Bank of England

Report and accounts for the year ended 28 February 1971

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Court of Directors

28th February 1971

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It was announced in January 1971 that Sir Leslie O'Brien had been reappointed Governor for a period of five years from 1st July 1971.

The terms of office of Mr. W. J. Keswick, Lord Nelson of Stafford, Mr. G. W. H. Richardson and Mr. L. D. de Rothschild expired on 28th February 1971 and they were reappointed for a period of four years.

Senior officials

28th February 1971

Departmental

Chief Cashier	J. B. Page
Chief Accountant	R. C. Balfour, M.B.E.
Chief of the Overseas Department	R. P. Fenton, C.M.G.
Chief of the Economic Intelligence Department	M. J. Thornton, M.C.
Head of Economic Section	L. A. Dicks-Mireaux
Secretary	P. A. S. Taylor
Chief of Management Services	R. E. Heasman
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

J. A. Kirbyshire

R. G. Raw

Introduction

This year the *Report* is in three main parts. The first includes a comparatively brief summary of the main economic and monetary developments affecting the United Kingdom during 1970 (or, where appropriate, in the financial year from April 1970 to March 1971). These developments have already been reported in some detail in the Bank's *Quarterly Bulletin.* This section of the *Report* also includes, for the first time, a calendar of financial developments (which begins on page 17). Any such calendar must necessarily be selective, and the intention has been to provide a means of reference to important happenings in U.K. financial markets and to other events which have particularly affected those markets.

The second part of the *Report*, beginning on page 24, is concerned with the Bank itself and attempts to show how some of the events described in the earlier pages have affected its work. Staffing and other internal matters are also discussed.

The main new feature of the *Report* this year is the inclusion of a third section, beginning on page 46, which, as foreshadowed in the last *Report*, presents the Bank's accounts for the year ended 28th February 1971.

Economic and monetary review

The domestic economy

Unusually large increases in wage and salary costs, and later in prices, emerged as one of the main features of the economy in 1970. Wages and salaries began to rise rapidly towards the end of 1969 and, by the end of 1970, were about 13½% higher than a year earlier. Other forms of personal income – for example from rents, dividends, self-employment, and social security benefits – rose less, but the increase in personal incomes as a whole was still approaching 12%. The rise in consumer prices was about half as large and, allowing not only for price increases but also for larger tax and national insurance payments, real incomes available for expenditure or for saving rose by 4½%.

The rise in real incomes was checked in the first quarter of this year; earnings rose less in this period than in each quarter of 1970, whereas prices continued to accelerate. The slower growth of earnings was in part attributable to a reduction in the amount of overtime worked and an increase in the numbers working short time. But it also reflected some special factors, and to that extent may have been an erratic movement: the number of working days lost through strikes was unusually large during this period, and there happened to be far fewer wage settlements than in earlier months.

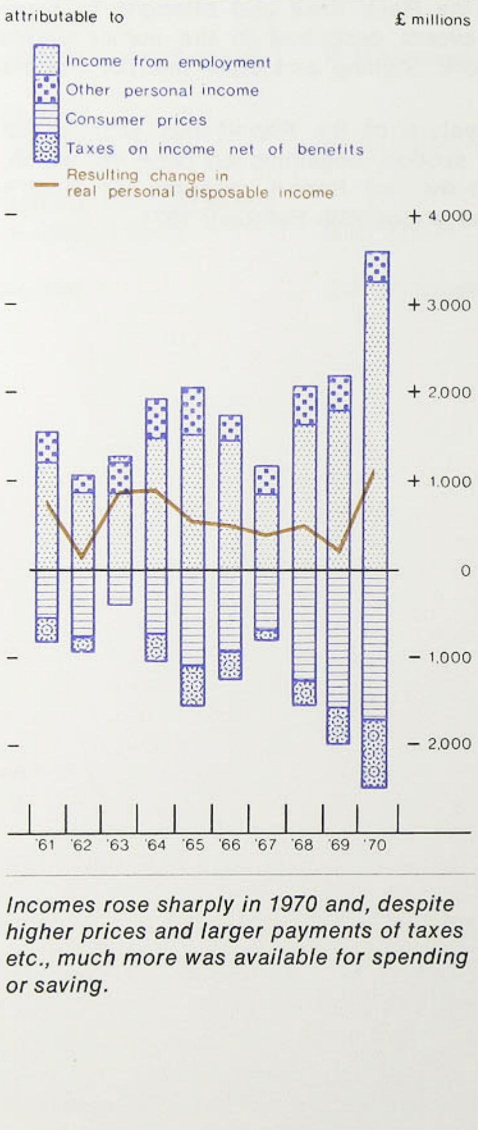
In contrast to the rapid increase in costs and prices, the volume of domestic output grew only slowly – by about 2% – between the fourth quarters of 1969 and 1970. Increases in demand were rather greater, but part of the additional demand was met from a steep rise in imports.

Exports, which contributed most to the increase in demand in 1969, rose comparatively little last year. The rise in private industries' capital expenditure also slowed; the increase over the year as a whole was only about 5%, compared with an effective rise of about 10% in 1969.[1] Investment outlays fell sharply in the first quarter of this year, and industrialists expect their investment in 1971 as a whole to be markedly smaller than in 1970. This slackening in the rate of investment reflects both the slow growth of output in the last two years and the pressure of rising costs on companies' profits and liquidity. As a proportion of total domestic income, gross trading profits fell from 13½% in 1968 to little more than 11½% in 1970; there was some recovery towards the end of last year as prices began to be raised more vigorously, but the improvement was not maintained at the beginning of 1971.

Most of the growth in demand in 1970 came from consumers' expenditure, which rose by 3% following very little increase in 1969. The rise did not fully reflect the additions to real incomes, part of which must have been used to increase savings. The recovery in consumption occurred mainly in the spring and summer; the rise was checked in the fourth quarter and there was some fall in the first three

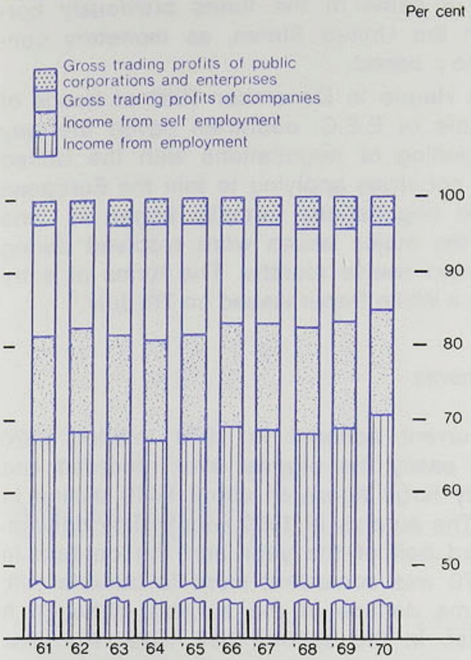
1 This estimate makes a rough allowance for the bunching of capital expenditure at the end of 1968, before investment grants were reduced.

Changes in spending power



Incomes rose sharply in 1970 and, despite higher prices and larger payments of taxes etc., much more was available for spending or saving.

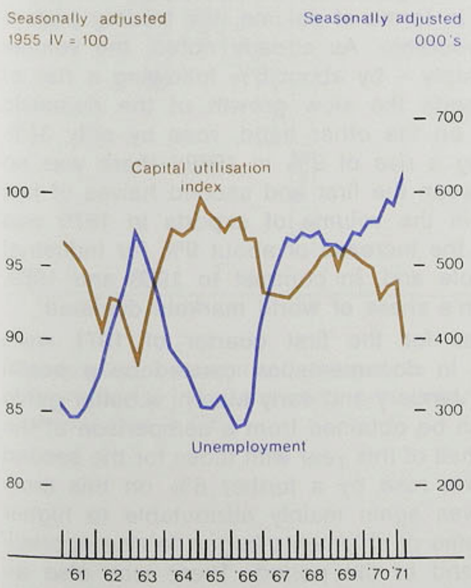
Percentage shares of total domestic income



Companies' gross trading profits have declined as a proportion of total domestic incomes in recent years.

Capital utilisation index

Unemployment



With domestic output growing only slowly, unemployment rose last year and capital equipment was under-utilised.

months of this year. Among the remaining components of demand, the public sector increased its expenditure on goods and services only a little. Finally, additions to stocks remained comparatively large, much as in 1969.

The slow growth in output and the rise in wage and salary costs were accompanied by a very sharp increase in unemployment. By March 1971, the numbers wholly unemployed had risen to 656,000 (seasonally adjusted), or 2·9% of all employees; the total was 89,000 higher than in March 1970. The slackening demand for labour was emphasised by a steady fall in the number of unfilled vacancies for adult workers over these twelve months. Later, however, the fall in the number of vacancies was checked, at least temporarily, towards the middle of 1971, and the rise in unemployment showed some signs of slowing in June.

There was also a reduction in the extent to which productive capacity in plant and machinery was utilised last year. Estimates made in the Bank relating manufacturing production to the amount of capital equipment available suggest that the use made of productive potential has tended to decline since the middle of 1969.[1] According to these estimates, the proportion of capacity being used in the first quarter of this year was the lowest since early in 1963; however, the fall at the beginning of this year was probably exaggerated because of the effect upon production of a prolonged strike in the motor industry.

In his Budget last March, the Chancellor of the Exchequer proposed reductions in both personal and corporate taxation in order to increase demand modestly and to encourage industrial investment. The measures take effect at various dates during the financial year and were expected to bring the growth of output between the first half of this year and the first half of 1972 to about 3%; they entail a substantial borrowing requirement by the public sector over the year as a whole. The Chancellor also proposed major reforms of the tax system, to become effective in 1973 or later.

The number of working days lost through industrial disputes again increased substantially last year, when the total reached nearly eleven million before counting workers laid off because of stoppages in other plants. This was more than half as large again as in 1969 and was much the largest figure in post-war years. In the first quarter of this year the total of days lost, at 9½ million, was almost as large as in the whole of last year – and the total does not include time lost because of demonstrations against the Industrial Relations Bill. However, the number of disputes was rather smaller than in other recent quarters, and the large total of days lost owed much to two protracted stoppages.

External developments

The balance of payments yielded a substantial surplus on current transactions last year. Investment and other capital inflows were also very large, in a period when the main international short-term interest rates fell more steeply

1 It is planned to give details of the Bank's estimates in a forthcoming issue of the *Quarterly Bulletin*.

than those in the United Kingdom. International rates had been particularly high in the second half of 1969, and the chief reason for the fall last year was the return to the euro-dollar market of some of the funds previously borrowed by banks in the United States, as monetary conditions in that country eased.

A meeting at the Hague in December 1969 of heads of government and state of E.E.C. countries paved the way for the effective opening of negotiations with the United Kingdom and other countries applying to join the European Communities. These negotiations formally began in June 1970 and most of the major issues were resolved during the course of the next twelve months. The terms of entry were summarised in a White Paper issued on 7th July.[1]

The balance of payments

The surplus on current account in 1970 totalled £620 million, which was easily the biggest ever recorded and followed the already large figure of about £440 million in the previous year. The surplus in 1969 was mainly concentrated in the second half of the year and the out-turn in the first half of 1970 was somewhat more favourable still; there was then some decline in the surplus, although it remained substantial, in the second half. Over the year as a whole, trading transactions were in rough balance, following a deficit of about £140 million in 1969; and net invisible earnings continued to grow (though more slowly than in other recent years) mainly because of a reduction in interest payments by the Government as official borrowing was repaid.

The elimination of the trading deficit occurred because, although the value of imports rose by as much as 9½%, exports rose even more – by about 11½%. However, these changes reflected a larger rise in export prices than in import prices and, in terms of volume, the trading pattern was much less favourable. As already noted, the volume of imports rose steeply – by about 6% following a rise of 1% in 1969 – despite the slow growth of the domestic economy. Exports, on the other hand, rose by only 3½% in volume, following a rise of 9% in 1969;[2] there was no increase at all between the first and second halves of last year. The growth in the volume of exports in 1970 was much smaller than the increase of about 9% for industrial countries as a whole and, in contrast to 1968 and 1969, the United Kingdom's share of world markets declined.

The trade figures for the first quarter of 1971 were affected by delays in documentation caused by a postal strike between late January and early March; a better guide to recent trends can be obtained from a comparison of the figures for the first half of this year with those for the second half of 1970. Exports rose by a further 6% on this comparison; the rise was again mainly attributable to higher prices, but the volume of shipments began to rise appreciably towards the end of the period. There was also an improvement in the import figures in the first half of this

1 *The United Kingdom and the European Communities*, Cmnd. 4715.

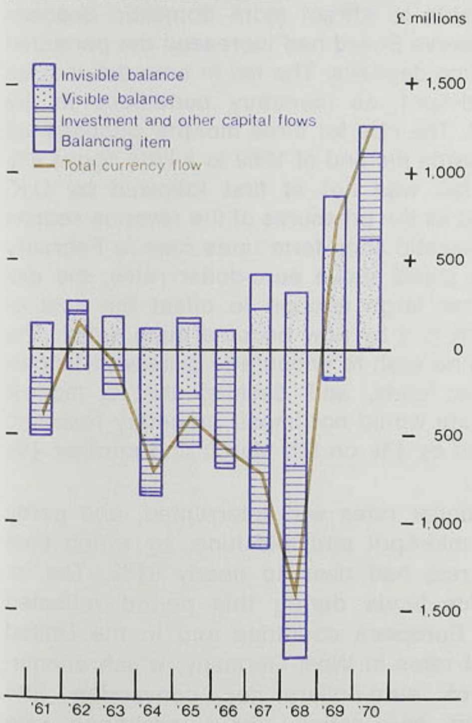
2 The rise in 1969 was even larger if the figures for 1968 are adjusted to remove a bunching at the beginning of that year of shipments delayed by dock strikes in 1967.

year. The volume continued to grow sharply but, if allowance is made for some erratic items, notably the delivery of three more Boeing 747 jet aircraft, the rate of increase was slower than in the second half of last year.

As well as the surplus on current account last year, there were very large inflows from investment and other capital transactions. These were more than accounted for by changes in monetary balances. Overseas sterling countries, many of which were in balance of payments surplus, increased their sterling holdings substantially; some non-sterling countries began to replenish their holdings; and U.K. companies borrowed large amounts of foreign currency through their banks and converted the funds into sterling to finance domestic expenditure. (Such borrowing was restricted by an amendment to exchange control regulations in January 1971 – see page 36 of this *Report*.)

The total currency inflow during 1970, from the current surplus, investment and other capital movements, and unidentified inflows reflected in the balancing item, totalled nearly £1,290 million. There were further very large inflows, amounting to some £970 million, in the first quarter of this year. The current account did not contribute much to the inflow in these three months, even allowing for the distortions to the trade figures because of the postal strike. The main elements were further additions to monetary balances such as those described above; increased portfolio investment by overseas residents in gilt-edged stocks and company securities; renewed borrowing abroad by public corporations; and substantial direct investment in the United Kingdom by overseas companies – which, like the very large unrecorded inflows, probably included movements of funds to relieve pressures on U.K. companies in the tax-paying season, as in the first quarter of last year.

Balance of payments



The surplus on current account and the total exchange inflow were both even larger last year than in 1969.

Reserves and special facilities

Over the fifteen months to March 1971, balance of payments inflows thus totalled as much as £2,260 million. A further £296 million was received as the first two allocations of I.M.F. Special Drawing Rights in January 1970 and 1971. Allowing for the increased gold subscription to the Fund which was paid last November (£38 million), a total of £2,518 million was available to repay debt and to rebuild the reserves.

Debt repayments totalled £1,981 million. Of this total, £1,560 million ($3,744 million) was repaid to central banks and institutions other than the International Monetary Fund; by the end of last March, the generous assistance which these institutions had provided at times when sterling was under pressure had been completely discharged. The remaining repayments of £421 million ($1,010 million) represented a reduction in liabilities to the I.M.F. After these repayments, the amount remaining to be repaid to the Fund stood at £683 million ($1,640 million). Of this total, £267 million ($640 million) was outstanding on the June 1968 drawing of £583 million ($1,400 million) and, under a schedule agreed in March, is payable in equal quarterly instalments next year (the four instalments due this year were repaid at the end of March). The £417 million ($1,000 million) drawn under the 1969 stand-by arrangement falls due for repayment as from June next year.

As well as these debt repayments, £329 million was added to the reserves which, by the end of March 1971, had risen to £1,382 million. The remaining accruals of £208 million were transferred into later months by means of special swaps with overseas monetary authorities.

Short-term interest rates

The main international short-term interest rates were very high in the second half of 1969, but fell steeply over the fifteen months to March 1971 as U.S. banks repaid large amounts of euro-dollar borrowing.

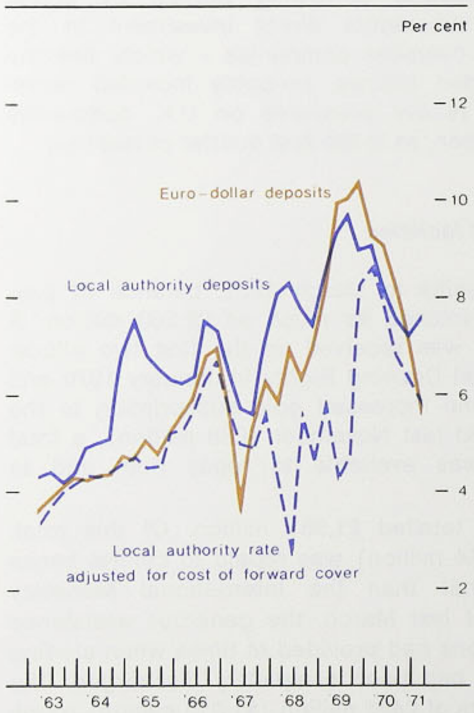
The fall began when funds which had been withdrawn from the euro-dollar market to meet end-year requirements at the end of 1969 began to flow back. The movement coincided with some reduction in U.S. banks' demand for euro-dollars; they were able to attract more domestic deposits after the Federal Reserve Board had increased the permitted rate of interest on time deposits. The fall in euro-dollar rates continued until mid-April, as monetary conditions in the United States eased. The rate for three months' deposits fell from over 11½% towards the end of 1969 to a little above 8% in mid-April. This fall was not at first followed by U.K. interest rates. Indeed as the pressures of the revenue season increased, some domestic short-term rates rose in February and early March to stand above euro-dollar rates; the disparity was sometimes large enough to offset the cost of forward cover, which had by now become quite small. The U.K. authorities had no wish to encourage excessive inflows of interest sensitive funds, and decided that a modest reduction in Bank rate would not impair monetary restraint; the rate was lowered by ½% on 5th March and another ½% on 15th April, to 7%.

The fall in euro-dollar rates was interrupted, and partly reversed, between mid-April and mid-June, by which time the three months' rate had risen to nearly 9¾%. The increased demand for funds during this period reflected shortages in West European countries and in the United States; high interest rates in West Germany, which encouraged borrowing of euro-dollars for conversion into deutschemarks; and speculation about exchange rate changes, which again led to conversion of euro-dollars into deutschemarks and some other currencies, after the Canadian authorities announced on 31st May that they were going to suspend their official buying and selling rates for the Canadian dollar.

From late June onwards, however, banks in the United States began to repay large amounts of their euro-dollar borrowing, after the Federal Reserve Board had suspended the limitation on rates which the banks could pay on certain types of deposit.[1] As a result, euro-dollar rates

1 The deposits affected by this relaxation of the Board's "Regulation Q" were 30-89 day time deposits, and certificates of deposit of the same maturity, in denominations of $100,000 and over.

Short-term interest rates in London[a]



Euro-dollar rates fell rapidly as monetary conditions in the United States eased and U.S. banks repaid borrowing from their overseas branches.

a Rates on 3 months' deposits, quarterly average of end-months.

began to fall fairly steadily, and the fall became particularly steep from late in December until early in March this year. By that time, the three months' rate had fallen to rather over 5%, the lowest since mid-1967. There were frequent reductions in U.S. interest rates during this period.

From the end of November onwards, the U.S. authorities took various steps to reduce the outflow of dollars. The Federal Reserve Board increased the reserve requirement against the banks' euro-dollar borrowing from their overseas branches above a reserve-free base; repayments reduce the size of this base, so that any subsequent increase in borrowing above the new and lower base would attract the increased reserve requirement. Later, between January and early April, the Export-Import Bank and the U.S. Treasury issued a total of $3,000 million of three months' notes to the banks' overseas branches against euro-dollars; the parent banks were allowed to count funds which their branches subscribed to these issues towards the maintenance of their reserve-free euro-dollar bases. Finally, in March and April the U.S. authorities undertook market operations to raise domestic short-term interest rates. Under these influences, euro-dollar rates steadied in March, and began to move upwards at the end of that month and during April.

The earlier falls in U.S. and euro-dollar rates were accompanied by reductions in interest rates in several Continental countries and in Canada and Japan. U.K. rates, however, fell comparatively little in the second half of last year, and this fall was reversed between the latter part of January and early in March, when tax payments were seasonally heavy. As a result, euro-dollar rates moved substantially below comparable U.K. rates from late December onwards. However, covered comparisons generally remained unfavourable to sterling, especially after the cost of cover had trebled during January – a rise which reflected both heavier borrowing of sterling by means of swaps as the spot rate rose towards its upper limit, and the growing disparity between U.K. and overseas interest rates. The U.K. authorities wished to avoid any further widening of the margin between rates in this country and those abroad, and Bank rate was reduced by 1%, to 6%, on 1st April.

International monetary developments

The successful launching of the Special Drawing Rights scheme, with an initial allocation of the equivalent of about $3,400 million on 1st January 1970, marked an important advance in the collective management of international liquidity. The scheme functioned satisfactorily in its first year of operation; participants used and received S.D.R.s in a variety of transactions provided for in the rules of the scheme.[1] As agreed when it was activated in 1969, a second allocation of S.D.R.s, to the equivalent of some $2,900 million, was made on 1st January 1971 and a further issue of a similar amount is due at the beginning of next year. At the end of last March, the United Kingdom's

1 See last year's *Report*, page 11.

holdings amounted to the equivalent of some £201 million, or 68% of the net amount allocated to this country.

The possibilities of strengthening the structure of the international monetary system remained under review during the period. In the I.M.F. Board, Executive Directors continued their discussion of the mechanism for exchange rate adjustments, and published their report in September. Their main conclusion was that the basic principles of the Bretton Woods system were sound, and should be maintained and strengthened; but the Directors agreed that various specific suggestions for improving the effectiveness of the system warranted further study.

International capital markets

Medium and long-term borrowing on international capital markets in Europe fell in 1970 by around $500 million to the equivalent of some $3,500 million. Offsetting this decline in bond issues and other borrowing at fixed interest rates, there was a marked increase in medium-term bank credits at variable interest rate terms; however, such credit arrangements are not comprehensively recorded, and mostly lie outside the established definitions of capital borrowing. The main reason for the fall in medium and long-term borrowing was that foreign issues in deutschemarks were less than half as large as in the previous year. The West German authorities had for most of 1969 encouraged such borrowing, but capital outflows following revaluation in October of that year led them to close the market until March 1970; thereafter a monthly limit was imposed on the amount of borrowing allowed. U.S. dollar issues were slightly larger than in the previous year, in spite of a period in the summer when the volume was very low; towards the end of the year, as the fall in short-term interest rates accelerated, yields in longer-term markets also turned downwards and stimulated activity in new issues. Issues in Dutch guilders increased substantially, and were encouraged by the Netherlands authorities as a means of recycling inflows of foreign exchange. Indeed these transactions were larger than foreign issues in Swiss francs, which continued at the same rate as in 1969. Towards the end of last year, the market in bonds denominated in European Units of Account[1] (based on the currencies of the former European Payments Union was supplemented by issues in another unit, the European Currency Unit,[2] based on the currencies of the E.E.C. countries.

The increase in activity towards the end of 1970 continued and strengthened in the first quarter of 1971 as borrowing costs fell further: the equivalent of almost $1,750 million was raised, chiefly on issues denominated in U.S. dollars. U.K. companies increased their borrowing in this market at the end of last year and, more particularly, early in 1971 – when they may have been influenced by the restriction placed on borrowing foreign currency for a term of less than five years.[3]

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

2 Equivalent, like the E.U.A., to the U.S. dollar. The parities of the constituent E.E.C. currencies obtaining at the time an issue is made are applied throughout the life of the issue. The choice of currency for the payment of interest and repayment of principal is at the lender's option.

3 See page 36.

U.K. public authorities did not borrow on international markets in 1970 but obtained the equivalent of over £50 million in this way in the first three months of this year. The total comprised one public issue in West Germany of the equivalent in deutschemarks of £11·4 million by the Electricity Council, and a number of placings in deutschemarks and Swiss francs.

Domestic monetary developments

The heavy inflows from abroad helped to ease domestic monetary conditions in the financial year 1970/71, as they had in the previous twelve months. But whereas these inflows had been partly offset in 1969/70 by a large and unusual surplus in the public sector's accounts, a sizable borrowing requirement emerged again last year. Substantial official sales of gilt-edged stocks to domestic investors other than the banks and discount houses tended in part to offset these expansionary influences but, on balance, these sales were not as large as in 1969/70.

Central government finance

The central government had a borrowing requirement of about £60 million in 1970/71 following a surplus of about £1,120 million the year before. One important reason for the change was the movement from net receipts to net repayments of import deposits; but for this, there would have been a surplus in both years, decreasing from about £930 million in 1969/70 to about £350 million in 1970/71. Delays in tax payments caused by the postal strike may have accounted for rather less than half this reduction, and increased borrowing by local authorities and public corporations also contributed.

Because of the need to finance the inflows from abroad as well as the borrowing requirement, domestic borrowing amounted to some £1,350 million. The bulk of this total was found from those outside the banking sector, who bought £500 million of gilt-edged stocks, added to their holdings of national savings for the first time for several years, and also took up substantial amounts of notes and coin. The banking sector was left to absorb £470 million of debt. An unusually large rise in net government indebtedness to the Banking Department of the Bank of England mainly reflected additional calls for Special Deposits from the London and Scottish clearing banks in May and November; and the banks and discount houses increased their holdings of Treasury bills and gilt-edged stocks.

Credit restriction

As described in last year's *Report*, some increase in restricted lending by banks, discount houses and finance houses over the year to March 1971 was provided for in the Budget in April last year. But to emphasise the need for continuing restraint, additions to Special Deposits were called for from the London and Scottish clearing banks, to be paid in May. However, the full rate of interest on Special Deposits by the London clearing banks was restored from 15th April 1970; the rate had been halved at the beginning of June 1969.

Lending by the London and Scottish clearing banks grew rapidly up to mid-July, and these banks were then asked to reduce the rate of growth of restricted business. The increase during the following three months was smaller but, taking the period since March, lending was still too large to be consistent with the necessary restraint. A further increase in Special Deposits – from $2\frac{1}{2}\%$ to $3\frac{1}{2}\%$ for the London clearing banks and from $1\frac{1}{4}\%$ to $1\frac{3}{4}\%$ for the Scottish banks – was therefore called for, to be met early in November. Thereafter, the growth in these banks' restricted lending was contained – helped, no doubt, by the slackness of the economy and the large exchange inflows. In the result, the increase in restricted lending over the twelve months to March 1971 by all groups of banks – including the accepting houses, overseas and other banks – was consistent with the limits they had been asked to observe. The finance houses also kept their restricted lending in bounds at first, but there was a large increase in the December quarter and lending was well above the limit over the year as a whole; at different times during the year, individual houses were reminded of the need for restraint.

In his Budget last March, the Chancellor of the Exchequer spoke of the possibility of new techniques of monetary control which would allow greater scope for competition and innovation in the banking system. Arrangements were being investigated which, unlike the existing restrictions on lending, would operate on the banks' resources; the arrangements would apply also to finance houses. While these arrangements were being discussed with the institutions concerned, the existing methods of control would have to continue. The banks and finance houses were asked to ensure that their restricted lending did not rise in the June quarter to more than about $2\frac{1}{2}\%$ above the limits set for last March; and the Bank advised them not to undertake commitments during this period which would later cause a much faster growth in lending.

On 14th May, the Bank circulated a 'consultative document' to the banks and finance houses proposing changes in the system of credit control; this paper was reproduced in the June issue of the Bank's *Quarterly Bulletin*. The proposals have since been under discussion with the institutions concerned. Meanwhile, the guidance on restricted lending was extended for a further three months at the end of June; the Bank asked that, by September, such lending should not exceed the limits set for last March by more than 5%.

In connection with these proposals, the Bank decided to restrict their operations in the gilt-edged market. From 17th May, they have no longer been prepared to provide support for the market by responding to requests to buy stock outright, although they remain ready to buy stocks with one year or less to maturity. The Bank will exchange stock with the market, except where this would unduly shorten the life of the debt; and they are prepared, as appropriate, to sell stock they hold. These changes are consistent with the move to greater freedom of competition in the banking sector.

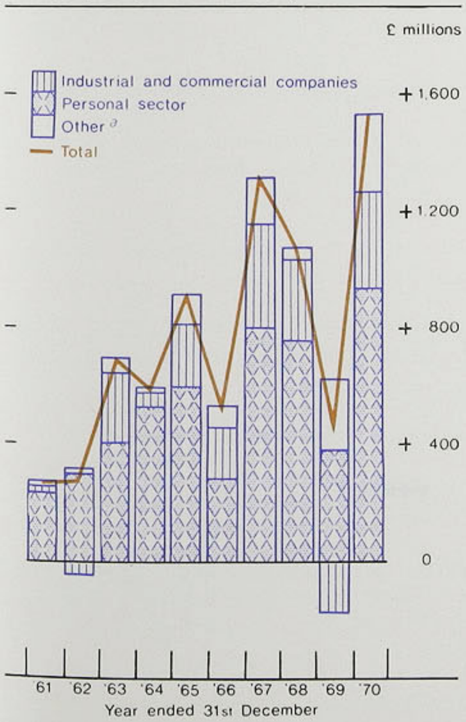
Banking sector

Domestic deposits with the banking sector increased by about £1,760 million, or some 14%, in the twelve months ending March 1971. This was very substantially more than in 1969/70, when the rise was only a little over 1%, and reflected the easier monetary conditions – especially the movement back into deficit by the public sector – already described. Most of the rise was in funds held with the deposit banks, although the largest proportionate increase was with the accepting houses, overseas and other banks.

Lending to U.K. companies increased by £760 million (14%), much the greater part of it advanced by the accepting houses, overseas and other banks. The rise included substantial amounts in foreign currency which the borrowing companies converted into sterling to finance domestic expenditure; as already mentioned, such lending was restricted to medium and longer-term finance in January 1971. There was also some increase in lending to other parts of the private sector, including personal lending. Local authorities increased their bank borrowing by £400 million; they reduced their use of facilities with the deposit banks, but took temporary money from the accepting houses, overseas and other banks. Public corporations also borrowed more, mainly from the deposit banks.

Among the banking sector's other assets, the amount of money lent at call outside the sector rose by £100 million, and holdings of Treasury bills and other U.K. bills by nearly £350 million in total. These increases were mainly attributable to the deposit banks, which had unusually large liquid assets at the end of the revenue season – perhaps partly because of the delays in tax payments caused by the postal strike: for example, the combined liquidity ratio of the London clearing banks was 32·4% in mid-March compared with a figure in the region of 29%–30% at this time in most other recent years. There was some increase in the sector's holdings of British government stocks, although the accepting houses, overseas and other banks reduced their holdings a little; and a very large increase of £350 million in holdings of local authority and other securities, mainly by the accepting houses, overseas and other banks, and by the discount houses.

Changes in money stock by sector
(Bank deposits, notes and coin)



Large inflows from abroad, superimposed on the increase in domestic credit, produced a rapid rise in the stock of money last year.

a Public sector and financial institutions (other than banks).

Money stock and domestic credit

The stock of money rose by some £2,000 million, or 13%, during the financial year 1970/71; the increase would have been rather smaller – perhaps nearer 12% – but for the delays in tax payments caused by the postal strike. The rise was partly the result of the inflows from abroad, but it also reflected an expansion of almost £1,400 million in domestic credit. This expansion was caused mainly by an increase in bank lending to the private sector – including broadly equal amounts of restricted lending, fixed rate finance for exports and shipbuilding, and foreign currency lending for domestic purposes – and in the borrowing requirements of local authorities and public corporations. But large official sales of gilt-edged stocks to domestic investors outside the banking sector were a factor working in the opposite direction.

The expansion of nearly £1,400 million in domestic credit was much larger than the increase of about £900 million envisaged at the time of the Budget in April 1970. The difference reflects the emergence of a central government borrowing requirement in place of the surplus expected; a larger borrowing requirement by other parts of the public sector than had been allowed for; and an unexpectedly large increase in banks' foreign currency lending to U.K. companies for domestic use. On the other hand, official sales of gilt-edged stocks also exceeded expectations.

In his Budget last March, the Chancellor of the Exchequer thought that, because of the growth of incomes, any immediate attempt to reduce the rate of increase in the stock of money to much below the recent quarterly rate of 3% might be detrimental to liquidity and employment; but his aim would be to reduce the growth of the money stock as the rise in costs and prices moderated.

Calendar of financial developments, January 1970-March 1971

1970		
January	1	First allocation of I.M.F. Special Drawing Rights, totalling the equivalent of $3,414 million; the United Kingdom's share was the equivalent of $410 million.
	1	Major industrial countries, including the United Kingdom, made further tariff reductions under the Kennedy Round agreement.
	1	The National Westminster Bank Ltd. came into operation, replacing the Westminster Bank Ltd., National Provincial Bank Ltd. and District Bank Ltd.
	1	Withdrawal limit for National Savings Bank ordinary accounts doubled, from £10 to £20.
	2	Exchange control restrictions on travel expenditure in non-sterling countries relaxed (see last year's *Report*, page 33).
	5	New tranche of £200 million of $6\frac{3}{4}$% Exchequer Loan 1971 (announced on 30th December 1969) issued at £96:6:3 per £100 nominal, to yield nearly $9\frac{3}{16}$% to redemption.
	14	The F.T.-Actuaries industrial share price index reached its highest point in 1970 – 163·3 – before falling sharply over the following months (see 27th May).
	16	The gold price on the London market fell to the lowest point since the reopening of the market in 1954: the afternoon fixing was $34·75.
	20	The Federal Reserve Board announced increases in maximum interest rates payable by U.S. banks on time deposits, to take effect from 21st January: the ceiling on certificates of deposit in large denominations ($100,000 or more) held for a year and over was raised from $6\frac{1}{4}$% to $7\frac{1}{2}$%, and for those held for less than one year the permitted increase was $\frac{3}{4}$%, from rates ranging between $5\frac{1}{2}$% and $6\frac{1}{4}$% depending upon maturity.
	23	Announcement of issue on 28th January of £600 million of $8\frac{1}{2}$% Treasury Loan 1980/82 at £96:5:– per £100 nominal, to yield about 9% to redemption; holders of 3% Savings Bonds 1960/70 offered conversion into the new stock on 1st March.
February	11	White Paper published on *Britain and the European Communities: an economic assessment* (Cmnd. 4289).
	20	The London clearing banks made full disclosure of their profits for the first time.
	25	Several discount houses forced to borrow at Bank rate, for the first time since November 1967.
March	1	Redemption of £500 million of 6% Exchequer Stock 1970.
	1	Conversion of some £260 million of 3% Savings Bonds 1960/70 into $8\frac{1}{2}$% Treasury Loan 1980/82.
	5	Bank rate reduced from 8% to $7\frac{1}{2}$%.

1970 March *continued*	9	West German bank rate raised from 6% to 7½%, and 'Lombard' rate (for advances against security) from 9% to 9½%.
	25	Major U.S. banks reduced their prime lending rates from 8½% to 8%.
April	8	Local authorities' quotas for borrowing from the Public Works Loan Board in 1970/71 increased to 40% of new capital requirements (50% in intermediate and development areas), with a higher minimum entitlement of £400,000.
	14	The Budget: the Chancellor of the Exchequer proposed tax changes estimated to cost the Exchequer about £180 million in 1970/71 and £220 million in a full year. Import deposits were reduced from 40% to 30% from 1st May. Bank rate was reduced by a further ½%, to 7%, as from 15th April. Banks and finance houses were asked to keep any increase in their restricted sterling lending within specified limits – ranging from about 5% to 7% – over the year to March 1971. Additional Special Deposits were called from the London clearing banks (an increase of ½% to 2½% of total deposits) and the Scottish banks (¼% to a total of 1¼%); the additional deposits were to be paid by 6th May. Interest on the London clearing banks' Special Deposits (which had been halved as from June 1969) was restored to the full rate from 15th April.
May	1	The Associated banks in the Irish Republic closed (until mid-November) because of a staff dispute.
	14	The President of the Board of Trade announced that the import deposit scheme would not be renewed when it expired on 4th December.
	18	The date of the general election – 18th June – was announced.
	27	The F.T.-Actuaries industrial share price index fell to its lowest point in 1970 – 122·0 compared with a peak of 163·3 on 14th January.
	28	Publication of the report on the Bank of England by the Select Committee on Nationalised Industries.
	31	The Canadian authorities announced that they would no longer keep the exchange rate of the Canadian dollar within the limits prescribed by the I.M.F.
June	18	The general election resulted in a Conservative majority.
	20	Following the change of government, Mr. Macleod replaced Mr. Jenkins as Chancellor of the Exchequer.
	22	Agreement reached that contributions to the International Development Association in the three years beginning July 1971 will total $813 million per annum; the U.K. share of this total will be $104 million per annum.
	24	The Federal Reserve Board suspended the limit imposed by their "Regulation Q" on the interest payable on 30-89 day time deposits of $100,000 and over, and on certificates of deposit of the same term and denominations.
	30	Negotiations formally opened on the application by the United Kingdom and three other countries to join the European Communities.

1970		
July	1	Interest on National Savings Bank investment accounts raised from 7% to $7\frac{1}{2}$%.
	9	Issue of new £20 note.
	14	Beginning of U.K. dock strike (made official on 16th July).
	16	West German bank rate reduced from $7\frac{1}{2}$% to 7%, and 'Lombard' rate (for advances against security) from $9\frac{1}{2}$% to 9%.
	22	The Government announced that the rate of import deposits would be reduced from 30% to 20% on 1st September, before the termination of the scheme on 4th December.
	22	It was announced that a new issue of national savings certificates – the Decimal Issue – would be on sale from 5th October; and that the rate of interest on ordinary accounts of trustee savings banks and of the National Savings Bank would be increased from $2\frac{1}{2}$% to $3\frac{1}{2}$% from 21st November and 1st January respectively.
	27	Mr. Barber appointed Chancellor of the Exchequer following the death of Mr. Macleod on 20th July.
	28	The Bank of England reminded the London and Scottish clearing banks that the request at the time of the Budget to restrain their lending remained in force.
August	3	End of U.K. dock strike.
	6	Announcement of issue of two new gilt-edged stocks on 12th August: £300 million $6\frac{3}{4}$% Treasury Stock 1974 at £98:5:– per £100 nominal, to yield almost $7\frac{1}{4}$% to maturity; and £600 million $8\frac{1}{2}$% Treasury Loan 1984/86 at £95, to yield about $9\frac{1}{8}$%.
	13	I.B.R.D. lending rate raised by $\frac{1}{4}$% to $7\frac{1}{4}$%.
	17	The Federal Reserve Board announced a reduction in the reserve requirement on time deposits exceeding \$5 million from 6% to 5%, and the imposition of a 5% reserve requirement on commercial paper issued by bank affiliates. Both measures became effective in the week beginning 17th September.
	18	The Finance Houses Association announced the establishment from 1st September of a Finance House base rate, derived from rates in the inter-bank market, which could be used in place of Bank rate for calculating charges on certain long-term lending.
	19	U.K. exchange control regulations altered to merge 'property currency' with investment currency (see page 35 of this *Report*).
	27	French bank rate reduced from 8% to $7\frac{1}{2}$%.
September	1	Redemption of over £750 million of 3% Savings Bonds 1960/70.
	4	The Bank of England announced that it would not issue redemption request forms for Government of Southern Rhodesia $2\frac{1}{2}$% Stock 1965/70, due to be redeemed on 1st October, until funds to meet the redemption were known to be available.
	21	Major U.S. banks reduced their prime lending rates by $\frac{1}{2}$% to $7\frac{1}{2}$%.
	21–25	Joint annual meeting of I.M.F. and I.B.R.D.

1970		
September *continued*	24	The Government announced their approval of a rise in postal rates to coincide with the introduction of decimal currency on 15th February 1971.
October	1	Changes in arrangements for provision of fixed rate medium and longer-term finance for exports and shipbuilding by London and Scottish clearing banks, including increase in rate of interest from 5½% to 7% and extension of refinancing facilities with the Bank of England. Rate of interest on Bill and Open Account schemes for shorter-term export credit increased from Bank rate to Bank rate plus ½% (minimum 4½%).
	5	Proposals for Industrial Relations Bill published as a basis for discussion.
	5	New Decimal Issue of national savings certificates.
	12	UNCTAD Trade and Development Board agreed arrangements under which industrialised countries would grant tariff advantages on imports of manufactured goods from developing countries.
	20	The London clearing banks announced that they would restrict evening opening (begun in July 1969) to certain branches from the beginning of 1971.
	20	French bank rate reduced from 7½% to 7%.
	23	The Prime Minister stated in U.N. General Assembly that the United Kingdom would aim to achieve the UNCTAD target for aid to developing countries (1% of G.N.P.) by 1975.
	27	The Chancellor of the Exchequer announced reductions in public expenditure estimated at £330 million in the financial year 1971/72. Replacement of investment grants with investment allowances took effect immediately. The Chancellor also proposed reductions in corporation tax payable on 1st January 1971, and in the standard rate of income tax from the beginning of the tax year 1971/72.
	29	The Bank of England called for additional Special Deposits, to be paid by 11th November – 1% from the London clearing banks (to 3½%) and ½% from the Scottish clearing banks (to 1¾%).
November	10	Announcement that the Greater London Council was to issue £50 million loan by tender on 12th November.
	11	Federal Reserve banks reduced their discount rates from 6% to 5¾%.
	11	Financial support proposed for Rolls-Royce Ltd.: £42 million from the Exchequer – raising the total government commitment to £89 million – and £18 million from the banks.
	12	Major U.S. banks reduced their prime lending rates by ¼% to 7¼%.
	16	The Associated banks in the Irish Republic reopened (after staff dispute from 1st May to 21st October).
	17	The Department of Trade and Industry announced that under-recording of exports had again become significant, at about 2%, from the beginning of 1970.

1970		
November *continued*	18	The United Kingdom paid £150 million subscription to I.M.F. (£112·5 million in sterling and £37·5 million in gold) in respect of increase in quota.
	18	West German bank rate reduced from 7% to $6\frac{1}{2}$%, and 'Lombard' rate (for advances against security) from 9% to 8%.
	23	Major U.S. banks reduced their prime lending rates by $\frac{1}{4}$%, to 7%.
	27	The Government refused to provide bridging finance for Mersey Docks and Harbour Board.
	30	The Federal Reserve Board announced an increase in the reserve requirements on euro-dollar liabilities of U.S. banks to their overseas branches, in excess of a reserve-free base (see page 11 of this *Report*).
December	1	Federal Reserve banks reduced their discount rates from $5\frac{3}{4}$% to $5\frac{1}{2}$%.
	3	Industrial Relations Bill published, following closely the lines of proposals issued on 5th October.
	3	West German bank rate reduced from $6\frac{1}{2}$% to 6% and 'Lombard' rate (for advances against security) from 8% to $7\frac{1}{2}$%.
	4	Import deposit scheme came to an end.
	8	In the negotiations for U.K. entry to E.E.C., agreement was reached on a five-year transition period for agriculture and industrial tariffs.
	22	Major U.S. banks reduced their prime lending rates by $\frac{1}{4}$%, to $6\frac{3}{4}$%.
	23	U.K. exchange control regulations altered to extend arrangements for financing portfolio investment abroad by means of foreign currency loans (see page 36 of this *Report*).
1971		
January	1	Second allocation of I.M.F. Special Drawing Rights, totalling the equivalent of \$2,949 million; the United Kingdom's share was the equivalent of \$300 million.
	1	Major industrial countries, including the United Kingdom, made further tariff reductions under the Kennedy Round agreement.
	6	Major U.S. banks reduced their prime lending rates by $\frac{1}{4}$%, to $6\frac{1}{2}$%.
	7	Announcement of issue on 13th January of further £600 million of $6\frac{1}{2}$% Treasury Loan 1976 at £94:5:– per £100 nominal, to yield just over $7\frac{3}{4}$% to redemption.
	8	Federal Reserve banks reduced their discount rates from $5\frac{1}{2}$% to $5\frac{1}{4}$%.
	8	French bank rate reduced from 7% to $6\frac{1}{2}$%.
	12	U.K. residents' foreign currency borrowing for domestic use restricted to medium and longer-term finance taken for at least five years (see page 36 of this *Report*).

1971		
January *continued*	14	Sir Leslie O'Brien reappointed Governor of the Bank of England for a further five years from 1st July.
	14	Announcement of issue on 20th January of further £500 million of 9% Treasury Loan 1994 at £94:10:– per £100 nominal, to yield about $9\frac{9}{16}$% to redemption.
	15	The Export-Import Bank announced an offer of $1,000 million of three-month notes to the overseas branches of U.S. banks against euro-dollars.
	15–18	Major U.S. banks reduced their prime lending rates in two stages, from $6\frac{1}{2}$% to 6%.
	19	Federal Reserve banks reduced their discount rates from $5\frac{1}{4}$% to 5%.
	20	Strike of post office workers began.
	28	White Paper published on *Public expenditure 1969/70-1974/75* (Cmnd. 4578). The volume of public spending was forecast to grow at an average annual rate of 2·6% to 1974/75.
	28	Redemption date for £568 million of $6\frac{1}{2}$% Treasury Stock 1971.
February	4	Rolls-Royce Board announced their decision to ask for the appointment of a receiver because of expected losses associated with the RB.211 aircraft engine. The Government announced their intention to acquire essential assets.
	11–12	Banks in United Kingdom closed to prepare for the introduction of decimal currency.
	13	Federal Reserve banks reduced their discount rates from 5% to $4\frac{3}{4}$%.
	14	International oil companies signed five-year agreement with Gulf States.
	15	Decimal currency introduced.
	15	Shipbuilding Industry Bill published; government guarantees for bank loans to be raised from £400 million to £700 million.
	16	Major U.S. banks reduced their prime lending rates by $\frac{1}{4}$%, to $5\frac{3}{4}$%.
	17	The Chancellor of the Exchequer announced measures to attract new industry to "special development areas".
	17	Announcement of issue on 23rd February of £600 million of $6\frac{1}{2}$% Exchequer Stock 1976 at £95·50 per £100 nominal, to yield just under $7\frac{5}{8}$% to redemption.
	23	The Government announced the formation of Rolls-Royce (1971) Ltd.
	23	The Export-Import Bank announced the offer of a further $500 million of three-month notes to the overseas branches of U.S. banks against euro-dollars.
March	1	Vehicle and General Insurance Company Ltd. declared insolvent.
	5	Announcement of issue on 11th March of £600 million of 9% Treasury Loan 1992/96 at £95·50 per £100 nominal, to yield about $9\frac{1}{2}$% to redemption.

1971
March *continued*

8 Post office workers returned to work. Committee of inquiry to be set up.

11–18 Major U.S. banks reduced their prime lending rates from $5\frac{3}{4}$% to $5\frac{1}{4}$%.

18 United Kingdom and Western Germany signed a five-year agreement on meeting the foreign exchange costs of British troops stationed in Germany.

24 Report of the Committee on Consumer Credit – the Crowther Report – published (Cmnd. 4596).

25 Publication of a White Paper containing the Chancellor of the Exchequer's observations on the report on the Bank of England by the Select Committee on Nationalised Industries (Cmnd. 4633: see page 24 of this *Report*).

30 The Budget: the Chancellor of the Exchequer proposed tax reductions which would reduce revenue by £550 million in the financial year 1971/72, and would bring the public sector's borrowing requirement to some £1,200 million; these measures were expected to raise the growth of output to about 3% a year. The Chancellor also announced a number of reforms in the taxation system to take effect in 1973 or later. Changes in the techniques of monetary control were under consideration and would be discussed with the banks and finance houses; meanwhile, the present methods of control would continue, and these institutions were asked not to allow restricted lending in the June quarter to rise to more than about $2\frac{1}{2}$% above the limits previously set for March 1971.

31 During the first quarter the United Kingdom repaid all outstanding assistance received from overseas central banks and institutions other than the I.M.F.; the four quarterly instalments due to the Fund this year in respect of the United Kingdom's June 1968 drawing were repaid in March.

The work of the Bank

The economic and monetary developments summarised briefly in the first section of the *Report* were reflected in various parts of the Bank's work during the year to the end of last February. Other events – such as the change to a decimal system of currency, and the postal delays in the early months of 1971 – also had their effect in the Bank, as elsewhere. All these are among aspects of the Bank's work which are reviewed in the following pages; and developments following the changes in departmental responsibilities outlined in last year's *Report* are also described. As in earlier *Reports,* there are figures of the note issue, Treasury bill tenders and other operations carried out by the Bank.

A great deal of the Bank's work depends for its effectiveness on the help and co-operation received from banks and other institutions. The Bank are very pleased to acknowledge with gratitude that this assistance was again readily forthcoming during the year under review.

Select Committee on nationalised industries

The report on the Bank by the Select Committee was published in May 1970.[1] As stated in last year's *Report*, one major recommendation was that the Bank's accounts should be published as part of their *Annual Report*; the first accounts to be published are for the year ended 28th February 1971 and they appear in the third section of this *Report* (beginning at page 46).

On 25th March 1971 the Chancellor of the Exchequer presented to Parliament a White Paper embodying his comments on the report.[2] This recorded that the Government welcomed the Select Committee's report as an important contribution to public understanding of the relationship between the Government and the Bank of England and indicated that agreement in broad principle had been reached on the other central recommendations made by the Committee.

As a result:

(i) The Bank will make charges, from March 1971, to cover the full costs of their main services to the Government; these embrace the administration of exchange control, management of the Exchange Equalisation Account and management of the national debt. (The full costs of the note issue are already charged against the profits of the Issue Department, which are paid to the Treasury, and this arrangement will continue.) Other services provided by the Bank to the Government (including any new services which may be provided) will be kept under review in the light of the acceptance of the principle underlying the Committee's recommendation.

(ii) The profits of the Banking Department will be paid over to the Treasury after agreed provision has been made for reserves and working capital. The first payment to be agreed in this manner will be that due on 5th October 1971.

(iii) Information about the Bank's programme of capital expenditure, which will be evaluated by approved techniques, will be provided to the Treasury annually.

1 House of Commons Paper 258.
2 Cmnd. 4633.

The note issue

During the year ended February 1971 there were two changes in the denominations of notes in circulation. First, a new £20 note was introduced in July. This is a denomination which had not previously been issued since 1943; it is the first of a new series of smaller-sized notes, and will be followed in due course by new £1, £5 and £10 denominations. By the end of the Bank's year £20 notes amounted to some 2% by value of the total circulation. Secondly, 10*s.* notes ceased to be legal tender in November 1970, just over a year after the Bank stopped issuing them following the introduction of 50p coins. These changes, together with the continued growth in the use of £5 notes compared with £1 notes, were responsible for an increase in the average face value of notes in circulation from £2·28 to £2·50.

With the co-operation of the banks, the arrangements to encourage greater use by the public of used but clean notes were extended. From January 1970 these arrangements covered £5 notes as well as £1 notes; and the number of weeks in which the banks issued only used notes of these denominations to their customers instead of new was increased from ten to thirteen. The result was that, leaving aside the discontinued 10*s.* note, over 100 million fewer new notes were issued in the twelve months to February 1971 than in the previous year, and over 200 million more used notes.

The note circulation reached a peak of £3,705 million on 22nd December 1970; this was £137 million higher than the previous peak of £3,568 million reached on 28th July 1970 and £220 million higher than the Christmas peak of 1969. The rise over the year as a whole was unusually steep. In the main this was no doubt a reflection of the very rapid increases in incomes and prices during the period; towards the end of the year, however, the rise was also due in part to the postal strike, as a result of which the note circulation at the end of February 1971 was particularly large. Changes in recent years are shown in the following tables:

Value of notes issued, paid and in circulation

£ millions

Year to end of February	1967	1968	1969	1970	1971
Issued:					
New notes	2,633	2,833	2,960	2,860	2,606
Reissued notes	311	323	372	520	1,027
Paid	2,858	3,010	3,208	3,276	3,215
In circulation at the end of year	2,870	3,016	3,140	3,244	3,662
Percentage increase in circulation over the year	*3·1*	*5·1*	*4·1*	*3·3*	*12·9*

Value of notes issued by denominations
£ millions

Year to end of February	1967	1968	1969	1970	1971
10s.	219	221	227	139	—
£1	1,319	1,374	1,403	1,409	1,445
£5	1,296	1,427	1,554	1,642	1,892
£10	110	127	146	168	197
£20	—	—	—	—	80
Other notes[a]	—	7	2	22	19

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

Value of notes in circulation by denominations
£ thousands

End of February	1967	1968	1969	1970	1971
10s.	104,470	107,258	109,223	42,350	15,267
£1	971,966	972,251	956,887	949,420	977,334
£5	1,490,147	1,577,541	1,677,518	1,796,668	2,079,724
£10	193,406	242,451	278,072	314,482	354,015
£20	1,074	1,026	985	974	76,678
£50—£1,000					796
Over £1,000	108,550	115,650	117,665	139,790	158,340
Total	**2,869,613**	**3,016,177**	**3,140,350**	**3,243,684**	**3,662,154**

Proportion of notes in circulation by denominations
Per cent by value of total circulation

End of February	1956[a]	1967	1968	1969	1970	1971
10s.	5·3	3·6	3·6	3·5	1·3	0·4
£1	75·9	33·9	32·2	30·5	29·3	26·7
£5	13·5	51·9	52·3	53·4	55·4	56·8
£10	0·2	6·7	8·0	8·9	9·7	9·7
£20		0·1	0·1	0·0	0·0	2·1
£50—£1,000						0·0
Over £1,000	5·1	3·8	3·8	3·7	4·3	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 residual gold holding of the Issue Department, totalling £0·4 million, was sold to the Exchange Equalisation Account on 6th August 1970. Since then the Bank of England note issue has been entirely backed by holdings of government debt and other securities. The Issue Department had retained a small gold holding ever since 1939, when the bulk of its gold and foreign exchange assets were transferred to the Exchange Equalisation Account; but the amount retained was very small, especially as a proportion of the expanding note issue, and it no longer seemed useful to continue this arrangement.

The fiduciary issue rose on balance over the year by £450 million, to £3,700 million. Some of the factors contributing to this unusually large rise have already been described. The changes during the year were as follows:

				£ millions
1970	28th February			3,250
	2nd March	+50		
	20th March	+50		
	31st March	+25		
	16th April		−25	
	19th May	+50		
	3rd June	+50		
	7th July	+50		
	14th July	+50		

Fiduciary issue *continued*			£ millions
1970 21st July	+50		
12th August		−50	
17th September		−50	
18th November	+50		
4th December	+50		
9th December	+50		
14th December	+50		
18th December	+50		
28th December		−50	
1971 4th January		−50	
8th January		−50	
12th January		−50	
18th January		−50	
29th January	+50		
3rd February	+50		
8th February	+50		
10th February	+50		3,700

Treasury bills

More Treasury bills were offered during the year ended 28th February 1971 than in the previous year – £7,360 million compared with £5,920 million. The increase last year followed two years in which the total had been reduced, and was mainly attributable to three factors: the re-emergence of a small borrowing requirement in the central government's accounts, following surpluses in the previous two years; the continued need for sterling to finance a large foreign exchange inflow; and considerable redemptions of gilt-edged stocks, as a result of which net official sales of stocks, though still substantial, were smaller than in 1969/70.

Unusually large amounts of bills were offered at some tenders during the year under review. At the end of August and early in September there were big tenders to help to absorb the funds becoming available from the redemption of 3% Savings Bonds 1960/70 on 1st September. Later, towards the end of January and early in February, large amounts were again offered, mainly to provide against delays in tax revenues because of the postal strike. The redemption of 6½% Treasury Stock 1971 on 28th January was another reason for the size of the tenders at this time, although the amount of this stock still in market hands at maturity was fairly small compared with the earlier Savings Bonds redemption. In the event, the provision made for these reasons at the tender on 29th January proved to be excessive, and only £100 million of the £250 million bills on offer were allotted.

The discount houses left their bids unchanged for a period of twenty-one weeks between 21st August 1970 and 8th January 1971; bill rates have never before remained stable for such a long period when monetary policy was operative. The houses had no incentive to raise their bids during this period, because they were receiving substantial allotments at the tenders and making few sales to the clearing banks. Yet to lower the tender price would have involved losses on such sales as they were able to make, and might also have brought a corresponding increase in the cost of their borrowed funds. The attractiveness of the houses' large portfolios was no doubt enhanced by the need for liquidity as the revenue season approached and by the growing expectations of a reduction in Bank rate.

Tenders in 1970/71

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
1970 Mar. 6	80	189	167	80	£98: 3: 3	£7: 6: 6·99
13	80	204	183	80	£98: 3: 6	£7: 6: 1·56
20	80	161	170	80	£98: 3: 9	£7: 5: 2·22
26	110	150	206	110	£98: 4: 2	£7: 3: 6·62
Apr. 3	120	195	195	120	£98: 4: 2	£7: 3: 5·22
10	80	172	172	80	£98: 4: 7	£7: 1:10·93
17	80	162	174	80	£98: 6: 5	£6:14: 6·14
24	80	174	159	80	£98: 6: 1	£6:15: 5·57
May 1	80	178	162	80	£98: 6: 1	£6:15:10·47
8	100	200	191	100	£98: 6: 2	£6:15: 6·26
15	120	166	203	120	£98: 6: –	£6:16: 0·68
22	140	124	222	140	£98: 5: 9	£6:17: 2·42
29	160	149	259	160	£98: 5: 9	£6:17: 2·77
June 5	180	160	281	180	£98: 5: 9	£6:17: 3·06
12	120	147	190	120	£98: 5: 6	£6:17:11·81
19	120	140	216	120	£98: 5: 9	£6:17: 2·58
26	120	160	211	120	£98: 5: 9	£6:17: 1·26
July 3	120	184	214	120	£98: 5:10	£6:16: 9·90
10	100	163	180	100	£98: 5:10	£6:16:10·85
17	80	170	190	80	£98: 5: 7[a]	£6:17: 6·23
24	120	155	178	120	£98: 5: 9	£6:17: 3·78
31	80	181	175	80	£98: 5:11	£6:16: 5·96
Aug. 7	120	188	217	120	£98: 6: –	£6:16: 2·16
14	80	166	152	80	£98: 5:11	£6:16: 6·47
21	190	178	267	190	£98: 6: –	£6:16: 3·70
28	250	150	332	250	£98: 6: –	£6:16: 3·90
Sept. 4	220	159	295	220	£98: 6: –	£6:16: 3·88
11	160	155	242	160	£98: 6: –	£6:16: 3·53
18	180	143	252	180	£98: 6: –	£6:16: 3·70
25	200	157	299	200	£98: 6: –	£6:16: 3·41
Oct. 2	180	160	249	180	£98: 6: –	£6:16: 3·82
9	180	157	266	180	£98: 6: –	£6:16: 3·67
16	140	162	239	140	£98: 6: –	£6:16: 2·37
23	180	159	268	180	£98: 6: –	£6:16: 3·58
30	130	161	217	130	£98: 6: –	£6:16: 3·12
Nov. 6	130	149	206	130	£98: 6: –	£6:16: 3·51
13	130	153	191	130	£98: 6: –	£6:16: 4·00
20	170	158	263	170	£98: 6: –	£6:16: 3·10
27	160	145	244	160	£98: 6: –	£6:16: 3·69
Dec. 4	180	146	255	180	£98: 6: –	£6:16: 3·91
11	200	148	285	200	£98: 6: –	£6:16: 3·64
18	140	109	190	140	£98: 6: –	£6:16: 3·89
24	220	136	297	220	£98: 6: –	£6:16: 4·01
1971 Jan. 1	130	128	204	130	£98: 6: –	£6:16: 3·37
8	130	145	201	130	£98: 6: –	£6:16: 3·11
15	100	150	188	100	£98: 6: 2	£6:15: 6·73
22	260	176	346	260	£98: 6: 2	£6:15: 7·44
29	250	157	372	100	£98: 6: 2	£6:15: 5·39
Feb. 5	200	112	328	200	£98: 6: 2	£6:15: 6·20
10	160	155	291	160	£98·31	£6·7668
19	160	161	279	160	£98·32	£6·7299
26	80	156	162	80	£98·32	£6·7157

a At this tender the discount market tendered below the lowest price accepted and so were allotted no bills.

Tax reserve certificates

For the fourth year in succession, 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 1971; the average value of certificates issued thus continued to decline. A slight rise in the value of personal applications was more than offset by a fall in the value of certificates issued to companies.

The value of certificates surrendered during the year was much lower than in the previous year, and was also lower than the amount applied for. As a result, there was an increase of £26 million (to £328 million) in the total value of certificates outstanding, after a fall of £50 million in the previous year. To some extent, the reduction in surrenders probably reflected delays in tax payments caused by the postal strike: after the period covered by this *Report*, there was a sharp increase in the number and value of certificates used in payment of taxes once the postal strike ended.

The conditions governing both company and personal certificates remained unchanged during the year, for the first time since 1966.

	Issues			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						
1970									
Old series[a]	—	—	—	3	—	—	3	− 3	2
Company series	24	6·0	145	167	—	11	178	−33	148
Personal series	170	0·5	98	109	3	—	112	−14	152
Total	**194**	**1·2**	**243**	**279**	**3**	**11**	**293**	**−50**	**302**
1971									
Old series[a]	—	—	—	1	—	—	1	− 1	1
Company series	25	5·3	134	107	—	4	111	+23	171
Personal series	187	0·5	105	99	2	—	101	+ 4	156
Total	**212**	**1·1**	**239**	**207**	**2**	**4**	**213**	**+26**	**328**

a Issued before 27.6.66.

Gilt-edged stocks

The gilt-edged market was generally firm at the beginning of the financial year 1970/71, encouraged by the reduction in international interest rates. However, the market turned sharply down in mid-April 1970, when increasing concern about the trend of industrial costs coincided with a belief that interest rates were unlikely to fall much further in the near future. The situation in the Middle East was another cause of concern, and selling became heavy at times; the authorities allowed prices to fall unusually quickly, and yields on long-dated stocks rose to record heights (some 10%) in mid-June. The approach of the general election was also an unsettling factor, and sentiment improved once this uncertainty was removed. During the remaining months of 1970, the market was periodically strong as international interest rates resumed their downward trend, although there was continuing concern about inflationary trends and industrial unrest in the domestic economy. In the early months of 1971, expectations of a reduction in interest rates became the main influence in the market, and the demand for gilt-edged stocks became exceptionally heavy. During the March quarter, turnover on the London stock exchange in gilt-edged stocks of all maturities totalled nearly £12,700 million, very much larger than in any other quarter since figures began to be compiled in 1964. The authorities sold unprecedented amounts of stock during these three months – a net total of nearly £1,250 million. To replenish official holdings, four new issues of tap stocks were made, to a nominal total of £2,300 million.

Changes in the public's holdings of gilt-edged stocks during the financial year 1970/71, compared with previous years, were as follows:

Net purchases by the public +/sales –
£ millions

	1966/67	1967/68	1968/69	1969/70	1970/71
By type of holder[a]					
Overseas holders	+ 60	+ 11	– 20	+193	+ 107
U.K. banking sector	+ 562	–110	–551	– 91	+ 61
Other U.K. holders	+ 556	+ 14	–427	+896	+ 499
Total	**+1,178**	**– 85**	**–998**	**+998**	**+ 667**
By maturity					
Redemptions/conversions	– 1	–753	–164	–446	– 417
Up to 1 year	– 693	–565	–741	–586	–1,132
Over 1 and up to 5 years	+ 799	+340	–294	+751	+ 409
Over 5 and up to 15 years	+ 278	+492	– 36	+681	+ 934
Over 15 years and undated	+ 795	+401	+237	+598	+ 873
Total	**+1,178**	**– 85**	**–998**	**+998**	**+ 667**

a More information about holders in these and earlier years is to be found in Table 3 (1) of the Bank's *Statistical Abstract* and (for 1970/71) on page 237 of the June 1971 issue of the *Quarterly Bulletin*. Changes in the holdings of the U.K. banking sector are shown mainly at book value, other changes at cash value. Any differences between book and cash values in the banking sector are reflected in the residual figures for "other U.K. holders". Overseas holdings are partly estimated, and any errors are again reflected in the residual item. The banking sector here excludes the Banking Department of the Bank of England.

Management of stock registers

The activity in the gilt-edged market was reflected in the large number of transfers registered during the year to the end of February 1971, and in the size of government stock issues and redemptions – the highest on record – during these twelve months. Details are given below.

Summarising first the different groups of stocks managed by the Bank, the nominal totals in recent years (and, for 1970 and 1971, the number of accounts) were as follows. The figures again showed an increase in the nominal value of stocks managed, accompanied by a decline in the number of accounts.

£ millions					Number of accounts (in thousands)	
End of February	**1968**	**1969**	**1970**	**1971**	**1970**	**1971**
British government securities:						
Stock[a]	20,288	19,239[b]	19,835	20,485	1,896	1,741
Bearer bonds	15	15	15	17		
	20,303	**19,254**	**19,850**	**20,502**		
Other securities:						
Government guaranteed	1,759	1,742[b]	1,524	1,514	205	213
Commonwealth etc.	242	229	226	223	80	77
Local authorities	549	591	652	697	194	199
Public boards etc.	121	139	163	185	39	43
Miscellaneous	15	15	15	15	1	1
	2,686	**2,716**	**2,580**	**2,634**	**519**	**533**
Total	**22,989**	**21,970**	**22,430**	**23,136**	**2,415**	**2,274**

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

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

Transfers

Transfer activity remained high throughout the year, and the number of registrations would have been the largest for eight years but for the effect of the postal strike on the figures for February.

Thousands

Year ended February	**1968**	**1969**	**1970**	**1971**
	752	678	757	753

The monthly figures of registrations for the year ended 28th February 1971 were as follows:

	Thousands
March	69
April	68
May	58
June	59
July	78
August	60
September	66
October	65
November	65
December	62
January	58
February	45

Operations

Operations undertaken during the year included:

£ millions nominal			
Repayments			
At par			
6% Exchequer Stock 1970		1970 1 March	500·0
Swansea Corporation $9\frac{3}{8}$% Bonds 25th March 1970		25 March	1·0
British Overseas Airways Corporation 3% Stock 1960/70		1 April	0·7
Liverpool Corporation $9\frac{1}{4}$% Bonds 8th April 1970		8 April	2·0
Agricultural Mortgage Corporation Limited 10% Bonds 24th June 1970		24 June	1·0
North of Scotland Electricity 3% Guaranteed Stock 1968/70		1 July	7·8
Hull Corporation $3\frac{1}{2}$% Redeemable Stock 1960/70		1 August	2·6
Hull Corporation $2\frac{3}{4}$% Redeemable Stock 1960/70		1 August	1·2
Liverpool Corporation $3\frac{1}{2}$% Redeemable Stock 1960/70		1 August	2·0
Corporation of London $3\frac{1}{2}$% Stock 1960/70		1 August	1·7
Swansea Corporation $3\frac{1}{2}$% Redeemable Stock 1960/70		1 August	1·0
Liverpool Corporation $10\frac{1}{4}$% Bonds 26th August 1970		26 August	3·0
3% Savings Bonds 1960/70		1 September	755·5
Swansea Corporation 10% Bonds 14th November 1970		14 November	0·5
West Glamorgan Water Board $9\frac{5}{8}$% Bonds 23rd December 1970		23 December	0·5
$6\frac{1}{2}$% Treasury Stock 1971		1971 28 January	567·7
Agricultural Mortgage Corporation Limited 9% Bonds 8th February 1971		8 February	2·0
Issues for cash			
Agricultural Mortgage Corporation Limited $9\frac{1}{4}$% Debenture Stock 1980/85	@ £98:10:–[a]	1970 12 March	25·0
Swansea Corporation 9% Bonds 31st March 1971	@ par	25 March	1·0
Liverpool Corporation $8\frac{5}{8}$% Bonds 14th April 1971	@ par	8 April	2·0
Swansea Corporation $9\frac{1}{4}$% Stock 1978/80	@ £98	29 July	5·0
$6\frac{3}{4}$% Treasury Stock 1974	@ £98:5:–	12 August	300·0
$8\frac{1}{2}$% Treasury Loan 1984/86	@ £95	12 August	600·0
Liverpool Corporation $8\frac{1}{4}$% Bonds 1st September 1971	@ par	26 August	3·0
Swansea Corporation 8% Bonds 10th November 1971	@ par	4 November	0·5
Greater London $9\frac{1}{4}$% Stock 1980	@ £97:10:–[a]	12 November	50·0
West Glamorgan Water Board $8\frac{1}{4}$% Bonds 29th December 1971	@ £99:18:9	23 December	0·5
$6\frac{1}{2}$% Treasury Loan 1976 "A"	@ £94:5:–	1971 13 January	600·0
9% Treasury Loan 1994 "A"	@ £94:10:–	20 January	500·0
Agricultural Mortgage Corporation Limited $7\frac{3}{4}$% Bonds 14th February 1972	@ £99:18:9	8 February	2·0
$6\frac{1}{2}$% Exchequer Stock 1976	@ £95·50	23 February	600·0
Conversions			
3% Savings Bonds 1960/70 into $8\frac{1}{2}$% Treasury Loan 1980/82 at par, plus cash payment of £1:2:6 per cent.		1970 1 March	256·3

a Minimum tender price.

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 1971, approximate amounts due but unpaid in respect of these stocks were:

Gross interest	£12,549,000
Redemption monies[a]	£26,136,000

a Relating to Government of Southern Rhodesia 3½% Stock 1961/66, 3½% Stock 1967/69 and 2½% Stock 1965/70, the registers for which remain open.

At the same date, contributions due but unpaid to sinking funds managed by the Bank of England totalled some £1,772,000, which included £240,000 in respect of outstanding contributions for 3½% Stock 1967/69. (Sinking funds for 3½% Stock 1961/66 and 2½% Stock 1965/70 are not managed by the Bank.)

The postal strike

The interruption of postal services between 19th January and 6th March caused difficulties for the Accountant's Department, which depends for its proper functioning on the receipt and despatch of mail. During the period, dividends became due for payment on over 30 different stocks managed by the Bank and two stocks fell due for repayment, one of which – 6½% Treasury Stock 1971 – comprised 90,000 accounts. Funds payable directly into the banking system were not affected, but 300,000 warrants to a total of some £80 million which were due for despatch by post – mainly to private individuals – were delayed. Special arrangements were made so that warrants could either be collected from the Bank and its branches (including the exchange control office in Glasgow) or, with the assistance of other banks throughout the country, credited directly to bank accounts. The arrangements were advertised widely in national and provincial daily newspapers and several thousand people took advantage of them, with the result that warrants to a total value of £35 million were disposed of. (The collection of warrants by stockholders was reminiscent of the era of "Dividend Day at the Bank of England", which ended in 1909 and was the subject of the well-known painting by G. E. Hicks in 1859.)

The fullest possible advantage was taken of emergency facilities organised by the banks and such bodies as the Stock Exchange and the Law Society. By these and other means, the department was able to deal with the considerable volume of work which continued to reach it at New Change, and to despatch the greater part of its ordinary outgoing mail. For example, by the time that normal postal services were resumed over 50,000 stock certificates had been issued, leaving fewer than 2,000 in the Bank's possession: warrants apart, only 6,000 items of various kinds had proved impossible to despatch.

Automation in the Accountant's Department

Preparations for the next stage of computer developments continued. As mentioned in last year's *Report*, an improved system is being designed for introduction as the department's present computer equipment nears the end of its useful life.

Decimalisation

A decimal system of currency was introduced in the United Kingdom on 15th February 1971. In common with all other banks, the Bank closed for the two previous working days (11th and 12th February) to allow outstanding banking transactions to be cleared and settled, and accounts to be converted to decimal terms. The change was accomplished smoothly.

As well as bank accounts, the stock registers had to be converted to the new system. Indeed, within the Bank the new system posed most problems for the Accountant's Department.

Until 15th February 1971, almost all stocks managed by the Bank were transferable in multiples of 1d.: on 15th February, under the terms of Section 8 of the Decimal Currency Act 1969, these stocks became transferable in multiples of one new penny; and balances on stock accounts had to be converted to decimal currency. The preparations were made over a long period, and included discussions with banks and other registrars who were faced with similar problems. The stock registers were converted by computer according to the 'Banking and Accounting' table in the Act. During the closed period it was also necessary to convert and reconcile the stock balances kept for jobbers in the gilt-edged market, and to convert the Bank's records of dividend warrants prepared before the change but not presented for payment; the latter operation was carried out as far as possible by computer.

After the change to the decimal system the department was left with a long-term problem, because the public hold large numbers of certificates showing amounts which include shillings and pence. Where more than one such certificate has been issued for a holding, differences can arise if a holder converts each individual certificate, instead of first totalling the amounts in £.s.d. terms. Notices were sent to stockholders with the dividend payments due in the six months before decimalisation, drawing attention to the method of conversion, and requesting that all certificates for a holding containing shillings and pence should be lodged when part of the holding was first transferred. The Bank recognised that some large nominee companies might find it extremely difficult to comply with this request, and where possible made special arrangements with such companies; in the six months before the change substantial numbers of certificates showing amounts of shillings and pence were lodged by nominee companies for consolidation, as far as possible, into certificates for exact amounts of pounds.

Exchange control

The Bank's exchange control work remained heavy during the twelve months to the end of February 1971. Because of a shortage of accommodation in the Threadneedle Street building, some sections of the exchange control offices moved to the New Change premises during the year; and by the beginning of April 1971 the whole of the exchange control had moved.

The main recent changes in the administration of the control have been as follows:

21st July 1970

Restricted assets of emigrants

Emigrants leaving the United Kingdom for countries outside the Scheduled Territories had, since 21st July 1966, been unable to dispose freely of certain of their assets until four years after the date of leaving. The first releases began in July 1970.

19th August 1970

Amalgamation of property currency with the investment currency market

Since April 1965 U.K. residents had financed their purchases of private houses in non-sterling countries through the so-called 'property currency market', without cost to the reserves. This was a narrow market, and the premium fluctuated widely and was often large. It was decided that in future property purchases should be financed through the broader market in investment currency. The sales proceeds of private property were not, however, made subject to the 25% surrender requirement; thus the whole of the proceeds normally attract the investment currency premium.

8th September 1970

Revised arrangements for exports

(i) The obligation to complete a form accounting for the proceeds of exports above £2,000 in value was abolished.

(ii) H.M. Treasury had previously given general permission for credit terms of up to six months on exports from the United Kingdom to destinations outside the Scheduled Territories other than Southern Rhodesia. Henceforth, extended credit would be allowed for exports insured by the Export Credits Guarantee Department if the period of credit had been approved by that department.

A new Form SPE was introduced for other exporters who wished to grant more than six months' credit to their overseas buyers, and for other exports for which special permission was still needed.

9th September 1970

Travel

U.K. residents travelling on the Continent were permitted to use cheque guarantee cards issued by U.K. banks participating in the Eurocheque scheme to obtain foreign currency abroad for travel expenditure.

25th September 1970

Portfolio investment

The administrative rules for investment by institutional investors in foreign investment trusts, mutual funds, etc. were formalised. These investors were permitted to invest up to 20% of their total foreign currency assets in securities issued by such bodies. At the same time there was an increase in the amount of foreign currency securities carrying voting rights which could be acquired without reference to the Bank; the limit was raised from 10% to 20% of the voting rights in the company whose shares were being purchased.

23rd December 1970

Portfolio investment

The rules were relaxed to allow foreign currency borrowing for terms of less than five years for the finance of portfolio investment in foreign currency securities by institutional investors and professional managers of security portfolios, who could also arrange borrowing for individual clients. Securities acquired with the borrowed funds could be switched into other foreign currency securities without incurring the 25% surrender requirement.

12th January 1971

Borrowing for domestic purposes

During 1970 U.K. companies borrowed substantial amounts in foreign currency, mainly at short term, for conversion into sterling to finance domestic expenditure. The increase in such borrowing was inconsistent with the policy of firm control over domestic credit, and borrowing was therefore restricted to medium and longer-term finance taken for at least five years. To reinforce this measure, U.K. residents were no longer permitted to borrow sterling or other sterling area currencies from non-sterling countries.

30th March 1971

Direct investment

In his Budget statement, the Chancellor of the Exchequer announced some changes in the rules for financing direct investment in non-sterling countries. The changes were expected to facilitate investment without significant cost to the reserves. Where investments qualified for exchange at official rates, the amount to be made available was increased from £50,000 or 50% of the cost of each investment, whichever was the greater, to £250,000 or 50%. Other categories of investment were merged, and could in future be financed with investment currency, by exporting capital equipment and stock-in-trade without payment, or by foreign currency borrowing. This borrowing could be repaid at any time with official exchange to the extent that the U.K. balance of payments had benefited from the investment; previously, foreign currency borrowing could not be repaid within five years. Finally, the repatriation of profits by subsidiaries of U.K. companies in non-sterling countries would in future be assessed globally and not by individual countries.

Import deposit scheme

The import deposit scheme, which came into effect on 27th November 1968, ended on 4th December 1970 after two reductions during the year had brought the rate of deposit down from 40% to 20%. (The deposit had earlier been reduced from the original 50% to 40% in December 1969.) The last of the outstanding deposits were due to be repaid early in June 1971.

Voluntary programme concerning overseas investment

In his Budget statement last March the Chancellor of the Exchequer asked that the voluntary programme of restraint on the export of capital to the more developed countries of the sterling area should be continued for the time being.

The Bank's branches

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

The note issuing and exchange control work of the branches remained heavy in the year to last February. The value of bank notes issued and paid through the branches was again about 70% of the totals shown on page 25. Although the withdrawal of the 10*s*. note and the introduction of the £20 note brought considerable savings in the number of notes handled, reissuing notes made extra work and meant that the branches devoted broadly as much time to servicing the note issue as in the previous year. The number of exchange control applications received by the branches declined during the year, mainly because of the relaxation in January 1970 of the restrictions on travel expenditure. Nevertheless a large number of requests, many of a complex nature, continued to be handled by the branches. The Agents and senior branch staff again devoted a significant part of their time to maintaining and developing contacts with industry and commerce in their areas, and to keeping head office informed of local developments.

Four branches have recently moved into premises better suited to present-day requirements as the building programme described in last year's *Report* has been completed. The new building at Birmingham opened in November 1970 and that at Manchester in January 1971. The branches at Newcastle and Leeds moved into their new buildings in May and June 1971 respectively.

Local authority bills

During the year under review, more local authorities took powers, by private Act of Parliament, to issue bills. By the end of February 1971, the amount of such bills outstanding had risen to £114 million, compared with some £75 million a year earlier.

Nine issues of 91-day local authority bills were arranged by the Bank during the year. £35 million of bills were offered for sale by tender on behalf of the Greater London Council in April 1970, and were renewed at quarterly intervals thereafter. £4,200,000 of bills were placed with the discount market on behalf of Liverpool Corporation in April, and were also renewed quarterly. Finally, bills totalling £2 million were placed with the discount market on behalf of the Metropolitan Water Board in January 1971. The average rate of discount on these issues and placings varied between $\frac{3}{16}$% and $\frac{1}{2}$% above the comparable Treasury bill rates.

Banking developments

Finance for exports and domestic shipbuilding

The arrangements under which the London and Scottish clearing banks provide fixed rate finance for exports and shipbuilding for U.K. owners were modified as from 1st October 1970. The changes were described on pages 395-6 of the Bank's *Quarterly Bulletin* for December 1970. They included an increase from $5\frac{1}{2}$% to 7% in the fixed rate of interest at which the banks concerned will provide medium and long-term credit (for two years or more) where the lending is supported by an unconditional guarantee to the bank by the Export Credits Guarantee Department or, in the case of shipbuilding for U.K. owners, by the Department of Trade and Industry; the fixed rate had previously remained unchanged since January 1965.

The arrangements for refinancing medium and long-term export and shipbuilding finance with the Bank of England were also extended. These arrangements fall into two parts. Part I applies if banks are faced with a shortage of cash or immediately realisable liquid assets; Part II relates to fixed rate lending by the London and Scottish clearing banks which is not eligible for refinance under Part I. The extension last October applied to Part II. Previously the banks had the right to refinance eligible fixed rate lending included in their advances to the extent that this exceeded 5% of their gross deposits; they are now also entitled to refinance such lending included in their liquid assets in excess of the same percentage.

At the end of March 1971, the amount eligible for refinance with the Issue Department of the Bank under Part I of this scheme totalled £470 million. The facility had not in fact been used; but amounts refinanceable under this part of the arrangements may be treated as liquid assets, and so benefit a bank's liquidity whether or not refinance is sought. At the same date, a total of £238 million had been refinanced under Part II.

Last year, 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. In fact, the limit was raised to £700 million under the terms of the Shipbuilding Industry Act 1971. The London and Scottish clearing banks matched this increase by agreeing to make additional medium and longer-term finance available under the fixed rate scheme for transactions covered by the guarantees.

Mergers of banks and discount houses

A number of mergers took place during the year affecting banks and discount houses operating in the United Kingdom. In July 1970, the Belfast Banking Company was merged into the Northern Bank; in September 1970, the three

London clearing bank subsidiaries of the National and Commercial Banking Group (Williams Deacon's Bank, Glyn, Mills & Co. and the National Bank) were amalgamated to form the new Williams & Glyn's Bank; and in October 1970, the operations of the Australia and New Zealand Bank and the English, Scottish and Australian Bank were absorbed into the Australia and New Zealand Banking Group which had been formed for the purpose in June 1969. In April 1970, the merger of two discount houses, Gerrard and Reid and National Discount Company, became effective and, since June 1970, the new company has been called Gerrard and National Discount Company.

There were also a number of mergers of foreign banks operating in London, including that of Banque Belge with Banque Italo-Belge, and Société Centrale de Banque with Banque de l'Indochine.

Outside the period covered by this *Report*, the merger of the Bank of Scotland and the British Linen Bank became effective on 1st March 1971, and the Chartered Bank and the Eastern Bank merged on 1st July 1971. In October 1970 it was announced that the merger of Lloyds Bank (Europe) and the Bank of London and South America was to take place through the acquisition of their issued capital by a new company to be called Lloyds and BOLSA International Bank. It is expected that the merger will become effective in the autumn.

Banking hours

Since the beginning of January 1971, the Bank have ceased to open on Thursday evenings from 4.30 p.m. to 6.00 p.m. The evening opening experiment was introduced in July 1969 in common with other banks, to compensate for not opening on Saturday mornings. The demand for the new service did not prove sufficient, however, to justify its continuation.

The head office of the Bank is now open from 9.30 a.m. to 3.00 p.m. each working day, and the Bank's branches from 9.30 a.m. to 3.30 p.m.

Overseas banks

A further twelve overseas banks – twice as many as in the previous year – opened banking offices in London during the twelve months to February 1971; and two more banks formed by consortia of foreign banks were opened. These additions brought the number of overseas banks operating in the United Kingdom to about 140.

Relations with central banks and other institutions abroad

The Bank remain closely involved with international financial problems and the external aspects of the management of sterling, and have again been greatly assisted in these matters by the close and friendly relations which they have always enjoyed with overseas central banks and international financial institutions. More than 500 visitors from some 100 countries were received in the Bank during the year, and the Bank's officials visited about 70 countries.

Overseas countries also continued to seek advice and practical help with banking and currency problems and, at 28th February 1971, 21 members of the Bank's staff were serving with central banks and other financial institutions overseas – the same number as a year earlier.

Commodity markets

The arrangements for reducing the cost to the reserves of silver bought by London silver dealers, which were introduced in December 1969 and described in last year's *Report*, continued throughout the year. Market stocks financed in sterling were, as intended, reduced to the level of stocks held at the end of 1968 and were subsequently maintained at approximately this size. These stocks had earlier been built up to meet a growing volume of forward purchases, mostly by overseas clients: the dealers and other financial institutions involved were assisted in their efforts to reduce their stocks by a decline in this forward demand, and by changes in interest rates which from time to time encouraged them to refinance some of their stocks in euro-dollars.

The 1969 *Report* noted that the Bank had made unsecured five-year loans totalling £3½ million to a number of commodity traders to cover certain losses arising from the devaluation of sterling in November 1967. Repayment of these loans continued in the year under review, and the amount outstanding at the end of February 1971 was a little over £1½ million.

Developments in financial statistics and information

During the year, the Bank compiled a *Statistical Abstract* which was published in February 1971. The *Abstract* aims to provide, over as long a span of post-war years as is practicable, monthly or quarterly figures for most of the financial series which appear regularly in the *Quarterly Bulletin*; the figures are carried up to the end of 1969 or, where financial years are more appropriate, to March 1970. The *Abstract* is obtainable from the Economic Intelligence Department of the Bank, and costs £3.

In the September issue of their *Quarterly Bulletin* the Bank started to publish a regular quarterly analysis of the stock of money. The analysis shows separately the different categories of deposits with U.K. banks, together with notes and coin in circulation. It therefore enables the total money stock to be calculated in various ways depending upon which categories of deposits are included; and three different totals are provided.

A revised presentation of the statistics of external liabilities and claims in sterling was introduced in the December 1970 issue of the Bank's *Quarterly Bulletin*, and at the same time some of the figures were given by months for the first time. The object of the new presentation is to avoid arbitrary classifications either as between long and short-term holdings or according to the liquidity of the various liabilities and assets.

From time to time, banks in the United Kingdom are asked by the Bank to analyse the maturity of their foreign currency assets and liabilities. Enquiries were conducted at the end of July 1970 and February 1971 and the results were included in articles published in the December 1970 and June 1971 issues of the *Quarterly Bulletin.* In January, the Bank agreed to take over from Price Waterhouse & Co. the collection and publication of statistics of turnover in the secondary market for London dollar certificates of deposit.

Previous *Reports* have described the Bank's programme of regular enquiries into the overseas earnings of certain financial institutions and the professions. During the past year, the information obtained about the earnings of the banks and of members of the Baltic Exchange has been processed for use in the balance of payments; a large number of returns has been received relating to the earnings of accountants; and arrangements have been completed for the enquiry into solicitors' earnings to take place at the end of 1971. There will be a fuller description of these enquiries in an article which it is hoped to publish in the Bank's *Quarterly Bulletin* shortly. The statistical enquiries held so far have proved to be very valuable: for example, they have shown that there was a much faster rate of growth than was previously assumed in the overseas earnings of the banks and of the Baltic Exchange between 1965 (when the original Committee on Invisible Exports first instituted comprehensive enquiries) and 1969 (when the Bank's first enquiries took place). This has necessitated some substantial revisions of the balance of payments estimates for the intervening years, and a review of the methods of estimation in use.

As mentioned in last year's *Report*, the Department of Trade and Industry, with the encouragement and help of the Bank, have been collecting quarterly information on the liquid assets and liabilities of a sample of large companies; this survey has now been running for over a year, and has already provided valuable additional material on the liquidity position of the company sector.

The Bank have continued to develop their contacts with industry throughout Great Britain and Northern Ireland. As already noted, this is an important part of the duties of the Agents and senior staff of the branches, who take steps to ensure that their contacts are properly representative of local industry and services. Directors and senior officials from head office also make frequent visits to the regions as another way of keeping the Bank informed of local developments; during the year there were 13 of these visits, giving opportunities for discussions with representatives of 223 companies.

Last year's *Report* referred to the formation of the Bank's Economic Section early in 1970. During the year under review the section made a valuable contribution to the consideration of a number of economic and financial issues involving different departments in the Bank; and it was able to develop further some statistical techniques used by the Bank. Among the more important extensions of its work, the section is in the process of taking over, in conjunction with the Central Statistical Office, the compilation of statistics of the assets and liabilities of each sector of the economy, and research into the relationships between the sectors' balance sheet positions and the flows of funds among them, which were being developed by the Department of Applied Economics at Cambridge University. Several research projects have also been completed or are under way. Some of the results have been published as articles in the Bank's *Quarterly Bulletin* and others have been or will be presented at academic conferences prior to publication. Thus, at last year's conference of the Association of University Teachers of Economics a paper was given on the effect of interest rate changes on holdings of assets with fixed capital values, and at the same conference this year the preliminary results of research into the term-structure of interest rates on British government securities were presented. A paper on the transmission mechanism of monetary policy was read at the Konstanz monetary seminar in June and, at this September's European meeting of the Econometric Society, a paper on the demand for money will be presented. Partly through this increased participation in conferences, contacts with universities and other outside bodies have been extended and improved.

Staffing and other internal matters

Numbers of staff

The staff of the Bank changed very little over the year and at the end of February 1971 those in full-time employment, including some 1,300 non-clerical staff at the Printing Works, numbered nearly 7,000. A further 800 women were employed part time, 550 of them at the Printing Works and most of the remainder in the Accountant's Department. The banking staff employed full time numbered around 4,500, allocated among departments broadly as follows:

Cashier's Department	1,350	– including 350 at the branches
Accountant's Department	1,200	
Overseas Department	800	– including some 500 on exchange control work
Economic Intelligence Department and Economic Section	200	
Management Services Department	150	
Other	800	– Secretary's, Establishment and Audit Departments and Printing Works
	4,500	

The weekly average number of staff employed during the year ended 28th February 1971 was 7,581, including the part-time staff, and their aggregate remuneration for the year was £12,560,000.

The number of banking staff is now about 25% smaller than it was some twenty years ago. The following figures (which include, where relevant, an allowance for part-time employees) show that the relative proportion of men to women within the total has remained fairly constant.

End-February	1950	1955	1960	1965	1971
Men	2,550	2,200	1,850	1,700	1,780
Women	3,650	2,950	2,750	2,550	2,870
	6,200	5,150	4,600	4,250	4,650

The general pattern has been considerably influenced by fluctuations in the requirements of exchange control. The gradual dismantling of wartime controls during the 1950s accounted for nearly two thirds of the reduction of staff in that period; the remainder occurred mainly in the Accountant's Department and was due in large measure to the completion of work arising from the nationalisation of various undertakings in the late 1940s. The reduction in exchange control staff continued into the early 1960s, in which period substantial benefits were also experienced in the Accountant's Department from the transfer of the work of dividend preparation to computers. Recent years have seen further economies in the staff of the Accountant's Department from the transfer to magnetic tape of the stock registers themselves; however, these economies have been outweighed by a renewed expansion of exchange control work and the introduction or extension of work now performed by the Management Services Department (see page 44), the main benefits from which lie in the future.

Secondments, recruiting and training

As well as Bank staff serving abroad, to whom reference has already been made, two members of the staff were on temporary secondment to H.M. Treasury and one to the Cabinet Office at the end of last February. A fourth was working at the Department of Trade and Industry and five others were attached to the Secretariat of the Panel on Take-overs and Mergers.

During the year the Bank recruited 23 men and 12 women with honours degrees and 50 men and 29 women who had undertaken a full General Certificate of Education advanced level course in two or more subjects. 221 women with ordinary level General Certificate of Education qualifications were recruited for the more routine clerical work; 53 women with similar qualifications were recruited to train as punch operators, and a further 64 as typists. 203 other men and women were recruited to the supplementary staff.

Last year it was reported that a new shortened induction course lasting about five weeks would be held for both new entrant graduates and school-leavers. Nine such courses were held during the autumn and the experience gained will be put to use in framing the length and scope of the courses this year. In other respects staff training has continued on the same lines as before, although the secondment of two members of the Establishment Department for periods of six months' training to the Industrial Society will from this year enable the Bank to run their own internal junior management courses.

Management development

Following the formation of a Management Development Division within the Establishment Department and the appointment of a Management Development Manager, mentioned in last year's *Report*, the Court of Directors have approved a management development programme. The programme aims to give each member of the staff a fuller opportunity to develop his or her talents and abilities; to put greater responsibility on each manager to develop the staff below him; to increase job satisfaction and efficiency by encouraging more delegation, better communications and training; to give members of the staff the opportunity at least once a year of discussing their performance and prospects with a senior; and to involve staff more in planning their own careers. A new and improved appraisal system has been designed for introduction later this year; it will provide a framework within which progress can be made towards achieving the aims of the management development programme.

Management services

As described in last year's *Report*, a Management Services Department was established on 1st June 1970. Its main function is to study the work processes of the Bank and to recommend and implement improvements where appropriate. The staff of the new department was drawn mainly from what until then had been the Organisation and Method Section of the Secretary's Department.

The year under review saw the completion of a number of computer projects, including accounting arrangements for tax reserve certificates and a significant extension of the existing computer system for current account banking. A system for the preparation of weekly wages reached its final stages of testing and has since been implemented; other projects are at various stages of development.

Planning for future computer systems continued. The work being carried out by the Accountant's Department has already been mentioned; elsewhere further investigations were made into a proposed integrated accounting and management information system for the Cashier's Department and a comprehensive system for the main statistical work of the Economic Intelligence Department. By the end of the year decisions on the next stage of the Bank's computer development were imminent.

Following a successful pilot scheme, a start was made with the introduction of clerical work measurement in a wide selection of clerical tasks throughout the Bank. The responsibilities of the team engaged on this work were broadened into a clerical work improvement programme with the task of helping to achieve economies and greater efficiency in the areas reviewed.

By the end of the year, a work assessment covering a wide range of jobs throughout the Bank had been completed. Unlike work measurement, which seeks to determine the proper time to be allowed for carrying out a clerical process, the object of work assessment is to establish the appropriate relationship between jobs by evaluating them in terms of selected factors.

Budgetary and cost control

To improve cost control procedures, as foreshadowed in last year's *Report*, the Bank have engaged the services of a consultant who is directly responsible to the Deputy Governor for the development and maintenance of the budgetary control system, and for defining and producing financial information for the more effective planning and control of the Bank's current and capital expenditure.