Bank of England

Report and accounts for the year ended 28 February 1974

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Court of Directors

28th February 1974

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On 1st July 1973 Mr Gordon Richardson succeeded Lord O'Brien as Governor for a period of five years. Mr Hector Laing was appointed to the Court for the remainder of Mr Richardson's term of office as a Director, namely until 28th February 1975.

The term of office of Lord Robens, Mr G. A. H. Cadbury, Mr J. S. Fforde and Sir Sidney Greene expired on 28th February 1974 and they have been reappointed for a further term until 28th February 1978.

Sir Alastair Pilkington, FRS, has been appointed until 29th February 1976 to fill the vacancy caused by the death of Sir John Stevens.

Senior officials

28th February 1974

Departmental

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

Advisers to the Governors

W. P. Cooke

R. C. H. Hallett

P. J. Keogh, MC

J. A. Kirbyshire

The work of the Bank

This *Report* covers the Bank's work and internal affairs for the year ended 28th February 1974. It includes the customary range of statistics on the note issue, the management of the stock registers, and other matters for which the Bank have a responsibility. As well as the Bank's normal domestic activities, which have generally continued to expand, two important new developments claimed attention in the last few months of the period. These were the support operation for several of the deposit-taking institutions on the fringe of the banking system, and the need to assess the impact of the fuel and power shortages and the three-day week upon industry, commerce and finance, so that monetary policy could be suitably adjusted to the changing circumstances. During the year the arrangements for competition and credit control in the banking system were regularly reviewed, and several adjustments proved necessary. The Bank have, as usual, been represented on many government committees and have, in particular, become more involved in the problems of housing finance. Contacts with City organisations of all kinds and at many levels have remained extremely close and have proved invaluable to the Bank. In external affairs, the Bank have continued to maintain the fullest co-operation with the International Monetary Fund, particularly in the area of international monetary reform; and connections with the European Economic Community in a number of economic, financial and statistical matters have grown markedly during the year. Relations with other central banks were fostered by the usual high number of personal contacts.

The Bank once again wish to record their indebtedness to the banks and other institutions for their co-operation during the year, notably in the field of statistics, where, through full discussions with representatives of the banks, preparations for a useful and far-reaching reform of the framework of banking statistics have made good progress.

Monetary policy

During the year under review, the main emphasis of domestic monetary policy, at least until the period of industrial disruption in the closing months, was increasingly directed to the restraint of excessive monetary expansion. External developments required a big rise in interest rates too, notably in July. However, the effectiveness of the weapons available to the monetary authorities under the system introduced in 1971 proved to be limited. This was partly because of faster inflation, which entailed much larger increases in nominal interest rates than had been foreseen, and partly because of particular developments within the system which led to unsatisfactory patterns of interest rates.

Despite big increases in interest rates and substantial calls for special deposits, the money stock as broadly defined continued to increase very rapidly, and at a rate which was inappropriate to the expected growth in the value of output during 1974. The need for a more direct method of influencing money and credit became apparent, and the system of supplementary deposits announced on 17th December brought some modification of the unrestricted competition which had prevailed in the banking system since 1971.

The main developments during the year in the arrangements for credit control were as follows.

Discount market

Under the arrangements introduced in 1971, members of the London Discount Market Association had undertaken to hold at least half their assets in specified forms of public sector debt. Subsequent demand for these assets, particularly those rediscountable at the Bank such as Treasury bills and local authority bills, raised their prices above those of otherwise comparable instruments. These distortions made it more difficult for the Bank to exert adequate influence over interest rates in the discount market, and the arrangements were therefore modified from 19th July 1973. Under the revised arrangements, holdings of assets other than public sector debt acceptable for the purposes of the former ratio are limited to a maximum of twenty times each house's capital and reserves.[1] The immediate effect of this change was to reduce the demand for Treasury bills, and to bring their rates closer to other short-term interest rates. Thereafter, as intended, it gave the houses considerably more flexibility in managing their portfolios, and made it easier for the Bank to buy Treasury bills and local authority bills when acting to relieve shortages of funds in the market.

Special deposits

Also on 19th July, the Bank announced a 1% call for special deposits from all banks and finance houses in the scheme (other than banks in Northern Ireland). The call was payable in equal instalments on 6th and 15th August, and brought the total called to 4% of eligible liabilities. A further call of 2% was made on 13th November, of which ½% was paid on 28th November and ½% on 12th December. The remaining two instalments of ½% each were rescinded when the supplementary deposits scheme (described below) was announced on 17th December. Furthermore, to ease pressure on the banks' liquidity caused by the seasonal Exchequer surplus and the possible effects of the industrial disruption, it was announced on 31st January that ½% of special deposits would be repaid on 4th February. At the end of February the Bank therefore held special deposits equivalent to 4½% of eligible liabilities.

Supplementary deposits

On 17th December the Bank announced supplementary arrangements for improving their influence over the money supply and the amount of bank lending. These provided for non-interest-bearing special deposits to be made with the Bank where the interest-bearing sterling resources of each bank and deposit-taking finance house grew at more than a specified rate.[2]

The new arrangements were activated immediately. For the first six months, the specified rate of growth in interest-bearing eligible liabilities was set at 8% of the average for each bank and finance house on the make-up days in October, November and December 1973. The rate of deposit required to be made was to rise in relation to the excess increase in each institution's interest-bearing resources: up to 1% excess, the rate was set at 5%; over 1% up to 3%, it was 25%; above 3%, it was to be 50%. To allow banks time to adapt to the new scheme, no

[1] For details, see 'Competition and credit control: modified arrangements for the discount market', September 1973 *Quarterly Bulletin*, page 306.

[2] For details, see 'Credit control: a supplementary scheme', March 1974 *Quarterly Bulletin*, page 37.

supplementary deposits were required to be made until July. Details of the specified rate of growth after the first period of six months were announced in April.

Arbitrage
The clearing banks were to some extent inhibited from changing their own base rates frequently in response to fluctuations in market rates, and this at times created disparities in the structure of interest rates. As a result, large corporate customers were able at such times to borrow funds from these banks under existing overdraft facilities, and lend them back to the banking system at a profit. This led to an artificial, and undesirable, increase in the money supply. In September, the Bank urged the banks to be on the watch for such activities and to be active in combating them. The London and Scottish clearing banks announced on 17th December that, at the request of the Bank, they had re-examined the action which could be taken to limit this arbitrage. They would in future adjust their base rates with such flexibility as was necessary to respond rapidly to movements in market rates; and they would indicate to certain customers (in particular local authorities, finance houses, and other banks) changes in the determination of lending rates designed to link them directly with money market rates rather than with base rates.

Directional guidance
The Bank have continued to give guidance to the banks on the direction of their lending, as provided under paragraph 14 of the consultative document of May 1971.[1] On 11th September 1973, in order to ensure that credit remained available for exports, industrial investment, and other essential purposes, the Governor asked the banks and finance houses for significant restraint on the provision of credit for persons (other than for house purchase) and, extending the guidance given in August 1972, for further restraint on lending for property development and financial transactions.[2] On 17th December, the banks and finance houses were asked to reinforce strongly their restraint on lending to persons generally, to property companies, and for purely financial transactions.[3]

In conjunction with the reintroduction of hire-purchase terms control on 17th December, the Bank asked the banks and finance houses not to provide either loans to persons or check trading facilities on terms easier than those permitted for hire-purchase contracts. At the Government's request, credit card companies were asked to raise minimum monthly repayments from card-holders and to reduce the cash drawing facilities available to them.[4]

Interest rate ceiling
In the consultative document of May 1971, the Bank recognised (paragraph 15) that the greater freedom of the banks to compete for personal savings could have implications for the savings banks and the building societies. The increases in short-term interest rates which took place in the first half of the year under review curtailed the flow of funds into the building societies, which were constrained in raising their own rates because of the effect on the cost of mortgages. Consequently, on 11th September 1973, the Bank asked the banks to observe a limit of 9½% interest on deposits of under £10,000 – the

[1] Reprinted in the June 1971 *Quarterly Bulletin*, page 189.
[2] December 1973 *Quarterly Bulletin*, page 445.
[3] March 1974 *Quarterly Bulletin*, page 39.
[4] March 1974 *Quarterly Bulletin*, page 40.

maximum amount an individual can deposit with any one building society.[1]

Minimum lending rate

For the first time under the arrangements for determining the Bank's minimum lending rate which were introduced in October 1972, the Bank, on Tuesday 13th November 1973, raised the rate (from 11¼% to 13%) by specific announcement rather than in accordance with the formula linking it to the average rate of discount at the Treasury bill tender. All other changes during the year were determined by the formula.

Other banking developments

Inter-bank market

In September the Bank announced the setting-up of an inquiry into the organisation and procedures of the markets in sterling inter-bank deposits and certificates of deposit. The formation of this working party, at the initiative of the Governor of the Bank and the Chairman of the Committee of London Clearing Bankers, arose directly out of the insolvency of the banking department of the Scottish Co-operative Society, which was attributable primarily to their forward dealings in sterling certificates of deposit. As a background to their deliberations the working party had before them the results of the statistical inquiry into banks' positions at mid-April 1973, mentioned again later in this *Report* (page 24).

The members of the working party were drawn from the clearing banks, the accepting houses, the discount houses, and the Bank, and evidence was received both from brokers and from principals active in the markets. The report of the working party was completed and submitted to the Governor and the Chairman in April.

Support operations

Towards the end of 1973 a number of deposit-taking institutions on the fringe of the banking system experienced considerable withdrawals of their deposits. They had obtained these mostly through the money market but some also in small amounts from individuals. The liquidity of many of these companies was insufficient to meet a persistent withdrawal of deposits, and a failure to meet demands for withdrawal could well have caused a loss of confidence to spread through the banking system. The Bank therefore took action, announced on 21st December, to sustain confidence and to protect the interest of depositors by establishing, in conjunction with the London and Scottish clearing banks, a standing control committee chaired by the Deputy Governor. This committee has examined the individual circumstances of each candidate for support, and, where support has seemed justified, arranged for assistance to be given – generally, in effect, by recycling money market funds.

Overseas banks

A further 27 overseas banks – 4 more than in the previous year – opened banking or representative offices in London during the twelve months to February 1974; and 6 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 to over 200.

[1] December 1973 *Quarterly Bulletin*, page 445.

Counter-inflation policy

Under the third stage of the Government's counter-inflation policy, new arrangements for the control of banks' profits were announced on 8th October, under which all banks in Great Britain were asked by the Government to forgo interest on part of their special deposits held at the Bank. The amount forgone is calculated by reference to the proportion which each bank's non-interest-bearing accounts bear to its total eligible liabilities.

Finance for Industry Limited

In November 1973, after discussions which the Bank initiated, plans were finalised for the merging under a new holding company, Finance for Industry Limited, of the businesses of the Industrial and Commercial Finance Corporation Limited (formed in 1945 to serve small and medium businesses) and the Finance Corporation for Industry Limited (established in the same year to help finance large-scale industrial development). The Bank contributed to the additional capital raised by the new company, altogether taking up 15% of the issued nominal capital of £60 million, the balance being held by the London and Scottish clearing banks. The enlarged capital resources of the combined group will enable it to extend its activities, particularly in areas where substantial investment is needed before profits can be seen, or in those where heavy programmes of capital re-equipment are required. It is also thought that the institution could be an appropriate body, in the context of the European Community, through which to channel funds from the European Investment Bank into British industry.

The City and the European Economic Community

In the course of the year, wide-ranging discussions took place with City institutions and professional associations about the ways in which the City's interests in EEC matters could best be served. There was a general recognition that membership of the Community would bring changes to established practices and attitudes, and that the City should be in a position to contribute in a constructive way. To this end, it was felt to be important to improve the channels of communication within the City, with the Commission in Brussels, and with Whitehall on these matters, so that City organisations would be better informed about EEC developments and would have the opportunity to express their points of view effectively.

The Bank accordingly set in train a number of organisational arrangements designed to improve the City's capacity to respond to the situation. The City Liaison Committee was expanded, and now includes for the first time representatives of the legal and accountancy professions. A broadly-based group – the City/EEC Liaison Group – was established to provide a focal point in the City for liaison and information on Community matters. All the main City associations and professional bodies are represented on it, and it meets at regular intervals to review developments in the Community, identify the problems common to more than one group represented, and, where appropriate, take the initiative to pursue acceptable solutions. A number of issues have been examined in working groups, including proposals on the harmonisation of company law and EEC policy on mergers and take-overs. The Bank have also done further work on EEC proposals for a harmonisation of banking regulation and maintained close contact on this matter with the British Bankers' Association.

Besides developing their general liaison function, the Bank set in hand the formation of small standing committees to consider, over the longer term, developments of general concern to the City in such fields as taxation, capital markets, and company law. It is envisaged that these committees will pay close attention to the evolution of Community policies and UK reactions to them, as well as to domestic and broader international questions affecting the future of the City of London.

The Bank provide secretarial services to all these groups to ensure appropriate liaison between them and a general co-ordination of their work.

The Bank and the building societies

The Bank took part during the year in official discussions about the problems of housing finance. They are represented on the joint advisory committee which was set up by the Government and the Building Societies Association to keep current developments and prospects under review. The Bank also had some preliminary discussions with representatives of the association on possible arrangements by which funds from new sources might be channelled to societies to supplement their traditional forms of borrowing.

Later, in April 1974, the Government offered to lend the building societies a total of £500 million, of which the first £100 million was to be available immediately at 10½% on the condition that any society drawing on the loan would refrain from raising either its borrowing or its lending rates for a month. In support of the operation, the Bank offered to make advances from the Banking Department of up to £100 million at minimum lending rate, the difference between 10½% and minimum lending rate to be made good by the Government.

The note issue

Fiduciary issue

The fiduciary issue, which had been £4,200 million a year earlier, rose on balance over the year by £400 million, to £4,600 million on 28th February 1974. The issue reached £4,425 million by 27th April 1973, and then changed little in May and June, before rising further in July. Thereafter, the seasonal peaks or troughs were as follows:

£ millions	
1973 24 July	4,650
21 September	4,475
21 December	5,050
1974 28 January	4,575

Note circulation

The note circulation reached a new peak of £5,025 million on 21st December 1973; this was nearly £400 million higher than the previous peak of £4,627 million on 24th July, and £536 million higher than at Christmas the year before. The seasonal peak was again affected by a special £10 payment to old-age pensioners, and it was prolonged by the extra new year bank holiday. By the end of February 1974, the usual seasonal fall had brought the circulation down to £4,573 million, £386 million (some 9%) higher than a year earlier.

There were no changes during the period in the denominations of notes issued by the Bank, although the older series of £5 notes was progressively replaced by the new series introduced at the end of 1971, and the old series ceased to be legal tender after 31st August 1973. The growth in the use of £10 and £20 notes continued, and by the end of the year these two denominations accounted for over 20% of the circulation; at the same time the proportion of £5 notes was smaller than in any of the previous four years, and the proportion of £1 notes continued to decline. As a result, the average face value of notes in circulation rose during the year from £2·82 to just under £3.

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-February	1970	1971	1972	1973	1974
Issued:					
New notes	2,860	2,606	2,741	3,152	3,485
Reissued notes	520	1,027	1,058	1,450	2,179
Paid	3,276	3,215	3,763	4,115	5,278
In circulation at the end of year	3,244	3,662[a]	3,698	4,187	4,573
Percentage increase in circulation over the year	*3·3*	*12·9*[a]	*1·0*	*13·2*	*9·2*

[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-February	1970	1971	1972	1973	1974
10*s*	139	–	–	–	–
£1	1,409	1,445	1,449	1,496	1,588
£5	1,642	1,892	2,028	2,598	3,331
£10	168	197	235	371	558
£20	–	80	87	123	168
Other notes[a]	22	19	–	14	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

End-February	1970	1971	1972	1973	1974
10*s*[a]	42,350	15,267	13,669	13,329	13,085
£1	949,420	977,334	920,408	908,382	906,154
£5	1,796,668	2,079,724	2,094,445	2,400,419	2,512,979
£10	314,482	354,015	385,952	487,307	644,390
£20	974 (£20 and £50 – £1,000 combined)	76,678	145,271	224,277	324,488
£50 – £1,000		796	757	722	698
Over £1,000	139,790	158,340	137,975	152,150	171,650
Total	3,243,684	3,662,154	3,698,477	4,186,586	4,573,444

[a] The 10*s* note ceased to be legal tender in November 1970; 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-February	1970	1971	1972	1973	1974
10*s*	1·3	0·4	0·4	0·3	0·3
£1	29·3	26·7	24·9	21·7	19·8
£5	55·4	56·8	56·6	57·3	54·9
£10	9·7	9·7	10·5	11·6	14·1
£20	0·0	2·1	3·9	5·4	7·1
£50 – £1,000		0·0	0·0	0·0	0·0
Over £1,000	4·3	4·3	3·7	3·7	3·8

Treasury bill and money market management

The amount of Treasury bills offered for tender during the year under review declined for the third time running, from £5,840 million to £4,990 million. This was the lowest total for more than twenty-five years, and Treasury bills were scarce throughout most of the period. In consequence, as well as providing assistance to the discount houses in the course of daily operations by buying Treasury bills or lending for periods of up to a week at minimum lending rate, the Bank found it necessary to make substantial purchases of bank bills and local authority bills, and even, during periods of exceptional shortages, to place funds in short-term local authority deposits or to buy local authority bonds. The decline in the amount of Treasury bills offered at the tender, even though the Government had a larger domestic borrowing requirement than in the previous year, reflected substantial sales of gilt-edged stocks and an increase during the Bank's year in the amount of special deposits outstanding from 3% to 4½%.

Although issues were rather larger at the start of the year, from April onwards Treasury bills became increasingly scarce – the amount allotted each week at the tender did not exceed £60 million until the second half of June. With a strong demand for gilt-edged stocks, the market's holdings of Treasury bills were further depleted during the Bank's daily operations in the money market. There was accordingly a keen demand for bills at the tender, particularly by the discount houses to maintain their public sector debt ratios. As a result, the average rate of discount fell steadily, lowering the Bank's minimum lending rate (directly related to the average rate) in stages from 8¾% at the beginning of March to 7½% towards the end of June. During this period, the authorities were generally passive towards the decline in interest rates.

However, by the beginning of July it was becoming clear that an increase in short-term interest rates was needed for external reasons, rates in most overseas centres having risen during the early summer. On 19th July a call for 1% of special deposits was made; and revised arrangements of credit control were instituted for the discount houses which reduced their need to bid so strongly for Treasury bills (see page 6). Consequently, at large tenders on 20th and 27th July bids were lowered sharply, and minimum lending rate rose first to 9% and then to 11½%. The Bank then made the latter rate effective the following week by enforcing overnight borrowing by the discount houses.

The money market was comparatively quiet during the next two months, and rates remained fairly steady until the early part of October, when very heavy payments of value added tax by manufacturing industry created severe shortages of funds.

This put pressure on interest rates, particularly in the local authority deposit and inter-bank markets; and the Bank helped to relieve the pressure by placing funds in the local authority market, and also by buying local authority bonds from the discount houses. Nevertheless, with Treasury bills again scarce, a tendency for interest rates to ease in the United States encouraged a reduction in the bill rate later in the month, and this was sufficient to lower the minimum lending rate to 11¼% at the tender on 19th October.

In mid-November, however, largely because of the fast rate of monetary expansion, it was again found necessary to raise short-term interest rates sharply and to make a further call on special deposits. The formula relating minimum lending rate to the average rate of discount at the tender was suspended on 13th November, and minimum lending rate was raised administratively to 13% (see page 8). The Treasury bill rate rose at the next tender and, with the minimum lending rate formula again operative, remained very steady until the beginning of 1974. Thereafter, because of heavy seasonal tax payments, the amount of bills on offer at the tender was again reduced to £60 million a week, and the tender rate fell gradually, bringing minimum lending rate down in two stages to finish the period under review at 12½%. During these last two months, shortages of funds in the markets required the Bank to buy large amounts of commercial as well as Treasury and local authority bills and again to place deposits in the local authority market (although on a smaller scale than in October); and a ½% of special deposits was released (see page 6).

Tax reserve certificates

The acceptance of subscriptions for the final issue of personal tax reserve certificates ceased on 29th June 1973. The interest rate offered on the certificates had remained unchanged at 3½%. There are now no certificates of any series on offer.

The number of personal certificates outstanding at the end of February 1974, (103,000 certificates with a nominal value of £64 million) was higher than had been expected, bearing in mind that they do not attract interest after 1st January 1974.

Company certificates, the issue of which terminated on 31st December 1971, are eligible for interest for periods of up to thirty-six months.

	Issues			Surrenders				Net change during year	Outstanding at end of period
Year to end-February	Number	Average value	Total value	Cancelled in payment of taxes	Repaid without interest	Repaid with interest	Total		
	000's	£	£ millions						
1973									
Company series[a]	–	–	–	121	–	4	125	–125	79
Personal series[b]	173	470	82	107	2	–	109	– 27	145
Total	173	470	82	228	2	4	234	–152	224
1974									
Company series[a]	–	–	–	60	–	3	63	– 63	16
Personal series[b]	47	350	16	94	3	–	97	– 81	64
Total	47	350	16	154	3	3	160	–144	80

[a] Issued up to 31.12.71.
[b] Issued up to 29.6.73.

Management of the gilt-edged market

The Budget in March 1973 set the scene for the management of the gilt-edged market in 1973/74. The continuing emphasis on expansion was reflected in an estimated public sector borrowing requirement of over £4,400 million, much larger than ever before. It was evident that very substantial net sales of gilt-edged stock would be needed in the coming year to counter the effects of the public sector deficit in expanding the money stock. The first steps to encourage gilt-edged sales were taken through the creation, announced in the Budget, of two new stocks with unusual features.

The first of these innovations was 9% Treasury Convertible Stock 1980, of which £1,000 million was offered at £99·50 per £100 nominal. This stock is convertible in 1980, at the holder's option, into 9% Conversion Stock 2000 at the rate of £110 nominal for each £100 of the original stock. The object of these terms was to provide a stock which could satisfy demand either for a conventional, medium-dated issue or for a longer-dated security having the protection of optional repayment at an earlier date. The second innovation was 3% Treasury Stock 1979, of which £400 million was offered at £75 per cent. This is the lowest initial issue price for a government stock since at least 1925, and the terms were designed to appeal to the private investor attracted by capital growth to maturity rather than by current income. Sales of these stocks were made throughout the year until both became effectively exhausted, within days of each other, in March 1974. The remaining issues of new government stocks in the period were conventional replacements of exhausted tap stocks.

In order to maintain the desired rate of net sales of stocks, it was necessary not to allow any incipient upward adjustment in yields to be unduly delayed or resisted by official operations. The year produced in the event an alternating sequence of periods, heavy net sales in a stable or rising market being succeeded by sharp falls in the market in which official operations were less active and, on occasion, involved moderate net purchases. An active phase began in early April 1973, following falls in the market in the wake of the Budget and of the issue of £600 million 9% Treasury Stock 1978 the previous month. Heavy sales led to the rapid exhaustion of that stock and its replacement in early May by 8% Treasury Stock 1975, of which £450 million was issued.

Towards the middle of June, the mood changed. By then, expectations about the likely future rate of price inflation had been revised upwards, and the market weakened sharply. The consequent cessation of official sales of stock was one factor contributing to the renewed upsurge in the rate of growth of the money stock (M_3), which in turn contributed to the measures of 19th July (see page 6). Following the rapid adjustment of short-term interest rates, there was a period of weakness in the gilt-edged market as yields edged upwards which lasted until mid-September. Between early June and mid-September redemption yields on short-dated stocks rose by about 2¼% to around 11%, while yields on medium and long-dated stocks rose by about 1½% to around 11½%; flat yields on stocks with no final redemption date rose by 1½% to around 11¾%. During the period, there were moderate official net purchases, net sales of longer-dated stocks being exceeded by purchases of short-dated ones.

On this new yield structure, activity in the market revived and substantial official sales ensued. Official supplies of the short tap stock, 8% Treasury Stock 1975, ran out, and a new short-dated stock was issued, £600 million of 10½% Treasury Stock 1976, the coupon being 1% higher than any previously offered on a government stock. The further sharp upward movement in interest rates in November seemed to have a less marked or prolonged effect on the market's readiness to absorb official sales than did the earlier one in July. One factor which evidently contributed was the growing expectation, realised on 17th December, that steps would be taken to reduce the public sector borrowing requirement. Official sales of long and medium-dated stocks were especially heavy just before that announcement, and subsequently demand switched for a while to short-dated stocks.

Another factor influencing markets at this time was the recognition that the existing and prospective external deficit, and the emphasis on public sector borrowing in foreign currency as a means of financing it, implied somewhat lower requirements for domestic finance of the public sector. This could be interpreted as leading to less pressure on the market to absorb official sales, and so to some reductions in yields. In the event, expectations of falling yields were not fulfilled; and in the period of uncertainty surrounding the disrupted industrial situation, the general election, and its outcome, the market was very volatile. Despite the announcement in the Budget, on 26th March, of an estimated public sector borrowing requirement for the coming year of some £2,700 million – nearly 40% less than the original estimate for 1973/74 – yields at the end of the month on medium and long-dated stocks were at their highest ever; stocks with no final redemption date were, for instance, yielding around 14¾%, about 2½% more than at the end of December. Over the financial year 1973/74 as a whole, yields on stocks with no final redemption date and on long and medium-dated stocks rose by about 4½%.

Official net sales during the March quarter amounted to some £300 million, making the total of net sales for the financial year £1,650 million. Virtually nothing was taken up by the UK banking sector, and other UK holders absorbed just on £1,500 million. The following table gives totals of official purchases and sales in recent years:

£ millions

Net purchases by the public +/sales –

	Financial years 1 April – 31 March					
	1968/69	**1969/70**	**1970/71**	**1971/72**	**1972/73**	**1973/74**
By type of holder[a]						
Overseas holders	– 21	+190	+ 144	+ 152	+ 80	+ 142
UK banking sector	–551	– 93	+ 61	+ 819	–976	+ 11
Other UK holders	–426	+901	+ 462	+1,229	+486	+1,498
Total	–998	+998	+ 667	+2,200	–410	+1,651
By maturity						
Redemptions/conversions	–164	–446	– 417	– 294	–401	– 267
Up to 1 year	–741	–586	–1,132	–1,113	–973	– 344
Over 1 and up to 5 years	–294	+751	+ 409	+1,503	+376	+ 850
Over 5 and up to 15 years	– 36	+681	+ 934	+ 319	–238	+1,064
Over 15 years and undated	+237	+598	+ 873	+1,785	+826	+ 348
Total	–998	+998	+ 667	+2,200	–410	+1,651

[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*, 1970; and from 1970/71 in the comparable table which appears in the statistical annex to the *Quarterly Bulletin*. Changes in the holdings of the UK 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 UK 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 nominal value and the number of accounts in recent years of the different groups of stocks managed by the Bank are given below.

	Nominal value of stocks in issue (£ millions)				Number of accounts (thousands)			
End-February	**1971**	**1972**	**1973**	**1974**	**1971**	**1972**	**1973**	1974
British government securities:								
Stock [a]	20,485	23,333	23,078	25,221	1,741	1,736	1,709	1,766
Bearer bonds	17	18	24	29	[b]	[b]	[b]	[b]
	20,502	23,351	23,102	25,250				
Other securities:								
Government guaranteed	1,514	1,442	1,259	908	213	190	168	113
Commonwealth etc.	223	217	196	167	77	67	60	51
Local authorities	697	756	702	687	199	192	168	160
Public boards etc.	185	220	232	262	43	46	44	45
Miscellaneous	15	15	15	15	1	1	1	1
	2,634	2,650	2,404	2,039	533	496	441	370
Total	**23,136**	**26,001**	**25,506**	**27,289**	**2,274**	**2,232**	**2,150**	2,136

[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 1971: 40,000; 1972: 38,000; 1973: 40,000; and 1974: 43,000.

Operations

Operations undertaken during the year included:

£ millions nominal

Repayments

1973	1 April	British Electricity 3% Guaranteed Stock 1968/73	340·8
	1 April	British Transport 3% Stock 1968/73	136·3
	1 April	North of Scotland Electricity 3% Guaranteed Stock 1968/73	8·5
	23 May	West Glamorgan Water Board 4⅞% Bonds	0·5
	15 June	Government of Malaysia 6½% Stock 1973	4·4
	1 July	Guaranteed 2¾% Stock	2·7
	1 July	New Zealand Government 4¼% Stock 1970/73	8·9
	15 July	3½% London County Consolidated Stock 1968/73	10·0
	15 July	Metropolitan Water (E) Stock 1953/73	0·7
	1 August	Liverpool Corporation 8¾% Bonds	2·5
	29 September	Liverpool Corporation 4% Redeemable Stock 1969/73	5·0
	14 November	Swansea Corporation 6% Bonds	0·5
	10 December	5¼% Treasury Stock 1973	550·0
1974	1 January	Nyasaland Government 3% Guaranteed Stock 1954/74	1·6
	9 January	West Glamorgan Water Board 6¼% Bonds	0·5
	15 February	Agricultural Mortgage Corporation Limited 5¾% Bonds	1·0
	28 February	New Zealand Government 5½% Stock 1974	13·8

£ millions nominal

Issues for cash

1973	14 March	@ £99·50	9% Treasury Convertible Stock 1980	1,000·0
	14 March	@ £75·00	3% Treasury Stock 1979	400·0
	23 March	@ £98·75	9% Treasury Stock 1978	600·0
	8 May	@ £99·75	8% Treasury Stock 1975	450·0
	23 May	@ par	West Glamorgan Water Board 9% Bonds 29th May 1974	0·5
	14 June	@ £98·50	Agricultural Mortgage Corporation Limited 10¼% Debenture Stock 1992/95	12·0
	1 August	@ par	Liverpool Corporation 11¾% Bonds 7th August 1974	2·5
	27 September	@ £98·75	10½% Treasury Stock 1976	600·0
	14 November	@ £99·9375	Swansea Corporation 12⅝% Bonds 20th November 1974	0·5
1974	9 January	@ par	West Glamorgan Water Board 14⅞% Bonds 15th January 1975	0·5
	15 February	@ par	Agricultural Mortgage Corporation Limited 14¾% Bonds 21st February 1975	1·0

Transfers

The number of transfers registered fell further from the exceptionally high figure two years earlier, and was the lowest for eight years.

Thousands

Year to end-February	1971	1972	1973	1974
	753	885	740	668

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 1974 the approximate amounts due but unpaid were:

Gross interest	£17,897,000
Redemption moneys[1]	£29,636,000

At the same date, contributions due but unpaid to sinking funds managed by the Bank totalled some £2,772,000.[2]

Further petitions of right have been presented by stockholders in respect of arrears of interest and redemption moneys. Up to the end of February, there had been hearings in the High Court in respect of sixteen of these petitions, and judgments had been obtained for a total of over £2,860,000.

In May 1973, the Bank instituted legal proceedings with the aim of obtaining a declaration that certain assets held by them did not constitute moneys of the Government of Southern Rhodesia. These assets comprise balances to meet the warrants outstanding for interest and redemptions due before the default, totalling less than £2,000, and assets of the Reserve Bank of Rhodesia, a banking customer.

In October, Parliament approved the Southern Rhodesia (Distribution to Creditors) Order 1973. The order provides for

[1] Relating to Government of Southern Rhodesia 3½% Stock 1961/66, 3½% Stock 1967/69, 2½% Stock 1965/70, and 3% Stock 1971/73. The registers for these stocks remain open.

[2] Including £240,000 in respect of Government of Southern Rhodesia 3½% Stock 1967/69; the sinking funds for 3½% Stock 1961/66, 2½% Stock 1965/70, and 3% Stock 1971/73 are not managed by the Bank.

the payment of funds held to be moneys of the Government of Southern Rhodesia to the Foreign Compensation Commission so that they may be distributed equitably to all creditors, including stockholders, of that Government. The relevant provisions of the order can be brought into force when the existence of such funds has been established.

Local authority markets

As in the previous year, the Bank arranged twelve 91-day local authority bill issues.

The amount of bills in issue rose substantially over the period, from £228 million at the end of February 1973 to £280 million at the end of February this year. The Local Government Act 1972 may, by the creation of larger local authority units on 1st April 1974, tend to concentrate the issue of bills into the hands of these new larger authorities.

Since local authority 'yearling' bonds were first issued, in 1964, they had existed in two forms: quoted bonds, issued by stockbrokers, and unquoted bonds, issued by a number of banks, local authority money brokers, and discount houses. The Bank had been concerned, in the exercise of their responsibilities under the Control of Borrowing Orders, in agreeing the terms and timing of these issues, and had assisted in preserving identity of terms for bonds issued in each of the two forms.

Around the beginning of 1974 a strong demand arose from the general public for quoted bonds, with the result that the terms of issue suggested to the Bank began to diverge significantly from those proposed for unquoted bonds. The Bank indicated to the market that, if these conditions persisted, they would be prepared to endorse different terms of issue for the two types of bond. Following discussions among issuers, the Bank agreed to proposals that, from 13th March, all local authority bonds should be issued in the same form and be quoted on the stock exchange.

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 branches' main functions continued to be the issue of notes; the maintenance of government, bankers' and certain private accounts; exchange control; and liaison with industry and commerce.

The value of bank notes issued and paid through the branches was again some 70% of the totals shown on page 11, and exchange control business also grew in volume and complexity. The bulk of the banking work for the Government consists of receiving funds for the accounts of the Customs and Excise and the Inland Revenue for remittance to their main accounts at Head Office, and this, together with ordinary business for bankers and private customers, showed little change other than some increase in the number of items received for collection.

The direct contact maintained by the Agents of the seven branches outside London and the Representative in Glasgow with industry and commerce throughout the country was yet further developed, to broaden and improve the flow of first-hand economic information available to the Bank. Their reports (as mentioned on page 24) proved especially valuable during the last two or three months of the period in the assessment of the effects of the fuel and power shortages and of the three-day working week.

Foreign exchange management

Throughout the year, the authorities continued to allow sterling to float independently in the exchange markets, as they had since June 1972. In January 1973 sterling and the Canadian dollar, which had been floating for some time, had been joined by the Swiss franc, and in February, after the US dollar was devalued by 10%, by the Japanese yen and the Italian commercial lira. Another move in the same direction occurred early in the Bank's year when, on 19th March, after a period of exceptional pressure on the US dollar, the countries remaining in the EEC narrower margins scheme (Belgium and Luxembourg, Denmark, France, the Netherlands, and Western Germany) decided to float as a bloc against the dollar while continuing to maintain their exchange rates against each other within a 2¼% band. Norway and Sweden, although not members of the Community, associated themselves with these arrangements. This decision meant that for the first time since the 1930s most of the world's leading currencies were floating, in greater or lesser degree. There was a further move in January 1974, when pressure on the French franc led to its temporary withdrawal from the narrower margins scheme and to the independent floating of the commercial franc.

Adjustment to a world of floating, and hence more volatile, exchange rates necessitated some modifications to the Bank's operations in the foreign exchange market. In particular, it meant that the dollar rate for sterling was no longer a satisfactory general indicator of the relative strength of the pound. With no constraints on the extent of the dollar's movement against any other leading currency (except in so far as the EEC scheme linked the participating countries), exchange rate policy could not continue to be guided and explained by movements in any one exchange rate, however important. Accordingly, operational emphasis shifted to a more comprehensive indicator – the effective change over a period, calculated from a trade-weighted average, in the value of sterling against the other main currencies.

In these terms, there was little alteration in the position of the pound in the first half of 1973; it continued to reflect an effective depreciation of 11% since the Smithsonian settlement of December 1971. Then, towards the end of June, as relative interest rates moved sharply against London and markets became more concerned at the prospects for the UK balance of payments, the pound's effective depreciation increased sharply, touching 19% at one time in July. Thereafter it moved mainly in the range 17%–19%, although at times – for example in September, when there was some selling of sterling as the expiry date for the sterling agreements approached, and again in December, when the economic and industrial outlook deteriorated – it approached 20%. In January 1974, when industry was disrupted and on short-time working, the effective depreciation increased briefly to nearly 20½%, although it was subsequently reduced to around 18% at the end of February.

Although sterling was left to move more freely than in the past, the Bank intervened at times on behalf of the Exchange Equalisation Account when rates for the pound fell or rose more quickly than seemed justified or desirable. Considerable use was made of existing foreign exchange reserves and the proceeds of public sector borrowing overseas.

Foreign currency borrowing by public bodies

When the Chancellor of the Exchequer presented his Budget on 6th March 1973, he announced that exchange cover facilities, similar to those introduced in 1969 and withdrawn in 1972, would be restored in appropriate cases for foreign currency borrowing by nationalised industries and local authorities. The scheme, which includes control by the Bank of the timing and terms of borrowing, applies to loans of five years or more. Initially, the scheme was available only for loans in US dollars, and a charge was made for the exchange cover which allowed an interest rate advantage of ½% compared with the cost of borrowing from the National Loans Fund or Public Works Loan Board. On 18th October the scheme was extended to loans in currencies other than US dollars, provided that the terms and conditions of the borrowing, including the currency, were approved as suitable. A further modification was made on 10th December with the object of inducing borrowers to secure the finest terms: borrowers who contract to borrow in US dollars are permitted to retain a proportion of the difference between the applicable UK borrowing rate and the cost of the US dollar loan, rather than a fixed ½%; the proportion, initially a third, can be adjusted from time to time as interest rates change, with the broad object of maintaining an interest benefit to the borrower of about 1%. Similar arrangements apply to approved loans in other currencies.

By the end of February, public bodies had borrowed under the scheme, or had firmly in prospect, US $3,061 million (nationalised industries $2,522 million and local authorities $539 million).

Exchange control

The Exchange Control Department again came under severe pressure during the year. To meet this, the staff of the department was increased from about 650 to about 700 (including some working part time), and further staff increases are planned. At the same time, continuing efforts were made to extend the range of transactions which can be dealt with by the commercial banks without reference to the Bank, and to streamline procedures, for example, by the issue of new forms designed to simplify and to expedite the processing of applications.

In July 1973, the Bank issued a revised version of the booklet *A Guide to United Kingdom Exchange Control* to help meet the demand for information about the various changes in policy and practice since the issue of the previous edition in January 1972. The guide is available to the public from banks and others professionally involved in the administration of exchange control. Another edition is being prepared to take account of the changes announced in the March 1974 Budget.

The main changes introduced during the year ended 28th February 1974 were:

4th May 1973

Dealings in gold

Restrictions, originally imposed in 1968, were removed on authorised dealers in gold entering into forward transactions; on authorised banks financing purchases of gold by non-residents by lending foreign currency; and on authorised banks accepting gold as collateral for advances of foreign currency to non-residents.

22nd May 1973

Sterling lending to non-resident controlled UK companies

As an adjustment to UK practice stemming from membership of the EEC, it was announced that consideration would be given to applications on behalf of UK companies (except those which are vehicles for portfolio investment) controlled by residents of the EEC or the overseas sterling area (OSA), and themselves in turn controlled by residents of other countries outside the Scheduled Territories, to raise in the United Kingdom all the finance required for their UK operations.

12th October 1973

Emigration

Two minor delegations were made. Authorised banks were given authority to make available to emigrants, without affecting their basic allowance, any income accruing on their declared assets between their departure from the United Kingdom and their redesignation as non-residents. Banks were also allowed to make available to emigrants, within their basic allowance, the proceeds of declared assets realised after redesignation.

19th October 1973

Borrowing for domestic purposes

The minimum term for which UK residents would normally be allowed to borrow foreign currency for conversion into sterling for domestic use was reduced from five to two years. Applications would, however, be considered in the light of such qualitative guidance as might from time to time be given by the Bank in respect of sterling lending by UK banks.

Further, more fundamental, changes were announced in the Budget on 26th March this year, making the rules for outward direct and portfolio investment uniform for all countries outside the Scheduled Territories (that is, for all countries other than the United Kingdom, including the Isle of Man and the Channel Islands, the Republic of Ireland, and Gibraltar). Broadly, this meant withdrawing the use of official exchange for direct investment in the EEC and the OSA; requiring OSA subsidiaries of UK companies to repatriate two thirds of their net taxed earnings; no longer allowing the proceeds of the sale or liquidation of direct investment in countries outside the EEC or OSA to qualify for the investment currency premium; and applying the so-called '25% requirement' to portfolio investment in OSA securities, that is, requiring 25% of the proceeds of the sale or liquidation of OSA securities to be converted into sterling through the official exchange market.

Commodity markets

Prices of almost all the main commodities rose during the year to heights, and with a unity and speed, which have no precedent; and UK markets, where an important share of international trade is done in more commodities than in any other centre, were subjected to unusual pressures.

In particular, UK merchants faced problems in cases where the sanctity of the forward contract, on which the conduct of business across the world depends, was ignored. The Bank played their part in helping to resolve some of these difficulties. Where appropriate, they enlisted the goodwill of central banks overseas in the matter of contracts; and, against a disturbed financial background, fluctuating currency values, and high interest rates, they maintained even closer supervision than hitherto of the individual commodity markets. Attention was paid particularly to the behaviour of futures markets and to their solvency, and to measures which were necessary to contain the pressures being exerted on them. Partly as a result of these consultations, markets have taken action from time to time to check undesirable developments.

An official of the Bank visited Hong Kong and Kuala Lumpur to advise on questions of commodity marketing, and two officials visited the United States and Canada for further study of conditions in commodity markets there.

External affairs

During the year under review the Bank were engaged in a wide range of activities arising from UK membership of the European Economic Community. The European Monetary Co-operation Fund was established in April 1973 and the Governor of the Bank became *ex officio* a member of the Fund's Board of Governors. At the same time the Bank continued to participate in the Committee of Central Bank Governors and in the Monetary Committee. The Bank have also contributed to the work of the Short and Medium-term Economic Policy Committees and have taken part in various sub-committees and *ad hoc* working groups. These meetings cover a wide range of topics including, among other matters, the current economic situation, capital markets, short-term capital movements, harmonisation of statistics, and the co-ordination of banking legislation. A member of the Bank's staff has continued to serve as an alternate director of the European Investment Bank.

The Bank have also continued to be closely involved with the work of the International Monetary Fund, particularly on monetary reform and on the implications of the large increases in oil prices at the end of 1973. During the year there were regular meetings of both ministers and deputies in a committee of the Board of Governors on Reform of the International Monetary System and Related Issues (the so-called Committee of Twenty), and a first outline of the proposed reform was published during the annual meetings of the Fund and the International Bank for Reconstruction and Development in September. Partly as a result of the huge international imbalances in prospect, it was recognised that there was little hope of a complete reform of the international monetary system in the near future, and during the early months of 1974 the committee concentrated on steps which could be taken promptly, leaving the operational details of other parts of the reform to be developed later. At its final meeting in June the committee made recommendations on a number of topics, including the valuation of special drawing rights in terms of a basket of currencies, guidelines for floating, the interests of less developed countries, and the establishment of an interim Committee of Governors to supervise and aid the working of the international adjustment process. There has also been close international consultation and co-operation in connection with the balance of payments problems arising from the oil situation, and the rôle which the Fund (and the IBRD) can play in helping to finance consequent deficits.

The sterling guarantee agreements, made originally in 1968 with individual overseas sterling countries and subsequently renewed with most of them for two years in 1971, expired on 24th September. The related medium-term facility of $2,000 million extended to this country by the Basle group of central banks and the Bank for International Settlements also lapsed. Maintenance of value payments totalling about £59 million were made under the agreements. These arrangements had provided a useful element of stability in a period of uncertainty in international monetary affairs, and the Government announced on 6th September that they had decided to continue to guarantee certain official sterling reserves for a period of six months from 24th September on the same lines as before except that the amount guaranteed would not exceed holdings on 24th September.[1] The cost of the settlement flowing from this arrangement is expected to be some £80 million. With the prospect of a further period of exceptional uncertainty in international financial affairs, the Government decided in March 1974 on a further continuation of the guarantee until the end of 1974. The broad structure followed that of the previous six-month arrangement, including the ceiling on the amount eligible for guarantee, but with certain modifications which took account of the views of a number of sterling holders. In particular, the new guarantee was expressed in terms of effective changes in the rate for sterling, instead of the US dollar rate, and there was a reduction in the minimum amount of sterling which participants were required to hold to be eligible for the guarantee.[2]

The Bank's officials visited seventy countries during the year under review, and the Bank received over 1,000 visitors from ninety countries: 400 of them came in groups of between ten and thirty persons and were given a short tour of the Bank and a talk by a member of either the Cashier's, Economic Intelligence, or Overseas Departments. Of the remainder, mainly from other central banks, some 450 spent a day or so in the Bank in discussion with one or more of the Bank's officials, and 150 were visitors whose stay lasted up to five weeks and who were provided with programmes enabling them to observe the work of several departments: included in this latter group were twenty-two visitors who had previously attended the Central Banking Course. The course, covering both the theory and practice of central banking and giving an introduction to London as a financial centre, has been held every two years since 1957, and, as on previous occasions, lasted some two months. The representation was originally confined to monetary institutions in the Commonwealth and the sterling area, but was widened in 1973 following the United Kingdom's accession to the European Communities. The Bank continued to assist certain central banks and other financial institutions overseas with banking and currency problems, and sixteen members of the Bank's staff were stationed abroad in various capacities at 28th February 1974.

Economic information and research

Discussions with the banks on the proposed new framework of statistical reporting; and on the detailed figures to be provided, made good progress. The first returns under the new system, which is linked with plans for computerisation, are due to be made later this year. Amendments to existing statistical series will be described, as they occur, in the *Quarterly Bulletin.*

The regular quarterly meetings which began in October 1972 between members of the Economic Intelligence Department and representatives of the accepting houses continued throughout the year, as did the long-standing monthly meetings with economists from the London clearing banks.

During the year, a further forty-four banks were added to the list of those submitting regular statistics to the Bank, while three left it. These changes brought the total of reporting banks to around three hundred. Of the new banks, twenty-one were branches or subsidiaries of foreign banks (including eight from EEC countries), fourteen were subsidiaries in the Channel

[1] For details, see December 1973 *Quarterly Bulletin*, page 432.
[2] For details, see June 1974 *Quarterly Bulletin*, pages 143 and 171.

Islands or the Isle of Man of banks already on the list, four were consortium banks, and one was a former finance house.

In the December 1973 *Quarterly Bulletin*, Table 7 was modified to give a more detailed breakdown of the discount houses' assets and borrowed funds in both sterling and other currencies; and, following the change in credit control arrangements in July, began to show the market's 'undefined assets multiple' instead of the public sector lending ratio. In the same issue, details of the Bank's intervention in the money market (formerly Table 6) were discontinued: changes in the nature of the Bank's money market operations in recent years had made it increasingly difficult to show such transactions helpfully in tabular form.

In April 1973 a special inquiry was made, with the aid of the banks and discount houses, into the markets in sterling certificates of deposit and in inter-bank funds. The inquiry was undertaken partly in the aftermath of the difficulties which had overtaken the Scottish Co-operative Society but also on more general grounds, to broaden the Bank's knowledge of these markets. The results of the inquiry were summarised in an article in the September 1973 *Quarterly Bulletin* which gave a maturity analysis of outstanding liabilities and claims in the two markets, analysed commitments in the forward certificates of deposit market, and discussed the causes of the frequent discrepancy between the figures for total borrowing and lending within the banking system. The activities of the working party which was set up to review the organisation and procedures of these markets are discussed on page 8.

In October, the Bank asked for new returns from the banks showing the non-interest-bearing element within eligible liabilities. This was in order to calculate the proportion of special deposits on which interest was to be forgone under the third stage of the Government's counter-inflation programme. These returns are also being used in the calculation of non-interest-bearing eligible liabilities in connection with the scheme for supplementary deposits announced in December.

In January 1974, following the introduction of the three-day week, the Bank took steps to strengthen and supplement their channels of communication with industry and the banks so that developments could be closely monitored and monetary policy adjusted as seemed appropriate. The Governor arranged to hold regular meetings with a wide range of industrialists; officials of the Bank initiated a series of weekly discussions with representatives of the London and Scottish clearing banks to review the general situation as seen by their branches and, in particular, to consider the current and prospective impact of the emergency on the demand for bank credit; and the Bank's Agents were asked to make detailed weekly reports based on discussions with their regional contacts. The accepting houses and the finance houses were also consulted. The Bank are most grateful for the co-operation shown by all concerned in supplying up-to-date information over the whole range of industrial, commercial and financial activity: this has proved invaluable both to the Bank and to the Government.

The Bank have been involved in discussions with, and have provided statistics for, the Statistical Office of the European Community, which has been concerned with collecting key financial figures regularly, working as far as possible on harmonised definitions. In the area of economic research, the Bank are represented in an EEC working group developing a national income forecasting model for each member state. The Bank continued to be closely concerned with the provision of figures for, and the development of, the OECD's publication *Financial Statistics.*

The programme, in aid of better balance of payments estimates, of inquiries into the overseas earnings of certain financial institutions and the professions continued during the year. The inquiry into the earnings of banks in 1972, noted in last year's *Report*, was completed. This showed that their earnings had been growing rather faster since 1969, the previous inquiry year, than had been assumed, and the methods of estimation have been reviewed accordingly. The returns of the overseas earnings of members of the Baltic Exchange in 1973 are being analysed, and preparatory work has been completed for the introduction this year of a new inquiry into the earnings of the UK commodity markets. The Bank have continued to provide the secretariat for the Committee on Invisible Exports, and, in that capacity, now conduct an annual survey of the prospects for invisible earnings of the committee's member associations; a summary of the results of the first survey, conducted in March 1973 and covering prospects for the following twelve months, was published on 24th August.

In the period under review, the Bank's Economic Section devoted a larger part of its resources than in previous years to current issues of financial and economic policy, and rather less to the longer-term programme of research in the monetary field. This change in emphasis reflected in part the weight of day-to-day problems facing the Bank, among them the evolution of policies for competition and credit control in the banking system, the problems of housing finance, and those arising from international capital flows. Economic and financial forecasting, both within the Bank and within the framework of the regular national forecasts made by government departments, continued to grow in importance; and a decision to extend the economic analysis contained in the *Quarterly Bulletin* also increased the demands on the Economic Section's resources.

Nevertheless, research continued actively in a number of areas during the year, and some projects reached the stage of publication. An article in the September 1973 *Quarterly Bulletin*, 'Yield curves for gilt-edged stocks: further investigation', carried forward the search for a more general relationship between the par yield curve and the yield on stocks with differing coupons.[1] A second article on the compilation of historical series of balance sheets for the financial institutions was published in the December 1973 *Quarterly Bulletin*. This provided figures and background information on integrated balance sheets and flow accounts for the banking sector as a whole.[2] A United Nations' paper developing the proposals originally prepared by Professor J. R. S. Revell for standard balance sheet and reconciliation accounts in the UN System of National Accounts (SNA) was discussed at an international meeting in Geneva in December 1973. The paper was based on the work of a member of the Economic Section who was seconded to the United Nations for three months. It is to be considered by the UN Statistical Commission and may then be issued as a supplement to the SNA.

Another research paper, by a former member of the Economic Section now at York University, reporting on an investigation, mainly carried out in the Bank, into the effect of the money supply on stock exchange prices, was presented at the 1974 Conference of the Association of University Teachers of Economics in April.

[1] An earlier article was published in the December 1972 *Quarterly Bulletin.*

[2] The first article was published in the December 1972 *Quarterly Bulletin,* and included figures for the deposit banks as a separate group.

Among other research which has been carried forward are investigations into the improvement of statistical techniques of economic analysis, the causality between money supply and income, the demand for money, and the stability of foreign exchange markets.

It is intended to increase the resources available for longer-term research. To this end the employment of suitably experienced economists on short-term contracts, normally of up to four years, is being increased. Meanwhile, two economists who left the full-time service of the Bank during the year have been re-engaged for part-time work.

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 1974 was around 7,525, about 1% less than in the previous year. Their aggregate annual remuneration amounted to £17,529,000. As at 28th February, those in full-time employment numbered nearly 6,750 and were allocated broadly as follows:

Banking staff		
Cashier's Department (including 325 at branches)	1,200	
Accountant's Department	1,075	
Exchange Control Department	675	
Overseas Department	250	
Economic Intelligence Department (including Economic Section)	225	
Others (mainly in Establishment, Management Services, Secretary's and Audit Departments, and at the Printing Works)	975	4,400
Technical and services staff		1,025
Printing Works staff		1,325
		6,750

Part-time staff numbered nearly 850, of whom 575 were at the Printing Works.

The reduction over the past year of 75 in full-time banking staff – about one third of which was offset by an increase in the numbers employed part time – was more a reflection of staff shortages than of smaller needs. Nevertheless, the continued application of clerical work improvement techniques has enabled increased workflows (particularly in the Cashier's Department) to be handled despite this reduction. Staff savings expected as a result of further stages of computerisation in the Accountant's and Cashier's Departments have been delayed, and the economies already introduced in these areas have been outweighed by an expansion in the requirements of the Exchange Control Department and elsewhere. Higher wastage rates and difficulties of recruitment in some categories of staff have contributed to the shortages.

Staff wastage

In a period of tight incomes control the Bank, in common with other institutions with clearly-defined salary structures, have suffered much higher wastage from the junior and less career-orientated sections of the staff. An increase from the abnormally low wastage experienced in the preceding two years was expected as unemployment in the economy declined, but not to the extent that turnover among those under the age of twenty would more than double.

The problems arising from higher wastage in the younger age groups did not alter the need (referred to in earlier *Reports*) to continue to smooth the pattern of succession, in a period of comparatively few ordinary retirements, by the offer of early pensions to a limited number of staff within ten years of normal retirement. A further fifty staff took up this offer during the year, raising the total since it opened in 1971 to nearly 130.

Recruitment

The heavy wastage and the strong demand for staff have led to an increase in recruiting; and a review of the Bank's manpower plan (described in last year's *Report*) has confirmed the need to maintain a relatively high annual intake of graduates if succession to senior management in the longer term is to be safeguarded.

Twenty-seven men and six women with honours degrees were recruited during the year, together with sixty-five men and seventy-two women who had undertaken a full General Certificate of Education advanced level course in two or more academic subjects. A total of 289 young women who had reached the ordinary level of the General Certificate of Education were recruited for general clerical work, and a further ninety-three were trained as typists and twenty-nine as punch operators; and some 160 other men and women were recruited to the supplementary and part-time staffs.

Training

Besides maintaining the established programme of internal courses, the Bank have run additional induction courses for new entrants (who have recently come in at varying times in the year and not, as before, mainly in the autumn), and training of technical and services staff in supervisory and management skills has been introduced.

The most significant development during the year has been a move towards courses designed to solve problems in specific areas of work. Two residential management 'workshops' have been held for supervisory and administrative staff from the Bank's branches to discuss problems and possible solutions in their particular area of work. Two short residential 'workshops' were also arranged for some forty junior managers in the Exchange Control Department following its reorganisation.

There has been further expansion of external management training, particularly attendance at short courses by staff who had missed opportunities for formal training earlier in their careers. Two members of the advanced training scheme are attending, on leave of absence with full pay, post-graduate programmes in business studies; one on the one-year programme at INSEAD at Fontainebleau in France, and the other on the two-year MSc programme at the London Business School.

The Bank have met further requests – from both government departments and the City – for staff to be seconded. Besides those working abroad (see page 23), and one working for the IMF in this country, there were at the end of the year two members of the staff working in the Treasury, three in the Cabinet Office, and one in the then Department of Trade and Industry; and in the City, as well as six still attached to the Panel on Takeovers and Mergers, there were two new secondments – one to the Central Trustee Savings Bank and one to the Inter-Bank Research Organisation.

Appraisal

The staff appraisal system which was introduced in 1971 has now been extended to all except the most senior categories of banking staff; and, partly in conjunction with the work assessment (job evaluation) and restructuring of the maintenance and engineering categories, an improved reporting system has been introduced to cover most of the technical and services staff.

Staff relations

After an extensive review in 1972/73 and an opinion survey conducted among the staff, a new system of staff representation was inaugurated in November 1973 to replace the previous staff/management consultative council. The Bank of England Staff Organisation, recognised by the Bank as the sole bargaining agent for all but the most senior banking staff, is now established. A recognition and procedure agreement has been concluded which allows for full consultation on all matters affecting the well-being of the staff, and for formal negotiations – between delegates of the Bank and the staff organisation through a Joint Negotiating Council – on terms and conditions of employment. For matters that cannot be settled by negotiation, there is a procedure for settling disputes, with recourse to independent arbitration, binding on both parties.

Comparable arrangements were also introduced for technical and services staff.

Pensions

After the most comprehensive review of pension arrangements in the Bank for some twenty-five years, a new scheme – which improved and brought together pensions and benefits for widows and dependants – was introduced on 1st March 1974. The new arrangements, which will generally apply to all members of the staff, represent a major step forward in the Bank's provision of retirement benefits.

The new scheme has received approval in principle from the Inland Revenue and their formal approval of the Bank of England Pension Fund is being sought.

Premises

In London, the reallocation and modernisation of office space continued during the year at Head Office, and the formation of additional offices for the Exchange Control Department, entailing some replanning within the building, was completed at New Change. New computer centres were occupied in both buildings. In Bristol, work continued on the extension of the branch to improve the security arrangements.

During the period of three-day working, the Bank's own generators were used to supply power at Head Office and the nearby Bank Buildings. Even so, and although the computer centres and certain banking functions were exempted from the restrictions on the use of electricity, substantial economies in lighting and heating were made to help conserve fuel supplies. A bigger impact was felt at New Change and at the branches, where emergency generating facilities are limited. At the Bank's Printing Works, after the initial dislocation of production plans, the supply of electricity from their own generators, coupled with stringent economies in the use of power for non-productive purposes, enabled Bank note production to be maintained almost at the planned rate.

The Bank picquet
In recent years, the security arrangements both within the Bank and by way of support from the civil authorities have been modernised and extended, and during the year it was decided that there was no longer any need for the Bank to be provided with a military guard. Accordingly, from 1st August, the Bank picquet, traditionally mounted each night by the Brigade of Guards and occasionally by other units, was discontinued. It was first mounted in 1780 at the time of the Gordon Riots.

Developments in the use of computers
The developments mentioned below have made it necessary to build up the Bank's own resources of specialist computer staff and to supplement them with temporary assistance from outside the Bank.

a Accountant's Department
The two ICL 1904S computers referred to in last year's *Report* are now in use and the stock registers are on random access storage discs. Work on the next stage of development – direct input of data to the registers and enquiry by clerical staff using visual display units – is well advanced. Special training courses are being given to those concerned.

Work has also started on the provision of a computerised index of stockholders, some three million in number, to replace the present manual indexes.

b Management Services Department
During the year the installation at Head Office of the two IBM System 370 Model 145 computers with accompanying peripheral equipment was completed. A number of existing batch systems were successfully converted for running on this configuration. Equipment has also been installed to reduce storage of computer print-out by transferring information to microfilm direct from magnetic tape.

Development of the two large new integrated systems for the Cashier's Department and the Economic Intelligence Department continued. For the former, the new systems for the Bank's clearing procedures, which were mentioned in last year's *Report*, were nearly completed; and by the end of the year work was well advanced on a subsystem for foreign exchange accounting. A number of small subsystems within the project for the Economic Intelligence Department have now been installed, and the implementation of some other larger subsystems is under way.

It had been hoped that more progress would have been made during the year. However, the achievement of stable central control software took longer, and the detailed development of each new subsystem is proving more complex, than expected. Furthermore, some staff had to be diverted for a period towards the end of 1973 to a reassessment of the capacity of the equipment so far installed; this reassessment showed that both its core storage and its processing power will soon need to be enhanced.

Work also began on systems to run on the new equipment in place of the existing payroll and associated subsystems; it is hoped that these will become the basis for future integrated systems covering staff information and internal accounting. Other small teams in the computer side of the Management Services Department have been concerned with an examination of future computer requirements at the Printing Works and with inter-bank developments, both national and international, in the field of automation.

Other management services

The Management Services Department has continued to extend the scope of its studies of organisation and methods throughout the Bank. Clerical work measurement has been an important element in these studies in recent years and has led to the setting-up of a number of systems monitoring performance. These systems have made it possible for management to exercise a closer degree of control over work processes, and significant savings have resulted. Meanwhile demand for the services of the experimental operational research group has increased, and it has been confirmed as a permanent section of the department.

Work assessment teams have continued to evaluate jobs of the banking staff which are new or which have changed substantially since they were last assessed; and a number of administrative jobs which were previously outside the scheme have been assessed. Further consideration has been given to any changes which might be appropriate to the current scheme, which has now been running for about four years; and it is intended to start a full review of assessments of banking staff jobs during 1974. In consultation with a firm of management consultants, job evaluation was also introduced for the maintenance and engineering staff in conjunction with the overhaul of their pay structure.

Accounting services

During the year development of the Bank's central accounting systems has continued. A centralised disbursement system has now been introduced. Last year's *Report* mentioned the review of the Bank's costing system by the Bank's auditors; this is now largely complete and a revised system is in operation.