	220	130	£98:1: 1	£7:15:10·87
26	110	170	196	110	£98:1: –	£7:16: 2·54
Oct. 3	120	189	219	120	£98:1: 5	£7:14: 8·23
10	110	199	207	110	£98:1: 8	£7:13: 7·81
17	100	201	209	100	£98:1: 2	£7:14: 1·82
24	120	187	211	120	£98:1: 3	£7:15: 2·94
31	100	189	204	100	£98:1: 4	£7:14:10·32
Nov. 7	100	202	193	100	£98:1: 6	£7:14: 4·19
14	100	207	207	100	£98:1: 6	£7:14: 3·26
21	100	187	214	100	£98:1: 6	£7:14: 0·76
28	100	183	199	100	£98:1: 4	£7:14: 9·17
Dec. 5	120	188	238	120	£98:1: 3	£7:15: 1·66
12	120	189	248	120	£98:1: 6	£7:14: 3·26
19	120	125	251	120	£98:1: 8	£7:13: 6·83
24	120	155	233	120	£98:1:10	£7:12:11·99
1970 Jan. 2	100	218	231	100	£98:2: 1	£7:11: 9·70
9	100	198	193	100	£98:2: 2	£7:11: 7·17
16	100	184	214	100	£98:2: 3	£7:10:11·93
23	100	196	191	100	£98:2: 5	£7:10: 5·81
30	100	193	243	100	£98:2: 6[a]	£7:10: 2·54
Feb. 6	100	172	214	100	£98:2: 1	£7:11: 3·68
13	80	177	181	80	£98:1:11	£7:12: 3·45
20	80	170	185	80	£98:2: –[a]	£7:12: 2·99
27	80	167	174	80	£98:2: 1	£7:11:10·43

a At these three tenders, the discount market tendered below the lowest price accepted, and so were allotted no bills.

Tax reserve certificates

Once again, there was an increase in the number, but a fall in the value, of tax reserve certificates issued in the year to the end of February 1970. The value of applications was £35 million lower than in the previous year. This was attributable to a reduction in the amount of personal certificates applied for, which had risen sharply a year earlier in preparation for the special charge on investment income due at the beginning of 1969. Applications for company certificates were little changed, after a substantial fall in 1968/69.

The value of certificates used in payment of taxes rose by £44 million last year, and there was an increase also in the amount encashed. In the result, the total of certificates surrendered was larger than the amount applied for; and the value of certificates outstanding fell by £50 million over the year, to £302 million at the end of February 1970.

	Applications			Surrenders					
	Number	Average value	Total value	Cancelled in payment of taxes	Repaid without interest	Repaid with interest	Total	Net change during year	Outstanding at end of period
Year to end-February	000's	£000's	£ millions						
1969									
Old series[a]	—	—	—	15	—	—	15	−15	5
New series:									
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**
1970									
Old series[a]	—	—	—	3	—	—	3	− 3	2
New series:									
Company	24	6·0	145	167	—	11	178	−33	148
Personal	170	0·5	98	109	3	—	112	−14	152
Total	**194**	**1·2**	**243**	**279**	**3**	**11**	**293**	**−50**	**302**

a Issued before 27.6.66.

The conditions governing both company and personal certificates remained unchanged during the year, except for the following changes in the rates of interest paid on company certificates:

Per cent	Interest rate when used in payment of taxes	Interest rate for cash repayments
	All rates tax free	
Until 21.3.69	$4\frac{7}{8}$	3
From 22.3.69	$5\frac{1}{2}$	3
From 29.9.69	$5\frac{3}{4}$	3
From 25.2.70	$5\frac{1}{2}$	3

The rate of interest on personal certificates remained unchanged at 4% tax free throughout the year; no interest is allowed on certificates encashed.

The Bank's branches

The functions of the Bank's branches were described in an article in the December 1963 Bulletin, *page 279. Branches are maintained at Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle upon Tyne, Southampton and Law Courts (London).*

All the branches reported a continued high level of activity throughout the year. Over the past ten years, the proportion of bank notes issued and paid through the Bank's branches has risen from about 45% to 70% of the totals shown on page 25. In 1969, however, the number of notes handled at the branches increased only slightly as compared with previous years, reflecting the comparatively small rise in the note issue last year. On exchange control work, most of the branches reported a further increase in the number of applications handled. The branches also have the important task of developing and maintaining contacts with industry and commerce in their areas and of keeping head office informed of local developments. The amount of time devoted by Agents and senior branch staff to this work continues to grow.

The premises occupied by some of the branches have been in use for very many years. The oldest, at Newcastle, dates from 1838, and others from the middle or latter part of the last century. Such buildings are no longer adequate to meet present-day needs, and few can be suitably enlarged or redeveloped. As mentioned in previous *Reports*, new premises are under construction for the branches at Manchester, Birmingham, Leeds and Newcastle. In some cases the work has been delayed because of structural difficulties, but it is expected that the buildings at Manchester and Birmingham will be ready for occupation towards the end of this year, and those at Leeds and Newcastle early in 1971.

Management of stock registers

The nominal totals in recent years (and, for 1970, the number of accounts) of the different groups of stocks managed by the Bank are given overleaf.

£ millions End of February	1967	1968	1969	1970	Number of accounts (in thousands) 1970
British government securities:					
Stock[a]	19,595	20,288[b]	19,239[c]	19,835	1,896
Bearer bonds	15	15	15	15	
	19,610	**20,303**	**19,254**	**19,850**	
Other securities:					
Government guaranteed	1,762	1,759	1,742[c]	1,524	205
Commonweath etc.	221	242	229	226	80
Local authorities	542	549	591	652[d]	194
Public boards etc.	123	121	139	163	39
Miscellaneous	15	15	15	15	1
	2,663	**2,686**	**2,716**	**2,580**	**519**
Total	**22,273**	**22,989**	**21,970**	**22,430**	**2,415**

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

b The increase compared with the previous year largely reflects the issue of Treasury stock in exchange for the securities of the re-nationalised steel companies.

c £16 million previously classified as government-guaranteed stock is now included in the total of British government stock. This is because, under the terms of the Airways Corporation Act 1969, H.M. Treasury assumed full liability for stock of the British European Airways Corporation with effect from 1st April 1968.

d Includes Middlesex County Council stocks which the Bank began to manage during the year; see "Additional registers" below.

Transfers

The number of transfers registered was above average, reflecting the general improvement in sentiment in the gilt-edged market from mid-June onwards:

Thousands Year ended February	1967	1968	1969	1970
	678	752	678	757

Operations

Operations undertaken during the year included:

£ millions nominal			
Repayments			
At par			
3½% Conversion Stock 1969	1969	1 March	329·0
Agricultural Mortgage Corporation Limited 3% Debenture Stock 1966/69		15 March	0·8
Swansea Corporation 7⅝% Bonds 19th March 1969		19 March	1·0
Liverpool Corporation 7½% Bonds 2nd April 1969		2 April	2·0
3% Funding Loan 1959/69		15 April	168·0
Hull Corporation 3% Redeemable Stock 1964/69		1 August	1·0
6½% Exchequer Loan 1969		11 August	411·3
British Electricity 4½% Guaranteed Stock 1967/69		11 August	200·0
South of Scotland Electricity 4½% Guaranteed Stock 1967/69		11 August	15·0
Liverpool Corporation 6½% Bonds 13th August 1969		13 August	1·0

Repayments *(continued)*			
Liverpool Corporation 7¾% Bonds 20th August 1969		20 August	2·0
Swansea Corporation 7¾% Bonds 29th October 1969		29 October	0·5
Queensland Government 3½% Inscribed Stock 1950/70		1970 1 January	1·8
2¾% London County Consolidated Stock 1960/70		5 January	10·0
Issues for cash			
Swansea Corporation 9⅜% Bonds 25th March 1970	@ £100%	1969 19 March	1·0
Liverpool Corporation 9¼% Bonds 8th April 1970	@ £100%	2 April	2·0
Agricultural Mortgage Corporation Limited 9½% Debenture Stock 1983/86	@ £99:10:–%	25 April	20·0
Agricultural Mortgage Corporation Limited 10% Bonds 24th June 1970	@ £99:18:9%	18 June	1·0
9% Treasury Loan 1994	@ £96:10:–%	23 July	400·0
Liverpool Corporation 10¼% Bonds 26th August 1970	@ £100%	20 August	3·0
Corporation of London 9½% Stock 1976/80	@ £97:5:–%	24 September	5·0
8¾% Treasury Loan 1997	@ £95:–:–%	9 October	400·0
Greater London 9½% Stock 1980/82	@ £97:5:–% [a]	17 October	25·0
Swansea Corporation 10% Bonds 4th November 1970	@ £100%	29 October	0·5
West Glamorgan Water Board 9⅝% Bonds 23rd December 1970	@ £99:18:9%	17 December	0·5
6¾% Exchequer Loan 1971 "A" (further tranche)	@ £96:6:3%	1970 5 January	200·0
Liverpool Corporation 9¾% Stock 1980/84	@ £97:15:–%	9 January	10·0
8½% Treasury Loan 1980/82	@ £96:5:–%	28 January	600·0
Agricultural Mortgage Corporation Limited 9% Bonds 8th February 1971	@ £99:18:9%	2 February	2·0
Agricultural Mortgage Corporation Limited 9⅛% Bonds 31st January 1972	@ £100%	2 February	2·0

a Minimum tender price.

Conversions

On 23rd January 1970, holders of 3% Savings Bonds 1960/70 were offered exchange into 8½% Treasury Loan 1980/82 on 1st March 1970 – six months in advance of final maturity. The terms of the offer were £100 stock for each £100 nominal surrendered, with a cash payment of £1:2:6 per cent. The offer was accepted by some 49,000 holders of this stock on the Bank's register – about one third of the total number – with nominal holdings of nearly £250 million

Additional registers

At the request of the Greater London Council, the Bank took over the management of the registers of the following stocks of the former Middlesex County Council, involving some 10,000 accounts, as from 5th January 1970:

	£ millions nominal
Middlesex County Council:	
4% Redeemable Stock 1952/72	2·0
5¼% Redeemable Stock 1980	10·0
6¼% Redeemable Stock 1975/77	20·0

Southern Rhodesia stocks

No funds have been received since November 1965 to service Government of Southern Rhodesia stocks for which the Bank act as paying agent. At the end of February 1970, the approximate amounts due but unpaid on these stocks were:

Gross interest	£10,238,000
Redemption monies[a]	£5,691,000

a Relating to Government of Southern Rhodesia 3½% Stock 1961/66 and 3½% Stock 1967/69, the registers for which remain open.

At the same date, outstanding contributions to sinking funds managed by the Bank totalled some £1,438,000.

Automation in the Accountant's Department

The process of transferring the stock registers to magnetic tape, which began early in 1967, was completed during 1969. Besides permitting greater use of the computers in the department's work, this disposed of the inconvenience of operating manual and computerised systems side by side.

The redemption of 6% Exchequer Loan 1970 on 1st March and the exchange of 3% Savings Bonds 1960/70 into 8½% Treasury Loan 1980/82 on the same date were the first such operations to be carried out on stocks held on the magnetic tape register. With the computer it has been possible to carry out automatically what would otherwise have been the laborious clerical tasks of addressing communications to all the stockholders, creating the accounts in 8½% Treasury Loan 1980/82 for the 49,000 stockholders who accepted the offer of exchange, and preparing the same number of new certificates. The latter were issued within about a week of the receipt of the form of assent and this has proved to be of considerable convenience where holders wished to deal with their stock.

Last year's *Report* mentioned the impending transfer to the computer of the task of accounting for paid interest and redemption warrants. For some time, warrants presented for payment had been sorted and totalled automatically by a reader-sorter working from the magnetic characters printed at the foot of the warrants. But unpaid warrants still had to be listed, and the monies accounted for, manually. Under the new system, which became fully operational last September, the reader-sorter is linked to a computer which records particulars of the presented warrants on magnetic tape. Comparison of this tape with the original tape prepared at the time of issue of the warrants enables the computer to mark off paid items. In this way a daily reconciliation can be effected and lists of unpaid items printed when required. It has been possible to reduce the number of staff engaged on this work in the Accountant's Department by about two thirds, and to achieve an even greater saving in space.

During the year there have been discussions with the clearing banks and other banks about the recording of customers' account numbers when interest is mandated to the banks by stockholders. The Bank have, since 1963, included these details on the relevant vouchers when new mandates are received: but earlier mandates have had to be left until the registers were wholly on magnetic tape and the banks had themselves largely completed the allocation of account numbers to their customers. In all, some one million account numbers should be recorded in the course of the operation which started last October and which is expected to be virtually completed by the spring of next year.

Looking ahead, the department has now begun investigations into the next stage of computer developments, and a general review of practice and procedure is being carried out. The object is to design an improved system for introduction in 1973/74, when much of the department's present computer equipment is expected to be nearing the end of its useful life.

Exchange Control

The Bank's exchange control work remained heavy during the twelve months under review, and staff released by the relaxation of travel restrictions in January 1970 were reallocated to other areas of the control where pressures continued. Some aspects of the work have become noticeably more complex, especially the examination of proposals put forward for the financing of direct and portfolio investment abroad.

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

19th May 1969

London cotton terminal market

The Liverpool Cotton Association Limited established a cotton terminal market in London with a contract expressed in U.S. dollars. This contract failed to attract support and will cease to be quoted on or before 31st December 1970. It was replaced by a sterling futures contract on 1st April 1970.

2nd January 1970

Travel and cash gifts

The severe restrictions on travel expenditure in countries outside the Scheduled Territories, introduced on 21st July 1966, were lifted. Thereafter, U.K. residents could draw up to the equivalent of £300 in foreign currency for travel expenditure on every journey, irrespective of its purpose; persons travelling for business or professional reasons could take up to £2,000 for the journey, at a rate not exceeding £40 a day. Larger sums were allowed, after reference to the Bank of England, provided that they were required solely for travel purposes. In addition, the cost of fares and travel services, such as hotel accommodation and cruises, could be paid in sterling without limit.

At the same time, the limit on the amount of bank notes of the United Kingdom or other Scheduled Territory countries which travellers could take abroad with them was raised from £15 to £25; and on foreign currency notes from £50 to £300; revised arrangements were made for the disbursements overseas of private yachts and aircraft; and the annual cash gifts allowance was increased from £50 to £300.

Exchange control notices

Arrangements were made with professional bodies representing accountants, company secretaries and others to enable their members to receive exchange control manuals and new notices.

Voluntary programme concerning overseas investment

In his 1969 Budget statement, the Chancellor of the Exchequer announced that the request to institutional investors to restrict their holdings of foreign currency securities to the May 1966 level was withdrawn. But the voluntary programme of restraint on the export of capital to the more developed countries of the sterling area was to remain; and in his Budget statement this year, the Chancellor again asked that these restraints should be continued.

Capital markets and local authority finance

Local authority bills

During the year under review, a considerable number of local authorities took powers, by private Act of Parliament, to issue bills. By the end of February 1970, the amount of such bills outstanding had risen to over £75 million.

Eight issues of 91-day local authority bills were arranged by the Bank during the year. Four tenders were held on behalf of the Greater London Council – the first in April 1969, for an amount of £25 million, and the others at quarterly intervals thereafter for amounts of £32 million. Bills totalling £4,100,000 were placed with the discount market on behalf of Liverpool Corporation in April, and were renewed at quarterly intervals. The average rates of discount on both the tender issues and the placings varied between $\frac{5}{16}$% and $\frac{3}{4}$% above the comparable Treasury bill tender rates.

Banking developments

Refinance facilities for export and shipbuilding credits

In May 1969, new arrangements were agreed with the London clearing and Scottish banks concerning the Bank's facilities for refinancing export credits extended for at least two years and covered by an E.C.G.D. guarantee, and fixed rate loans for domestic shipbuilding guaranteed by the Ministry of Technology. These new arrangements were described in the Bank's *Quarterly Bulletin* for September 1969. Briefly, they fall into two parts. Under Part I, if banks are faced with a shortage of cash or immediately realisable liquid assets, the Bank will refinance up to 30% of the amount extended under shipbuilding credits and, for export credits, 30% or the amount repayable within eighteen months, whichever is the greater. Under Part II the Bank will refinance that part of a clearing or Scottish bank's fixed rate lending for exports and shipbuilding which is not eligible for refinance under Part I and which exceeds 5% of the bank's total gross deposits.

Amounts refinanceable under Part I of these arrangements may be treated as liquid assets, and so benefit a bank's liquidity whether or not refinance is sought. At the end of March 1970, the total eligible for refinance with the Issue Department of the Bank under this part of the scheme was £337 million, although the facility had not in fact been used. At the same date, a total of £39 million was eligible for refinance, and had actually been refinanced, under Part II.

Fixed rate lending for domestic shipbuilding

In January 1970 it was announced that the limit up to which the Government were prepared to guarantee loans for the purchase of ships built in British yards for British shipowners was to be raised from £400 million to £600 million. The limit had previously been increased in December 1968 from the original figure of £200 million set in 1967. On each occasion when the limit was raised, the London clearing banks and the Scottish banks agreed to match the increase by making available additional medium and long-term finance at a fixed rate, for transactions covered by the guarantees. The fixed rate has remained at 5½% since the scheme was introduced in 1967. (The original arrangements for fixed rate lending for domestic shipbuilding were described in the *Quarterly Bulletin* for June 1967.)

Mergers of banks and discount houses

During the year, three mergers affecting either the clearing banks or the Scottish banks became effective; all had been announced in the previous year. The first occurred in April 1969, when the Royal Bank of Scotland and the National Commercial Bank of Scotland, both already members of the National and Commercial Banking Group, were amalgamated under the name of The Royal Bank of Scotland Limited. Later, in December 1969, Barclays Bank absorbed Martins Bank. Finally, in January 1970, the National Westminster Bank came into existence, replacing the former Westminster Bank, National Provincial Bank and District Bank. Two further amalgamations will become effective during the coming months – the merging of the three clearing bank subsidiaries of the National and Commercial Banking Group (Williams Deacon's Bank, Glyn, Mills & Co. and the National Bank) into the new Williams & Glyn's Bank in September; and the merger between the Bank of Scotland and the British Linen Bank. When all these arrangements are completed, the number of clearing banks will have been reduced from eleven to six, and the number of Scottish banks from five to three.

There were also a number of mergers outside the clearing and Scottish groups of banks during the year under review. For example, the Australia and New Zealand Banking Group was formed in June 1969, although the banks involved – the Australia and New Zealand Bank and the English, Scottish and Australian Bank – are continuing to operate separately until October 1970. The Standard and

Chartered Banking Group was set up in January 1970 following the merger of the Standard Bank and the Chartered Bank. In July 1969 it was announced that two discount houses, Gerrard & Reid and National Discount Company, would merge, thus reducing the number of discount houses to eleven; the merger became effective in April 1970 and, since June 1970, the new company has been called Gerrard and National Discount Company.

Disclosure of banks' profits and reserves

In September 1969 the clearing banks and the Scottish banks announced that they would no longer take advantage of their exemption under the Companies Acts from the requirement to show full figures of profits and reserves in their accounts; the first disclosure of profits on this basis occurred in February 1970. The three Northern Ireland banks based in Northern Ireland have made similar changes in their accounting procedures.

Banking hours

In common with other banks, the Bank have been closed on Saturday as from the beginning of July 1969. To compensate for this reduction in banking hours, the head office of the Bank has opened at 9.30 a.m. on other weekdays (instead of 10 a.m.) and from 4.30 p.m. to 6 p.m. on Thursday evenings. The Bank's branches have also opened at 9.30 a.m. each working day, and have remained open until 3.30 p.m. (formerly 3 p.m.).

Overseas banks

A further 6 overseas banks opened banking offices in London in the twelve months to February 1970. This brought the total of such banks operating in the United Kingdom to over 120. In addition, two banks formed by consortia of foreign banks were opened. An article tracing the rapid growth of the business of the overseas and foreign banks in London appeared in the *Quarterly Bulletin* for June 1968.

Relations with central banks and other institutions abroad

Earlier *Reports* have stressed the close working relations which have been established with central banks and other monetary authorities abroad. During 1969 the Bank were engaged in the day-to-day administration of the intergovernmental agreements which had been negotiated with individual overseas sterling area countries in September 1968, and the long-standing relations with the numerous monetary authorities involved contributed greatly to the smooth working of these arrangements.

The Bank's officials visited 89 countries in the course of the year under review. In return, the Bank received 605 visitors from 104 countries. This was an increase of nearly

30% on the number of visitors received in the previous twelve months, and included 22 participants in the seventh of a series of courses which the Bank arrange for central bankers from overseas.

The number of Bank staff serving abroad at 28th February 1970 was 21, the same as a year earlier.

Developments in financial statistics and information

In July 1969, the accepting houses, overseas and other banks began to make their regular banking returns to the Bank of England as at the third Wednesday of each month instead of the last working day. These banks now report their positions at the same date as the other main banking groups in the United Kingdom. As a result, comprehensive banking statistics at a common date, which were hitherto available only for the end of calendar quarters, will now be available also as a monthly series. It is hoped to publish the new series once it has become established.

At the Bank's request, banks in the United Kingdom undertook an analysis of the maturity of their foreign currency assets and liabilities as at the end of July 1969. This was the second such analysis, the first of which related to the end of April 1968. The results of these enquiries, together with other statistical information on the banks' foreign currency business, were included in an article published in the March 1970 issue of the *Quarterly Bulletin.*

Statistical contacts were maintained with the Finance Houses Association and with individual finance houses. Since November 1969, the Bank have also held quarterly meetings with the Chairman, Vice-Chairman and Director-Secretary of the Finance Houses Association, at which matters such as the scope and operation of credit control are discussed.

A new series of statistics analysing the transactions of U.K. property unit trusts for pension funds and charities has been published in the Bank's *Quarterly Bulletin* since September 1969. The first figures were accompanied by an introductory article.

Last year's *Report* mentioned that the Bank were seeking ways of improving the estimates of inward and outward portfolio investment included in U.K. balance of payments statistics; under an experimental scheme, members of the main British banking associations and of the London stock exchange began to report the value of certain transactions in securities expressed in sterling or in overseas sterling area currencies (though not the names of the buyers or sellers). During 1969 several modifications – designed mainly to ease the burden on contributors – were made to the pilot scheme, and a permanent system of reporting was introduced on 1st June 1970. Steps have also been taken to improve the coverage of the statistics by bringing in some new contributors.

It was also noted in last year's *Report* that the Bank are carrying out a series of enquiries into the overseas earnings of certain financial and allied industries. The results of the first enquiries, covering the earnings in 1969 of banks in the United Kingdom, members of the Baltic Exchange and Lloyd's Register of Shipping, are now being analysed. The next enquiries will be into the earnings of the professions: the associations representing accountants have agreed to provide figures next year of their members' overseas earnings in 1970, and it is hoped to cover the earnings of lawyers and actuaries in 1972. These enquiries, which will be repeated at regular intervals, were undertaken following recommendations by the Committee on Invisible Exports, and it is hoped to publish the results in the *Quarterly Bulletin* in due course. (The Bank are represented on the present Committee, which is under the chairmanship of Mr. Cyril Kleinwort, and provide its secretariat.) In conjunction with the Association of Investment Trust Companies, the Bank have also begun to collect statistics of the overseas income of such companies, beginning with the year 1969.

Late in 1969, the Board of Trade wrote to a sample of large companies asking them to contribute to a quarterly survey of their liquid assets and liabilities. Such information would greatly contribute to the understanding of monetary developments, and the approach was made with the encouragement of the Bank.

The Bank have continued to develop their direct contacts with industry across the country, as an aid to understanding monetary conditions in industry and the implications of monetary policies. As already noted, this is an important part of the duties of the Agents and senior staff at the branches. Contacts are also maintained through periodic visits to the regions by Directors and senior officials from head office; during the year under review 15 of these visits were made, providing the opportunity for discussions with senior representatives of 225 companies. All such contacts continue to prove most valuable; and during the year one official was assigned responsibility for regular visits in that part of the South East which is not covered by any of the branches.

Staffing and other internal matters

Remuneration of Directors and staff

Rates of remuneration of members of the Court of Directors at 28th February 1970 were:

The Governor	£25,000	
The Deputy Governor	£18,000	
		Number
Other Directors	£500	12
	£12,501/£15,000	1
	£15,001/£17,500	3

The numbers of employees whose remuneration exceeded £10,000 a year were:

	Number
£10,001/£12,500	10
£12,501/£15,000	3
£15,001/£17,500	1

The weekly average number of staff employed during the year ended 28th February 1970 was 7,579 including the part-time staff, and their aggregate remuneration for the year was £10,840,000.

Numbers of staff

In round figures, the staff of the Bank on 28th February 1970 totalled 7,000 in full-time employment, with a further 700 women working part time; the total included 1,850 non-clerical staff employed at the Printing Works. The banking staff employed full time numbered 4,500 (of whom 2,700 were women) and was allocated among departments as follows:

Cashier's	1,350	– including 350 at the branches.
Accountant's	1,200	– plus 170 members of the part-time staff.
Overseas	800	– including 500 on exchange control work.
Secretary's	300	– half of whom were engaged on work that, in June 1970, became the responsibility of the new Management Services Department.
Economic Intelligence	200	
Other	650	– Audit and Establishment Departments and Printing Works.
	4,500	

Secondments, recruiting and training

The number of Bank staff serving abroad at the end of February 1970 has already been mentioned. In addition, two members of the Economic Intelligence Department were on temporary secondment to H.M. Treasury, and one each to the Cabinet Office and the National Economic Development Office. Five members of the staff were attached to the Secretariat of the Panel on Take-overs and Mergers.

During the year the Bank recruited 28 men and 16 women with honours degrees, and 37 men and 54 women who had undertaken a full General Certificate of Education advanced level course in two or more subjects; there were slightly more of these new entrants than in recent years. 280 women who had reached the ordinary level of the General Certificate of Education were recruited for clerical work, and a further 47 were trained as punch operators and 76 as typists. A total of 75 men and women were recruited to the supplementary staff.

Technical training continued as usual during the year and induction training was shortened and reshaped into a five-week course for the honours degree entrants: it is intended that a similar preparatory course for 'A' level entrants shall begin this autumn. The internal supervisory staff courses were augmented by a junior management course run by the staff of the Industrial Society. The Bank continued to send members of middle and senior management to the Administrative Staff College at Henley, and to management courses at the Manchester Business School and the Advanced Management Programmes International. A number of the staff attended post-graduate courses (particularly in economics) at universities in this country and abroad, and the Bank's part-time day release scheme was well supported by those studying for professional examinations, especially those of the Institute of Bankers.

Management consultants

Last year's *Report* outlined the preliminary arrangements for a study of the Bank's organisation and working methods by McKinsey and Company. In September 1969, these consultants submitted a report on the results of their studies over the previous seven months, during which time they had been primarily concerned with matters of organisation.

Their recommendations ranged over a wide field, the more important being:

(i) The setting up of an internal policy committee, under the chairmanship of the Governor, to formalise the existing arrangements for identifying developments which are likely, over the next year or so, to raise policy issues; to consider such issues; and to promote the studies they require.

(ii) An improved system of budgetary and cost control under a Financial Controller who would be directly responsible to the Deputy Governor.

(iii) The formation of a separate Management Services Department covering computer services, operational research and organisation and methods work.

(iv) Improved methods of career planning, management training and appraisal of performance, involving some reallocation of responsibilities between the Establishment Department and other departments, and the creation of a new post of Management Development Manager.

After full consideration, the consultants' recommendations have been accepted by the Bank in all major respects, and steps to implement them have been taken.

McKinsey and Company later examined various specific areas of the Bank's work which had suggested themselves in the course of the earlier studies, and their report, received at the end of February 1970, is being considered.

Departmental structure

Although a number of organisational improvements were suggested by McKinsey and Company, and certain responsibilities were redefined, no radical alteration in the Bank's existing departmental structure was proposed. The diagram which follows shows the organisation of the Bank as amended by these recommendations and other recent developments. For the most part, departmental responsibilities remain as outlined in the March 1969 edition of the pamphlet "The functions and organisation of the Bank of England". The main changes from the arrangements described in that pamphlet are as follows:

(i) A Governor's Policy Committee has been set up with the tasks outlined above. The other permanent members consist of the Deputy Governor, the four Executive Directors, the Chief Cashier, the Chiefs of the Overseas and Economic Intelligence Departments, and the Head of the Economic Section. Other senior officials attend discussions on particular subjects as required.

(ii) The Establishment Department has been reorganised in accordance with McKinsey and Company's recommendations. The functions of the Staff Office have been split into three divisions – Recruiting, Staff co-ordination and Training. A Management Development Division has been formed under a newly-appointed Management Development Manager, to formulate the best methods of career planning, performance appraisal and management training, and to work with other departments in giving them effect. Responsibility for the technical and services staff has also been given to a separate division. The rest of the department is unchanged.

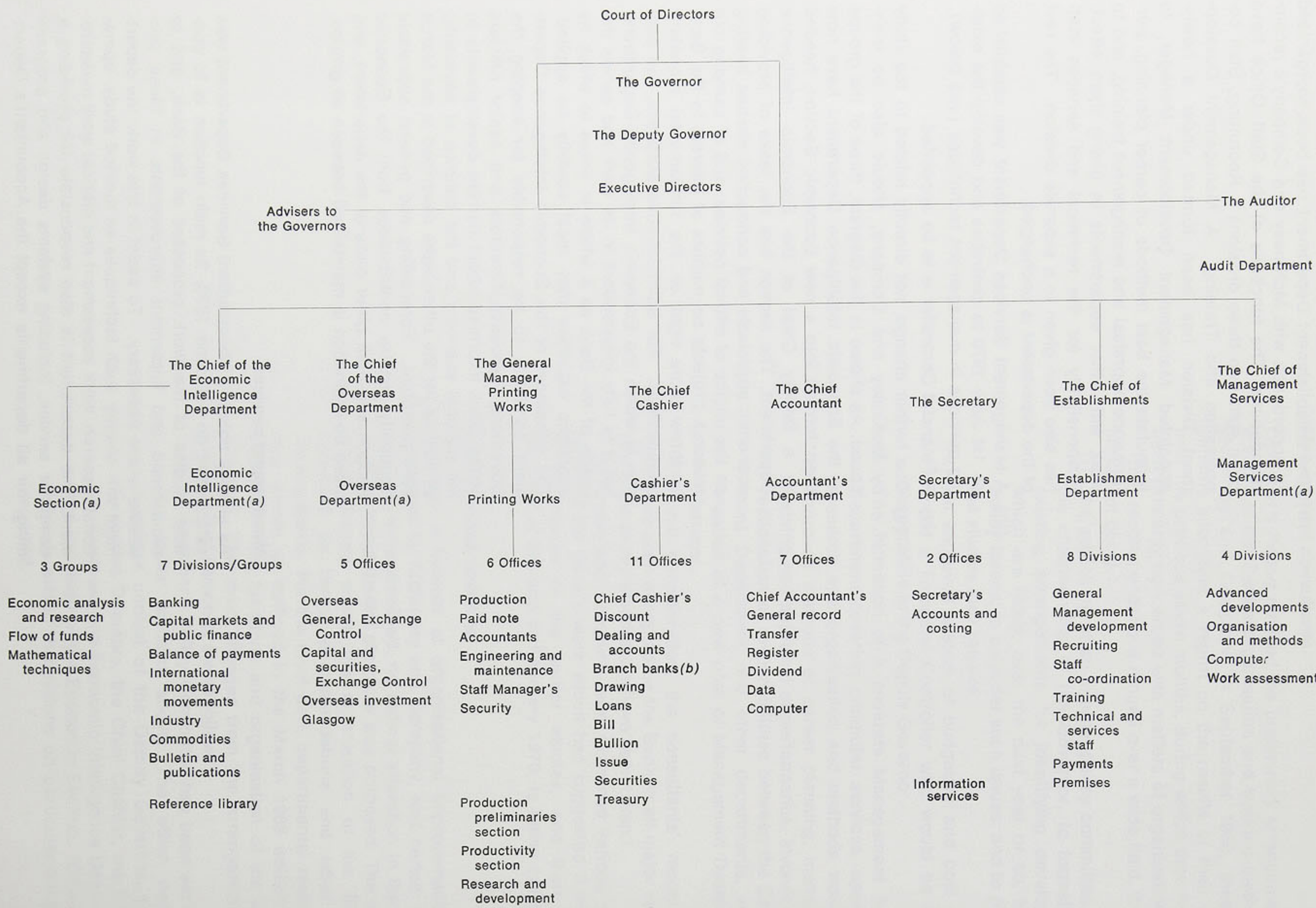
(iii) A Management Services Department was established on 1st June 1970 to centralise and develop the existing services in management techniques (see below).

(iv) A Financial Controller is to be appointed.

(v) One further change, not directly related to the study by McKinsey and Company, should also be mentioned. As shown in the diagram, three of the groups in the Economic Intelligence Department have now been formed into a new Economic Section, headed by a Deputy Chief of the Economic Intelligence Department. The section has the tasks of providing economic appraisals and conducting studies bearing on the choice of official policies; and of carrying out research projects on matters of interest to the Bank to throw more light on the fundamental monetary relationships. For administrative purposes, the section is within the Economic Intelligence Department, but it is fully independent in its work and serves the needs of the Bank as a whole in areas to which its economic expertise may most usefully be applied. The remainder of the Economic Intelligence Department continues to be responsible for keeping the Governors, Executive Directors and senior officials of the Bank informed about current developments in the national economy and the balance of payments, as well as for the other tasks described in the March 1969 pamphlet. Forecasting and general appraisals frequently require contributions from the Economic Section and from other parts of the department, and close co-ordination is maintained between all groups.

Management services

As already noted, a Management Services Department was established on 1st June 1970. Its main function is to conduct studies of the work processes of the Bank, and to recommend and implement improvements in these processes where necessary. To assist in this work, the department will employ such techniques as method study, operational research, work assessment and clerical work measurement. The department is also responsible for providing a computer service, including systems design and programming, for all departments except the Accountant's Depart-



NOTE: A Financial Controller has yet to be appointed, and is not shown on this chart.
(a) Advisers are attached to the Economic Section and the Economic Intelligence, Overseas and Management Services Departments.
(b) Branches are maintained at Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle upon Tyne, Southampton and Law Courts (London).

ment; and for the operation of the computer centre situated in the head office building.

Additional computer capacity was installed in the year to February 1970 to handle increasing work; effectively, the Bank now operate four computers. New tasks transferred to the head office equipment included the payment of monthly salaries and pensions and some statistical processes, as well as the accounting for paid interest and redemption warrants on behalf of the Accountant's Department which has already been mentioned. By the end of the year two major computer investigations – the first into the possibilities for an integrated accounting and management information system for the Cashier's Department and the second into a system for the main statistical work of the Economic Intelligence Department – were well advanced. Projects in hand included the preparation of weekly wages, accounting arrangements for tax reserve certificates, and the extension of the existing computer system for current account banking.

Friday the 27th day of February 1970

Issue Department

	£		£
Notes issued:			
In circulation	3,243,684,014	Government debt	11,015,100
In Banking Department	6,735,636	Other government securities	3,201,818,134
		Other securities	36,906,766
		Coin other than gold coin	260,000
		Fiduciary issue	3,250,000,000
		Gold coin and bullion	419,650
	3,250,419,650		**3,250,419,650**

Banking Department

		£			£
Capital		14,553,000	Government securities		402,593,391
Rest		3,926,741	Other securities:		
Public deposits (including Exchequer, National Loans Fund, National Debt Commissioners and Dividend Accounts)		14,728,776	Discounts and advances	91,297,929	
			Securities	88,674,226	179,972,155
Special Deposits		220,100,000	Notes		6,735,636
Other deposits:			Coin		2,200,332
Bankers	198,893,180				
Other accounts	139,299,817	338,192,997			
		591,501,514			**591,501,514**

Dated the 2nd day of March 1970

J. B. Page, *Chief Cashier*

Half-yearly payments of £873,180 were made to H.M. Treasury on 5th April and 6th October 1969 in pursuance of Section 1 (4) of the Bank of England Act 1946.

Senior officials

28th February 1970

Heads of Departments

Chief Cashier	J. S. Fforde[a]
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	J. F. M. Smallwood

Advisers to the Governors

E. P. Haslam

P. R. W. Legh

C. W. McMahon[a]

R. G. Raw

a Mr. Fforde and Mr. McMahon were appointed to the Court of Directors from 1st March 1970. Mr. Fforde was succeeded as Chief Cashier by Mr. J. B. Page.