Bank of England

Report and accounts for the year ended 29 February 1972

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Court of Directors

29th February 1972

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*Created a Knight Bachelor in June 1972.

The terms of office of Sir Maurice Laing, Sir John Stevens and Mr. J. G. W. Davies expired on 29th February 1972 and they were reappointed for a period of four years.

The term of office of Lord Pilkington also expired on 29th February 1972 and the Hon. W. K. J. Weir was appointed in his place for a period of four years.

Senior officials

29th February 1972

Departmental		Advisers to the Governors
Chief Cashier	J. B. Page	J. A. Kirbyshire
Chief Accountant	R. C. Balfour, M.B.E.	R. G. Raw
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	

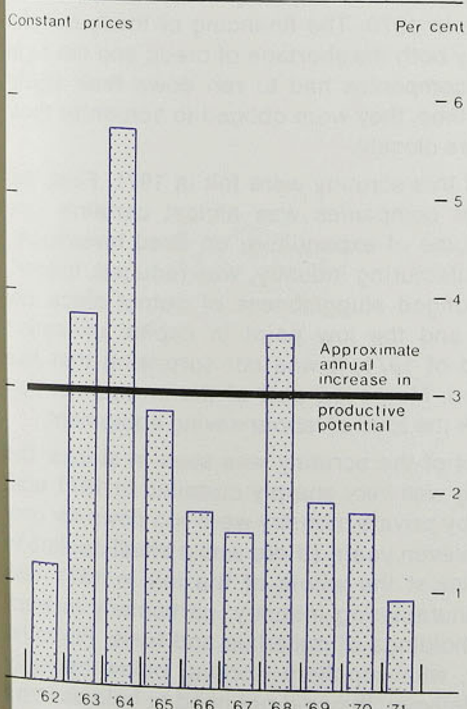
Economic and monetary review

1971 was a year of unusually fast wage and price inflation in the United Kingdom, coupled with the highest unemployment – excluding the fuel crisis in 1947 – since 1940. For the third year in succession the rate of domestic growth was slow. Bank credit became easier than for many years and a completely new system of control was introduced. The balance of payments was in record surplus; and the currency inflow was so large that the United Kingdom was able not only to repay the greater part of its short and medium-term official debt but also more than to double its reserves – an achievement not equalled since 1950. Foreign exchange markets were dominated by anxieties about the U.S. dollar and, for several months, most major currencies were allowed to float. This had not happened since the inter-war years and was terminated with a general realignment of currencies in December 1971.

The U.K. economy

Total output was some 1% higher in 1971 than in 1970, the smallest increase for over ten years. 1971 was the third successive year of low growth, years in which the authorities needed to give priority first to the balance of payments, then to combating inflation, and only latterly to reflation because of high unemployment. Indeed only once (1968) in the last six years has the annual rate of increase in output exceeded 3%, the figure which has generally been regarded as approximating to the underlying rate of growth of the U.K. economy (its productive potential). The long period of low growth has been associated with a sharp rise in unemployment, the reduction of which became progressively the dominating economic priority in the year covered by this *Report*. This new priority required the reversal of restrictive measures needed under earlier policies, but the reversal did not improve the rate of growth in 1971 compared with the preceding two years.

Annual U.K. growth rates



Output continued to increase at a rate much below that of productive potential . . .

The low growth in 1971 was disappointing in view of the succession of official measures to revive domestic activity. Personal allowances were raised in the April 1970 Budget; in October, reductions in income tax and corporation tax were announced as part of a package including increases in public expenditure; the March 1971 Budget increased childrens' tax allowances, reduced corporation tax still further and halved selective employment tax; and, in July, purchase tax was lowered, hire purchase terms control removed, and more investment incentives introduced. The control of bank lending was also relaxed; and during 1971 further steps were taken to accelerate public spending. Towards the end of 1971 there was evidence that some of these measures had begun to have an effect. After a fall in the first half of the year, some components of demand picked up quite strongly. In particular, personal spending on consumption rose at an annual rate of 6½% between the two halves of the year, and spending on new private housing also increased sharply. Although accompanied by an expansion of 7% in the volume of exports, these did not prove enough to produce a commensurate revival in industrial production, let alone an increase in company investment.

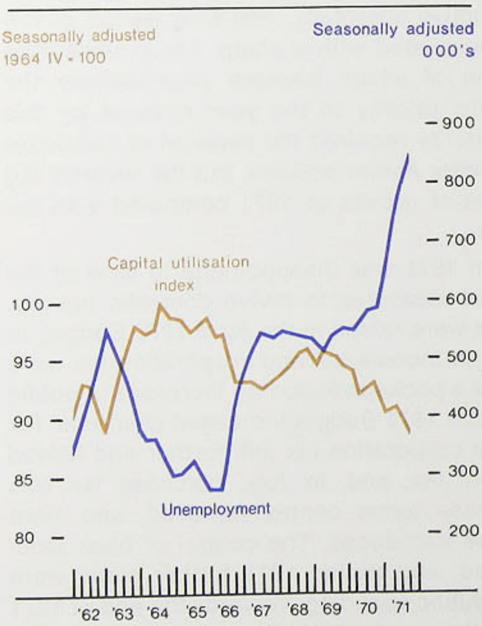
Part of the explanation was that some of the extra demand was met out of imports. Part was also probably due to the time lags between changes in policy by the authorities and changes in expenditure and output, and these are never easy to forecast. Certainly changes in hire purchase terms control normally have a swift effect on spending, and the July 1971 relaxation was no exception – allowing for seasonal movements, registrations of new cars were over 40% higher in the second half of 1971 than in the first, and retail sales of other durable goods 11% higher. But changes in direct and indirect personal taxation have in the past been estimated to have taken over a year before they have had their full effect on spending. Experience has shown that there can be a still longer interval between the announcement of changes in public spending plans and their implementation; and further lags are involved before output has normally responded to changes in spending and before companies have invested more to provide for higher output.

Another retarding influence was probably the straitened financial circumstances of companies in 1969 and 1970, arising partly from the very tight post-devaluation fiscal and monetary policies, which led to a curtailment of earnings during a period of slow economic growth, and partly from the effect of inflation on costs. In 1969 profits fell and companies moved into a financial deficit of nearly £700 million, which was almost doubled in 1970. The financing of these deficits was made difficult by both the shortage of credit and the high cost of funds, and companies had to run down their liquid assets. At the same time, they were obliged to scrutinise their costs and prices more closely.

The full effects of this scrutiny were felt in 1971. First, the financial position of companies was almost certainly one reason why the volume of expenditure on fixed investment, particularly by manufacturing industry, was reduced. Indeed, in view of the prolonged sluggishness of output since the beginning of 1969 and the low point in capital utilisation reached by the end of 1971, it was not surprising that this expenditure declined. Moreover, part of the investment that was undertaken took the form of labour-saving equipment.

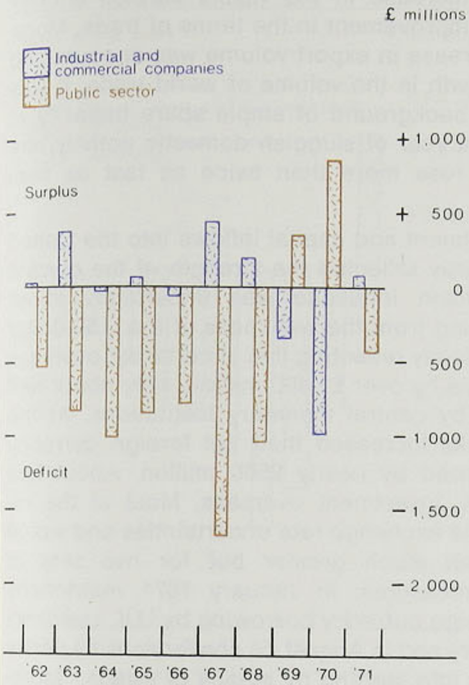
The second effect of the scrutiny was seen in stocks: the rate of stockbuilding was very sharply curtailed in 1971 and, in fact, stocks held by private industry were run down for only the second time in eleven years (there was a small decline in stocks in 1967). Almost the whole of the fall in 1971 was concentrated in manufacturing industry, particularly in work in progress and in holdings of materials and fuels. Firms no doubt decided that, with suppliers working below capacity and offering quick delivery, they did not need to hold as large stocks as in the past. Whatever the reasons, the pause in stockbuilding had a noticeable contractionary effect on domestic output during 1971.

Capital utilisation index Unemployment



... and the resulting fall in capital utilisation was accompanied by a very substantial increase in unemployment.

Financial surplus/deficit



The tight financial position of companies in 1969 and 1970 eased in 1971 as the public sector went back into deficit.

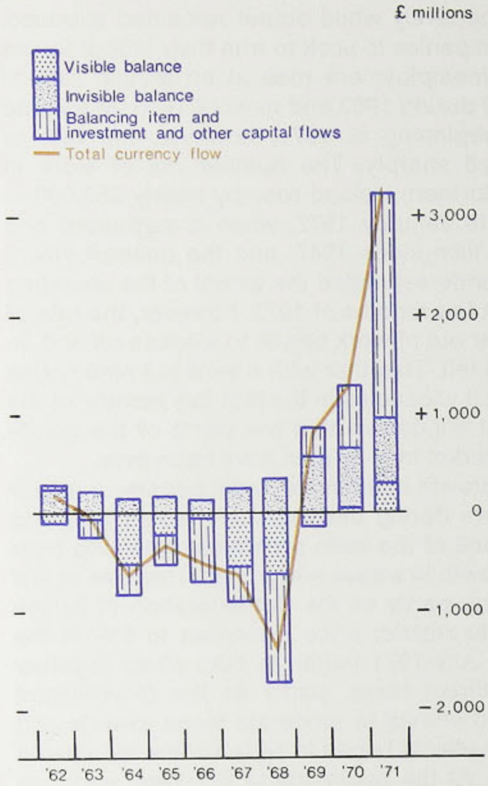
The third aspect of companies' retrenchment was a re-assessment of their labour requirements. With average weekly earnings rising at rates of 8%, 12% and 11% in 1969, 1970 and 1971 respectively while output remained subdued, the incentive for companies to seek to trim their labour forces was very strong. Unemployment rose at an annual rate of some 30,000–40,000 during 1969 and most of 1970. At the end of 1970 and the beginning of 1971, however, the rate of increase accelerated sharply. The number out of work in Great Britain and Northern Ireland rose by nearly 350,000 in the twelve months to January 1972, when it surpassed one million for the first time since 1947; and the unemployment statistics probably underestimated the extent of the shedding of labour. In the first few months of 1972, however, the rate of growth in the number out of work began to slacken off and, in May, unemployment fell. Together with a slow but steady rise in the number of adult vacancies in the first five months of the year, this movement suggested that the worst of the conditions in the labour market may by then have been over.

While the rate of growth in unemployment became a matter of increasing concern during the year 1971, some progress was achieved with one of the main problems remaining from 1970 – the rate of growth in wages and prices. This was at last tending to slow down, partly as the Confederation of British Industry's initiative to restrict price increases to 5% in the twelve months from July 1971 began to take effect together with the cuts in indirect taxes, partly as the Government urged employers and unions to moderate wage awards and partly perhaps as the effects began to be felt of the increasing number out of work. At the beginning of the year, earnings were rising at the exceptionally fast annual rate of some 12½%–13% and, in the first half of 1971, retail prices at a rate of as much as 10% (yet another aspect of companies' response to earlier pressures on liquidity). In the second half of the year, however, earnings had moderated to an annual growth rate of some 9%–10% and retail prices to some 5%–6%. Nevertheless, these were both still substantially faster than the average in the previous ten years and, significantly for the balance of payments, the growth in prices was fast in comparison with experience in other countries. Moreover the pressures for large wage increases remained powerful in the first half of 1972. After a very large wage settlement with the miners at the end of February, such moderation as had previously been achieved in the growth of cost inflation seemed, at least temporarily, to have come to an end.

Balance of payments

Meanwhile, the U.K. balance of payments in 1971 was stronger than it had ever been before. The surplus on current account was a massive £980 million, nearly £370 million more than the very large surplus for 1970. Most of the improvement came from visible trade, which yielded a surplus of £300 million after having been in rough balance in 1970; but net invisible earnings also continued to grow. The increase in the invisibles surplus was more than accounted for by a recovery in the shipping account and an improvement in net earnings from interest, profits and dividends and "other services", particularly insurance; these offset some deterioration in net earnings from tourism and in government expenditure abroad – chiefly on defence and aid.

U.K. balance of payments



Although both visible and invisible trade were in record surplus, the unprecedented currency inflow in 1971 was mainly due to investment and other capital movements.

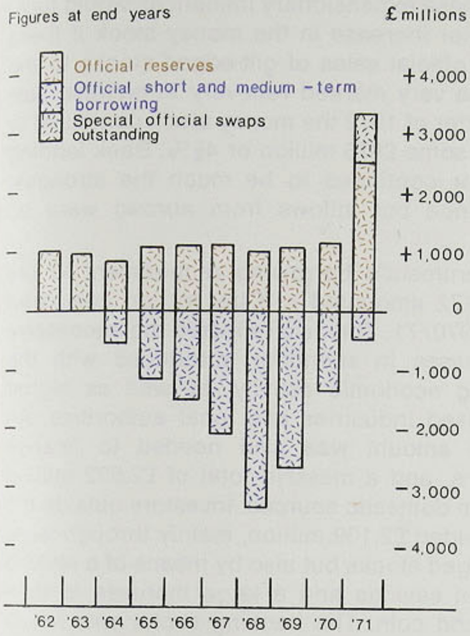
Exports rose in value by over 12½% while imports increased by 9%; as exports and imports each rose by about 5% in volume the increase in the visible surplus entirely reflected a marked improvement in the terms of trade. Moreover, though the increase in export volume was encouraging in a year of low growth in the volume of world trade, it was achieved against a background of ample spare capacity at home; and even in a year of sluggish domestic activity, the volume of imports rose more than twice as fast as final demand.

Exceptional investment and capital inflows into the United Kingdom in 1971 partly reflected the strength of the current account; but the main influence was uncertainty about exchange rates arising from the weakness of the U.S. dollar (discussed later). Mainly reflecting this uncertainty, overseas sterling holdings rose by over £1,400 million, only about half of which was held by central monetary institutions. At the same time, the banks increased their net foreign currency borrowing from abroad by nearly £500 million. About half was to finance U.K. investment overseas. Most of the remainder reflected the exchange rate uncertainties and would probably have been much greater but for two sets of exchange control measures: in January 1971 restrictions were placed on foreign currency borrowing by U.K. residents for use in this country and in August on conversions by banks of foreign currency into sterling by means of swaps.[1] Moreover a very large positive balancing item of £390 million suggests that, at first because of liquidity requirements in the revenue quarter and later in anticipation of changes in exchange rates, funds were moved in over intra-company accounts, that many U.K. traders delayed payments overseas, and that foreign traders accelerated payments to this country.

The visible trade balance declined sharply in the first quarter of 1972, swinging from a surplus of £74 million, after seasonal adjustment, in the last quarter of 1971 to a deficit of £118 million. Imports continued to rise but exports fell. Part of the swing was due to the effects of the coal miners' strike which increased the deficit in the first quarter of 1972. Exports may also have been adversely affected by the relatively depressed state of world trade and perhaps by a deterioration in price competitiveness after three years of rapid domestic inflation. The surplus from invisibles was smaller than in previous quarters and, as recorded, the current account was in deficit by some £50 million (though, after seasonal adjustment, there was a surplus of £30 million). Investment and other capital transactions led to a relatively small inflow of £54 million, in marked contrast with the very large inflows in earlier quarters. Although overseas countries' exchange reserves in sterling again rose substantially, there were no further increases in their other sterling holdings. An upsurge in U.K. private investment overseas largely reflected portfolio investment financed by foreign currency borrowing from U.K. banks. Taking into account another positive but relatively small balancing item, the total currency inflow in the quarter was down to only £57 million, much less than in any quarter of 1971.

1 The restrictions on swaps were removed in December 1971.

Reserves and official financing



The reserves more than doubled during 1971 and, for the first time since 1964, greatly exceeded official short and medium-term borrowing.

Reserves and official financing

The total currency inflow in the year 1971 amounted to an unprecedented £3,228 million. A further £125 million was received as the second allocation of International Monetary Fund Special Drawing Rights in January 1971, so that £3,353 million was available to repay debt and to add to the reserves.

Repayments of short and medium-term debt amounted to £953 million. Of this total, the outstanding £399 million owed to central banks and institutions other than the I.M.F. was repaid early in the year. The remaining £554 million was used to reduce liabilities to the I.M.F. By the end of December 1971 these stood at no more than £415 million, repayment of which fell due from June 1972, and charges of £83 million previously paid in sterling which also had to be repurchased but by no fixed date.

After the debt repayments, £864 million was placed with overseas monetary authorities by means of official swaps. This still left £1,536 million to be added to the reserves. At the end of December 1971, they stood at £2,526 million valued at the new middle rate of \$2·6057, compared with £1,178 million valued at the old parity of \$2·40 at the end of 1970. The last time that the reserves had doubled in the space of a year was in 1950 when the balance of payments responded to the 1949 devaluation of sterling and the demands of the Korean War. Though the reserves had doubled, however, they were still less than U.K. short-term banking liabilities in sterling which, as mentioned in the previous section, also increased sharply during 1971.

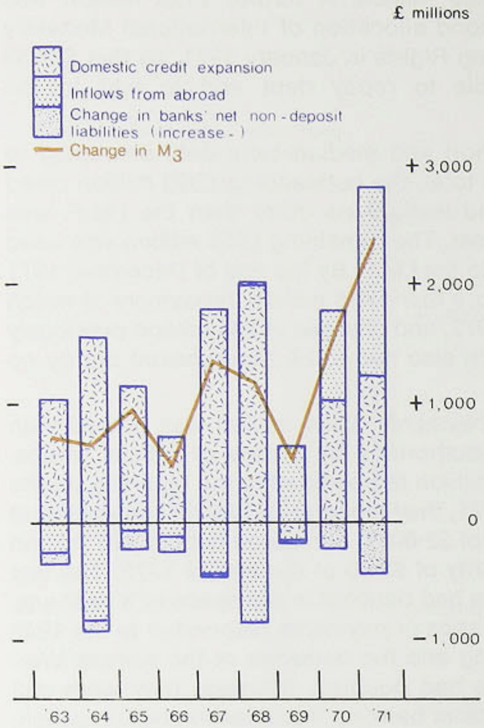
In the first quarter of 1972, the total currency inflow of £57 million available for official financing was augmented by a third allocation of £124 million of I.M.F. Special Drawing Rights. The amount of foreign currency placed with overseas monetary authorities by official swaps was run down by £20 million, leaving swaps outstanding at £844 million. Most of the total of £201 million accruing from these three sources went to increase the reserves, which rose by a further £191 million (valued at the rates at which the transactions took place) to £2,715 million (valued at \$2·6057). Liabilities to the I.M.F. were also reduced by £10 million, arising from the Fund's use of sterling in transactions with other countries. At the end of April, all the outstanding liabilities to the I.M.F. were fully discharged and the U.K. reserve position of £292 million in the I.M.F. (which may be drawn on demand) was thereby reconstituted.

Monetary developments

The rise in the money stock in the year 1971 amounted to £2,390 million or 13%, a large increase but little more than the rate of growth in domestic incomes (the increase compared with a rise of £1,590 million or 9½% in the previous year). After a very small movement in the first quarter of 1970, the money stock then rose at an average quarterly rate of around 3% through to the fourth quarter of 1971, when it accelerated sharply to 5¾%.

The main expansionary influences in 1971 were the net inflows from abroad and a strong growth in bank lending to the private sector particularly in the second half of the year.

Changes in money stock[a]



The increase in the money stock was larger than in 1970. There were exceptional inflows from abroad and a strong growth in domestic credit.

a The broadest coverage (M_3) which comprises notes and coin with the public and all net deposits of U.K. residents with the U.K. banking sector.

The public sector also went into deficit, although the central government's borrowing requirement was not as large as might have been expected from the reflationary measures of the last two years. These expansionary influences would have led to an even greater increase in the money stock if there had not been large official sales of gilt-edged stocks to the general public and a very marked recovery in national savings. In the first quarter of 1972 the money stock continued to rise very rapidly, by some £975 million or 4¾%. Bank lending to the private sector continued to be much the strongest expansionary influence but inflows from abroad were no longer significant.

The central government's borrowing requirement in the financial year 1971/72 amounted to £482 million compared with £78 million in 1970/71. This rise reflected the successive tax cuts and increases in spending introduced with the intention of reviving economic activity, as well as higher lending to nationalised industries and local authorities. An exceptionally large amount was also needed to finance external transactions, and a massive total of £2,532 million had to be found from domestic sources. Investors outside the banking sector provided £2,139 million, mainly through large purchases of gilt-edged stocks but also by means of a revived demand for national savings and a large increase in their holdings of notes and coin. The banking sector was left to provide £393 million through substantial purchases of stocks.

In the year 1971 domestic deposits (including certificates of deposit) with the banking sector increased by some £2,200 million, or 14%; this was more than in the previous year. The fastest significant increase was with the accepting houses, overseas and other banks, mainly because of a large rise in issues of sterling certificates of deposit. Total advances to U.K. residents rose by about £2,000 million, nearly a quarter going to other financial institutions, particularly after terms control on hire purchase lending had been removed in July. The greater part of this higher lending to other financial institutions was by the accepting houses, overseas and other banks. Lending to persons – mainly by the deposit banks – also rose sharply, but the rate of increase in lending to industrial and commercial companies was relatively modest. In fact, advances to these customers by the deposit banks fell, and the extra business accrued entirely to the other banks.

Credit restriction

The possibility of new arrangements for monetary control was foreshadowed by the Chancellor in his March 1971 Budget speech. Meanwhile, the old system of lending ceilings continued, the banks and finance houses being asked to ensure that their restricted lending would not rise by more than about 2½% per quarter. In May, as was mentioned in last year's *Report*, the Bank circulated to the banks and finance houses a consultative document, *Competition and credit control*, proposing changes in the system of credit control. When the changes were introduced in mid-September restricted lending by the clearing banks was just within the ceiling they had been asked to observe. The other banks and the finance houses, however, were some way above their limits.

After discussions with the banks, finance houses and discount houses during the summer, new arrangements for credit control along the lines proposed in the consultative document were introduced on 16th September. These arrangements were described in more detail in a further paper, *Reserve ratios and Special Deposits*, published at that time.[1] The essence of the new scheme is to allow banks more scope for competition and innovation by moving away from a system based on quantitative restrictions to a generalised method of control where the allocation of credit is determined primarily by its cost. A uniform minimum reserve assets ratio – set at 12½% of sterling resources, broadly defined – was introduced across the whole banking system, and all banks became liable to calls for Special Deposits. As part of the transition to the new arrangements, the existing Special Deposits made by the London and Scottish clearing banks were repaid. To absorb these funds and to ensure that the London clearing banks did not enter the new era with disproportionately large holdings of reserve assets, these banks agreed to subscribe for some £750 million of specially issued funding stocks. Transitional arrangements were negotiated with certain individual banks whose holdings of reserve assets had previously been small. The clearing banks' liquidity ratios and the Cash Deposits scheme agreed with the other banks in 1968 (but never activated) were superseded, and the clearing banks agreed to drop their collective agreements on rates for deposits and advances. At the same time, the discount market agreed to observe a public sector lending ratio of 50% and to drop their collective agreements on bill rates.

In the period since the introduction of the new arrangements, the banks have responded energetically to the opportunities provided. A wide variety of new deposit and loan schemes has been announced and some banks have moved strongly into business with which they had not previously been associated. One of the first examples was the move by some of the London clearing banks to develop their own business in the inter-bank sterling market, in foreign currency deposits and in sterling certificates of deposit, all of which they had previously left to their subsidiaries.

By the middle of February 1972, the combined reserve ratio for all the banks stood at 16·1% compared with the minimum of 12½% required under the new arrangements. The ratio seems likely to be subject to marked seasonal fluctuations, particularly in the first quarter of the calendar year when large tax payments have to be made to the Exchequer.

Similar credit control arrangements to those for the banks were agreed by the Bank with those members of the Finance Houses Association, and certain other instalment credit institutions outside the Association, whose sterling resources exceeded £5 million. These also came into operation in September 1971, replacing the previous requests from the Bank to restrict lending within given ceilings. Because the structure of the instalment credit finance houses' assets differed from the banks', the new scheme requires the participating houses to maintain a 10% reserve ratio and they were given a transitional period of twelve months in which to build up to this figure. By the middle of February 1972 their

[1] This and other Bank publications on the subject have since been brought together in a booklet entitled *Competition and credit control* which is available on application to the Economic Intelligence Department of the Bank: postal requests should be accompanied by a remittance of 10p to cover the cost of despatch.

combined ratio stood at 5·1%. The scheme started with fourteen participating finance houses. In January 1972, however, four were recognised as banks under the Protection of Depositors Act 1963 and, together with Lombard North Central (whose recognition as a bank was confirmed at the same time), were subsequently treated as banks for the purpose of credit control.

External developments

The year 1971 was dominated by a series of crises of confidence in the U.S. dollar, culminating in the temporary suspension of dollar convertibility into gold or other reserve assets in August and the agreed realignment of exchange rates in December 1971. The realignment avoided the most immediate dangers to world trade from protectionist measures and provided businessmen with a more durable currency framework. At the same time, these events reinforced a widespread desire for substantial and longer-term reforms in the international monetary system.

An event of historic significance for the United Kingdom was the successful conclusion of negotiations begun in June 1970 for entry into the European Communities. The United Kingdom, together with the Irish Republic, Denmark, Norway and the six existing members, signed the Treaty of Accession in Brussels on 22nd January 1972. Subject to ratification by all the countries concerned, the United Kingdom and other acceding states will become full members of the European Communities on 1st January 1973. During the five-year period of transition after the date of the United Kingdom's accession a variety of economic and financial arrangements will need to be adapted to E.E.C. conditions. So far as external payments are concerned, the relaxations required on or before accession relating to direct investment and to freedom of movement for labour were in the main introduced with the Budget on 21st March 1972 and in the next two months. By the middle of the transitional period, restrictions on movements of personal capital including those affecting emigrants and house purchase should be removed; and by the end of it, portfolio investment in E.E.C. quoted securities should be permitted at the official rate of exchange.

The agreements made in 1968[1] by the United Kingdom with individual overseas sterling countries for the stabilisation of their sterling reserves were renewed in September 1971 for a further two years. Only Libya and Malta did not renew. Under these agreements, each country undertook to hold a minimum proportion of its reserves in sterling, in return for a U.K. guarantee in terms of the U.S. dollar for any official sterling held in excess of 10% of total reserves. As part of the renewal, it was agreed to reduce uniformly the minimum sterling proportion. The related medium-term facility of $2,000 million extended to the United Kingdom by the Basle group of central banks and the Bank for International Settlements was also renewed until September 1973.

1 The arrangements were referred to in the *Report* for the year ended 28th February 1969, pages 12-13.

International monetary developments

As part of an expansionary domestic policy, U.S. interest rates were lowered in early 1971. This led to an outflow of short-term funds, particularly because U.S. banks were repaying their borrowing in the euro-dollar market. As euro-dollar rates declined, funds were attracted by the higher yields available in European domestic markets. The consequent accumulation of dollars in official hands led to speculation about possible parity changes which was greatly intensified by the rapid deterioration of the U.S. trade account. This speculative pressure mounted early in May, and on the 5th of the month official dealings in most of the leading foreign exchange markets in continental Europe were suspended pending decisions on new measures to cope with the very large inflows of funds. On the 9th the governments of Western Germany and the Netherlands announced that rates for the deutschemark and the guilder would no longer be maintained within the established margins. On the same day the Swiss authorities announced that the franc would be revalued by 7·07% and the Austrians announced a 5·05% revaluation of the schilling. Belgium introduced new exchange control measures.

These measures alleviated the speculative pressures temporarily and for a time dollars were in short supply. But an underlying lack of confidence in the dollar remained, reflecting the prolonged fall in official U.S. gold reserves and the large U.S. balance of payments deficit (over the first six months of 1971 the U.S. official settlements deficit was running at an annual rate of more than $20 billion). A renewed crisis developed in July, and on one or two days early in August outflows of funds from the United States reached as much as $1 billion. On 15th August the President of the United States announced that the U.S. authorities would temporarily suspend the convertibility of the U.S. dollar into gold or other reserve assets; that a surcharge of 10% would be placed on a wide range of dutiable U.S. imports of manufactures; and that various domestic measures would be introduced. In particular, prices and incomes would be frozen for ninety days and, while the surcharge lasted, a new investment tax credit would discriminate in favour of capital goods produced in the United States.

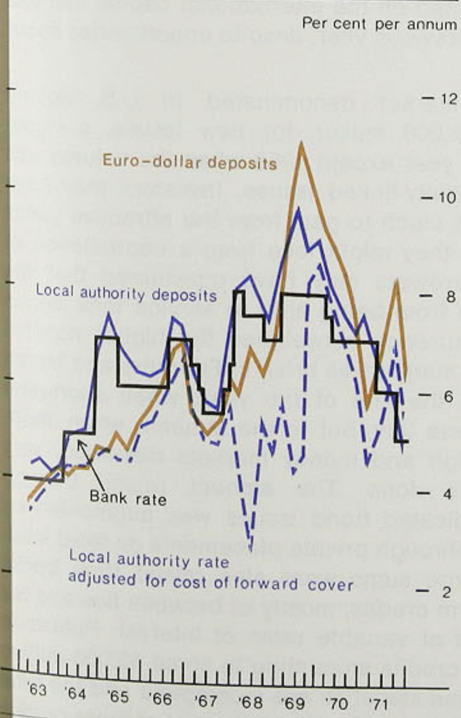
As a consequence of this inconvertibility of the dollar, most other major countries (including the United Kingdom) ceased to maintain their buying rate for U.S. dollars within the previous limits. The principal exception was the French franc, for which a dual exchange market was established: the rate for the franc in the *commercial* market, in which only trade and certain other current transactions were conducted, was maintained within the previous margins against the dollar, the *financial* franc (for remaining transactions) being unconstrained.

The period of fluctuating exchange rates lasted until December 1971 and generated a number of serious problems. First, governments were reluctant to allow market forces alone to determine their exchange rates, not least because those market forces included a substantial speculative element. Most countries introduced or reinforced exchange control measures designed to discourage or prevent unwanted inflows of dollars; and in some countries the authorities also intervened in exchange markets to limit the appreciation in their currencies. Had agreement on realigned exchange rates not been reached in December, there would have been a grave danger of an intensification of such measures, involving restrictions both on trade and on current payments. Second, the uncertainties about exchange rates created difficulties for businessmen who hesitated to commit themselves to overseas operations. A particular difficulty experienced by traders was in obtaining forward cover in those currencies where new and severe exchange control restrictions had been placed on the accumulation of balances by non-residents. Third, the less developed countries also experienced difficulties in their trading operations arising from the uncertainty of fluctuating rates. Finally, the I.M.F. encountered operational problems. Between August and December 1971 drawings and repurchases from the Fund were often makeshift, and the Fund's continued ability to operate would have been threatened had realignment not been agreed.

During the autumn of 1971 the international monetary crisis was the principal subject of discussion at meetings of the Group of Ten, in the I.M.F. Executive Board and at the I.M.F. Annual Meeting. There was widespread agreement, not only that a realignment of exchange rates and a return to parities was necessary, but also that exchange rates should be made more flexible and that reforms were needed in the structure of the international monetary system. At the I.M.F. Annual Meeting, the Chancellor of the Exchequer outlined a scheme to modify and develop Special Drawing Rights so that they would become the main asset in which countries hold their reserves and into which currencies would be convertible. At the close of the Annual Meeting the Governors adopted a resolution committing the Fund to review the international monetary system.

On 18th December the Ministers of the Group of Ten meeting in Washington reached agreement on a realignment of currencies. The U.S. Government were to propose to Congress a 7·89% devaluation of the U.S. dollar, and to remove immediately the 10% import surcharge and the discriminatory element in the investment tax credit. A number of other countries declared new exchange rates. The official par value of the pound sterling remained unchanged in terms of gold at £14·5833 to one troy ounce of fine gold and the United Kingdom announced a new middle rate against the U.S. dollar of $2·6057: taking into account the changes in par values since January 1971, this left the exchange value of sterling showing either no change or a fractional effective revaluation, depending upon the assumptions used in the calculations. It was also agreed that temporary approval would be given to the widening of exchange rate margins from 1% to 2¼% on either side of middle or central rates for intervention currencies – in the case of the United Kingdom, the U.S. dollar. This provided greater exchange rate flexibility within a framework of settled parities. The Group of Ten Ministers also agreed that discussions should be

Short-term interest rates in London[a]



Over the year as a whole short-term interest rates continued to fall.

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

promptly undertaken, particularly in the framework of the I.M.F., to consider longer-term reform of the international monetary system.

Despite the upheavals of 1971 the Special Drawing Rights scheme continued to function effectively. On 1st January 1971 the second allocation of S.D.R.s was made to members totalling SDR 2,949 million (of which the United Kingdom received SDR 300 million). On 1st January 1972 the third allocation was made of SDR 2,952 million (of which the United Kingdom received SDR 297 million). During 1971 further steps were taken to liberalise the rules governing the operation of the S.D.R. scheme. In particular, agreement was reached in principle that members should be able to draw S.D.R.s from the Fund's General Account. As has been noted above, discussions were also initiated in the I.M.F. which may lead to a substantial broadening of the scheme.

After the international agreement on realignment, intensive discussion was resumed within the E.E.C. on economic and monetary integration. The U.K. authorities were closely associated with this discussion which led in March to an agreement within the Community to reinforce the co-ordination of short-term economic policies, to take action on regional policy, and to reduce the maximum divergence from cross parities between the currencies of the member states to $2\frac{1}{4}$%. The new margins came into effect formally on 24th April and interventions in foreign exchange markets to maintain them are to be in Community currencies. The Bank of England took part in the discussion with the central banks of the Community and joined the scheme on 1st May.

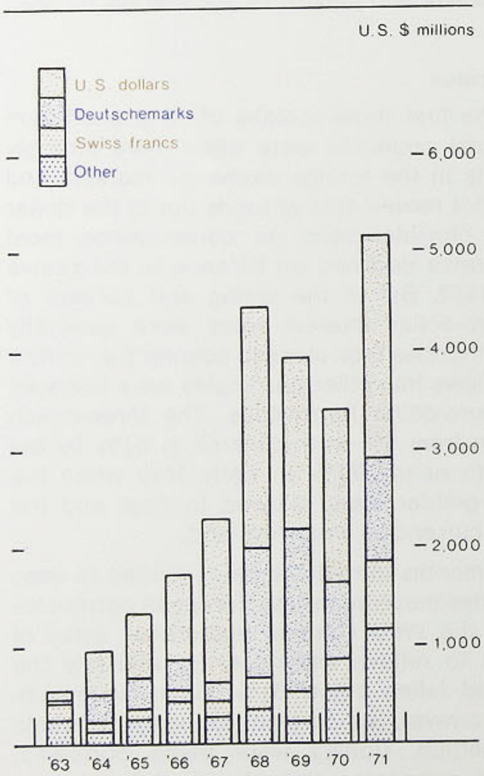
Short-term interest rates

During 1971 and the first three months of 1972 short-term interest rates in most countries were often more strongly influenced by events in the foreign exchange markets and by attempts to restrict movements of funds out of the dollar than by domestic considerations. In consequence most short-term interest rates declined on balance in the twelve months to March 1972. But in the spring and summer of 1971 U.S. and euro-dollar interest rates were generally rising as the U.S. authorities took steps to counter the outflow of dollars and as inflows into other currencies were financed increasingly with euro-dollar borrowings. The three-month euro-dollar rate rose from 5% in mid-March to $6\frac{1}{4}$% by the end of April, and to nearly $7\frac{1}{2}$% in early May when the deutschemark and guilder were allowed to float and the Austrian and Swiss currencies were revalued.

For the next two months euro-dollar rates tended to ease as previous speculative movements into European currencies were reversed and the West German authorities' sales of U.S. dollars helped to relieve shortages. By mid-July the three-month rate had fallen below $6\frac{1}{2}$%. Rates were subsequently firmer, however, as foreign exchange markets again became unsettled. Dollars were being borrowed, switched into other currencies and absorbed by central banks, and the three-month rate rose to $8\frac{3}{8}$% just before the announcement of the U.S. measures on 15th August and the closing of most foreign exchange markets.

Rates remained high even after the foreign exchange markets had reopened, and over 9% was still being paid for three months' euro-dollars during the latter part of August and early September. For most of the remainder of the period, however, rates tended to decline, reaching $5\frac{3}{4}$% by the end of December and 5% by the end of February 1972. At first the decline was helped by an increase in the supply of funds as the U.S. Treasury repaid notes which had been taken up by foreign branches of American banks earlier in the year. But the main influence throughout the period was a reduction of national interest rates. In the United States, once the convertibility constraint was removed, monetary policy was relaxed in order to stimulate economic activity. Between the end of September and mid-February the U.S. Treasury bill rate was allowed to fall by some $1\frac{3}{4}$% to under 3%, while the Federal Reserve banks had cut their discount rate by $\frac{1}{2}$% to $4\frac{1}{2}$%. In Europe and Japan the need to increase the rate of economic growth was also a consideration but the main reason for reducing rates was a wish to discourage capital inflows from the United States. In London, Bank rate was lowered by 1% to 5% on 2nd September, and elsewhere many discount and short-term market rates were reduced. The central bank discount rates of the Group of Ten countries other than the United States came down on average by $1\frac{1}{2}$ percentage points in the twelve months to the end of March 1972 with further reductions in France and Italy in April.

Euro-bond issues



After the decline in euro-bond issues in 1969 and 1970, more funds were raised in 1971 than in any previous year.

International capital markets

More funds were raised on the international capital markets in 1971 than in any previous year, despite uncertainties about exchange rates.

The euro-bond market denominated in U.S. dollars provided around $2,200 million for new issues, a larger amount than in any year except 1968 when the volume was swollen by large equity-linked issues. Investors may have felt that they had as much to gain from the attractive yields on dollar bonds as they might lose from a depreciation of the dollar; and borrowers may have considered that the possibilities of gain from being able to service their issues in a depreciated currency outweighed the higher nominal cost. Activity in the market was brisk in February and March and again towards the end of the year, when short-term euro-dollar rates were low; but in the autumn, when short-term rates were high and money markets disturbed, very little business was done. The amount raised through internationally syndicated bond issues was augmented by further borrowings through private placements on fixed interest terms. Very large sums were also raised from banks through medium-term credits, mostly of between five and ten years' maturity and at variable rates of interest. Published information covers credits amounting to some $3,000 million during 1971 but these statistics are incomplete and the total was undoubtedly much larger. Although most of these credits were primarily denominated in dollars, because funds on such a scale could not conveniently be marshalled in other currencies, provision was made in many cases for switching the loan proceeds into other currencies.

Some other sections of the international market gained strength from the weakness of the dollar. Bonds denominated in deutschemarks and designed primarily for purchase by non-residents of Western Germany raised the equivalent of over $800 million, about half as much again as in 1970 though rather less than in 1969. There was also a considerable volume of foreign issues and private placings. Demand for deutschemark bonds was frequently very strong and the volume would no doubt have been greater but for the careful regulation exercised by the market authorities to ensure a steady flow of issues during most of the year. Issues were suspended for a month, however, following the floating of the deutschemark in May.

Foreign issues of bonds in Swiss francs were still more strongly affected by uncertainties about the dollar. For much of the year the Swiss authorities allowed a carefully controlled flow of public issues by foreign concerns as a way of countering the effects of the inflows of funds on domestic money market liquidity. These loans amounted to the equivalent of some $600 million. Borrowers queued to enter this market, attracted by low rates of interest, and it is believed that even larger sums were raised through unpublicised placings. The Dutch authorities permitted a number of internationally syndicated guilder-denominated issues, for much the same sum (around the equivalent of $300 million) as in 1970, to mop up excess liquidity in non-resident ownership. Small amounts were raised in a number of other currencies, including French, Belgian and Luxembourg francs and Japanese yen.

The European Unit of Account formula attracted more attention than usual in the first part of the period, and as much was raised in the eight months to August as in the previous three years taken together. Thereafter the floating of many of the reference currencies reduced the protection given by the unit's dependence on official parities. The other main unit of account – the European Currency Unit – which had been introduced late in 1970, was even more disadvantageous for borrowers in a regime of floating rates. It virtually dropped out of use in the second half of 1971.

During the first few months of 1972 the dollar-denominated market remained active with the volume of new issues running a little higher than in the previous quarter. New issues in the West German and Swiss markets also increased considerably.

Calendar of financial developments, April 1971-March 1972

1971 April	1	Bank rate reduced from 7% to 6%.
	1	West German bank rate reduced from 6% to 5%.
	1	Higher social services charges – for prescriptions, dental treatment, welfare milk and school meals – came into effect (announced in October 1970).
	6	Income tax standard rate cut by $2\frac{1}{2}$p to 38·75p (announced on 27th October 1970).
	15	Lloyds, Midland and National Westminster banks announced that they would later be launching a joint credit card, to be known as "Access".
	20	White Paper on *Reform of Personal Direct Taxation* (Cmnd. 4653) published with the Finance Bill.
	23	Major U.S. banks increased their prime lending rates from $5\frac{1}{4}$% to $5\frac{1}{2}$%.
	26	Insurance scheme for U.K. private direct investment in developing countries outlined in White Paper (Cmnd. 4656).
	26	Rates of interest on company tax reserve certificates tendered in payment of tax reduced from $5\frac{1}{2}$% to $4\frac{1}{2}$%, and for company certificates surrendered for cash from 3% to $2\frac{1}{2}$%. The interest on personal certificates remained at 4%.
May	5	West German and certain other European central banks stopped dealing in U.S. dollars.
	10	Deutschemark and Dutch guilder allowed to float. Swiss franc revalued by 7·07% and Austrian schilling by 5·05%. Dealings in U.S. dollars restored.
	11	New Rolls-Royce RB. 211 contract signed, conditional upon U.S. congressional approval for guarantees to the TriStar programme.
	12	E.E.C. proposals on Commonwealth sugar exports accepted in principle by the United Kingdom, and agreement reached on five-year transitional period for U.K. alignment to Common Agricultural Policy.
	14	Bank of England's consultative document *Competition and credit control* published. The Bank modified the scope of their operations in the gilt-edged market.
	21	Agreement between the French President and U.K. Prime Minister on main issues outstanding in negotiations for U.K. membership of the European Communities.
June	14	Board of Upper Clyde Shipbuilders decided to petition for appointment of liquidator.
	18	Several finance houses announced relaxations of terms for personal loans for consumer transactions, including car purchase; personal loans would in future be available on terms easier than those permitted by law for hire purchase contracts.

1971 June *continued*	23	United Kingdom and E.E.C. agreed main conditions of U.K. entry. United Kingdom to pay a maximum of 8·64% of the total Community budget in 1973, rising to 18·92% by 1977. The agreement assured New Zealand access to the U.K. market for certain quantities of butter and cheese in the five years after entry.
	30	Guidelines on bank lending for July-September quarter issued by the Bank of England. Banks and finance houses asked to restrict increases in their sterling lending to U.K. private sector and overseas borrowers to $2\frac{1}{2}$% over the limits which had been set for end-June.
July	6	Major U.S. banks increased their prime lending rates from $5\frac{1}{2}$% to 6%.
	7	Announcement of issue as a long-dated tap stock on 13th July of a further tranche of £400 million $8\frac{3}{4}$% Treasury Loan 1997, at £95 per £100 nominal, to yield about $9\frac{1}{4}$% to redemption.
	7	White Paper on *The United Kingdom and the European Communities* (Cmnd. 4715) published.
	7	H.M. Treasury announced that the facility for insuring against exchange risks available to nationalised industries and local authorities was to be restricted to borrowing abroad for periods of ten years and over.
	9	Announcement of issue on 15th July of £500 million of 6% Treasury Stock 1975 issued at £98·50 per £100 nominal, to yield almost $6\frac{1}{2}$% to redemption.
	13	Public works programme for development and intermediate areas to be increased by £100 million over the next few years.
	15	Redemption of 5% Conversion Stock 1971.
	15	Federal Reserve banks increased U.S. discount rates from $4\frac{3}{4}$% to 5%.
	16	Confederation of British Industry asked its members to limit unavoidable increases in prices to 5% or less in the next year.
	19	Economic measures announced by the Chancellor of the Exchequer: removal of all terms control on hire purchase, credit sale and rental agreements; reduction in purchase tax of approximately 18%; the rate of first year allowance for capital expenditure on plant and machinery to be increased from 60% to 80% until 31st July 1973; and free depreciation to be extended to service industries for immobile plant and machinery in use in the development areas. The tax changes amounted to nearly £300 million in 1972/73, bringing the total announced since the autumn to £1,400 million. The growth rate of the economy between the first halves of 1971 and 1972 was expected to rise from an original estimate of rather more than 3% to between 4% and $4\frac{1}{2}$%. Nationalised industries asked to observe similar price restraint to that proposed by C.B.I.

1971 July *continued*	21	Bank of England published proposals for the discount market under new arrangements for credit control. The main proposal was that the market should keep a minimum of 50% of their borrowed funds in public sector debt.
	27	Confederation of British Industry's memorandum on price restraint published.
August	2	U.S. senate approved legislation to provide Lockheed Aircraft Corporation with U.S. $250 million loan guarantee.
	4	Government announced increase in amount of fixed rate credit available to shipbuilders building for British owners from £700 million to £1,000 million, at a current interest rate of some 7%.
	5	Industrial Relations Act received royal assent.
	6	Discount houses abandoned common buying rate for prime three-month bank-accepted bills.
	7	International Bank for Reconstruction and Development announced issue in London on 12th August of £10 million 8% Stock 1976 at par.
	9	Early repayment by United Kingdom of £256 million to the I.M.F., clearing the whole of the 1968 drawing.
	15	United States suspended convertibility of dollars into gold and other reserve assets and introduced other measures including a temporary surcharge of 10% on most dutiable imports.
	16	Major foreign exchange markets closed, except in Japan.
	23	Foreign exchange markets reopened. U.K. authorities withdrew buying limit of $2·42 and sterling allowed to float upwards, as announced on 20th August. Belgium, Netherlands and Luxembourg expressed their intention of floating as a group; the Italian lira was allowed to float; and the Scandinavian countries and Austria withdrew their buying rate against the dollar. France established a dual exchange market. Japan announced on 27th August that it was allowing the yen to float.
	27	U.K. exchange control measures introduced to discourage currency inflows from abroad effective from 31st August: non-residents of sterling area countries prevented from increasing holdings of certain short-term sterling securities and from receiving interest on additional sterling deposits; and restrictions placed on the extent to which banks could take foreign currency deposits and convert them into sterling.
	31	Decimal changeover period ended.
September	2	Bank rate reduced from 6% to 5%.
	3	Announcement of the issue on 8th September of a new long-dated tap stock: £600 million $8\frac{1}{4}$% Treasury Loan 1987/90 at £96 per £100 nominal, to yield almost $8\frac{3}{4}$% to redemption.
	10	Redemption of British Gas $3\frac{1}{2}$% Guaranteed Stock 1969/71 and $6\frac{3}{4}$% Exchequer Loan 1971.

1971 September *continued*	10	Bank of England announced new arrangements for control of credit to be introduced from 16th September; all the current 'ceiling' limits on lending to be removed, and all banks and the larger finance houses required to observe minimum reserve ratios of 12½% and 10% respectively. The discount market to observe a public sector lending ratio of 50%. Special Deposits, amounting to some £400 million, to be released on 15th September. To avoid a disproportionate amount of reserve assets being held by the London clearing banks, they agreed to subscribe to some £750 million of three new gilt-edged stocks, to be issued on the 15th. These were: £550 million of 5¼% Treasury Stock 1973 at £99·25 per £100 nominal, to yield over 5½% to redemption; £400 million of 5½% Treasury Stock 1974 at £98·69 per £100 nominal, to yield almost 6% to redemption; and £350 million of 6¼% Treasury Stock 1977 at £97·94 per £100 nominal, to yield nearly 6¾% to redemption.
	14	White Paper published on *Strategy for Pensions*, containing Government proposals for the future development of State and occupational provisions (Cmnd. 4755).
	15	The Group of Ten met in London to discuss the international monetary situation.
	25	Renewal of the Sterling Agreements for a further two years.
	26	Group of Ten met again in Washington.
	27	I.M.F. and I.B.R.D. annual meetings held in Washington.
	29	Rates of interest on company tax reserve certificates tendered in payment of tax reduced from 4½% to 3½%, and for company certificates surrendered for cash from 2½% to 2%. The interest on personal certificates reduced from 4% to 3½%.
October	7	Further U.K. exchange control measures prohibited additions to non-resident holdings of all British government and local authorities securities, and extended restrictions to sterling acceptances, commercial bills and promissory notes.
	8	The Building Societies Association recommended that, from 1st November for new borrowers and from 1st January 1972 for existing borrowers, the rate for mortgages should be reduced by ½% to 8%; and that the rate on shares should be reduced by ¼% to 4¾% from 1st January.
	14	West German bank rate reduced from 5% to 4½%.
	14	Barclays Bank reduced base rate from 5% to 4½%.
	15	Announcement of the issue on 20th October of new long tap stock: £600 million 8% Treasury Loan 2002/06 at £95 per £100 nominal to yield just under 8½% to redemption.
	20	Major U.S. banks reduced their prime lending rates from 6% to 5¾%.
	28	Parliament voted in favour of U.K. entry into the E.E.C. on the terms negotiated, the majority in the House of Commons being 112.

1971

November	1	Rates for medium and long-term U.K. export credit under the fixed rate schemes cut from 7% to $6\frac{1}{2}$%, except for ships.
	4	Major U.S. banks reduced their prime lending rates from $5\frac{3}{4}$% to $5\frac{1}{2}$%.
	10	Federal Reserve banks reduced U.S. discount rates from 5% to $4\frac{3}{4}$%.
	11	Issue of new Bank of England £5 note.
	22	Chancellor announced acceleration of government expenditure amounting to £185 million over the next two years. The programme included capital expenditure of £100 million by nationalised industries, £60 million on public works – mainly roads – and £25 million in accelerated payments of investment grants.
	25	Annual White Paper *Public Expenditure to 1975-76* published (Cmnd. 4829).
	26	Lloyds, National Westminster and Midland banks reduced base rate from 5% to $4\frac{1}{2}$%.
	30	Group of Ten met in Rome to discuss the international monetary situation.
December	1	National Industrial Relations Court set up and part of Industrial Relations Act came into force.
	13	Federal Reserve banks reduced U.S. discount rates from $4\frac{3}{4}$% to $4\frac{1}{2}$%.
	13	Some major U.S. banks reduced their prime lending rates from $5\frac{1}{2}$% to $5\frac{1}{4}$%.
	14	Government announced intention to repay all outstanding post-war credits – about £130 million – between April and September 1972.
	15	Libya ceased to be a member of the Scheduled Territories.
	15	U.K. advance contribution of £41·2 million paid to International Development Association's third replenishment.
	18	Group of Ten met in Washington. Agreement reached on a realignment of currencies including a devaluation of the U.S. dollar in terms of gold by 7·89%. The parity of sterling in terms of gold remained unchanged and the U.K. authorities declared a middle rate for the U.S. dollar of $2·6057. I.M.F. exchange rate margins were increased to $2\frac{1}{4}$%. The U.S. 10% surcharge on most dutiable imports was removed.
	20	Foreign exchange markets in London and most European centres closed.
	20	U.K. exchange control restrictions introduced on 31st August and 7th October to deter speculative inflows were removed.
	21	Exchange markets reopened. Bank of England announced selling and buying limits for U.S. dollar at £1=$2·5471 and $2·6643 respectively.

1971
December *continued*

21 Miners decided to go on strike from 9th January 1972 in support of their pay claim.

23 West German bank rate reduced from $4\frac{1}{2}$% to 4%.

31 Sales of company tax reserve certificates ceased.

1972
January

1 Third allocation of I.M.F. Special Drawing Rights totalling SDR 2,952 million, of which the United Kingdom's share was SDR 297 million.

1 Fifth and final instalment of Kennedy Round tariff reductions.

1 U.K. import duties abolished on most manufactured imports from developing countries under the UNCTAD Generalised Preference Scheme.

1 British Export Board, later renamed the British Overseas Trade Board, replaced the British National Export Council and took control of a wide range of government services for exporters.

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

3 Final issue of personal tax reserve certificates.

9 Miners' strike began.

17 Major U.S. banks reduced their prime rates from 5% to $4\frac{3}{4}$%.

19 Greater London Council raised limit on housing loan mortgages from £7,500 to £10,000.

20 White Paper on *Rolls-Royce Ltd. and the RB. 211 Aero-Engine* (Cmnd. 4860) published.

21 Announcement of the issue on 26th January of a new tap stock: £600 million of $7\frac{3}{4}$% Treasury Loan 2012/15 at £96 per £100 nominal, to yield just over 8% to redemption.

22 Treaty of Accession to the European Communities signed in Brussels.

February

9 State of emergency declared because of effects of miners' strike on power supplies.

11 The Government's emergency regulations to restrict the use of electricity by industry announced.

11 A Court of Inquiry, headed by Lord Wilberforce, appointed to look into the miners' dispute.

15 Redemption of 6% Conversion Stock 1972.

25 Miners accepted settlement terms of the Wilberforce Report with some further concessions.

25 West German bank rate reduced from 4% to 3%.

27 Special restrictions on industrial use of electricity ended.

1972 February *continued*	28	The Government announced the intention of injecting another £35 million into Upper Clyde shipyards.
	28	Almost all the remaining sections of Industrial Relations Act came into force.
March	15	Bank and C.B.I. announced initiatives for more effective management of public companies.
	16	New arrangements for fixed rate medium and long-term export and shipbuilding finance introduced. Rate of interest for export finance reduced from 6½% to 6%, except for ships.
	21	In the Budget, the Chancellor announced tax changes estimated to cost the Exchequer £1,211 million in 1972/73. This would bring the public sector's borrowing requirement in 1972/73 to some £3,358 million; these measures were expected to raise the growth of output to about 5% a year between the second half of 1971 and the first half of 1973. The main tax proposals were: The single and married person's allowance raised by £135 a year; purchase tax rates of 45% and 30% reduced to 25%; free depreciation allowance for plant and machinery; value added tax to be introduced in 1973 with a single rate, provisionally fixed at 10%; Government to publish a Green Paper later in the year setting out proposals for combining personal tax payments and certain social benefits in a single tax-credit scheme, the proposals to be examined by a select committee; and proposals for a possible inheritance tax in place of estate duty published in a Green Paper (Cmnd. 4930) and for the reform of company taxation (Cmnd. 4955). Other measures announced in the Budget were: the voluntary programme concerning investments in Australia, New Zealand, South Africa and the Irish Republic abolished; and exchange controls relaxed on outward direct investment in the countries of the enlarged E.E.C., on sterling borrowing by U.K. companies controlled by residents in E.E.C. countries to finance their direct investment anywhere in the United Kingdom, and on sterling borrowing by other non-resident controlled U.K. companies to finance their direct investment in the assisted areas.
	22	Post Office to double the charges for most National Giro services on 1st July in an effort to make the service profitable within five years.

The work of the Bank

The events briefly mentioned in the preceding economic and monetary review give some indication of how the Bank's work developed in the year ended 29th February 1972. In external affairs, the uncertainties about exchange rates directly affected the Bank's function of managing the reserves, and officials of the Bank were much involved in the various international discussions on world monetary problems. After the successful completion of negotiations for U.K. entry into the European Economic Community, the Bank began taking part in the work of the Committee of Governors of the E.E.C. in Basle and of the Monetary Committee in Brussels. At home, as already mentioned, the Bank initiated proposals for a fundamental reform of existing methods of credit control, which were discussed in detail with the financial institutions concerned and were implemented last September. The Bank took part, with government departments and the London and Scottish clearing banks, in negotiations on export and shipbuilding finance which led to changes in both the terms and methods of medium and long-term financing. Discussions were also promoted in the City designed to bring about more effective relationships between investors, particularly institutional investors, and the public companies in which they have an interest. The Bank were also involved in a variety of discussions with financial organisations in connection with the forthcoming U.K. accession to the E.E.C.

Much of the Bank's work depends for its effectiveness on the help and co-operation of the banks and other institutions. The Bank are very pleased to acknowledge gratefully that this assistance was readily given once again last year.

Management and the institutional investor

A good deal of thought was given in the year under review by the Bank, by others in the City and by the Confederation of British Industry to improving the management of public companies. As a result, the President of the C.B.I., with the support of the Governor, announced in March 1972 the formation of a committee to enquire into aspects of the structure and practice of public companies. The Bank for their part undertook informal consultations with all the main associations of investment institutions and with the banks to discover what measure of support there might be for improving the mechanisms through which investors could collaborate both with each other and with industrial management in securing increased efficiency. While the difficulties of this approach were acknowledged, the support for such an exploration, particularly among institutional investors, was sufficient to justify round table discussions under the sponsorship of the Bank with the main banking and investment associations and the C.B.I.

As a result of these discussions a working party was appointed whose terms of reference are to examine and report upon a possible structure and method of operation of a central organisation through which institutional investors, in collaboration with those concerned, would stimulate action to improve efficiency in industrial and commercial companies where this is judged necessary. The committee included representatives of the main associations of institutional investors and the Bank of England, with the Deputy Governor in the chair.

New taxation proposals

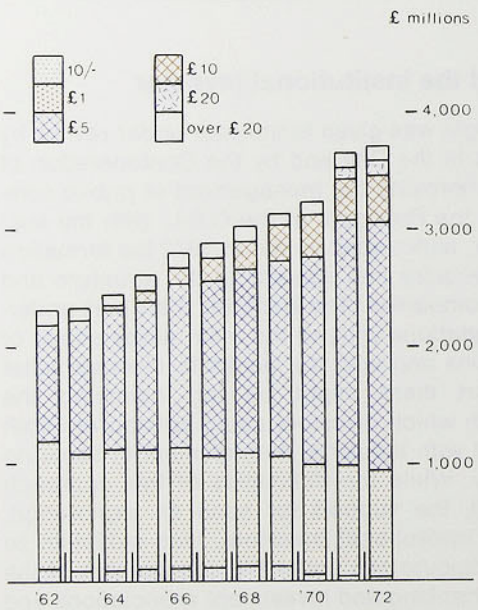
After the announcement in March 1971 of the Government's intention to introduce a value added tax, H.M. Customs and Excise began a series of discussions with the relevant interests to explore the problems which might be created by the changeover to the new tax. The Bank assisted in these consultations by arranging the initial meetings between Customs and Excise and representative bodies of City institutions, and by participating in many of the discussions that followed.

The Bank have also helped to co-ordinate, and pass on to the authorities, the views of City institutions on the proposals for the reform of corporation tax.

National savings review

The Bank were invited during the course of the year to give evidence to the Committee to Review National Savings, set up after the 1971 Budget under the chairmanship of Sir Harry Page. The Bank submitted both written and oral evidence and also contributed additional work, at the request of the committee, on particular aspects of national savings.

Value of notes in circulation



The use of the lowest value notes continued to fall and for the first time these notes accounted for only a quarter of the total in circulation.

The note issue

There were no changes during the year ended February 1972 in the denominations of notes in circulation, but a newly designed £5 note was introduced in November 1971. It is the second in a new series of notes to be issued during the 1970s, of which the first was the £20 note brought out in July 1970.

The note circulation reached a new peak of £3,922 million on 21st December 1971; this was £123 million higher than the previous peak of £3,799 million reached on 27th July and £217 million higher than the Christmas peak in 1970. At the end of February 1972, however, the note circulation was £3,698 million, only £36 million (1%) above the previous February, when the circulation had been abnormally large because of the postal strike. Over the two years from February 1970, the circulation rose at an average annual rate of 7%, at least half as fast again as in the later 1960s.

The growth in the use of higher denomination notes continued during the twelve months under review. For the first time since the Bank resumed issuing £1 notes in 1928 the value of such notes in circulation fell below a quarter of the total circulation. The share taken by the £5 note also declined a little, but the £10 note rose to 10½% of the total and the new £20 denomination reached nearly 4% of the total circulation within eighteen months of its introduction. As a consequence, the average face value of notes in circulation rose during the year from £2·50 to £2·62.

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

Value of notes issued, paid and in circulation

£ millions

Year to end of February	1968	1969	1970	1971	1972
Issued:					
New notes	2,833	2,960	2,860	2,606	2,741
Reissued notes	323	372	520	1,027	1,058
Paid	3,010	3,208	3,276	3,215	3,763
In circulation at the end of year	3,016	3,140	3,244	3,662	3,698
Percentage increase in circulation over the year	*5·1*	*4·1*	*3·3*	*12·9*	*1·0*

Value of notes issued by denominations

£ millions

Year to end of February	1968	1969	1970	1971	1972
10*s*.	221	227	139	—	—
£1	1,374	1,403	1,409	1,445	1,449
£5	1,427	1,554	1,642	1,892	2,028
£10	127	146	168	197	235
£20	—	—	—	80	87
Other notes[a]	7	2	22	19	—

a The issue of £50, £100, £500 and £1,000 notes was discontinued in 1943 although 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

<table>
<tr><th>End of February</th><th>1968</th><th>1969</th><th>1970</th><th>1971</th><th>1972</th></tr>
<tr><td>10s.</td><td>107,258</td><td>109,223</td><td>42,350</td><td>15,267</td><td>13,669</td></tr>
<tr><td>£1</td><td>972,251</td><td>956,887</td><td>949,420</td><td>977,334</td><td>920,408</td></tr>
<tr><td>£5</td><td>1,577,541</td><td>1,677,518</td><td>1,796,668</td><td>2,079,724</td><td>2,094,445</td></tr>
<tr><td>£10</td><td>242,451</td><td>278,072</td><td>314,482</td><td>354,015</td><td>385,952</td></tr>
<tr><td>£20</td><td rowspan="2">1,026</td><td rowspan="2">985</td><td rowspan="2">974</td><td>76,678</td><td>145,271</td></tr>
<tr><td>£50 – £1,000</td><td>796</td><td>757</td></tr>
<tr><td>Over £1,000</td><td>115,650</td><td>117,665</td><td>139,790</td><td>158,340</td><td>137,975</td></tr>
<tr><td>Total</td><td>3,016,177</td><td>3,140,350</td><td>3,243,684</td><td>3,662,154</td><td>3,698,477</td></tr>
</table>

Proportion of notes in circulation by denominations

Per cent by value of total circulation

<table>
<tr><th>End of February</th><th>1968</th><th>1969</th><th>1970</th><th>1971</th><th>1972</th></tr>
<tr><td>10s.</td><td>3·6</td><td>3·5</td><td>1·3</td><td>0·4</td><td>0·4</td></tr>
<tr><td>£1</td><td>32·2</td><td>30·5</td><td>29·3</td><td>26·7</td><td>24·9</td></tr>
<tr><td>£5</td><td>52·3</td><td>53·4</td><td>55·4</td><td>56·8</td><td>56·6</td></tr>
<tr><td>£10</td><td>8·0</td><td>8·9</td><td>9·7</td><td>9·7</td><td>10·5</td></tr>
<tr><td>£20</td><td rowspan="2">0·1</td><td rowspan="2">0·0</td><td rowspan="2">0·0</td><td>2·1</td><td>3·9</td></tr>
<tr><td>£50 – £1,000</td><td>0·0</td><td>0·0</td></tr>
<tr><td>Over £1,000</td><td>3·8</td><td>3·7</td><td>4·3</td><td>4·3</td><td>3·7</td></tr>
<tr><td></td><td>100·0</td><td>100·0</td><td>100·0</td><td>100·0</td><td>100·0</td></tr>
</table>

Fiduciary issue

As a first step towards reducing the Bank's holdings of coin to more reasonable working amounts, opportunities were taken during the year to the end of February 1972 to concentrate holdings in the Banking Department. The Issue Department's holding of coin, which at the end of February 1971 stood at £260,000, has now been reduced to nil.

The fiduciary issue, which stood at £3,700 million on 28th February 1971, rose on balance over the year by £25 million. This increase was unusually small because, as already mentioned, the note circulation was exceptionally high at the end of February 1971 owing to the postal strike.

Changes in the fiduciary issue during the year were as follows. The figures offset in the second column denote seasonal peaks or troughs.

£ millions

1971	14th April		3,725
	22nd April	3,700	
	30th April	3,675	
	4th May		3,650
	28th May	3,700	
	4th June	3,725	
	9th July	3,775	
	16th July	3,800	
	23rd July		3,825
	4th August	3,800	
	12th August	3,775	
	26th August	3,750	
	9th September	3,725	
	15th September	3,700	
	21st September		3,675
	8th October	3,700	
	5th November	3,725	
	26th November	3,750	
	3rd December	3,775	
	7th December	3,825	
	10th December	3,875	
	16th December	3,925	
	22nd December		3,950
	23rd December	3,925	
	31st December	3,900	
1972	3rd January	3,875	
	5th January	3,850	
	7th January	3,825	
	10th January	3,800	
	11th January	3,775	
	13th January	3,750	
	14th January	3,725	
	18th January	3,700	
	21st January		3,675
	11th February	3,700	
	25th February	3,725	

Treasury bills

Details of the tenders held in the year to 25th February 1972 were:

Tenders in 1971/72

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
1971 Mar. 5	200	160	287	200	£98·33	£6·6940
12	100	160	238	100	£98·33½	£6·6659
19	80	155	194	80	£98·33½	£6·6416
26	80	127	201	80	£98·34½	£6·6242
Apr. 2	80	108	132	80	£98·54½	£5·8293
8	120	138	238	120	£98·55½	£5·7849
16	80	181	192	80	£98·56	£5·7561
23	130	166	233	130	£98·57½	£5·7081
30	80	174	160	80	£98·58	£5·6844
May 7	140	181	230	140	£98·58	£5·6840
14	140	162	217	140	£98·59	£5·6517
21	140	186	238	140	£98·59½	£5·6276
28	120	160	237	120	£98·59	£5·6318
June 4	200	189	311	200	£98·60	£5·6090
11	180	186	280	180	£98·60	£5·6064
18	180	176	285	180	£98·60	£5·6070
25	100	156	232	100	£98·60	£5·5917
July 2	100	180	222	100	£98·60½	£5·5925
9	160	186	256	160	£98·61	£5·5700
16	80	155	196	80	£98·61½	£5·5396
23	180	171	292	180	£98·61	£5·5638
30	120	159	221	120	£98·61	£5·5642
Aug. 6	160	164	253	160	£98·59	£5·6301
13	160	163	255	160	£98·57	£5·7252
20	220	184	357	220	£98·54	£5·8288
27	180	137	310	180	£98·55	£5·8052
Sept. 3	220	167	367	220	£98·77	£4·9165
10	200	152	302	100	£98·78½	£4·8633
17	120	285	492	120	£98·80	£4·8049
24	180	268	524	180	£98·81	£4·7531
Oct. 1	120	302	460	120	£98·82	£4·7235
8	100	265	419	100	£98·83	£4·6763
15	80	236	327	80	£98·85	£4·6103
22	120	230	349	120	£98·85½	£4·5724
29	80	207	322	80	£98·85½	£4·5610
Nov. 5	100	212	324	100	£98·85½	£4·5693
12	60	195	330	60	£98·86½	£4·5480
19	100	204	361	100	£98·87	£4·5135
26	60	226	434	60	£98·91½	£4·2805
Dec. 3	100	249	385	100	£98·94	£4·2203
10	180	228	398	180	£98·91	£4·3150
17	180	221	331	180	£98·89	£4·4089
23	300	159	513	300	£98·87	£4·4712
31	160	187	455	160	£98·89	£4·4087
1972 Jan. 7	140	242	375	140	£98·90	£4·3782
14	80	232	317	80	£98·91	£4·3538
21	100	228	336	100	£98·90½	£4·3727
28	60	188	276	60	£98·90½	£4·3519
Feb. 4	60	180	261	60	£98·90½	£4·3771
11	60	194	309	60	£98·91	£4·3667
18	60	211	281	60	£98·91	£4·3677
25	60	139	260	60	£98·91	£4·3600

Tax reserve certificates

The end of the tax reserve certificate scheme was announced in December 1971. The issue of company certificates was terminated on 31st December 1971 and, as notified in the final prospectus on 3rd January 1972, personal certificates are to be phased out, the last day for subscriptions being 29th June 1973. Interest on personal certificates will be allowed up to 1st January 1974.

For some years, sales of certificates had been relatively small, and it was felt that a number of suitable alternative liquid instruments had been developed since the certificates were first introduced. Nevertheless in the year to the end of February 1972, there was an increase in the number of tax reserve certificates issued. The total value of certificates issued also rose, by over £50 million. This was enough to reverse the previous four years of successive decline in the average value of certificates issued. Issues to both persons and companies increased in value (even though certificates were not issued to companies in the last two months of the year), but probably only because the rates of interest which could be earned had become relatively attractive to both groups of holders.

Both the number and the value of certificates surrendered was higher than in the previous year, probably partly because the surrender of some certificates had been delayed by the postal strike early in 1971. The increase in the value of surrenders for tax (£26 million) was less than that for issues, however, and the total value of certificates outstanding rose by a further £50 million to £377 million.

	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						
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
1972									
Old series[a]	—	—	—	—	—	—	—	—	1
Company series[b]	24	6·5	155	116	—	6	122	+33	204
Personal series	213	0·6	136	117	3	—	120	+16	172
Total	**237**	**1·2**	**291**	**233**	**3**	**6**	**242**	**+49**	377

a Issued before 27.6.66.
b Issued up to 31.12.71.

Interest rates for certificates issued during the period were as follows:

Period	Interest rate in payment of taxes	Interest rate for cash repayment
Company		
1.3.71 to 23.4.71	$5\frac{1}{2}$%	3%
26.4.71 to 28.9.71	$4\frac{1}{2}$%	$2\frac{1}{2}$%
29.9.71 to 31.12.71	$3\frac{1}{2}$%	2%
Personal		
1.3.71 to 28.9.71	4%	No interest on cash repayments
From 29.9.71	$3\frac{1}{2}$%	

Gilt-edged stocks

The gilt-edged market was quiet at the beginning of the financial year 1971/72. Prices became firm in May on expectations of further reductions in interest rates but medium and longer-dated stocks were marked down temporarily after the publication of the Bank's paper on *Competition and credit control* on 14th May. They soon recovered, however, and the market remained quietly firm until the end of June when strong demand for longer-dated stocks developed as further reflationary measures, including, possibly, lower interest rates, seemed likely to be introduced. After the additional measures were announced by the Chancellor in mid-July, the chances of reductions in interest rates seemed to have receded and prices weakened. The market remained quiet until after 15th August when the U.S. measures to deal with the currency crisis were announced. Prices then rose as a reduction in Bank rate seemed imminent in order to curtail the inflow of foreign exchange. The announcement on 27th August of new exchange controls to take effect from the 31st on overseas investment in short-dated gilt-edged stocks dissipated these expectations and prices fell back again. Bank rate was, however, reduced to 5% on 2nd September and this, combined with the authorities' tap stock policy, was taken by the market as a willingness to see a further gradual decline in interest rates. Demand for stock rose strongly.

In the second half of October, the market was subdued (following the issue of the 8% Treasury Loan 2002/06 and a large G.L.C. Loan) but then strengthened until 25th November, when it was learnt that the fall in the Treasury bill tender rate had not been reflected in official dealings in bills. Prices of stock were marked down and the market remained hesitant for the next three weeks, because of the uncertainties surrounding the Rome currency talks and the India-Pakistan War. Reductions in U.S. interest rates in mid-December helped to steady the market and prices continued firm in January, encouraged by good trade figures and further reductions in international interest rates. During February prices weakened largely because of the miners' strike and the trouble in Northern Ireland. The market continued to ease before the Budget in March and remained subdued for the rest of the month, affected by fears of a railway dispute and by the uncertain situation in Northern Ireland.

During the year the authorities made exceptionally large net sales of stock – £2,200 million – the September quarter accounting for £1,409 million. However, both of these figures included sales of £759 million of three stocks to the London clearing banks to fund their outstanding Special Deposits and absorb surplus liquid assets as part of the introduction of the new arrangements for control of credit. Eight new stocks were issued during the year to a nominal total of £4,000 million.

Net purchases of gilt-edged stocks by the public during the financial year 1971/72, compared with previous years, were as follows:

Net purchases by the public +/sales −
£ millions

	1967/68	1968/69	1969/70	1970/71	1971/72
By type of holder[a]					
Overseas holders	+ 8	− 21	+190	+ 144	+ 154
U.K. banking sector	−110	−551	− 93	+ 61	+ 819
Other U.K. holders	+ 17	−426	+901	+ 462	+1,227
Total	**− 85**	**−998**	**+998**	**+ 667**	**+2,200**
By maturity					
Redemptions/conversions	−753	−164	−446	− 417	− 294
Up to 1 year	−565	−741	−586	−1,132	−1,113
Over 1 and up to 5 years	+340	−294	+751	+ 409	+1,503
Over 5 and up to 15 years	+492	− 36	+681	+ 934	+ 319
Over 15 years and undated	+401	+237	+598	+ 873	+1,785
Total	**− 85**	**−998**	**+998**	**+ 667**	**+2,200**

a More information about holders in the years 1967/68 – 1969/70 together with that for earlier years may be found in Table 3(1) of the Bank's *Statistical Abstract*; and from 1970/71 in the comparable table which appears in the statistical annex to 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

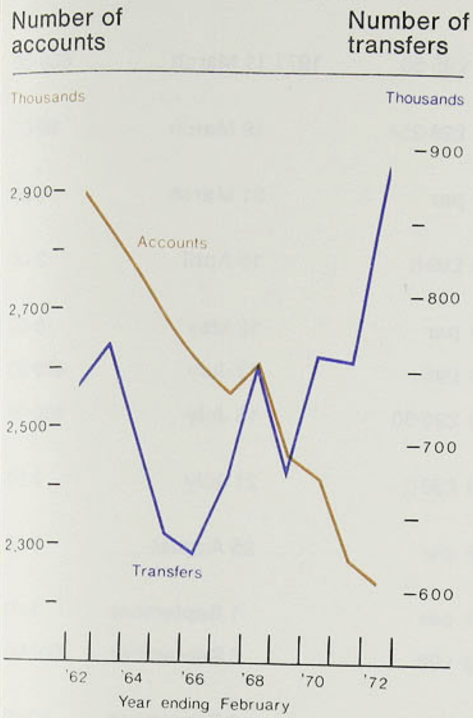
Reflecting the great activity in the gilt-edged market, the number of transfers registered increased sharply, and government stock issues and redemptions were exceptionally large.

The nominal totals in recent years of the different groups of stocks managed by the Bank (and, for 1971 and 1972, the number of accounts) are given below. The nominal value of British government stocks in issue continued to rise but the number of accounts again declined.

£ millions	Nominal value of stocks in issue				Number of accounts (in thousands)	
End of February	**1969**	**1970**	**1971**	**1972**	**1971**	**1972**
British government securities:						
Stock[a]	19,239	19,835	20,485	23,333	1,741	1,736
Bearer bonds	15	15	17	18		
	19,254	**19,850**	**20,502**	**23,351**		
Other securities:						
Government guaranteed	1,742	1,524	1,514	1,442	213	190
Commonwealth etc.	229	226	223	217	77	67
Local authorities	591	652	697	756	199	192
Public boards etc.	139	163	185	220	43	46
Miscellaneous	15	15	15	15	1	1
	2,716	**2,580**	**2,634**	**2,650**	**533**	**496**
Total	**21,970**	**22,430**	**23,136**	**26,001**	**2,274**	**2,232**

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

Stock registers managed by the Bank



The number of accounts continued to decline in 1971 but transfers registered were a record.

Transfers

Many more transfers were registered than last year. The total was some 18% above the previous two years and the highest shown in the available records dating back to 1942.

Thousands Year ended February	**1969**	**1970**	**1971**	**1972**
	678	757	753	885

The monthly figures of registrations for the year ended 29th February 1972 are given below. The most active period was in the three months after the reduction in Bank rate by 1% to 5% on 2nd September 1971:

	Thousands
March	68
April	73
May	69
June	71
July	73
August	68
September	79
October	78
November	82
December	74
January	77
February	73

Operations

Operations undertaken during the year included:

£ millions nominal			
Repayments			
Swansea Corporation 9% Bonds 31st March 1971	1971	31 March	1·00
Liverpool Corporation 8⅝% Bonds 14th April 1971		14 April	2·00
5% Conversion Stock 1971		15 July	408·37
Liverpool Corporation 8¼% Bonds 1st September 1971		1 September	3·00
British Gas 3½% Guaranteed Stock 1969/71		10 September	72·09
6¾% Exchequer Loan 1971		10 September	899·90
New Zealand Government 5% Stock 1956/71		1 November	4·88
Swansea Corporation 8% Bonds 10th November 1971		10 November	0·50
New Zealand Government 6¾% Stock 1971		6 December	9·90
West Glamorgan Water Board 8¼% Bonds 29th December 1971		29 December	0·50
Tanganyika Government 4% Guaranteed Stock 1952/72	1972	1 January	0·50
Agricultural Mortgage Corporation Limited 9⅛% Bonds 31st January 1972		31 January	2·00
Agricultural Mortgage Corporation Limited 7¾% Bonds 14th February 1972		14 February	2·00
6% Conversion Stock 1972		15 February	300·72

£ millions nominal

Issues for cash

9% Treasury Loan 1992/96	@ £95·50	1971 11 March	600·00
Agricultural Mortgage Corporation Limited 9½% Debenture Stock 1981/83	@ £98·25[a]	19 March	20·00
Swansea Corporation 7½% Bonds 5th April 1972	@ par	31 March	1·00
Liverpool Corporation 7% Bonds 19th April 1972	@ £99 15/16	15 April	2·00
West Glamorgan Water Board 6⅞% Bonds 17th May 1972	@ par	12 May	0·50
8¾% Treasury Loan 1997 "A"	@ £95	13 July	400·00
6% Treasury Stock 1975	@ £98·50	15 July	500·00
Liverpool Corporation 6⅜% Bonds 26th July 1972	@ £99 15/16	21 July	2·50
Swansea Corporation 7¼% Bonds 28th August 1974	@ par	25 August	0·50
Liverpool Corporation 7¼% Bonds 4th September 1974	@ par	1 September	3·00
8¼% Treasury Loan 1987/90	@ £96	8 September	600·00
Agricultural Mortgage Corporation Limited 9% Debenture Stock 1979/82	@ par	9 September	10·00
5¼% Treasury Stock 1973	@ £99·25	15 September	550·00
5½% Treasury Stock 1974	@ £98·69	15 September	400·00
6¼% Treasury Stock 1977	@ £97·94	15 September	350·00
West Glamorgan Water Board 7% Bonds 18th September 1974	@ par	15 September	0·50
8% Treasury Loan 2002/06	@ £95	20 October	600·00
Greater London 7¾% Stock 1981	@ £99[a]	21 October	50·00
Swansea Corporation 6% Bonds 14th November 1973	@ £99 15/16	10 November	0·50
Corporation of London 7½% Stock 1979/81	@ £98	18 November	5·00
New Zealand Government 7¼% Stock 1977	@ £99·75	1 December	10·00
Metropolitan Water Board 7⅛% Bonds 7th January 1976	@ par	1972 5 January	1·00
West Glamorgan Water Board 6¼% Bonds 9th January 1974	@ £99⅞	5 January	0·50
7¾% Treasury Loan 2012/15	@ £96	26 January	600·00
Agricultural Mortgage Corporation Limited 7¼% Bonds 28th January 1977	@ par	28 January	1·00
Agricultural Mortgage Corporation Limited 5⅛% Bonds 2nd February 1973	@ par	28 January	1·00
Agricultural Mortgage Corporation Limited 5¾% Bonds 15th February 1974	@ £99 15/16	11 February	1·00
Agricultural Mortgage Corporation Limited 6¾% Bonds 13th February 1976	@ £99¾	11 February	1·00

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 1972 the approximate amounts due but unpaid were:

Gross interest	£14,349,000
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 £2,105,000, 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.)

Interest payments

Stockholders to whom the Bank had been sending interest warrants through the post were invited to consider nominating instead a bank to receive payment. This would enable greater use to be made of the facility for direct crediting of accounts through the banking system. Approximately one million forms of mandate were sent out with warrants despatched during the year and instructions have so far been received to pay interest to banks on some 170,000 additional accounts.

Automation in the Accountant's Department

Planning for the new computer system is now well advanced and, as reported later on page 46, orders for the new equipment have been placed with International Computers Limited. The aims of the system will be:

(1) To transfer the stock registers from magnetic tape to direct access storage discs, and to make all current information immediately available through visual display units.

(2) To enable the clerical staff of the department to record amendments by means of keyboards attached to the visual display units, largely eliminating the need for separate staff to prepare data.

(3) To provide index facilities through the visual display units and the computer, thus eliminating the present indexes which are prepared and maintained by clerical staff.

The new system will be introduced in stages during the years 1973 to 1975.

Local authority bills

During the year under review, several more local authorities took powers by private Act of Parliament to issue bills, bringing the total with such powers to over 130 by the end of the period. By the end of February 1972 the amount of bills outstanding had risen sharply to £192 million compared with some £114 million a year earlier.

Twelve 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 1971 and were renewed at quarterly intervals thereafter. Also in April £5 million of bills were placed with the discount market on behalf of Liverpool Corporation and £2 million of bills on behalf of the Metropolitan Water Board, both issues being renewed quarterly.

At the beginning of the period, the average rate of discount on these issues and placings was up to $\frac{1}{4}$% above the comparable Treasury bill rates. However, after the introduction in September 1971 of the new arrangements for the control of credit, under which local authority bills were treated as "reserve assets" for the banks and "public sector debt" for the discount houses, average rates on issues moved much closer to the Treasury bill rate. Indeed, the rates on the last two Greater London Council offerings were marginally below those for Treasury bills.

The Bank's branches

The Bank have branches at Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle upon Tyne, Southampton and Law Courts (London).

The number of Bank notes issued and paid by the branches was much the same as last year's high figure. The volume of reissue notes handled formed a large percentage of the total turnover. Four of the branches (Birmingham, Leeds, Manchester and Newcastle) moved into new premises in 1970/71 and the modern equipment and conditions greatly eased the handling of a much expanded volume of business in notes. The number of exchange control form applications to the branches declined slightly during the year but there was some increase in the processing of more complicated cases.

The Agents of the seven branches outside London and the Representative in Glasgow continued to play a large part in developing further the Bank's contacts with industry and commerce. Their regular reports, supplemented by visits made by Directors and senior officials from Head Office, made a valuable contribution to the continuing assessment of the state of the economy, particularly in giving advance warning of changing trends – sometimes many weeks ahead of national statistics – and in providing a better understanding of developments in particular industries and in the different regions.

Banking developments

Finance for exports and domestic shipbuilding

It was announced in November 1971 that a working party, consisting of representatives from government departments, the Bank of England and the London and Scottish clearing banks, had been set up to review the existing arrangements for the provision of fixed rate credit of two years and over for exports and domestic shipbuilding. On the basis of recommendations made by the working party, agreement was reached on new arrangements which were introduced with effect from 16th March 1972.[1]

Under the former scheme the London and Scottish clearing banks undertook to provide finance up to a maximum equivalent to 10% of their gross deposits at a fixed rate reviewed from time to time. Advances in excess of this amount were refinanceable with the Issue Department of the Bank of England, and at 15th March 1972 a total of £492 million had been refinanced.

Under the new arrangements the clearing banks have accepted a commitment to provide finance up to an amount equivalent to 18% of their current account deposits, which broadly corresponds with their obligation to finance fixed rate paper under the previous scheme at the time the new scheme was introduced. Advances in excess of this amount will be refinanced. Current account deposits were accepted as a more relevant measure than gross deposits for the banks' commitment to this type of lending because under the new credit control arrangements deposit accounts were expected to grow rather faster than hitherto. For the purpose of the new arrangements current account deposits, like gross deposits formerly, are averaged over the preceding twelve months.

The rate of return earned by the clearing banks under the new scheme on the paper which they are financing will not necessarily be the same as the fixed rate paid by exporters or shipowners. This rate of return is now related more closely to market rates, being set each month by reference to the Treasury bill yield and the banks' syndicated rate for lending to nationalised industries, with a constant margin of 1¼% added to take account in particular of the non-marketability of the paper. The fixed rates are determined by the Government and, as before, reviewed from time to time in the light of comparable rates abroad and general economic considerations.[2] Any difference between the rate of return to the banks and the fixed rates, whether in favour of the banks or the Government, will be settled by an adjustment in the interest payable by the banks on amounts refinanced.

The Export Credits Guarantee Department are now providing all new refinance for exports, although the Issue Department of the Bank of England is for the time being maintaining the refinance which it had made available under the former scheme. The Issue Department has continued so far to provide new refinance for shipbuilding for U.K. owners, but it is intended that the Department of Trade and Industry should take over this role when it has obtained the necessary powers to do so. Additional refinance facilities available to deal with emergency situations (*e.g.* to relieve a shortage of cash arising from a sudden and substantial withdrawal of deposits) which were also a feature of the former scheme, are the subject of a separate agreement between the banks and the Bank of England.

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1 Discussed in more detail in the June 1972 *Quarterly Bulletin*, page 205.

2 The fixed rate for exports other than ships was reduced on 16th March 1972 from 6½% to 6%. It had been reduced from 7% to 6½% in November 1971. The fixed rate for ship exports and shipbuilding for U.K. owners remained at 7%.

Mergers of banks

A number of banks in the United Kingdom were affected by mergers during the year. On 1st March 1971 the British Linen Bank was merged with the Bank of Scotland; on 10th May the Bank of London and South America and Lloyds Bank Europe were merged to form Lloyds and Bolsa International Limited; on 1st July 1971 the Eastern Bank was merged with the Chartered Bank; and on 1st October 1971 the Lombard Banking Group and the North Central Finance Group, both wholly-owned subsidiaries of the National Westminster Bank Limited, merged to operate as a single company, Lombard North Central Limited.

Two foreign banks operating in London also merged when, on 1st October 1971, the Nippon Kangyo Bank and Dai-Ichi Bank joined to form the Dai-Ichi Kangyo Bank Limited. The Bank of Ireland, the Hibernian Bank and the National Bank of Ireland were merged officially on 31st March 1972, and on 1st April 1972 Allied Irish Banks Limited was formed from the merging of the Munster and Leinster Bank, the Provincial Bank of Ireland and the Royal Bank of Ireland.

Overseas banks

A further eighteen overseas banks – six more than in the previous year – opened banking or representative offices in London during the twelve months to February 1972; and four more banks formed by consortia of foreign banks were opened. These additions brought the number of overseas banks known to be transacting banking business in the United Kingdom at the end of February 1972 to 161.

Relations with central banks and other institutions abroad

The Bank were closely involved in the international monetary problems and other external developments concerning sterling referred to in the first part of this *Report*. In all of these matters the close and friendly relations which the Bank have always enjoyed with overseas central banks and financial institutions again proved their worth. During the year as a whole more than 600 visitors from almost 100 countries were received in the Bank, and the Bank's officials visited about 80 countries. The Bank continued to assist certain central banks and other financial institutions overseas with their banking and currency problems, and 16 members of the Bank staff were serving overseas in various capacities at 29th February 1972.

Exchange control

The volume of exchange control work continued to rise during 1971. Small increases in staff were made but, for the most part, the rise was absorbed by greater productivity.

The main changes in the administration of the control up to April 1972 were as follows:

1st April 1971

Gold

Gold coins were exempted from the provisions of Sections 1, 2 and 3 of the Exchange Control Act 1947, thereby permitting them to be bought, sold, borrowed, held and lent freely by residents of the United Kingdom.

31st August 1971

Restrictions on inflows

Measures were introduced to discourage fresh acquisitions of sterling by non-residents of the Scheduled Territories. The payment of interest on new sterling balances was not allowed (although later there was a limited dispensation for funds in the hands of individuals and certain international banks and organisations). Non-residents were also prohibited from buying or subscribing for sterling securities (including certificates of deposit and Treasury bills) issued or guaranteed by the British Government or by local authorities and having a fixed maturity date earlier than 1st October 1976, except when sale or redemption proceeds from comparable securities were being reinvested. U.K. banks were prohibited from converting foreign currency balances into sterling by means of swaps when this would cause their spot foreign currency liabilities to exceed their spot currency assets; and banks which had already carried out such swaps were required to restore their foreign currency positions as the swaps matured.

7th October 1971

The restrictions on the acquisition of certain sterling securities by non-residents of the Scheduled Territories introduced on 31st August were extended to cover all maturity dates for such securities. Non-residents were also prohibited from buying sterling acceptances, commercial bills, and promissory notes (other than bank notes) denominated in sterling.

15th December 1971

Membership of the sterling area

Libya was excluded from the list of Scheduled Territories.

20th December 1971

Currency realignment

After the Washington Agreement on the realignment of exchange rates, the measures introduced in the period 31st August to 7th October to restrict the inflow of funds into the United Kingdom were withdrawn.

11th February 1972

Membership of the sterling area

Bangladesh was listed as a separate Scheduled Territory.

16th March 1972

Forward exchange cover for exports

It was announced that, where U.K. exporters were tendering for overseas contracts expressed in foreign currencies, consideration would in future be given to applications for access to forward exchange cover.

21st March 1972

Direct investment

In his Budget statement the Chancellor of the Exchequer announced that outward direct investments of up to £1 million per project each year in E.E.C. countries, Denmark and Norway could in future be financed with official exchange. U.K. companies directly or indirectly controlled by residents of E.E.C. countries, Denmark and Norway could borrow sterling in the United Kingdom without limit for direct investment in any part of the United Kingdom. The sterling borrowing rules governing other non-resident controlled U.K. companies were also relaxed to allow such companies to borrow sterling in the United Kingdom without limit for new direct investments in the assisted areas.

14th April 1972

Sterling borrowing

As a consequence of the Budget changes in the sterling borrowing rules for U.K. companies controlled by non-residents it was decided to extend the unlimited sterling facilities to U.K. companies in which non-residents have less than a controlling interest. Previously, such companies had been required to finance their borrowings from non-resident sources at least in proportion to the non-resident equity interest.

28th April 1972

The Bank of England announced that, as from 1st May, they would be prepared to deal at published official rates of exchange for spot telegraphic transfers in certain European currencies.

Voluntary programme

In his Budget statement of 21st March the Chancellor announced the abolition of the voluntary programme introduced on 3rd May 1966. Under this programme companies planning direct investments in Australia, New Zealand, South Africa and the Irish Republic had been asked to consult the Bank of England about the financing of projects costing more than £25,000, and investment institutions had been asked to refrain from adding to their portfolio holdings of securities in the four countries.

Commodity markets

The Bank have continued to maintain close contacts with the U.K. commodity markets, both through regular formal liaison meetings with the market associations and through frequent informal contacts with the member firms.

The arrangements for reducing the cost to the reserves of silver bought by London silver dealers, which had been introduced in December 1969 and which were described in the 1970 *Report*, were continued largely unchanged during the past year. However, quiet conditions in the silver market and the substantial improvement in the reserves led to the suspension of the arrangements in April 1972.

Previous *Reports* have 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 1972 was a little under £1 million.

Economic information and research

The advent of the new arrangements for the control of credit in September 1971 was followed by some important changes in the presentation of banking statistics in the Bank's *Quarterly Bulletin* and elsewhere. First, in the December 1971 *Bulletin*, the opportunity was taken to show the figures for the accepting houses, overseas and other banks at mid-month dates, thus bringing their timing into line with that of the London and Scottish clearing banks. With the March 1972 issue, a further step was taken by re-arranging the London and Scottish clearing banks' figures and those of the Northern Ireland banks so that they were in the same form as, and thus directly comparable with, the other banks. The clearing banks' figures had previously been based on their published statements in which the various assets and liabilities were defined differently from those reported to the Bank by the other banks. At the same time a new monthly table was introduced giving details of the eligible liabilities, reserve assets and reserve ratios of the various groups of banks and of the finance houses. With the help of additional information from some of the banks, improvements and additions were also made to the money supply and banking sector tables, the main development being the provision and publication of monthly figures. All these changes were described in detail in an introductory article in the March 1972 *Bulletin*, page 76.

Meanwhile, the Bank have begun a comprehensive review of all the statistical information provided by banks. The aim is to rationalise and improve the reporting machinery so that the information derived from it is more accurate, more co-ordinated, and more useful, not only to the authorities but also, it is hoped, to the contributing banks and the general public.

During the year a further seventeen banks were added to the list of those reporting their figures regularly to the Bank, including ten overseas banks that have recently opened banking offices in London, and four consortia banks with British and foreign participation. In January, four finance houses – United Dominions Trust Ltd., Mercantile Credit Co. Ltd., First National Finance Corporation Ltd., and Julian S. Hodge & Co. Ltd. – were recognised as banks, and together with Lombard North Central Ltd. their figures were included with those of the rest of the banking sector, beginning in March 1972.

In October 1971, a further enquiry was completed into the maturities of U.K. banks' foreign currency assets and liabilities. This showed that, although the banks' sight position had strengthened compared with the previous enquiry in February, they were using shorter-term funds to increase their lending for periods of one year or longer. Details were published in the March 1972 *Quarterly Bulletin*.

A new series of quarterly statistics of acquisitions and mergers by financial companies within the United Kingdom was introduced in the *Quarterly Bulletin* for September 1971. The series complements the figures for industrial and commercial companies published by the Department of Trade and Industry and analyses transactions by type of acquiring company, by type of company acquired and by category of expenditure. In February 1972, the Bank began to release monthly statistics of capital issues shortly after the end of the month concerned.

Previous *Reports* have noted the Bank's work in collecting information about the overseas earnings of certain financial institutions and the professions for incorporation in the estimates of the U.K. balance of payments. An article reviewing these activities was included in the *Quarterly Bulletin* for September 1971. Many of the entries in the "Investment and other capital flows" section of the estimates also make use of information collected by the Bank. Furthermore the Bank, together with the Department of Trade and Industry, have responsibility for collecting and compiling most of the statistics on the overseas activities of the oil companies, which are an important part of the balance of payments. During the year, in collaboration with the Petroleum Division of the Department and with the generous co-operation of the industry, a full review of the methods of compilation was largely completed. The main reason for the review was the need to take account of the increasing number and significance of the foreign-owned companies operating in the United Kingdom and on the U.K. part of the Continental Shelf. From this review has stemmed a new series of quarterly and annual returns which are being completed by these companies and are subsequently processed by the Bank. A first result of the new enquiry has been important revisions to the previous estimates of the companies' shipping transactions. These revisions were included in the *United Kingdom Balance of Payments 1971* published by the Central Statistical Office.

The Bank's Economic Section was involved in a number of issues which confronted the Bank – for example, the development of the new arrangements for the control of credit, and questions arising from the realignment of exchange rates in December 1971. Economic and financial forecasting, in co-operation with the Treasury, also made increasing calls on the section's resources, and further contributions were made to the improvement of forecasting methods.

Several research projects were completed during the year. Three articles – "Expectations, long-term interest rates and monetary policy in the United Kingdom"; "Capital utilisation in manufacturing industry"; and "The demand for money in the United Kingdom: a further investigation" – were published in the Bank's *Quarterly Bulletin.* Besides these three published studies, three papers by members of the Economic Section have been or will be presented to conferences. A paper on the term structure of interest rates was read at the Money Study Group Conference in February 1972 and should be published later in the proceedings of the conference. A paper analysing the factors which have determined changes in the money stock was given at the 1972 conference of the Association of University Teachers of Economics and will also be published later as part of the proceedings of the conference. Finally, it is hoped that a study examining the extent to which persons regard different types of assets of fixed capital values as substitutes for each other will be presented to the September 1972 European meeting of the Econometric Society. This last study was developed out of earlier work done in the section, partly to meet the needs of the Committee to Review National Savings. Other studies completed or nearing completion include an examination of the ways in which changes in financial conditions may have affected decisions to spend (an earlier version of this paper was read at the Konstanz monetary policy seminar in June last year), and an attempt to identify the determinants of U.K. stockbuilding.

Work on developing balance sheets of the liabilities and assets of various sectors of the economy and their integration with the existing figures of cash transactions has proceeded in conjunction with the Central Statistical Office. This should eventually permit the study of the financial behaviour of the different sectors and groups of institutions by reference not only to the *flows* of funds between them but also to changes in the pattern of each sector's *stock* of assets and liabilities. It is hoped to publish sector studies along these lines in due course.

A handbook on the flow of funds has been produced and will be published shortly. Its purpose is to provide a general introduction to the figures which are published and discussed each quarter in the Bank's *Quarterly Bulletin*. The handbook describes the concepts of sector financing, the principles of the accounts, and what they are used for; shows how financial developments are reflected in the figures and how points of interest may be displayed; and includes annual figures for each of the six main sectors over the period 1952-70 and quarterly flows, both unadjusted and seasonally adjusted, from 1963. It also describes the methods and problems of seasonal adjustment; and includes comprehensive notes on sources and definitions.[1]

In June 1971, the Bank provided facilities for a one-day conference organised by the Money Study Group – a body in which academic economists can meet commercial bankers and officials from the Treasury and the Bank to discuss current monetary research and matters affecting U.K. monetary policy. The conference discussed the proposals made in the previous month for changes in the methods of credit control. This was one of the ways in which the Bank sought to encourage widespread discussion of their proposals, and the conference was well attended both from the universities and from the financial institutions.

Staffing and other internal matters

Numbers of staff

The weekly average number of staff, including part-time staff, employed during the year to the end of February was 7,752, much the same as in the previous year. Their aggregate remuneration was £14,485,000. At the end of February those in full-time employment, including 1,270 non-clerical

1 The handbook will be obtainable at a price of 50p from the Bulletin and Publications Group, Economic Intelligence Department, Bank of England, London EC2R 8AH.

staff at the Printing Works, numbered just under 7,000. A further 750 women were employed part time, 500 of them at the Printing Works and most of the remainder in the Accountant's Department.

The banking staff employed full time numbered around 4,600, allocated among departments broadly as follows:

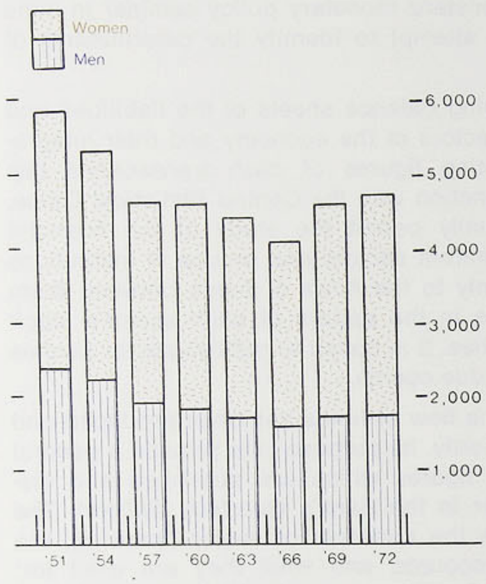
Cashier's Department	1,325	– including 350 at the branches
Accountant's Department	1,200	
Overseas Department	875	– including some 575 on exchange control work
Economic Intelligence Department and Economic Section	250	
Management Services Department	175	
Other	775	– mainly Secretary's, Establishment and Audit Departments and Printing Works
	4,600	

After declining steadily in the 1950s and the first half of the 1960s, the number of banking staff has increased somewhat in recent years, mainly to meet a renewed expansion in exchange control work.

Many categories of non-clerical staff with widely differing responsibilities and skills are employed; they include medical staff, draughtsmen, engineers, other craftsmen, messengers and cleaners and in total number around 1,100, as well as those at the Printing Works. The largest group is the 500 men employed on messenger and security duties. The engineering staff, which is responsible for the supply of electricity from the Bank's generators, the heating and lighting of the various buildings and the maintenance of plant and equipment accounts for some 190; and the maintenance of the fabric of the buildings and other associated work a further 180 craftsmen and labourers.

Banking staff[a]

Figures as at 1 March



The increase in the number of banking staff since 1969 was considerably smaller than in the previous three years.

a Including an allowance for part-time staff.

Recruiting

The Bank have been trying to establish a closer relationship between their staff selection processes, the appraisal of staff at work and the internal work assessment scheme (mentioned later on page 46). The purpose has been to achieve greater objectivity and consistency of judgment in career planning. During the year the Bank recruited twenty men and seven women with honours degrees – from sixteen different universities – and thirty-five men and thirty-seven women who had undertaken a full General Certificate of Education advanced level course in two or more subjects. Two hundred and eighty-seven women who had taken a full ordinary level General Certificate of Education course were recruited for the more routine clerical work; twenty-two women with similar qualifications were recruited to train as punch operators and a further ninety as typists. Forty-six other men and women were recruited to the supplementary staff: recruitment of this category of staff has now ceased, at least for the time being.

Appraisal

In last year's *Report*, reference was made to the design of a new system of staff appraisal. This is now in operation. Under the system every member of the staff will have an annual interview designed to provide the opportunity for free discussion about performance, aspirations and further training. All staff responsible for the appraisal of others have attended courses aimed at developing appraisal skills.

Training

The training programme has been further developed. The induction course now explains in outline the Bank's functions and the role of departments and acquaints new entrants with the location of the main offices. This is followed, after allocation to departments and some practical experience, by training in departmental schools. To inform staff more fully of the activities of the Bank – and to encourage them at an early stage to think about the career paths they may wish to follow – a First Development Course, covering all aspects of the Bank's operations, will be introduced in 1972 for those who have been in the Bank for about two years. This is to be followed at about the five-year stage by a Second Development Course, to bring up to date and broaden the knowledge gained on the First Development Course. Management training follows where appropriate at both junior management and administrative levels. External courses continue to be used for middle and senior management training, while many staff attend shorter courses and seminars on specialised subjects, both academic and technical. As at 29th February 1972 four of the staff were engaged on full-time university courses lasting one year or longer.

As well as Bank staff serving abroad (already referred to on page 38), two members of the staff were on temporary secondment to H.M. Treasury and one to the Cabinet Office as at 29th February 1972. Six others were attached to the Secretariat of the Panel on Take-overs and Mergers.

Industrial Relations Act

The Bank have carefully examined their general staffing arrangements in the light of the Industrial Relations Act and Code of Practice. Discussions are in process with all sections of the Bank's staff so that they may be aware of the implications of the Act and Code.

Selective pension offer

Because only a few banking staff are expected to retire in the next five years compared with a relatively large number in the late 1970s and early 1980s, a voluntary but selective early pension offer was made in September 1971 to staff within ten years of normal retirement age. While the scope of the offer may be modified over the course of its three-year life, a total of just over 100 early retirements was envisaged at the outset.

Premises

In April 1971 the remainder of the exchange control offices moved from Head Office to premises in New Change.

This allowed a major reallocation of office space to be started which will mainly affect the Economic Intelligence, Overseas and Establishment Departments in Head Office and the Management Services Department in Bank Buildings (on the corner of Old Jewry). A new Reference Library, constructed to a design of the Bank's Maintenance Superintendent on the site of the lecture theatre in the vaults, was opened in May 1971. Other work included the improvement of security arrangements and the continuing modernisation of lifts and cloakrooms in Head Office.

Sponsorship of the Bradford Conference

A conference on Strategic Planning for Financial Institutions was planned in conjunction with the University of Bradford's Management Centre. The objective of the conference, which was held in the Draper's Hall, London, on 6th/7th June 1972, was to draw the attention of senior executives of financial institutions to the need for strategic plans for growth and profitability over the next decade.

Management services

A wide range of studies has been undertaken aimed at achieving economies and improving work processes. During the year, the clerical work improvement programme (which began in 1970) concentrated on the Cashier's Department, where investigations were conducted in a number of offices. The programme has already identified significant potential benefits from changes in methods of working, the better use of staff and improvement in the content of jobs available.

After the completion of the work assessment last year, the Bank have been implementing its findings. It was decided that the assessment should be maintained and the assessment teams have since been evaluating new jobs and those which have changed substantially. Much of this work stems from the programme of clerical work improvement.

The transfer of work to computer-based systems continued. During the year, systems were developed for the annual staff review and to account for commercial and local authority bills purchased by the Bank. A system for dealing with payment of bearer bonds and coupons is nearing completion. Investigations were completed and development work has now begun on an integrated accounting and management information system for the Cashier's Department and on a comprehensive system for the main statistical work of the Economic Intelligence Department, both of which were mentioned in last year's *Report*. The system for the Cashier's Department will service a large part of the work of that department and supersede the existing computer system for current account banking.

Computer equipment

The implementation of a complex on-line computer system for the registration work of the Accountant's Department at New Change (see page 35) will require much more sophisticated equipment than that at present in use which, in any event, is nearing the end of its useful life. Orders have therefore been placed with International Computers

Limited to meet the future requirements of the Accountant's Department, including the purchase of two 1904A Central Processors. Extensive re-equipment will also be necessary to service the systems being developed for the Cashier's Department and the Economic Intelligence Department and, in due course, other departments in Head Office. Orders have therefore been placed with IBM United Kingdom Ltd. for two System 370 Model 145 computers and associated equipment.

Accounting services

Considerable progress has been made in the development of the budgetary control system mentioned in last year's *Report*. Further improvements to the Bank's internal accounting and control systems are planned.

The Bank have also taken a close interest in current studies on problems of financial management and accounting under inflationary conditions. Arising from these general studies, particular attention is being directed towards an evaluation of the advantages that might stem from applying inflation accounting techniques to the Bank's financial accounts.

The financial accounts which follow this *Report* include comparative figures for the previous period and meet fully the requirements of the Companies Acts 1948 and 1967 in so far as they are material and appropriate.