

Bank of England



Report and accounts for the year ended 28 February 1973

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3	Court of Directors
4	Senior officials
5	The work of the Bank
5	Monetary policy
7	Other banking developments
8	Management and the institutional investor
9	The note issue
11	Treasury bill management
14	Tax reserve certificates
14	Management of the gilt-edged market
16	Management of stock registers
19	Local authority bills
20	The Bank's branches
20	Foreign exchange management
21	Exchange control
23	Commodity markets
23	External affairs
24	Economic information and research
27	Staffing and other internal matters
32	The Bank's accounts

Court of Directors

28th February 1973

The Rt. Hon. Sir Leslie Kenneth O'Brien, G.B.E., *Governor*
Jasper Quintus Hollom, Esq., *Deputy Governor*
George Adrian Hayhurst Cadbury, Esq.
Jack Gale Wilmot Davies, Esq., O.B.E.
Leopold David de Rothschild, Esq.
Sir John Norman Valette Duncan, O.B.E.
John Standish Fforde, Esq.
Sir Sidney Francis Greene, C.B.E.
Sir William Johnston Keswick
Sir John Maurice Laing
Christopher William McMahon, Esq.
Christopher Jeremy Morse, Esq.
The Rt. Hon. Lord Nelson of Stafford
Gordon William Humphreys Richardson, Esq., M.B.E.
The Rt. Hon. Lord Robens of Woldingham, P.C.
Sir Eric Roll, K.C.M.G., C.B.
Sir John Melior Stevens, K.C.M.G., D.S.O., O.B.E.
The Hon. William Kenneth James Weir

Sir William Keswick retired as a Director on 28th February 1973 and Mr J. M. Clay was appointed in his place for the remainder of his term of office, namely until 28th February 1975.

The term of office of Mr C. J. Morse expired on 28th February 1973 and Mr J. C. R. Dow was appointed in his place for a period of four years.

The terms of office of Sir Eric Roll, Sir Val Duncan and Mr C. W. McMahon also expired on 28th February 1973 and they were reappointed for a period of four years.

It was announced in February 1973 that Sir Leslie O'Brien would relinquish the office of Governor on 30th June 1973 and would be succeeded by Mr Gordon Richardson. It was further announced that Sir Leslie O'Brien had been created a life peer; he has taken the style and title of Baron O'Brien of Lothbury, of the City of London.

Senior officials

28th February 1973

Departmental

Chief Cashier	J. B. Page
Chief Accountant	R. C. Balfour, M.B.E.
Chief of the Overseas Department	R. P. Fenton, C.M.G.
Chief of the Economic Intelligence Department	M. J. Thornton, M.C.
Head of Economic Section	L. A. Dicks-Mireaux
Secretary	P. A. S. Taylor
Chief of Management Services	R. E. Heasman
Chief of Establishments	K. J. S. Andrews, M.B.E.
Chief of Exchange Control	E. B. Bennett, D.S.C.
General Manager of the Printing Works	M. J. S. Cubbage, M.B.E.
Auditor	J. F. M. Smallwood

Adviser to the Governors

J. A. Kirbyshire

The work of the Bank

This *Report* describes aspects of the Bank's work and internal affairs in the year ended 28th February 1973. It contains, as usual, supporting statistics of the note issue and of various other operations handled by the Bank. As in previous years, officials of the Bank were much involved in the various international discussions on world monetary problems. Prospective and, from 1st January 1973, formal accession to the European Economic Community has produced a considerable and growing volume of work, on both the international and the domestic fronts, as the Bank have become increasingly involved in technical and policy questions stemming from entry into the Community. Domestically, this has given added momentum to the Bank's contacts with interested City organisations, in order to cover a wide range of Community matters where Treaty obligations or proposals of the Commission have a bearing on the activities of financial institutions in this country, and where the experience and opinion of the City could usefully be drawn upon in furthering the British contribution to Community debate. Externally, E.E.C. membership has considerably increased the representational calls on the Bank, both in Brussels and more widely in Europe as a whole. In the foreign exchange market, the Bank's management of the exchange rate and of the reserves was fundamentally affected by the decision in June 1972 to allow sterling to float. The associated decision to extend most exchange control regulations to sterling area countries increased the volume of work; and, in October, a separate Exchange Control Department was set up. Among developments in the domestic markets, new arrangements for determining the Bank's minimum lending rate for loans of last resort to the money market were introduced in October. The Bank announced calls for Special Deposits in November and December.

The Bank gratefully acknowledge once again the ready assistance and co-operation they have received from a wide circle of banks and other institutions. Much of the Bank's work depends heavily upon this help for its effectiveness.

Monetary policy

The period under review saw the consolidation and refinement of the new arrangements which had been introduced, at a time of monetary ease, in September 1971. One of the main objectives of the new arrangements — the creation of conditions conducive to greater competition between the banks — has been attained. New forms of deposit and lending facilities in wide variety have been adopted by banks and finance houses, and they have used these to compete vigorously to increase their resources and to employ them profitably, though, understandably, the interest rates of the competing banks have tended to move fairly closely together. Pursuit of the other main objective of the new arrangements — the continued capacity of the authorities, now without the use of direct controls, to exercise an appropriate degree of

control over credit — has led to more difficult conditions for those dealing in the money and gilt-edged markets, particularly because the increased reliance on interest rates as a weapon of monetary policy entails much wider fluctuations in interest rates and security yields than occurred under the previous system.

Bank rate

As the year 1972 progressed, the authorities sought to moderate the very rapid rate of growth in the monetary aggregates which had become apparent in the first half of the year. Thus they encouraged interest rates to rise, mainly through open-market operations but also by means of an increase in Bank rate, from 5% to 6%, on 22nd June. Treasury bill rates rose from 4¼% in May to 6¾% in September, taking them well above the 6% Bank rate, and nullifying the penal element normally attaching to the Bank's last resort lending. This situation emphasised the need to have a rate for enforced borrowing which would respond flexibly to conditions in the money market. This was the more practicable because the significance of Bank rate as a conventional reference point for other money market rates had been reduced, notably because the clearing banks had ceased to tie their deposit and lending rates to it. New arrangements for the Bank's minimum lending rate to the market were therefore introduced on 13th October. The rate was to be automatically determined each Friday at ½% above the average rate of discount for Treasury bills at the tender, rounded to the nearest ¼% above; but a change in the rate independent of these arrangements was not excluded if this was required to signify a shift in monetary policy. The weekly Bank rate announcement on Thursday was discontinued, but special changes of the kind just described would normally still be made on Thursday at mid-day, the operation of the automatic formula then being suspended until market rates moved into line. After the tender on 13th October, the minimum lending rate was 7¼%. By the end of December it had risen to 9%, but fell back early in the new year to 8¾%.

Special Deposits

In November, for the first time under the new arrangements, the Bank announced a call for Special Deposits from banks and finance houses subject to reserve ratios, equivalent to 1% of their total eligible liabilities. A further call for 2% was announced in December. Banks in Northern Ireland were exempted from both calls. The aggregate of 3% of Special Deposits was still outstanding at the end of February. These calls served to constrain the banking system's capacity to lend and to reinforce the upward pressure on interest rates.

The consultative document originally produced by the Bank for discussions with the banks and finance houses about the new arrangements had envisaged that Special Deposits might on occasion be calculated by reference to only some of the banks' eligible liabilities, rather than to all of them.¹ This was to allow for the possible differential treatment of overseas deposits, for example to enable the impact of an inflow of short-term funds on the domestic economy to be

¹ See "Competition and credit control", June 1971 *Quarterly Bulletin*, page 189.

neutralised. In the event, the new arrangements as introduced in September 1971 provided for general calls only. Negotiations about differential calls continued during 1972, however, and a scheme was agreed with the banks and finance houses in November. It provides for a uniform rate of call for Special Deposits to be applied to any increase from a specified starting date in each bank's eligible overseas liabilities (mainly its overseas sterling deposits). Calls may be made at the same time as, or separately from, a uniform rate of call applied to each bank's total eligible liabilities. The authorities may also exempt from a general call each bank's overseas deposits outstanding, or make the call at a lower rate than on the remainder of their eligible liabilities.¹

Directional guidance

Under the arrangements introduced in 1971, the allocation of credit among borrowers depends primarily on interest rates and on the ability of borrowers of acceptable risk to pay the current market rate. However, as described in the consultative document, "Competition and credit control", the authorities have retained the right to provide the banks with such guidance as may seem appropriate about the spread of their lending among different categories of borrowers. Exercising this right, the Governor wrote to the banks in August 1972. He pointed to signs of a recovery in industrial demand for credit and, in order that this demand should be satisfied, he asked them as necessary to make credit less readily available to property companies and for financial transactions not associated with the maintenance and expansion of industry.²

Banks in Northern Ireland

Discussions about the application of reserve ratios and Special Deposits to banks in Northern Ireland took place in the year under review, and agreement was reached on modifications to the general arrangements to meet these banks' special circumstances.³ They were exempted from the calls for Special Deposits made on the other banks during the period.

Other banking developments

Banking mergers and participations

In anticipation of British entry into the European Economic Community, the Bank announced in November 1972 some modifications of their attitude towards banking mergers and participations.⁴ Most notably, they made it clear that they would no longer object in principle to clearing banks acquiring holdings of more than 25% in accepting houses and that they would be prepared to treat other E.E.C. banks in the same way as other British banks, so that the way was open for consideration to be given to proposals for E.E.C. banks to

¹ For details, see "Competition and credit control: further developments", March 1973 *Quarterly Bulletin*, page 52.

² For text, see September 1972 *Quarterly Bulletin*, page 327.

³ For details, see "Competition and credit control: further developments", March 1973 *Quarterly Bulletin*, page 51.

⁴ For text, see December 1972 *Quarterly Bulletin*, page 452.

acquire holdings exceeding 15% in accepting houses and other merchant banks, and in British overseas banks.

Within these general guidelines the Bank will consider on their individual merits all proposals for mergers — meaning here participation of more than 15%. In order that the application of the provisions of the Monopolies and Mergers Act 1965 to any proposals for participations in excess of 15% may be handled efficiently, the Bank will draw the plans to the attention of the Treasury and the Department of Trade and Industry at an early stage, to avoid possible difficulties later for both the Government and the banks concerned.

The liberal practice in relation to the establishment of branches or subsidiaries in London by banks from other foreign countries will continue, and the Bank's attitude to participations by these banks in British banks remains unchanged.

Overseas banks

A further twenty-three overseas banks — four more than in the previous year — opened banking or representative offices in London during the twelve months to February 1973; and eleven more banks formed by consortia of foreign banks were opened. These additions brought the number of overseas banks transacting banking business in the United Kingdom at the end of February 1973 to some 170.

Management and the institutional investor

Last year's *Report* referred to the appointment of a City working party whose terms of reference were 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 was judged necessary.

The report of the working party was issued in December 1972.¹ It recorded that the Association of Investment Trust Companies, the Association of Unit Trust Managers, and the National Association of Pension Funds had agreed to establish an organisation to co-ordinate their existing investment protection activities in the field under review. Although at that time the British Insurance Association felt unable to participate formally, they expressed a willingness to co-operate as fully as possible.

Following this report, discussions were continued among the bodies directly concerned as to how the new arrangements would function. As a result of these discussions, the Bank announced in April 1973² that the British Insurance Association had now agreed to join with the three other associations in forming a new body, to be named the Institutional Shareholders' Committee.

The arrangements will be directed by a joint standing committee comprising the chairmen of the four sponsoring

¹ For text, see March 1973 *Quarterly Bulletin*, page 20.

² For text, see June 1973 *Quarterly Bulletin*, page 148.

bodies, with secretarial services provided by the constituent associations. The arrangements will be administered through case committees composed of members of the constituent associations who are shareholders in the companies concerned. These committees will, where appropriate, be assisted by experienced industrialists or financial consultants, and may encourage companies to enlist the help of professional advisers.

The note issue

The note circulation reached a new peak of £4,489 million on 22nd December 1972; this was £380 million higher than the previous peak of £4,109 million reached on 25th July and nearly £570 million higher than at Christmas the year before. By the end of February 1973, after the usual seasonal fall, the circulation had dropped to £4,187 million; this was almost £490 million, or some 13%, more than a year earlier. This increase was unusually large and was mainly a reflection of the faster inflation of incomes and prices during most of the year. The seasonal rise before Christmas was especially steep: a contributory factor then was the Government's decision to make a special payment of £10 each to old age pensioners. The changes in the circulation during the year can be broadly followed from the table of movements in the fiduciary issue.

There were no changes during the year under review in the denominations of notes issued by the Bank. The growth in the use of higher denomination notes continued; and at the same time there was a further marked decline in the number of £1 notes in circulation. The contribution of the £10 note continued to rise, to reach 11½% of the total circulation; and the £20 denomination reached — and within less than two years of its issue — over 5% of the total. As a consequence of these trends, the average face value of notes in circulation rose during the year from £2.62 to £2.82.

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	1969	1970	1971	1972	1973
Issued:					
New notes	2,960	2,860	2,606	2,741	3,152
Reissued notes	372	520	1,027	1,058	1,450
Paid	3,208	3,276	3,215	3,763	4,115
In circulation at the end of year	3,140	3,244	3,662 ^(a)	3,698	4,187
Percentage increase in circulation over the year					
	4.1	3.3	12.9 ^(a)	1.0	13.2

(a) The note circulation in February 1971 was increased by the effect of the postal strike.

Value of notes issued by denominations

£ millions

Year to end of February	1969	1970	1971	1972	1973
10s.	227	139	—	—	—
£1	1,403	1,409	1,445	1,449	1,496
£5	1,554	1,642	1,892	2,028	2,598
£10	146	168	197	235	371
£20	—	—	80	87	123
Other notes ^(a)	2	22	19	—	14

(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

End of February	1969	1970	1971	1972	1973
10s.	109,223	42,350	15,267	13,669	13,329 ^(a)
£1	956,887	949,420	977,334	920,408	908,382
£5	1,677,518	1,796,668	2,079,724	2,094,445	2,400,419
£10	278,072	314,482	354,015	385,952	487,307
£20	985	974	76,678	145,271	224,277
£50 — £1,000			796	757	722
Over £1,000	117,665	139,790	158,340	137,975	152,150
Total	3,140,350	3,243,684	3,662,154	3,698,477	4,186,586

(a) The 10s. note is no longer legal tender; but notes still in the hands of the public can be cashed at the Bank of England.

Proportion of notes in circulation by denominations

Per cent by value of total circulation

End of February	1969	1970	1971	1972	1973
10s.	3.5	1.3	0.4	0.4	0.3
£1	30.5	29.3	26.7	24.9	21.7
£5	53.4	55.4	56.8	56.6	57.3
£10	8.9	9.7	9.7	10.5	11.6
£20	0.0	0.0	2.1	3.9	5.4
£50 — £1,000			0.0	0.0	0.0
Over £1,000	3.7	4.3	4.3	3.7	3.7

Fiduciary issue

The fiduciary issue, which stood at £3,725 million on 29th February 1972, rose on balance over the year by £475 million. Changes in the fiduciary issue during the year were as follows. The figures offset in the second column denote seasonal peaks or troughs.

£ millions

1972 10th March	3,750
22nd March	3,800
28th March	3,850

Fiduciary issue continued

£ millions		
1972	5th April	3,875
	7th April	3,900
	14th April	3,875
	21st April	3,850
	28th April	3,825
	5th May	3,850
	9th May	3,875
	12th May	3,900
	19th May	3,925
	23rd May	3,950
	26th May	3,975
	2nd June	4,000
	13th June	3,975
	19th June	3,950
	28th June	3,975
	30th June	4,000
	7th July	4,050
	11th July	4,075
	14th July	4,100
	21st July	4,125
	7th August	4,100
	14th August	4,075
	1st September	4,100
	4th September	4,075
	11th September	4,050
	18th September	4,025
	3rd October	4,050
	10th October	4,075
	3rd November	4,100
	10th November	4,125
	24th November	4,175
	28th November	4,200
	1st December	4,250
	4th December	4,300
	8th December	4,350
	11th December	4,400
	15th December	4,450
	18th December	4,475
	19th December	4,525
	22nd December	4,500
	27th December	4,475
1973	1st January	4,450
	2nd January	4,425
	3rd January	4,400
	4th January	4,350
	5th January	4,325
	8th January	4,300
	9th January	4,275
	11th January	4,250
	12th January	4,225
	15th January	4,200
	17th January	4,175
	22nd January	4,150
	2nd February	4,175
	9th February	4,200

Treasury bill management

Under the new arrangements introduced in September 1971, the members of the London Discount Market Association continue to apply at the weekly tender for a total amount of Treasury bills sufficient to cover the amount on offer. But they no longer tender at a price agreed among themselves. Treasury bills rank as public sector debt for the discount houses' ratios and as reserve assets for the banks' ratios.

Somewhat fewer Treasury bills were offered for tender during the year under review than in the previous year – £5,840 million compared with £6,590 million. This was largely because the Government had less need for Treasury bill finance. Although there was a big increase in the central government's borrowing requirement, the heavy currency outflow in June, sales of debt outside the banking system, and the two calls for Special Deposits provided much of the finance. There were thus offerings of as little as £60 million at a number of Treasury bill tenders throughout the period, and not just towards the end of the financial year when revenue receipts are normally heavy. At the end of June, there were extremely large and sudden shortages of funds arising from foreign exchange settlements; consequently, at the tender on 23rd June, only £60 million of the £240 million on offer were allotted, an exceptionally large cut. The only other cuts in the period, each small, were in the following week and at the first tender in March 1972.

From June onwards, the authorities were tending to encourage rises in interest rates. In the Treasury bill market, the Bank's own dealing rate exerted some influence on the Treasury bill rate on a number of occasions. At the tender on 16th June the rate rose by nearly $\frac{1}{2}\%$ to over $5\frac{1}{2}\%$ in response to a change, in the middle of the week, in the Bank's dealing rate. In the subsequent two weeks the rate continued to rise but, with fewer bills on offer at the tender, competition became very keen as the discount houses sought to restore their holdings of public sector assets. At the beginning of July the rate dipped to under $5\frac{1}{2}\%$ again, but the Bank's dealing rate was kept unchanged at $5\frac{3}{4}\%$, and by the end of the month the market had moved into line. In the second half of September and in the first half of October, the Bank again maintained their dealing rate unchanged, thus discouraging any fall in the market's rates.

For some time after the introduction in mid-October of the new arrangements for determining the Bank's minimum lending rate (described on page 6), there was little change in the lowest price accepted at the tender; in December, however, the average tender rate rose, in common with other market rates; and just before Christmas the market reacted sharply to the announcement of a further call for Special Deposits, the average tender rate rising by a full 1%. During this period, rates in the Treasury bill market and in the parallel sterling markets had kept rather nearer to each other than when Bank rate had been well below market rates. Thereafter, however, other short-term rates continued to rise, whereas the Treasury bill rate declined gently but consistently at successive tenders, as the houses competed for bills to meet their need for public sector assets. Few new bills were on offer and the Bank bought existing bills heavily to relieve shortages of funds arising from seasonal tax payments and the successive calls for Special Deposits. The keen demand for bills at the tender exerted downward pressure on the minimum lending rate, which fell from its peak of 9% to $8\frac{3}{4}\%$ in mid-January. Thereafter, while other rates such as those on sterling certificates of deposit and in inter-bank markets rose from 9% to over 11%, the Bank's operations in the market discouraged any precipitate fall in the Treasury bill rate.

Details of the tenders held in the year to 23rd February 1973 were:

Tenders in 1972/73

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
1972 Mar. 3	100	188	320	80	£98.91	£4.3582
10	120	192	308	120	£98.91	£4.3495
17	120	177	295	120	£98.91½	£4.3493
24	100	142	300	100	£98.92	£4.3285
30	180	151	357	180	£98.91½	£4.3142
Apr. 7	100	176	299	100	£98.92	£4.3305
14	60	161	278	60	£98.92½	£4.3038
21	150	206	448	150	£98.93	£4.2890
28	80	172	270	80	£98.93½	£4.2686
May 5	80	168	316	80	£98.94	£4.2516
12	80	193	299	80	£98.93½	£4.2581
19	100	184	333	100	£98.93½	£4.2708
26	60	133	227	60	£98.92	£4.3026
June 2	60	140	192	60	£98.90	£4.3943
9	200	193	345	200	£98.75	£4.8487
16	200	147	356	200	£98.60	£5.5333
23	240	124	393	60	£98.60	£5.6154
30	80	122	233	60	£98.57	£5.6372
July 7	60	171	243	60	£98.62	£5.4850
14	60	155	198	60	£98.63	£5.4184
21	60	77	140	60	£98.56	£5.7457
28	60	95	199	60	£98.56	£5.7644
Aug. 4	120	141	288	120	£98.54	£5.7848
11	80	142	262	80	£98.55	£5.7687
18	60	169	244	60	£98.56	£5.7709
25	120	149	329	120	£98.54	£5.8260
Sept. 1	60	136	200	60	£98.53	£5.8872
8	200	150	277	200	£98.38	£6.3427
15	160	169	377	160	£98.32	£6.6391
22	140	165	475	140	£98.32½	£6.6999
29	160	202	518	160	£98.34	£6.6252
Oct. 6	160	205	495	160	£98.33½	£6.6676
13	130	129	348	130	£98.33	£6.6890
20	80	133	291	80	£98.32	£6.7135
27	120	152	329	120	£98.27	£6.8930
Nov. 3	80	120	229	80	£98.28	£6.8838
10	140	142	397	140	£98.28½	£6.8638
17	80	137	247	80	£98.28	£6.8558
24	140	146	456	140	£98.26	£6.9346
Dec. 1	80	143	257	80	£98.21	£7.1490
8	200	147	434	200	£98.13½	£7.4742
15	160	196	451	160	£98.14½	£7.4310
22	200	86	445	200	£97.88½	£8.4356
29	120	180	451	120	£97.91	£8.3088
1973 Jan. 5	200	246	657	200	£97.92½	£8.2787
12	80	155	418	80	£97.94	£8.2586
19	120	137	375	120	£97.95½	£8.1950
26	60	135	339	60	£97.97	£8.1258
Feb. 2	60	104	231	60	£97.97	£8.1089
9	60	136	248	60	£97.97½	£8.0902
16	60	98	278	60	£97.98	£8.0730
23	60	97	234	60	£97.98½	£8.0600

Tax reserve certificates

The arrangements for the end of the tax reserve certificate scheme, announced in December 1971, were described in last year's *Report*. The number of personal certificates issued in the year to the end of February 1973 fell by 19% and their value was £54 million less than the year before. No company certificates were on offer. As was to be expected, the total value of certificates outstanding dropped considerably, and at the end of February stood at £224 million, a fall of 40% in the year. The interest rate on personal certificates remained unchanged, at 3½%, throughout the period.

Year to end- February	Issues			Surrenders				Net change during year	Outstand- ing at end of period
	Number	Average value	Total value	Cancelled in pay- ment of taxes	Repaid without interest	Repaid with interest	Total		
	000's	£000's	£ millions						
1972									
Old series ^(a)	—	—	—	—	—	—	—	—	1
Company series ^(b)	24	6.46	155	116	—	6	122	+ 33	204
Personal series	213	0.64	136	117	3	—	120	+ 16	172
Total	237	1.23	291	233	3	6	242	+ 49	377
1973									
Old series ^(a)	—	—	—	—	—	—	—	—	—
Company series ^(b)	—	—	—	121	—	4	125	—125	79
Personal series	173	0.47	82	107	2	—	109	— 27	145
Total	173	0.47	82	228	2	4	234	—152	224

(a) Issued before 27.6.66.

(b) Issued up to 31.12.71.

Management of the gilt-edged market

The market had an unsettled year in 1972/73 in contending with strong inflationary pressures and with the uncertainties and disruptions of recurring industrial disputes and currency crises, all of which contributed to generally rising interest rates. At the same time, the reflationary Budget in March 1972 faced the authorities with the need to finance a substantial government deficit. As always, too, they had to refinance very large amounts of maturing debt.

Early in the year, during a period of firmness in the market at the end of April, the issue of two stocks was announced — a further tranche, of £500 million, of 6¼% Treasury Stock 1977 and £500 million of a new stock, 7¼% Treasury Loan 1985/88. At the same time the Government Broker informed the market that he would no longer quote an official selling price for tap stocks, but would be prepared to respond to bids at prices of his own choosing. The practice of quoting official selling prices had been reintroduced in May 1971, but had proved less flexible than the earlier practice to which the authorities now decided to revert.

The market weakened in mid-May and remained dull throughout most of June; the shorter-dated stocks were adversely affected by selling by the banks as they sought to

finance the continuing rise in their advances. The heavy flow of company issues may have contributed to the weakening at the longer end of the market. Prices rallied temporarily after the announcement of the decision to float sterling, but fell again as short-term funds became scarcer. The outflow of funds abroad caused an acute shortage of reserve assets among the banks, and the Bank announced on 28th June that, exceptionally, they would make facilities available to the banking system for the temporary sale and repurchase of short-dated gilt-edged stocks; under these arrangements the Bank bought £358 million of stock on 30th June which was resold to the banks on 14th July. Excluding these special transactions, the authorities were net purchasers of stocks in the June quarter to a total of £442 million. Buying of next maturing stocks accounted for £432 million of this sum.

During the first half of July prices rallied and the authorities were able for the first time for some months to sell the long-dated tap stock (7¼% Treasury Loan 2012/15). After a period of weakness at the end of July, the market became steadier in the early part of August, but then prices began to fall again as banks and discount houses continued to reduce their holdings of gilt-edged and as short-term interest rates began to rise. Sentiment improved towards the end of September when the talks on inflation between the Government, the Confederation of British Industry and the Trades Union Congress began, and sizable sales of stock were made; but during the September quarter the authorities were again net buyers of stock, to a total of £186 million. This was more than explained by redemptions and purchases of next maturing stocks totalling £363 million. When 4% British Gas Guaranteed Stock 1969/72 and 6¼% Exchequer Loan 1972 were redeemed on 8th August, only moderate amounts were still in the hands of the public.

The market remained firm during October and the first part of November but the call for Special Deposits on 9th November brought about a change in sentiment, and in December, affected by short-term interest rates rising and by the further call for Special Deposits, prices fell sharply. Although the long tap stock was in demand in the early part of November, over the December quarter as a whole the authorities were only small net sellers of stock. On 1st November, the small amount of 4% Funding Loan 1960/90 outstanding was redeemed at par, anticipating by about eighteen months the date on which the sinking fund might have been expected to complete its operations.

The market became much firmer in mid-January, and the announcement of the second stage of the Government's pay and prices policy gave further encouragement. A good demand developed and official supplies of the long tap stock were soon exhausted (and a week or so later the medium tap stock also ran out). The new long-dated stock announced on 12th January (£600 million Treasury Loan 1999) was issued to yield 9¼% with a coupon of 9½%, the highest ever offered. On 15th January 6¼% Exchequer Stock 1973 was redeemed, about £140 million being held in the market at maturity. Throughout February, prices drifted down under the influence of the international currency crisis and continuing industrial unrest at home. Prices fell sharply once more after the Budget in early March, when the magnitude of the Government's borrowing requirement and the announcement

of two new gilt-edged issues with unusual features were generally thought by the market to point to a further rise in interest rates. The first of these new issues was £400 million 3% Treasury Stock 1979 at an exceptionally low price of £75%, and the second, £1,000 million 9% Treasury Convertible Stock 1980, provided for conversion, at the holder's option, in 1980 into £110 nominal 9% Conversion Stock 2000 for every £100 of the original stock. On 19th March the issue of another short tap stock, £600 million 9% Treasury Stock 1978, was announced. In the final quarter of the financial year, net sales by the authorities totalled £196 million.

Over the financial year 1972/73 as a whole, sales of gilt-edged stocks were subdued after the exceptional outcome in 1971/72; and, after repaying a heavy weight of maturing stocks, some £1,840 million in all, the authorities ended the year having made net payments to the market of £410 million. However, £976 million went to the banking system, and other domestic holders in fact increased their portfolios by £486 million.

The following table gives totals of official purchases/sales of gilt-edged stocks in recent years:

£ millions	Financial years				
	1st April — 31st March				
Net purchases by the public +/-sales —					
	1968/69	1969/70	1970/71	1971/72	1972/73
By type of holder ^(a)					
Overseas holders	— 21	+190	+ 144	+ 152	+ 80
U.K. banking sector	—551	— 93	+ 61	+ 819	—976
Other U.K. holders	—426	+901	+ 462	+1,229	+486
Total	—998	+998	+ 667	+2,200	—410
By maturity					
Redemptions/conversions	—164	—446	— 417	— 294	—401
Up to 1 year	—741	—586	—1,132	—1,113	—973
Over 1 and up to 5 years	—294	+751	+ 409	+1,503	+376
Over 5 and up to 15 years	— 36	+681	+ 934	+ 319	—238
Over 15 years and undated	+237	+598	+ 873	+1,785	+826
Total	—998	+998	+ 667	+2,200	—410

(a) More information about holders in the years 1968/69 and 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

The year under review saw fewer transactions and fewer new issues than the previous year, which however had been an exceptionally busy one. There was again a large volume of redemptions. Unusually, the total nominal value of the stocks managed by the Bank declined. The fall in the number of accounts continued.

£ millions	Nominal value of stocks in issue				Number of accounts (in thousands)			
	1970	1971	1972	1973	1970	1971	1972	1973
End of February								
British government securities:								
Stock ^(a)	19,835	20,485	23,333	23,078	1,896	1,741	1,736	1,709
Bearer bonds	15	17	18	24	(b)	(b)	(b)	(b)
	19,850	20,502	23,351	23,102				
Other securities:								
Government guaranteed	1,524	1,514	1,442	1,259	205	213	190	168
Commonwealth etc.	226	223	217	196	80	77	67	60
Local authorities	652	697	756	702	194	199	192	168
Public boards etc.	163	185	220	232	39	43	46	44
Miscellaneous	15	15	15	15	1	1	1	1
	2,580	2,634	2,650	2,404	519	533	496	441
Total	22,430	23,136	26,001	25,506	2,415	2,274	2,232	2,150

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

(b) The number of separate bonds in these years was 1970: 40,000; 1971: 40,000; 1972: 38,000; and 1973: 40,000.

Operations

Operations undertaken during the year included:

£ millions nominal

Repayments

Swansea Corporation 7½% Bonds 5th April 1972	1972 5th April	1.0
Liverpool Corporation 7% Bonds 19th April 1972	19th April	2.0
West Glamorgan Water Board 6½% Bonds 17th May 1972	17th May	0.5
London County 6% Stock 1972	21st May	40.0
Corporation of London 6¼% Stock 1971/72	15th June	12.0
British Transport 3% Stock 1967/72	30th June	12.9
Liverpool Corporation 6½% Bonds 26th July 1972	26th July	2.5
6¼% Exchequer Loan 1972	8th August	904.2
British Gas 4% Guaranteed Stock 1969/72	8th August	179.1
4% Funding Loan 1960/90	1st November	31.5
Middlesex County Council 4% Redeemable Stock 1952/72	1st November	2.0
London County 6½% Stock 1971/72	15th November	10.0
New Zealand Government 6% Stock 1972	15th November	19.4
North of Scotland Electricity 2½% Guaranteed Stock 1967/72	1st December	3.7
6¼% Exchequer Stock 1973	1973 15th January	697.3
Agricultural Mortgage Corporation Limited 5½% Bonds 2nd February 1973	2nd February	1.0

£ millions nominal

Issues for cash

Swansea Corporation 6½% Bonds 13th April 1977	@ £99.75	1972 12th April	1.0
Liverpool Corporation 5½% Bonds 24th April 1974	@ £99.875	19th April	2.0
6¼% Treasury Stock 1977 "A"	@ £101.25	3rd May	500.0
7¼% Treasury Loan 1985/88	@ £97.50	3rd May	500.0
West Glamorgan Water Board 4½% Bonds 23rd May 1973	@ £99.9375	17th May	0.5
Liverpool Corporation 8¼% Bonds 1st August 1973	@ £99.9375	26th July	2.5
Agricultural Mortgage Corporation Limited 9½% Bonds 6th October 1977	@ par	6th October	2.5
Agricultural Mortgage Corporation Limited 9¼% Debenture Stock 1985/87	@ £99.50	16th November	12.0
9½% Treasury Loan 1999	@ £97.50	1973 17th January	600.0
Corporation of London 9¼% Stock 1984/85	@ £97.75	22nd February	10.0

Transfers

There were fewer transfers than the year before, and the decline in activity was particularly marked in the last six months of the year, when sentiment in the market was more uncertain.

Thousands

Year ended February	1970	1971	1972	1973
	757	753	885	740

The monthly figures for the year ended 28th February 1973 are given below.

	Thousands
March	74
April	59
May	68
June	76
July	67
August	60
September	56
October	57
November	57
December	47
January	62
February	57

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 1973 the approximate amounts due but unpaid were:

Gross interest	£16,149,000
Redemption moneys ^(a)	£26,136,000

^(a) Relating to Government of Southern Rhodesia 3½% Stock 1961/66, 3½% Stock 1967/69 and 2½% Stock 1965/70. This total increased by £3,500,000 on 1st March 1973, when a further security, the 3% Stock 1971/73, fell due for repayment. The registers for these stocks remain open.

At the same date, contributions due but unpaid to sinking funds managed by the Bank of England totalled some £2,439,000, which included £240,000 in respect of outstanding contributions for 3½% Stock 1967/69. (Sinking funds for 3½% Stock 1961/66, 2½% Stock 1965/70 and 3% Stock 1971/73 are not managed by the Bank.)

On 18th April 1973 a holder of a Southern Rhodesia stock brought proceedings in the High Court on a petition of right presented under the terms of Section 20 of the Colonial Stock Act 1877, and obtained a judgment for £218.87 covering unpaid interest on the holding in his name. He was subsequently paid £41.15; this amount exhausted the moneys of the Government of Southern Rhodesia in the possession of the Bank. Also on the same day the Lord Chancellor made a statement in Parliament to the effect that in the event of significant funds in this country being held by the courts to be available to meet the obligations of the Government of Southern Rhodesia, the U.K. Government would introduce legislation to ensure that such funds were distributed equitably, this task being carried out through the Foreign Compensation Commission.

Storage of records

Demand for space to accommodate records has become an increasing problem in the Accountant's Department, where transfers alone are currently accumulating at a rate of about three-quarters of a million a year. The department has therefore begun an extensive microfilming operation using new equipment and archival quality film. During the first five months of operation more than two million documents were photographed. Where the original documents still have to be retained, they are simply stored in closely stacked boxes. Day-to-day reference is made to the film, and the net gain in storage space over the previous system, under which the documents were stored in bound volumes on open shelves, is such that, in the course of the next five years or so, a saving of some 20,000 square feet is expected. Binding costs too, which for transfers alone have averaged over £10,000 a year, will be eliminated.

Local authority bills

Twelve issues of 91-day local authority bills were arranged by the Bank during the year. The average rate of discount of these issues continued to be close to the ruling Treasury bill rate. £35 million of bills were offered for sale by tender on behalf of the Greater London Council in April 1972 and were renewed at quarterly intervals thereafter. Both Liverpool Corporation and the Metropolitan Water Board, which had previously had their bills placed with the discount market, decided instead to issue by tender. Liverpool Corporation placed £5 million bills in April, but in July the replacement offer was £5 million by tender, followed by some £6 million in October and again in January. The Metropolitan Water Board made their first issue by tender in April; their tenders are handled by another bank, although the actual issue and redemption of their bills is still arranged by the Bank of England.

The Bank's branches

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

The number of bank notes issued and paid by the branches was nearly 10% greater than last year, and reissued notes formed an increasingly large percentage of the total distributed. The branches also dealt with considerably more exchange control business.

The Agents of the seven branches outside London and the Representative in Glasgow maintained and developed the Bank's direct contact with industry and commerce in the regions. Their regular reports help in the assessment of economic trends shown by national statistics; and often provide indications of such trends in advance of the statistics.

Foreign exchange management

Since 21st December 1971, advantage had been taken of the temporary widening of exchange rate margins approved by the International Monetary Fund as part of the Smithsonian agreement in December. To this end, the Bank's official buying and selling rates for U.S. dollars had been fixed $2\frac{1}{4}\%$ above and below the new dollar parity of \$2.60571, that is at \$2.6643 and \$2.5471. Within these limits, in the first months of the Bank's year, the Bank's dealers continued to intervene in foreign exchange markets on behalf of the Exchange Equalisation Account so as to restrain excessive volatility in the sterling rate. Sterling rose briefly to over \$2.65 early in March 1972 as the dollar came under some pressure, but generally stayed around parity.

The Bank's rôle in the market was extended on 1st May when the United Kingdom began to participate in the E.E.C. narrower margins scheme. Official buying and selling rates like those already in use for U.S. dollars were announced for each of the other currencies in the scheme. The purpose of these was to prevent the market rates between sterling and any of the E.E.C. currencies varying by more than $2\frac{1}{4}\%$ from their cross-parities. In other words, the maximum margin of fluctuation between individual E.E.C. currencies became the same as between them and the U.S. dollar, rather than double as hitherto. Market support operations had to be undertaken in the middle of June when sterling weakened sharply on news of labour troubles in the docks and on growing anxiety about inflation and overseas trade prospects. Although sterling was considerably above its dollar floor of \$2.5471, it quickly fell to the official selling rates for the stronger continental currencies. During the following six working days up to 22nd June, the Bank, together with the other central banks concerned, sold over £1,000 million worth of Continental currencies — deutsche marks, French and Belgian francs, guilders, and Norwegian kroner — in support of sterling.

On 23rd June, the Chancellor of the Exchequer announced the Government's decision to float the pound. On 23rd and 26th June the London market was closed. When it reopened, all official buying and selling rates were withdrawn; and for

the first time since 1939 sterling was floating completely freely — in the period August to December 1971 only the U.S. dollar buying rate had been suspended. In principle sterling was left to find its own level, although the Bank periodically made modest interventions on behalf of the Exchange Equalisation Account to steady the market when conditions were erratic; the aim was not to oppose any well-defined trend, but merely to smooth excessive fluctuations. Sterling fell in a series of steps to as low as \$2.32, before settling at around \$2.35 in late 1972. The rate rose in February, in a partial reflection of the devaluation of the dollar by a further 10% (announced on 12th February), and ended the period at \$2.49.

Intervention accounts for only a proportion of the 50,000 or so foreign exchange deals of all kinds executed by the Bank each year; and, despite the changes described above, the other major aspect of the Bank's work in foreign exchange was not greatly affected. Currencies worth about £2,000 million were bought from or sold to the Bank's customers during the year. About half of this amount represented deals with overseas central bank customers, and reflected sterling's continuing — if diminished — rôle as a reserve and trading currency; and much of the rest was to fulfil the needs of government departments and a number of other public bodies. To satisfy their customers' requirements, the Bank may have to buy or sell particular currencies in the market; in other cases the Bank may either pass deals with their customers through the market, so that these affect exchange rates, or may supply their needs from the reserves. In practice, therefore, the Bank still operates regularly in the London foreign exchange market whatever the requirements of intervention policy.

Exchange control

In October 1972, the part of the Overseas Department responsible for the administration of exchange control became a separate Exchange Control Department. It was rearranged into four main offices: Direct Investment Office, Portfolio Investment and Personal Capital Office, Commercial Payments Office, and Foreign Assets Office. The reorganisation was completed in the spring of 1973.

Since those referred to in last year's *Report*, the main changes in the administration of exchange control introduced up to the end of February 1973 were:

26th May 1972

E.E.C.: free mobility of labour

It was announced that U.K. residents intending to take up employment in a member country of the European Economic Community, or in Denmark or Norway, would be allowed to transfer sterling assets to the country concerned in excess of the normal allowances to the extent that this might be necessary to fulfil their intention.

6th June 1972

Lending to non-residents

The authority given to authorised banks to make facilities available to non-resident account-holders for the purchase of private property in the United Kingdom and other related purposes was increased to £25,000.

23rd June 1972

The Scheduled Territories

The Treasury announced that as a temporary measure sterling was to be allowed to float and that, in consequence, and as a precaution against fresh speculative outflows, exchange control was being extended to cover capital transactions between U.K. residents and residents of the overseas sterling area (O.S.A.) other than the Republic of Ireland. This was effected by limiting the Scheduled Territories to the United Kingdom (including the Channel Islands and the Isle of Man) and the Republic of Ireland.

Generally, the restrictions introduced on transfers to residents of O.S.A. countries were in line with those applied to other non-residents, but there were the following main differences:

- (i) **Direct investment** New approved direct investments in O.S.A. countries by U.K. residents could, with permission, be financed entirely with official exchange. As a corollary, U.K. companies controlled by residents of O.S.A. countries were to be permitted to borrow sterling in this country to any extent required to finance their operations here.
- (ii) **Bank loans and credit** Existing facilities available to residents of O.S.A. countries were allowed to continue, and no restriction was placed on the granting to them of new credits to finance the trade of those countries.
- (iii) **Portfolio investment** Securities payable, or optionally payable, in O.S.A. currencies became foreign currency securities and, accordingly, transactions in such securities became subject to the normal rules and requirements for transactions in foreign currency securities, except for the requirement to sell 25% of the proceeds of any disposal at the official rate of exchange, which would apply only to certain securities already regarded as foreign currency securities before 23rd June 1972.
- (iv) **Emigration** The amount of sterling remittable through the official market by emigrants to O.S.A. countries on departure was set at £20,000 per family.
- (v) **Cash gifts** The normal limit on gifts by U.K. residents to residents in O.S.A. countries was set at £1,000 per donor per year.

24th October 1972

E.E.C.: Norway

Following Norway's decision not to proceed to membership of the European Community, that country ceased to benefit from the exchange control treatment applied to transactions with member states of the Community.

9th November 1972

Rhodesia

The Government announced small increases in the limits on certain remittances or payments to Rhodesia; these related mainly to financial hardship and compassionate cases.

1st January 1973

Membership of the Scheduled Territories

Gibraltar became a Scheduled Territory again.

31st January 1973

Cash gifts and loans to dependants

Arrangements were introduced to enable U.K. residents to make payments, either as loans or gifts, of up to £2,000 in any one year, over and above the normal cash gift allowances, to support non-resident dependants.

Commodity markets

Previous *Reports* have noted that the Bank 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 during the year and the balance outstanding was repaid on 31st May 1973.

The Bank have continued to maintain close contacts with the commodity markets, both through regular formal liaison meetings with the market associations and through frequent informal contacts with their members. In the year under review trade in commodities was complicated by disturbances in foreign exchange markets; and market associations have had to face new problems arising from the British accession to the European Community and from the change-over to value added tax.

External affairs

In a year which saw U.K. entry to the European Economic Community and growing concern over the working of the international monetary system, the Bank were closely involved with the formulation of policy in these fields, as well as with the day-to-day management of the reserves.

The E.E.C. has, of course, been a particularly busy area of activity. The Bank have participated in the Committee of Central Bank Governors and in the Monetary Committee, including the preparatory work for the establishment of the European Monetary Co-operation Fund. They provide an alternate director for the European Investment Bank. They have also played their part in the Short-term Economic Policy Committee and in a number of sub-committees and *ad hoc* working groups, such as those on economic forecasting, capital markets, co-ordination of banking legislation, financial and balance of payments statistics, capital movements, and the study of the technical aspects of the narrower exchange rate margin arrangements. Details of U.K. financial statistics are now being provided regularly to the Commission. It is clear that work of this sort will grow as the Community moves towards fuller integration.

In the Organisation for Economic Co-operation and Development the Bank have been associated regularly with the work of the Economic Policy Committee and of its Working Party 3, dealing with policies for the promotion of better payments equilibrium. The European Monetary Agreement, which succeeded the European Payments Union in 1958, was wound up at the end of 1972; the Bank will continue to be represented on its successor body, the Committee on Monetary and Foreign Exchange Matters.

In the wider field, the Bank have, as in the past years, been involved with the work of the Bretton Woods institutions, in particular the International Monetary Fund; and they have actively participated in the extensive discussions in that institution and elsewhere on the reform of the international monetary system. The need to review the working of the system has been increasingly recognised in recent years and was brought into sharp focus in the closing months of 1971 when, following suspension of convertibility of the dollar

into gold in August, agreement was reached on a general realignment of exchange rates in December. In July 1972 the Board of Governors of the International Monetary Fund adopted a resolution establishing a committee to examine all aspects of reform of the international monetary system and related matters. This ministerial committee — the so-called Committee of Twenty, but more formally a committee of the Board of Governors on Reform of the International Monetary System and Related Issues — is assisted by a committee of deputies. Both groups held their first meeting in Washington in September 1972 at the time of the annual meetings of the I.M.F. and I.B.R.D. The deputies have been charged with the preparation of a draft outline of a reform plan which will then serve as the basis for negotiation in the ministerial committee. The deputies' committee was set up under the chairmanship of Mr C. J. Morse, until then an executive director of the Bank of England.

The Bank have continued their close liaison with sterling area countries. In the period under review they have been especially concerned with the administration of the sterling agreements. On 25th October 1972 the dollar rate for sterling fell below the point which, after thirty days, activated the guarantee provisions of the agreements; and on 23rd November the process of implementing those provisions with the sixty-one signatory countries and authorities began. The total cost of implementation is expected to be some £60 million.

The Bank have also participated in international discussions about overseas aid and in conferences called to deal with the debt problems of developing countries.

In all of this work, the close and friendly relations which the Bank enjoy with overseas central banks and monetary institutions have contributed in large measure to what has been achieved. During the year as a whole about 650 visitors, representing over 100 countries, were received in the Bank and the Bank's officials visited about 80 countries. The Bank continue to assist certain central banks and other financial institutions overseas with banking and currency problems, and 18 members of the Bank staff were stationed abroad in various capacities at 28th February 1973.

Economic information and research

Over a year ago a review of all the statistical information provided by the banks was initiated. The Bank have now formulated comprehensive proposals, embodying a new framework for collecting statistical information, and these are currently being discussed with the banks with a view to early implementation.

In the meantime, following other changes in the presentation of banking statistics described in last year's *Report*, the figures are now brought up to date monthly, and made available more promptly, by two series of regular press releases. The first gives details of the position of the banks and certain finance houses under credit control arrangements — their eligible liabilities, reserve assets and reserve ratios — and is published three weeks after the mid-month make-up day. Some two weeks later, a second release provides figures of the money stock and of changes in assets and liabilities of the banking sector, and summary tables of main items in banks'

balance sheets. These figures are in a similar format to Tables 8, 11(4) and 12(1 and 2) of the *Quarterly Bulletin* (as numbered in the June 1973 issue).

In the December 1972 *Bulletin* two new tables relating to changes in the money stock were published. The first gives details of changes in the components of both the broader and the narrower versions of the money stock, and the second shows influences on quarterly movements in the broader version of money stock and in domestic credit expansion. The quarterly analysis of bank advances was also expanded with the publication of seasonally adjusted figures in an article in the June 1972 *Bulletin*; they have subsequently been included in the press releases on this series.

During the year to end-February 1973 a further thirteen banks were added to the list of those reporting their figures regularly to the Bank. Five were the recently opened London branches of overseas banks and four were consortium banks.

At the end of March 1973 sixteen more banks were added to the list and their figures were included, from April 1973, with those of the rest of the banking sector. One of these — Forward Trust Ltd — was a finance house until it received banking recognition in early 1973; one is a consortium bank; and five are U.K. branches of overseas banks. Of the sixteen banks, seven are located in either the Channel Islands or the Isle of Man.

In October 1972 the first of a new series of quarterly meetings between members of the Bank's Economic Intelligence Department and representatives of the accepting houses was held. It is hoped that they will provide a useful exchange of views and bring about a greater understanding of the Bank's work in statistical and other areas. These supplement similar meetings which have been held regularly for some years with economists from the London clearing banks.

The programme of enquiries into the overseas earnings of certain professions and financial and allied institutions continued in 1972. Enquiries into the earnings of lawyers and actuaries in 1971 were completed during the year. Returns by banks in the United Kingdom showing their earnings in 1972 are now being analysed, and a further enquiry into the earnings of members of the Baltic Exchange is in its early stages.

The Bank's Economic Section has continued to contribute to the consideration of financial and economic issues and to conduct a programme of research in the monetary field. A considerable part of its efforts has been devoted to economic and financial forecasting; it is closely involved in the Government's regular national forecasts and in exercises to meet the increasing need to improve and develop techniques, particularly for estimating financial developments. Forecasting is likely to become an even more important part of the section's work over the next year or so.

A number of the Bank's research projects were completed during the year under review and two resulted in articles in the *Quarterly Bulletin* — "The balance of payments in the inter-war period"¹ and "Yield curves for gilt-edged stocks".² The latter describes, with some theoretical background, the construction of a 'par yield curve', which reflects more accurately than the former yield curve the cost of borrowing

¹ September 1972 issue.

² December 1972 issue.

by the Government. A summary of another research paper, "Substitution among capital-certain assets in the personal sector of the U.K. economy 1963-71", also appeared in the *Bulletin*.¹ This paper was presented in full to the European meeting of the Econometric Society in Budapest in September 1972 and to the Money Study Group (referred to in last year's *Report*) in November.

The results of several other projects were presented to conferences and seminars during the year. Papers given at other Money Study Group seminars included a study of competition and credit control and the open economy given in February 1973; this was published in *The Manchester School* in March. A paper analysing the factors determining changes in the stock of money was given at the 1972 conference of the Association of University Teachers of Economics.

The handbook on the flow of funds referred to in last year's *Report* was published in August 1972.² This provides a general introduction to flow of funds accounting, including the analysis of financial statistics which appears regularly in the *Quarterly Bulletin*. It was reprinted in December, and by February this year over 2,000 copies had been distributed.

Work has continued during the year on the development of balance sheets for various sectors of the economy. The first in what is intended to be a series of articles on the subject was published in the December 1972 *Bulletin*.³ The article presented the case for sector balance sheets; and went on to provide figures and background information on integrated balance sheet and flow accounts for the deposit banks between 1963 and 1970. Some research into the behaviour of deposit banks, using a portfolio adjustment model, was carried out, and a paper giving the methods and results was presented at a conference on modelling of the U.K. economy at the London Business School in July 1972.⁴ A member of the Economic Section was seconded for three months to the United Nations in New York to complete work begun by Professor J. R. S. Revell on the treatment of balance sheets in the U.N. System of National Accounts.

Apart from the articles already mentioned, the *Quarterly Bulletin* has contained several others of a more regular nature, such as the analysis of the distribution of the national debt published in March each year and the inventory of U.K. external assets and liabilities published in June. The *Bulletin* of March this year was the fiftieth issue. The circulation since the first issue in December 1960 has grown very considerably, as can be seen from the following figures. These show the numbers issued at publication; as well as these, several hundred further copies are always issued in the first month or so after publication, and there is a demand for recent back numbers.

1960	1961	1964	1967	1970	1973
December	December	December	December	December	March
2,000	3,350	5,300	8,150	11,050	12,650

¹ December 1972 issue.

² *An introduction to flow of funds accounting: 1952-70*. It is obtainable at a price of 50p from the Economic Intelligence Department, Bank of England, London EC2R 8AH.

³ "National balance sheets: a new analytical tool".

⁴ "Some econometric models of deposit bank portfolio behaviour in the United Kingdom: 1963-70" by W. R. White.

Volumes 1 to 12 of the *Bulletin* are now obtainable on microfilm. The 1973 volume will be available in May 1974. Enquiries should be addressed to University Microfilms Limited, Tylers Green, Buckinghamshire. Subscribers in the American Continent should apply to Xerox University Microfilms, 300 North Zeeb Road, Ann Arbor, Michigan 48106, U.S.A.

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 just over 7,600, about 2% down on the previous year. Their aggregate annual remuneration was £15,894,000, including full equal pay for women from 1st July 1972. As at 28th February, those in full-time employment numbered nearly 6,800, allocated broadly as follows:

Banking staff

Cashier's Department (including 325 at the Branches)	1,250	
Accountant's Department	1,125	
Exchange Control Department	650	
Overseas Department	275	
Economic Intelligence Department (including Economic Section)	225	
Other (mainly Establishment, Management Services, Secretary's, and Audit Departments, and Printing Works)	950	4,475

Technical and services staff	1,025	
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Printing works staff	1,300	
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	6,800	
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The total of full-time banking staff was some 3.5% smaller than a year earlier. Expansion in the work of exchange control brought an increasing need for staff, but the effect was more than outweighed by reductions in work elsewhere and by economies (particularly in the Cashier's Department) identified by the clerical work improvement programme (see page 31).

Staff wastage

The reduction in staff occurred in a year in which comparatively few resigned. For almost all categories of staff, the rates of wastage have been considerably smaller in the last two or three years than in the previous two or three years. They are likely to increase again as unemployment in the economy falls further, but the Bank expect that the career planning, training and management development programmes they have pursued in recent years will keep wastage rates below what they were in the late sixties.

Reference was made in last year's *Report* to a voluntary but selective early pension offer to banking staff within ten years of normal retirement age, designed to spread the incidence of retirements more evenly and thereby to provide a smoother pattern of succession to managerial posts. By the end of February 1973 nearly eighty staff had availed themselves of this offer.

Recruitment

Because of low wastage and less need for staff, offset only to a small extent by the selective pension offer, recruitment was considerably less than in earlier years. It was still necessary, however, to provide for continuity and succession in the longer term, and reductions in the intake of graduates and of men with 'A' levels (who generally have longer careers than women with 'A' levels) were proportionately small. Fourteen men and six women with honours degrees — from ten different universities — were recruited during the year, together with twenty-one men and nine women who had undertaken a full General Certificate of Education advanced level course in two or more subjects. 177 women who had reached the ordinary level of the General Certificate of Education were recruited for clerical work, and a further thirty-eight were trained as typists.

Manpower planning

The Bank have drawn up their first fully co-ordinated manpower plan. This has been designed, first, to assess the medium and longer-term demand for staff, and the requirements for succession to the various administrative and supervisory posts; secondly, to determine the staffing policy needed both to satisfy this demand and to ensure career prospects to match the talents and aspirations of the entrants; and, thirdly, to identify well in advance any likely staff surpluses or shortages, or associated developments, for which management or staff need to be prepared. To keep the estimates up to date, and to make it easier to examine alternative assumptions about demand, wastage and potential, a computer model is being developed.

Career and succession planning

The aim of career and succession planning is to develop as fully as possible each individual's potential and to make suitable provision for filling future vacancies. The Bank have derived great benefit from a 'generalist' approach to management development, and they now have a more homogeneous staff than many organisations of comparable size. While recognising the need for greater specialisation, the aim is still to give a variety of experience to all staff. A system of career planning for the junior staff is being developed in which the work of the Bank is analysed by main categories, and careers will be planned to provide individuals with experience and opportunity in the categories of work to which they seem best suited, having regard to their abilities and preferences.

The more senior staff and members of the advanced training scheme (see below) are being interviewed by the Management Development Manager and his staff to discuss their aspirations and views about careers, and so to make plans for them in the medium term, in consultation with their departments.

Training

The Bank established an advanced training scheme in 1959 for those likely to succeed to the most senior administrative posts. Individuals remained in the scheme until they reached

the lowest administrative ranks. The increased emphasis on career planning and on identifying the potential and the training needs of individuals, and the desirability of providing specific training for middle as well as top management, led to a decision last year to expand the existing scheme to approximately double its size. Suitable staff will continue to be appointed to the new scheme from their mid-twenties upwards but will remain within the scheme up to higher rank than hitherto. The aim is to provide wider experience and deeper knowledge to those of particularly good potential, and there will be greater emphasis on training in the management of resources.

Other changes in training have included the introduction, foreshadowed in last year's *Report*, of a first development course for those who have been in the Bank for about two years, of courses in public speaking and effective writing, and of a residential management seminar for administrative staff. A further residential seminar is planned for 1973, and another is proposed for branch staff to discuss management techniques in their particular area of work. Plans for a second development course, aimed at staff who have been in the Bank for some years, are well advanced, and pilot courses are being arranged. A four-week advanced development course, for members of the advanced training scheme, is held every two years; one took place in 1972.

There has been a further expansion of external management training during the year, and the Management Development Manager will be visiting management centres in Europe during 1973 to assess their suitability for future candidates from the Bank.

Secondments at home and abroad form a valuable part of management training. Besides those abroad already mentioned on page 24, and one working for the I.M.F. in this country, two members of the staff were working in the Treasury at the end of the year and three in the Cabinet Office; and seven others were attached to the secretariat of the Panel on Take-overs and Mergers.

Pensions

A comprehensive review of the Bank's arrangements for pension and widows' and dependents' benefits is being undertaken in the light of the Government's new pension proposals and of the Inland Revenue's revised rules for occupational pension schemes, with a view to introducing revised arrangements in 1974.

Industrial relations

During the year a report on the impact of the Industrial Relations Act and Code of Practice on the system of staff representation in the Bank was issued to every member of the banking staff. A review of the representation system was then carried out. The staff were invited to a series of meetings to discuss their views with a panel of senior management and staff representatives. Subsequently, an opinion survey was conducted among the staff to determine the degree of support for the principal options available. Of the 78% of eligible staff who replied to the questionnaire, the great

majority were in favour of retaining an internal representation system, although 63% of these supported some change in the existing staff/management consultative council. Work will continue during 1973 to find an acceptable alternative.

Substantial progress has also been made towards establishing a formal system of internal representation for the technical and services staff.

Premises

Throughout the year work continued on the reallocation of office space in Head Office mentioned in last year's *Report*; but priority was given to the construction simultaneously of two replacement computer centres (one at Head Office and the other at New Change), which will begin to come into operation in 1973, and to the formation of the new Exchange Control Department at New Change. Other work included an extension to the Bristol Branch to provide improved security arrangements, and the planning of similar work at Southampton.

Developments in the use of computers

In anticipation of the delivery of the new central processors and associated equipment mentioned in last year's *Report*, detailed preparations continued for three major on-line computer systems. Two ICL 1904S computers are being installed at New Change and two IBM System 370 Model 145 computers at Head Office, both installations having their own network of terminals consisting primarily of visual display units.

(a) Accountant's Department

At New Change, the Accountant's Department's stock registers are due to be transferred from magnetic tape to direct access storage discs in the coming autumn. It is hoped that the gradual change-over to direct input of data to the registers and direct enquiry by the clerical staff, using some 125 visual display units which are to be sited in the department, will start towards the middle of next year. Later phases will include a computerised index to replace the present manual indexes.

(b) Head Office

At Head Office, the preparation of an integrated accounting and management information system for the Cashier's Department has concentrated initially on domestic banking at Head Office and the Branches, and on foreign exchange and Treasury bill accounting; later the system will be extended to include accounting for the note issue, gold, and securities. New systems are also being developed for the Bank's clearing procedures.

At the same time considerable progress has been made in designing a comprehensive on-line system for the work of the Economic Intelligence Department. A start has been made on developing a number of the sub-systems which will enable a large, integrated data bank of economic and financial series to be built up.

These projects have been accompanied by extensive programmes of training for the specialist staff concerned with the development and future operation of the new systems, and such training has therefore been an important feature of the year's activities in several parts of the Bank. A thorough training will also be given to those who will use the visual display units.

Other management services

The Management Services Department has continued to conduct a series of studies into a wide range of work processes in order to improve efficiency. The clerical work improvement programme has been extended to some areas in the Accountant's Department, and the Exchange Control Department has been helped to adapt its structure to handle a greatly increased volume of work. Work assessment teams, operating the scheme devised for the assessment completed in 1971, have continued to evaluate jobs which are new or which have changed substantially. Also, as it is the intention to carry out a full review of jobs every four or five years, a start has been made on the task of considering what changes, if any, should be made to the method of assessment. A small operational research group which was set up as an experiment early in 1972 has been engaged on a variety of projects.

Accounting services

During the year further progress has been made in developing the Bank's central accounting systems, including:

- (a) Preparatory work on a long-term project to develop an integrated financial and management accounting system based on the computer.
- (b) A review of the Bank's costing system by the Bank's auditors.
- (c) Further improvement of the Bank's budgetary control system.

Continuing study has been made of the problems of accounting under inflationary conditions, particularly the relevance of inflation accounting techniques to the Bank's circumstances. Figures showing the effects of inflation on the accounts for the year ended 28th February 1973 are shown in the notes to the accounts.

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