Bank of England

Report and accounts for the year ended 28 February 1975

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Issued by Order of the Court of Directors 3rd July 1975

Printed by Michael James Stephen Cubbage, MBE, at the Bank of England
Printing Works Loughton Essex

Court of Directors

28th February 1975

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The term of office of Mr J. Q. Hollom as Deputy Governor expired on 28th February 1975 and he was reappointed for a period of five years.

The terms of office of Lord Nelson of Stafford, Mr L. D. de Rothschild, Mr J. M. Clay and Mr Hector Laing also expired on 28th February 1975 and they were reappointed for a period of four years.

Senior officials

28th February 1975

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
Chief of Exchange Control	E. B. Bennett, DSC
Banking Supervision	George Blunden
Secretary	P. A. S. Taylor
Chief of Establishments	K. J. S. Andrews, MBE
General Manager of the Printing Works	M. J. S. Cubbage, MBE
Chief of Management Services	G. L. L. de Moubray
Auditor	B. P. McCarthy

Advisers to the Governors

W. P. Cooke

R. C. H. Hallett

J. A. Kirbyshire

The work of the Bank

This *Report* covers the Bank's work and internal affairs during the year ended 28th February 1975. 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. Among the Bank's domestic activities, which have generally continued to expand, there was in particular a big increase in the work of banking supervision. The Bank have, as usual, taken part in the work of many government committees; and contacts with City organisations of all kinds and at many levels have remained extremely close and have once again proved invaluable to the Bank. On the external side, the year was dominated by the impact of dearer oil on the balance of payments and by oil money movements in the international markets. In these contexts, as in many others, the Bank co-operated closely with the International Monetary Fund, the Bank for International Settlements, the Organisation for Economic Co-operation and Development, and the European Economic Community. Relations with other central banks, including those of oil-exporting countries, benefited as always from many personal contacts. In the field of statistics, after full discussions with representatives of the banks, a reform of the framework of banking statistics is now complete.

The Bank once again wish to express their gratitude to the banks and other institutions for their co-operation during the year.

Monetary policy

During 1973 the rate of growth of the money stock (M_3) had been exaggerated by some unusual and short-lived developments, the elimination of which contributed to a much more modest rate of growth in the year under review. Also, demand for bank credit after the industrial disruption in the early part of 1974 was much lower than might have been expected. Consequently, with interest rates in other countries markedly reduced and inflows from abroad on capital account continuing to help finance the balance of payments, it was possible to allow interest rates to decline somewhat over the year; and at the end of the period the Bank were able to suspend the operation of the supplementary deposits scheme.

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

Special deposits

On 4th April 1974, to counter market pressures tending to raise short-term interest rates, the Bank announced a release of special deposits, of ½% on each of 8th and 16th April. On the 18th of the month they announced the release of another ½% on the 22nd. The banks' remaining special deposits were then equivalent to 3% of eligible liabilities. No further general calls or repayments were made during the year.

Supplementary deposits

The scheme for supplementary special deposits announced on 17th December 1973 was extended twice. On 30th April 1974 it was extended for a further six months; the permitted rate of growth of interest-bearing eligible liabilities before deposits became payable was continued at 1½% a month from the base level. On 12th November another six months' extension was announced, again incorporating the same rate of growth; but the penalties for exceeding the rate were reduced somewhat by extending the tranches on which the lower rates of supplementary deposits applied. The 5% rate was to be payable for an excess of up to 3% instead of 1%; the 25% rate was to be payable in respect of the band between 3% and 5% instead of that between 1% and 3%; and the 50% rate was thus to be payable in respect of the excess over 5%.

At the end of the year, however, mainly owing to the general weakness of demand for bank loans, most banks were well within the limits freely allowed under the scheme. The Bank therefore suspended the operation of the scheme on 28th February, while reserving the right to reactivate it without notice. The banks were warned that, in that event, the base date to which limits would relate might be retrospective.

Interest-rate ceiling

Because of the decline in interest rates, the clearing banks' deposit rates were no longer being influenced in the early part of 1975 by the Bank's request of 11th September 1973 that the commercial banks should not pay more than 9½% on deposits of under £10,000. At the same time, less competitive rates elsewhere had enabled the building societies to attract more personal savings and to repay a substantial part of the loans advanced during the year by the Government and the Bank (see page 10). The Bank therefore withdrew the request on 28th February.

Directional guidance

The Governor's request to banks and finance houses of 11th September 1973 was maintained throughout the year. Banks and finance houses were thus still being asked to restrain lending to persons (other than for house purchase), lending for purely financial transactions, and lending to property companies. As regards this last category, the Bank's notice of 12th November 1974 stated that restraint was to be only as strong as was compatible with avoiding aggravation of the difficulties of such companies. The Bank's notice of 28th February 1975 asked that any expansion of lending be directed mainly to providing finance for the expansion of exports, for savings of imports, and for domestic industrial investment.

Minimum lending rate

The Bank's minimum lending rate was reduced on eight occasions by ¼%, and ended the year at 10½%. Each change was in accordance with the formula linking it to the average rate of discount at the Treasury bill tender.

Banking supervision and related developments

Support operations

The special committee consisting of the Bank and the London and Scottish clearing banks, set up towards the end of 1973 under the chairmanship of the Deputy Governor, has met regularly throughout the year and has kept under review the situation of those deposit-taking institutions which have sought support because of a shortage of liquidity arising from the withdrawal of money-market funds. Although it was originally hoped that such support would be required for only a few months, it has become clear that the problems in this area cannot be so swiftly resolved. Most of these have been caused by the fall in property values and the difficulties of the property companies to which so many secondary banks had lent funds. A number of the institutions receiving support have embarked on programmes of reorganisation to help them adjust to the changed climate in which they must operate. The committee has been closely concerned in these reorganisation plans. For a very few institutions it has proved impossible to avoid receivership or liquidation, but for virtually all of these the interests of the ordinary depositor have been fully protected.

In the accounts of the Banking Department (see page 33), both specific and general provisions have been made against possible losses from the Bank's support operations. The accounts also, of course, reflect the earnings from the lending undertaken by the Bank in this context.

Banking supervision

The Bank announced in August that, to improve their supervision of banks, they would be asking most of those registered in this country to provide additional information, usually quarterly. This information, which is complementary to existing statistical returns, shows if deposits and advances are concentrated with relatively few customers, and covers such items as transactions with associated companies, provisions, standby facilities, and a maturity analysis of the various categories of sterling deposit liabilities and assets.

The Bank also asked for similar returns from a number of other deposit-taking companies, most of which hold certificates under Section 123 of the Companies Act 1967 or belong to the Finance Houses Association.

The Bank discuss these returns periodically with directors or senior managers of the reporting banks and deposit-taking companies.

Shareholder undertakings

In September, the Bank wrote to twenty-nine consortium banks registered in this country asking for undertakings from their shareholders that they accepted full responsibility for the banks and would stand behind them at all times; the Bank sought acknowledgment of moral, rather than legal, responsibility. Satisfactory responses were received in every case. Similar assurances were subsequently sought from those UK-registered banks which are subsidiaries of foreign banks, and these were given too.

Foreign exchange dealing

During the year, banks in a number of countries reported substantial losses on foreign exchange dealing (see page 19). These losses prompted banks generally to review the internal controls they exercise over such operations, and a number of central banks made arrangements to supervise these activities more closely. After discussions in a number of centres, the Bank concluded that it would be helpful to outline various safeguards which it was felt that banks' internal controls should incorporate, and a memorandum on the subject was sent to all authorised banks on 20th December. At the same time, authorised banks registered in this country were asked to keep the Bank informed of the extent to which authority to deal in foreign exchange is delegated to branches and subsidiaries abroad.

Overseas banks

Another seventeen overseas banks, some ten fewer than last year, opened banking or representative offices in London during the twelve months to February 1975; and three more banks formed by consortia including foreign banks were opened. The number of foreign banks in London is now nearly 300.

Internal reorganisation

The extension of the Bank's activities in the supervision of the commercial banks and money markets led to some internal reorganisation in this area last July. A new senior post carrying responsibility for banking supervision was created, and the Discount Office was replaced by a new Banking and Money Market Supervision Division within the Cashier's Department.

Finance for Industry Limited

On 12th November 1974 it was announced that arrangements had been made to provide the necessary resources for a considerable expansion in the business of Finance for Industry. The announcement envisaged that up to £1,000 million over a period of two years or so would be made available in medium-term loans for productive investment. Part of the resources were to be provided by the shareholding banks subscribing additional equity capital and enlarging their lending facilities, while a range of other financial institutions gave assurances that they would subscribe to periodic issues of fixed-interest stock.

With the improvement of the securities market early in 1975 the opportunity was taken to make the first such issue of £75 million, and a further £25 million was subsequently raised through the issue of ordinary shares to the existing shareholders.

The Burmah Oil Company Limited

It was announced on 31st December 1974 that the Bank had agreed to provide temporary financial support to the Burmah Oil Company pending realisation of certain major assets. The agreement provided for the Bank to guarantee dollar borrowings, amounting to some $650 million, which were to be renegotiated so as to provide for repayment on or before 31st December 1975. The Bank also agreed to give temporary assistance to enable the company to refinance certain of its sterling borrowings.

Initially Burmah's unpledged holdings of British Petroleum Company Limited ordinary stock and Shell Transport & Trading Company Limited ordinary shares were to be charged to the Bank as security. However, in the light of further information and of the development of Burmah's estimated cash requirements for 1975, the plan was changed and the Bank bought, through the Issue Department, 77,817,507 British Petroleum ordinary stock units from Burmah on 23rd January for a consideration of some £179 million. In place of the charge on the share capital in British Petroleum and Shell, the Bank took as security a charge on all the share capital of Burmah Oil and Gas Company and of Burmah Oil Development Inc. owned by Burmah Oil Inc., Burmah's subsidiary in the United States.

Before buying the British Petroleum ordinary stock, the Bank consulted the Panel on Takeovers and Mergers. In order to meet the requirements of the City Code, the Bank undertook that while they held the stock they would not exercise the votes attaching to it. At the same time, the Bank also informed the panel that the Government did not intend that this transaction should change in any way the existing arrangements between the Government and British Petroleum, and that while the stock remained in the Bank's hands the Government would not exercise a greater proportionate voting power in relation to other shareholders than they could have exercised hitherto.

The first important disposal of assets by Burmah took place on 25th February, when its holding of shares in Great Plains Development Company of Canada Limited was sold for some Can. $96 million. The proceeds were used to repay part of the guaranteed dollar borrowings.

At the end of February, following the usual quarterly revaluation of the assets of the Issue Department made under the terms of the National Loans Act 1968, the book profit at that time on the Department's holding of British Petroleum ordinary stock (approximately £144 million) was transferred to the Government for account of the National Loans Fund.

City liaison

During the year, as foreshadowed in last year's *Report,* a number of specialist committees were set up in the City at the Bank's initiative to improve the way in which issues of public policy affecting the financial community are handled. These committees are concerned with capital markets, company law, taxation, and telecommunications. A working party has also been examining questions of City public relations. At the same time, the City/EEC Liaison Group has continued to work on EEC matters affecting the City and financial institutions generally. The formation and work of these bodies have demonstrated afresh the City's flexibility and capacity for collective thinking.

Among the various committees, the Capital Markets Committee is concerned with all matters affecting the City's role in domestic and international capital markets. During the year it has provided the main City response to a questionnaire circulated by the Department of Trade in connection with their inquiry into existing arrangements for the regulation of securities markets. It has also produced papers on equity capital and dividends for the Royal Commission on the Distribution of Income and Wealth, and on the disclosure provisions in the Industry Bill. The Company Law Committee has kept under review a number of proposals on domestic and EEC company law and has published a first report on *Employee Participation* examining some of the general and legal implications of recent proposals on this subject. The Taxation Committee has maintained close contacts with the Inland Revenue and has made a number of representations on successive Finance Bills and associated tax proposals. It has also submitted evidence to the House of Commons Select Committee on the Wealth Tax. The City/EEC Liaison Group has held a number of meetings during the year in which developments in the Community affecting the City have been reviewed and the problems of associations represented on the group have been identified and discussed and steps taken to resolve them. Regular contact has been maintained with the relevant government departments, the EEC Commission, and other Community institutions. Arising out of the group's work, the City has continued to learn more about the activities and the objectives of the EEC Commission and other Community bodies, and Community officials to learn more about the workings of the City and to develop useful contacts with individuals and organisations. The Bank provide secretarial services to all these committees (as well as to the Committee on

Invisible Exports – see page 25) and ensure, where necessary, effective co-ordination and liaison between them.

The City Liaison Committee has also met regularly, under the Governor's chairmanship. There, the heads of the various City organisations review matters of common concern and are kept in touch with the work being undertaken by the various specialist committees.

The Bank and the building societies

The Bank have continued to take part in official discussions about the general problems of housing finance, mainly in the joint advisory committee set up by the Government and the Building Societies Association to review present and prospective developments in the housing field. The Bank and the societies also began to meet once a quarter to discuss financial developments generally.

In April 1974, the Government offered to lend the societies a total of £500 million, in five equal monthly tranches, on condition that any society drawing on its share of the loan would not increase the rates of interest on its borrowing or lending during a specified period of about a month after each instalment was made available. The Bank agreed to help in the arrangements, initially advancing the first tranche at minimum lending rate from the Banking Department. The remainder was provided direct from government funds.

The agreed rate of repayment by the building societies depended on the growth of their deposits. A sharp recovery in deposits began during the summer, enabling contractual repayments to start in October 1974, and by the end of February some £300 million had been repaid. It had been agreed that the loan made by the Bank should not be outstanding for more than six months: that part which had not already been repaid was therefore taken over by the Government early in November.

The Bank handled the day-to-day administration of the loans throughout.

The note issue

The fiduciary issue was £5,375 million at the end of February 1975, £775 million (some 17%) higher than at the end of February 1974. During the year the issue reached seasonal peaks of £4,875 million (Easter), £5,175 million (summer), and £5,875 million (Christmas).

The amount of notes in circulation was a record £5,852 million on 20th December 1974, £827 million (some 17%) above the Christmas peak in 1973. For most of the year the value of the note circulation tended to increase with inflation: in the first half of the year the annual rate of increase was less than in the year before; by the autumn it was considerably greater.

Increase in note circulation on a year earlier

Per cent

		1973		1974
Easter peak		+13		+10
Summer peak		+13		+11
Autumn low		+11		+15
Christmas peak		+12		+17
Winter low	(end-January 1974)	+10	(end-January 1975)	+15

A new £10 note was introduced on 20th February 1975, part of the new series of notes announced by the Bank in 1968. The £20 note in this series was introduced in 1970 and the £5 note in 1971; and it is hoped to introduce the new £1 note in about two years' time. The growth in the use of higher denomination notes continued, and by the end of February this year £10 and £20 notes accounted for 22·6% of the circulation compared with 21·2% a year earlier. The proportion of the circulation represented by £5 notes also increased, from 54·9% to 56·3%, while that of £1 notes continued to fall, from 19·8% to 16·5%. In all, the average face value of notes in circulation rose during the year from just under £3 to £3·15.

Developments in the note circulation since 1966 were discussed in an article in the December 1974 *Quarterly Bulletin.*

Value of notes issued, paid, and in circulation

£ millions

Year to end-February	1971	1972	1973	1974	1975
Issued:					
New notes	2,606	2,741	3,152	3,485	4,088
Reissued notes	1,027	1,058	1,450	2,179	2,606
Paid	3,215	3,763	4,115	5,278	5,851
In circulation at the end of year	3,662[a]	3,698	4,187	4,573	5,355
Percentage increase in circulation over the year	*12·9* [a]	*1·0*	*13·2*	*9·2*	*17·1*

[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	1971	1972	1973	1974	1975
£1	1,445	1,449	1,496	1,588	1,659
£5	1,892	2,028	2,598	3,331	3,973
£10	197	235	371	558	793
£20	80	87	123	168	208
Other notes[a]	19	–	14	19	61

[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 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	1971	1972	1973	1974	1975
10*s*[a]	15,267	13,669	13,329	13,085	12,984
£1	977,334	920,408	908,382	906,154	883,749
£5	2,079,724	2,094,445	2,400,419	2,512,979	3,013,773
£10	354,015	385,952	487,307	644,390	814,600
£20	76,678	145,271	224,277	324,488	397,056
£50 – £1,000	796	757	722	698	656
Over £1,000	158,340	137,975	152,150	171,650	232,525
Total	3,662,154	3,698,477	4,186,586	4,573,444	5,355,343

[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.

Proportion of notes in circulation by denominations

Per cent by value of total circulation

End-February	1971	1972	1973	1974	1975
10s	0·4	0·4	0·3	0·3	0·2
£1	26·7	24·9	21·7	19·8	16·5
£5	56·8	56·6	57·3	54·9	56·3
£10	9·7	10·5	11·6	14·1	15·2
£20	2·1	3·9	5·4	7·1	7·4
£50 – £1,000	0·0	0·0	0·0	0·0	0·0
Over £1,000	4·3	3·7	3·7	3·8	4·4

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 pattern of work at the branches was little changed: the value of bank notes issued and paid was again some 70% of the totals shown on page 11; banking business for the Government and other customers remained on much the same scale as before; and the volume of exchange control work continued to grow.

The Agents of the seven country branches and the Representative in Glasgow continued to acquire first-hand information about economic conditions in their areas through personal contact with industry and commerce.

Treasury bill and money-market management

After three years of decline, the total amount of Treasury bills offered for tender increased during the year under review, reflecting the Government's larger domestic borrowing requirement. In all, £6,820 million bills were offered, compared with £4,990 million in the previous year. Tenders were particularly heavy during December, when £250 million were issued in each of four consecutive weeks. Over the year as a whole, the authorities were content to see Treasury bill and other short-term rates move down steadily in line with the general easing of short-term rates in international markets. Changes in the Treasury bill rate were reflected in a series of reductions of the Bank's minimum lending rate: by ½%, to 12%, in two stages in April (when 1½% of special deposits were released); by ¼% in May, and again in September, each time after several weeks of easy conditions; and in the last two months of the Bank's year, when the rate came down in four steps to 10½% because of very keen competition for bills at the tenders.

The Bank made much the same use of lending to the discount market at minimum lending rate to relieve shortages as in recent years. Because of the increase in the market's holdings of Treasury bills, the Bank were able to provide most of the assistance needed by purchasing Treasury and local authority bills. This made it possible to avoid buying commercial bills except for relatively short periods at the beginning of the year, over the end of May and the beginning of June, at the end of July, and at the very end of February. A very small amount of assistance was also given through the local authority deposit market in March and at the end of July.

Tax reserve certificates

There are now no certificates on offer. Outstanding certificates of any series may still be used in payment of specified taxes, or they may be repaid.

Subject to the conditions of issue, personal certificates dated up to 31st December 1971 can earn up to twenty-four months' interest if used in payment of tax. Those bought after 31st December 1971 and used to pay tax cannot earn interest beyond 1st January 1974. Where they are not used to pay tax the principal is repayable but no interest is allowed.

Company certificates earn a maximum of thirty-six months' interest.

£ millions

	Surrenders				Outstanding at end of period
	Cancelled in payment of taxes	Repaid without interest	Repaid with interest	Total	
Year to end-February					
1974					
Company series [a]	60	–	3	63	16
Personal series [b]	94	3	–	97	64
Total	154	3	3	160	80
1975					
Company series [a]	11	–	1	12	4
Personal series [b]	40	2	–	42	22
Total	51	2	1	54	26

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

Management of the gilt-edged market

The management of the gilt-edged market in the fiscal year 1974/75 was set in a continuously changing context. Nothing exemplified this more strikingly than the development of the public sector borrowing requirement, which at the time of the Budget in March 1974 was estimated at £2,700 million, and which ended the year by amounting to £7,600 million. The implications for the Government's need of domestic finance were further obscured by uncertainties over the size of the external deficit and the means of financing it. Other important factors influencing the market were the course of domestic inflation, and movements in interest rates in other countries and international markets.

Up to early June 1974, the gilt-edged market was generally quite firm, encouraged by the successive releases of special deposits in April, and yields fell from the peaks they had reached shortly after the March Budget. Official sales took place at a distinctly heavier rate than then seemed likely to be necessary over the year as a whole, and two new stocks were issued to enable the authorities to meet the market's demand – a short-dated stock, 11½% Treasury Stock 1977, in April, and a long-dated one, 12¾% Treasury Stock 1995, in May. After a sharp setback in June, which took yields at the long end of the market above 15%, almost 1% higher than the earlier peak, the market was firm again for the greater part of July. Further official sales took place, and the medium-dated tap stock, 12% Treasury 1983, was exhausted on 24th July.

The authorities then had to decide whether to issue a new medium-dated stock so as to retain three tap stocks. The argument for not immediately doing so rested on the judgment that official sales of stock were running sufficiently ahead of needs for some slowing down – which might be achieved by having no medium tap – to be acceptable, and on the belief that its absence might help to reduce upward pressure on yields in the market, including those on ordinary shares. In the event, a renewed period of weakness in the gilt-edged market in late July removed any immediate purpose in making a new medium-dated issue, and none was made in the rest of the year.

The weakness in the market persisted until after the turn of the year – apart from a vigorous rally in September concentrated on short-dated stocks, in the course of which a new short-dated issue was made. The weakness was most marked at the long end of the market, where yields rose to around 18%; but the prices of shorter-dated stocks also fell sharply. During this period the authorities, exercising the discretion provided for in the arrangements adopted in 1971, became net purchasers not only of stocks within one year of maturity, but to a modest extent of longer-dated stocks as well. This was done despite growing indications that a swelling public sector borrowing requirement, augmented by the changes in company taxation announced in the November Budget, would call for a distinctly larger volume of finance to be raised through the gilt-edged market than had seemed in prospect earlier in the year. The pressing need in the closing months of 1974 seemed to be the restoration of confidence to financial markets – those in equity shares and in property as well as those in fixed-interest securities – and this underlay the official response to the revival in the gilt-edged market which began early in the new year. The original impetus came from falls in interest rates in other centres, and especially from the vigorous actions of the US authorities in reducing rates. It was decided initially to respond to the revival by selling stock less freely than is customary, in order not to frustrate a reduction in yields. The ensuing volume of buying was so large that there was both an unprecedently sharp reduction in yields – long-dated stocks yielded little more than 13½% by the end of the fiscal year – and massive official sales, amounting net to £1,820 million in the March quarter. Most of them were of short-dated stocks. The September issue, and another three conventional short-dated stocks issued during January and February, were all sold out, and a further issue (a second tranche of 9% Treasury Stock 1978) was made in March.

The long-dated stock issued in May 1974 – 12¾% Treasury Stock 1995 – was also sold out in the strong market in the second half of January. It was not immediately replaced. This accorded with the desire at that time not to inhibit reductions in market yields. After the sharp reduction had taken place, the issue of a new long-dated tap, 12½% Treasury Stock 1993, was announced on 7th March.

The remaining stock being sold from official portfolios in the March quarter was 3% Treasury Stock 1977, £600 million of which had been issued at £84·50 per £100 stock on 2nd January, and official supplies were exhausted on 27th March. The purpose of the issue was to provide an alternative investment for holders of 3% Savings Bonds 1965/75, some £1,070 million of which mature in August.

The total of official net sales for the year, analysed in the table below, approached the total of £2,200 million sold in 1971/72. However, in 1974/75 the total was wholly accounted for by domestic buyers other than banks, with both overseas holders and UK banks being net sellers.

£ millions

Net purchases by the public +/sales–

	Financial years 1 April – 31 March				
	1970/71	1971/72	1972/73	1973/74	1974/75
By type of holder[a]					
Overseas holders	+ 144	+ 152	+ 80	+ 142	– 37
UK banking sector	+ 61	+ 819	–976	+ 11	– 52
Other UK holders	+ 462	+1,229	+486	+1,498	+2,266
Total	+ 667	+2,200	–410	+1,651	+2,177
By maturity					
Redemptions/conversions	– 417	– 294	–401	– 267	– 420
Up to 1 year	–1,132	–1,113	–973	– 344	– 913
Over 1 and up to 5 years	+ 409	+1,503	+376	+ 850	+2,601
Over 5 and up to 15 years	+ 934	+ 319	–238	+1,064	+ 423
Over 15 years and undated	+ 873	+1,785	+826	+ 348	+ 486
Total	+ 667	+2,200	–410	+1,651	+2,177

[a] More information about holders in 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 of stocks managed by the Bank increased by about 10% during the year, compared with about 7% in the previous year. Once again, the main increase was in British government stocks, the nominal value of which, as in the previous year, also rose by about 10%. The number of accounts also increased, by about 4%, the first rise for seven years. Here, too, the increase was concentrated in accounts in British government stocks: the number of other accounts continued to decline.

	Nominal value of stocks in issue (£ millions)				Number of accounts (thousands)			
End-February	1972	1973	1974	1975	1972	1973	1974	1975
British government securities:								
Stock[a]	23,333	23,078	25,221	27,769	1,736	1,709	1,766	1,859
Bearer bonds	18	24	29	35	[b]	[b]	[b]	[b]
	23,351	23,102	25,250	27,804				
Other securities:								
Government guaranteed	1,442	1,259	908	908	190	168	113	114
Commonwealth etc.	217	196	167	164	67	60	51	49
Local authorities	756	702	687	663	192	168	160	145
Companies[c]	179	192	222	331	37	36	37	39
Miscellaneous[d]	56	55	55	53	10	9	9	8
	2,650	2,404	2,039	2,119	496	441	370	355
Total	**26,001**	**25,506**	**27,289**	**29,923**	**2,232**	**2,150**	**2,136**	**2,214**

[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 1972: 38,000; 1973: 40,000; 1974: 43,000; 1975: 45,000.

[c] Comprising stocks of the Agricultural Mortgage Corporation Limited and, in the year to end-February 1975, Finance for Industry Limited.

[d] Unlike in previous *Reports,* includes securities issued by public boards.

Transfers

The number of transfers increased, though to little more than the average for the previous five years of around 760,000. However, the total for the last two months of the period (January and February 1975) showed a marked increase, of over 40%, on the corresponding months a year earlier. Figures for the last four years are given in the table.

Thousands

Year to end-February	1972	1973	1974	1975
March	68	74	56	59
April	73	59	56	62
May	69	68	62	71
June	71	76	55	60
July	73	67	57	71
August	68	60	60	57
September	79	56	50	57
October	78	57	61	63
November	82	57	59	63
December	74	47	45	53
January	77	62	55	75
February	73	57	52	77
Total	885	740	668	768

Operations

Operations undertaken during the year included:

£ millions nominal

Repayments at par

1974	24 April	Liverpool Corporation 5⅜% Bonds	2·0
	17 May	Liverpool Corporation 4¾% Redeemable Stock 1970/74	4·0
	29 May	West Glamorgan Water Board 9% Bonds	0·5
	6 June	Government of Nyasaland 4% Stock 1972/74	0·5
	6 June	Government of Northern Rhodesia 4% Stock 1972/74	1·9
	15 June	5¼% Conversion Stock 1974	298·8
	10 July	London County 6¾% Stock 1974	25·0
	7 August	Liverpool Corporation 11¾% Bonds	2·5
	28 August	Swansea Corporation 7¼% Bonds	0·5
	4 September	Liverpool Corporation 7¼% Bonds	3·0
	10 September	5½% Treasury Stock 1974	398·5
	18 September	West Glamorgan Water Board 7% Bonds	0·5
	15 November	Swansea Corporation 6¾% Stock 1973/74	3·0
	20 November	Swansea Corporation 12⅝% Bonds	0·5
	11 December	6¾% Treasury Stock 1974	300·0
1975	15 January	West Glamorgan Water Board 14⅞% Bonds	0·5
	1 February	6% Treasury Stock 1975	500·0
	21 February	Agricultural Mortgage Corporation Limited 14¾% Bonds	1·0

£ millions nominal

Issues for cash

1974	20 March	@ par	Liverpool Corporation 14⅝% Bonds 26th March 1975	2·5
	21 March	@ £95·50	12% Treasury Loan 1983	600·0
	22 March	@ par	Agricultural Mortgage Corporation Limited 14½% Bonds 22nd March 1979	5·0
	18 April	@ £98·25	11½% Treasury Stock 1977	600·0
	24 April	@ £99·9375	Council of the City of Liverpool 14% Bonds 30th April 1975	2·0
	2 May	@ £99·50	Agricultural Mortgage Corporation Limited 14¼% Debenture Stock 1984	20·0
	8 May	@ £99·9375	Council of the City of Swansea 13⅞% Bonds 14th May 1975	1·0
	23 May	@ £94·50	12¾% Treasury Loan 1995	400·0
	7 August	@ par	Council of the City of Liverpool 13⅞% Bonds 13th August 1975	2·5
	28 August	@ par	Council of the City of Swansea 13⅞% Bonds 3rd September 1975	0·5
	4 September	@ par	Council of the City of Liverpool 13¾% Bonds 10th September 1975	3·0
	19 September	@ £97·50	11½% Treasury Stock 1979	600·0
	6 November	@ par	Metropolitan Police 12¾% Bonds 12th November 1975	0·5
	20 November	@ par	Corporation of London 12⅞% Bonds 26th November 1975	1·0
	20 November	@ par	Council of the City of Swansea 12⅞% Bonds 26th November 1975	0·5
1975	2 January	@ par	Metropolitan Police 13¾% Bonds 7th January 1976	0·5
	2 January	@ £84·50	3% Treasury Stock 1977	600·0
	8 January	@ par	Corporation of London 13⅝% Bonds 14th January 1976	1·0
	15 January	@ par	Metropolitan Police 12½% Bonds 21st January 1976	0·5
	23 January	@ £99·50	10½% Treasury Stock 1976	300·0
	23 January	@ £96·00	10½% Treasury Stock 1978	500·0
	5 February	@ £96·00	10½% Treasury Stock 1979	600·0
	21 February	@ par	Agricultural Mortgage Corporation Limited 11⅝% Bonds 27th February 1976	1·0
	26th February	@ par	Corporation of London 11¼% Bonds 3rd March 1976	1·0

Offer for sale

1975	13 February	@ £99·50	Finance for Industry Limited 13% Unsecured Loan Stock 1981	75·0

Southern Rhodesia stocks

No funds have been received since November 1965 to service Government of Southern Rhodesia stocks for which the Bank act as paying agents. At the end of February 1975 the approximate amounts due but unpaid were:

Gross interest	£19,506,000
Redemption moneys[1]	£33,914,000

[1] Relating to Government of Southern Rhodesia 3½% Stock 1961/66, 3½% Stock 1967/69, 2½% Stock 1965/70, 3% Stock 1971/73, and 4% Stock 1972/74. The registers for these stocks remain open.

At the same date, contributions due but unpaid to sinking funds managed by the Bank totalled some £3,106,000.[1]

There has been little change in the situation during the last year. As stated in last year's *Report*, the Bank have instituted legal proceedings with the aim of obtaining a declaration that certain assets held by them do not constitute moneys of the Government of Southern Rhodesia; the action is due to be heard in October. The assets in question 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.

Local authority markets

The Bank arranged five issues of 91-day bills for the Greater London Council and four for the City of Liverpool.

The Local Government Act 1972, which came into effect on the 1st April 1974, was thought likely to concentrate the issue of bills into a smaller number of local authorities. In the event, however, the number of issues outstanding at the end of February was greater than a year earlier, and the amount of bills in issue rose from £280 million to £396 million. The main reason for the increase was that more authorities became eligible to issue bills because of increased rate incomes.

Foreign exchange management

In common with the other main currencies, sterling continued to float throughout the year under review. Currencies floated independently except for those in the 'EEC snake' (the Belgian franc, the Luxembourg franc, the Danish krone, the deutschemark, the guilder, the Norwegian krone, and the Swedish krona): these continued to maintain exchange rates against each other within a 2¼% band, while floating against the rest. Within the 'snake' the exchange rates between the Belgian franc and the guilder were maintained within a narrower band of 1½%. In a world of floating currencies, formal exchange rates give only a partial picture of the strength of the currencies quoted. Thus to many, the principal yardstick of a currency's relative strength in the foreign exchange markets has become the 'effective change', a trade-weighted measurement of a single currency's movement over a given period of time against all the other main currencies.

In this respect, sterling maintained a fairly steady position up to the autumn of 1974, with a depreciation generally of around 17½% from the rates established at the Smithsonian settlement of December 1971, though decreasing to 16½% at the beginning of April, and increasing briefly to over 18% in mid-May and again in August. Sterling was in regular demand, partly to meet payments to oil-exporting countries. In the last quarter of the year, the effective depreciation increased gradually to around 21½% as some countries, mainly oil exporters, diversified a portion of their sterling accruals; and there were occasional flurries, notably on the announcement in the November Budget that sterling guarantees were not to be renewed, and on the news in mid-December of the Saudi Arabian request to have all future oil payments in dollars. The latter move induced oil companies to sell sterling balances which they had built up in

[1] Including £240,000 in respect of Government of Southern Rhodesia 3½% Stock 1967/69 and some £417,000 in respect of Government of Southern Rhodesia 4% Stock 1972/74; the sinking funds for 3½% Stock 1961/66, 2½% Stock 1965/70, and 3% Stock 1971/73 are not managed by the Bank.

anticipation of large payments, and the effective depreciation temporarily increased to 21·9%. In January and February 1975 the effective depreciation was again stable, between 21% and 22%. Official intervention was used to moderate undue fluctuations in the effective value of the pound.

Confidence in the foreign exchange markets was severely shaken in the middle of 1974 when a number of banks on the Continent and in the United States suffered very large foreign exchange losses. Turnover temporarily fell very sharply. Activity later recovered significantly, although it remained subdued – and probably desirably so – compared with 1973 and early 1974. The Governor wrote to all authorised banks at the end of December emphasising the lessons to be drawn from the experience (see page 7).

Representatives of banks and brokers which operate in the London foreign exchange market continued to meet regularly in a joint standing committee, established nearly two years ago and chaired by the Bank, where matters concerning the smooth and efficient day-to-day operation of the market are discussed. The Bank are also members of a newly-formed international committee which, among other things, considers exchange market supervision and regulation (see page 22).

Operations on behalf of customers – both overseas central banks and government departments and other public bodies – remained a major element in the Bank's foreign exchange dealing, with over £3,500 million worth of currencies bought and sold. The Bank began supplying the IMF with a daily quotation of exchange rates for use in the calculation of the value of the special drawing right.[1] A desk-top computer was installed in the dealing room in March 1974 to permit frequent monitoring of sterling's effective depreciation; and the figure is passed to the financial press three times a day.

After a lapse of five years the Royal Mint resumed production of sovereigns for the Exchange Equalisation Account. The first supplies, which were made available to the London gold market in the customary way in exchange for bar gold, were released by the Bank in November. The coins are dated 1974.

Foreign currency borrowing by the public sector

Arrangement of $2·5 billion loan for the Government

It was announced in the Budget speech in March 1974 that the Government had arranged to borrow US $2·5 billion in the euro-dollar market. The loan is the largest ever raised in the international capital markets. It was arranged by the Bank of England with the London clearing banks; and the latter also brought in about thirty associate banks in this country and abroad. The agreement was signed in the Bank on 7th May 1974.

The loan, which was fully drawn between October 1974 and February 1975, extends over ten years in all, but amounts are taken for three, six, or twelve months at a time at the option of the borrower, and rolled forward. The rate of interest incorporates a margin over the cost on the London inter-bank market of three, six, or twelve-month euro-dollars as appropriate, the margin being ⅜% in the first two years, ½% in the next three, ⅝% in the sixth and seventh years, and ¾% in the last three. Repayment will be made in four equal instalments at the end of each of the final four years.

[1] A new method of valuation for SDRs was described in the September 1974 *Quarterly Bulletin*, page 281.

The exchange cover scheme

The exchange cover facilities for foreign currency borrowing by nationalised industries and local authorities, which had been reintroduced in March 1973, were continued. Among particular developments, on 22nd July 1974 it was announced that the Iranian Government would extend a line of credit for \$1·2 billion to be drawn as three separate loans by public sector bodies within the next three years. The first such loan was signed in October by the National Water Council, and the funds (\$400 million) drawn the following month. In all, from March 1973 to the end of February 1975, public bodies had borrowed \$5·2 billion under the exchange cover scheme.

Exchange control

The heavy pressure of work in the Exchange Control Department continued, although it moderated somewhat during the year, thanks partly to a further increase in staff from about 700 to about 800 (including some employed part time). Greater powers were delegated to the commercial banks to enable them to deal with certain matters without reference to the Bank, and the streamlining of procedures continued. During the year the department assumed responsibility for liaison with the commodity markets and for the supervision of their operations; and an Adviser, attached to the department, was appointed to work exclusively on commodity matters.

The main changes in the control regulations during the year to the end of February 1975 were as follows:

26th March 1974

It was announced in the Budget that the rules for direct and portfolio investments would be 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. Consequently, the use of official exchange for direct investments in the overseas sterling area (OSA) or the EEC was no longer generally permissible; OSA subsidiaries of UK companies were required to repatriate two thirds of their earnings after tax; the proceeds of the sale or liquidation of direct investments in countries outside the OSA and EEC ceased to be eligible for sale at the premium in the investment currency market; and portfolio investments in OSA securities became subject to the requirement that 25% of the proceeds should be converted into sterling through the official exchange market.

4th July 1974

The rules for emigration were slightly eased: the entitlement of £20,000, already available to all emigrants to OSA countries, was extended to emigrants over the normal age of retirement, irrespective of their destination.

5th July 1974

Banks were no longer required to refer to the Bank where certain guarantees in respect of borrowing by existing overseas subsidiaries and branches of UK companies were being given or renewed.

16th August 1974

Authorised banks were given authority to allow certain payments and refunds in respect of value added tax.

28th August 1974

Authorised banks were allowed to approve applications by individuals resident in the United Kingdom to buy investment currency up to the equivalent of £30,000 for the purchase from non-residents of property abroad for private use. Purchasers of land to build a holiday home were allowed two years in which to complete the project instead of eighteen months. Emigrants who had bought a property abroad before emigration were allowed to recover part or all of any investment currency premium incurred. The proceeds of sales of parts of properties were no longer eligible for sale through the investment currency market.

10th December 1974
The rules for outward direct investment were slightly modified: the cost of interest accrued (whether or not paid) on foreign currency borrowing after 10th December 1974 was to be deducted from the gross benefits received when calculating the extent to which official exchange would be allowed in repayment of the borrowing; also, in certain circumstances the proceeds of the sale or liquidation of investments would be eligible for reinvestment in a further approved direct investment.

17th December 1974
New criteria were introduced for exemption from certain requirements of the Exchange Control Act 1947: nationals or citizens of countries outside the Scheduled Territories, whether or not they were also nationals or citizens of a Scheduled Territory, became eligible for such exemption. Exemption, which previously was confined to assets expressed in the currency of the immigrant's country of nationality, was extended to cover assets expressed in any foreign currency. However, exemption would not normally be extended to assets acquired after an applicant became resident in the United Kingdom and exempted securities would be eligible for sale in the investment currency market only if, besides meeting other requirements, all foreign currency income from the securities had been surrendered at the official market rate. Exchange control facilities, whereby people returning to their country of origin could transfer, at the official rate, all their sterling assets, were extended to nationals or citizens of any country outside the Scheduled Territories, irrespective of where outside the Scheduled Territories they were to reside. At the same time, the rules for transactions in foreign currency securities on behalf of residents of the Republic of Ireland and Gibraltar were brought into line with the rules for transactions on behalf of residents of the United Kingdom.

22nd January 1975
Restrictions were imposed on the refinancing in sterling of bills for trade originally contracted and financed in foreign currency, except for trade to or from the Scheduled Territories. The rules concerning guarantees in favour of residents of the OSA were also amended.

29th January 1975
Authorised banks were permitted to approve, on behalf of residents of Rhodesia, certain purchases and sales of quoted sterling securities; and also to authorise the release of Rhodesian funds, and funds withheld in suspense for certain limited purposes, which had previously required specific application to the Bank. Authorised banks were also permitted to redesignate the accounts of persons who leave Rhodesia to take up residence in the Scheduled Territories.

The Budget of 15th April 1975 imposed restrictions on purchases by UK residents of gold coins minted after 1837. Such coins can now be bought only if they were already in the United Kingdom before 15th April, and if the seller is a resident of the United Kingdom and is not acting on behalf of a non-resident. Authorised dealers in gold may still import gold coins minted after 1837 under open individual import licence, provided that the coins are not sold to UK residents.

Commodity markets

The continuation of difficult trading conditions and financial pressures, and further sharp movements in commodity prices, again focused attention on the operation and solvency of futures markets. The London markets came through this period without difficulty but nevertheless it seemed sensible to reinforce their self-regulatory powers and to expand the Bank's supervisory role.

Accordingly, after discussion with market associations, the Bank initiated some changes last summer. Fresh memoranda of understanding, strengthening the links between the Bank and the markets, were negotiated with the market associations; regular consultations on traders' positions were started with the International Commodities Clearing House, the London Metal Exchange, and the Grain and Feed Trade Association; and statistical returns were extended. Formal meetings between the Bank and the associations representing the more active markets became more frequent, and informal liaison between the Bank and the markets was strengthened. Within the Bank, responsibility for relations with the international commodity markets in London was assumed by the Exchange Control Department (see page 20).

External affairs

During the year under review the international monetary scene was dominated by the problems of adjustment to the very large increases in oil prices at the end of 1973. Dearer oil radically altered the structure of the international balance of payments and created a series of international financial problems. Throughout the year, the Bank, in close co-operation with the Treasury and other government departments, have been actively working on the consequences of these developments for world trade and payments and their impact on this country. The Bank have also played an active role in the discussions in a number of international institutions and have strengthened their contacts with the authorities, particularly in oil-exporting countries and in the EEC and the Commonwealth.

The Bank continued to be involved in the discussion of international monetary matters in the IMF, including the establishment of an oil facility to help finance the balance of payments deficits caused by dearer oil. The Bank also continued to be represented on the main committees and working parties of the OECD concerned with economic and financial questions, much of whose work was directly or indirectly concerned with the impact of dearer oil.

At first, the task of recycling financial surpluses of oil-exporting countries to countries needing to borrow fell largely upon the international banking system, especially on the London euro-currency market. At the same time, banks in a number of countries were affected by economic recession and inflation, and some individual banks suffered substantial losses in foreign exchange dealings. Against this background, international discussions, in which the Bank played a leading role, notably at the BIS, led in September to an understanding about the division among central banks of responsibility for providing support to banks in temporary liquidity difficulties. Another outcome was closer international co-operation in banking supervision, most notably by the establishment of a committee of experts on banking and foreign exchange regulations and supervision. The committee comprises representatives of the Group of Ten countries and Switzerland under the chairmanship of Mr George Blunden, who holds the new senior post at the Bank carrying responsibility for banking supervision (see page 8).

The Bank were again engaged during the year under review in a wide range of activities stemming from UK membership of the EEC. The Governor attended a number of meetings of the

Council of Ministers. The Bank also participated in the work of the Committee of Central Bank Governors and of the Board of Governors of the European Monetary Co-operation Fund, and in the Monetary Committee, the Economic Policy Committee, and a variety of sub-committees and ad hoc working groups. Matters discussed at these meetings touched on the work of almost all departments of the Bank, and included the current economic situation, the Community's internal and external monetary arrangements, capital markets, exchange control, banking supervision, co-ordination of banking legislation, and harmonisation of statistics. The Bank's officials also maintained regular working contact with those of the Commission and other Community institutions. An official of the Bank continued to serve as an alternate director of the European Investment Bank, and a member of the Bank's staff was seconded during the year to the Office of the UK Permanent Representative to the Communities in Brussels.

The Bank received over 1,100 visitors from eighty-seven countries during the year under review. About one third of these visitors came in groups of between ten and thirty persons and were given short tours of the Bank and talks by members of the staff. Of the remainder, mainly from other central banks, some 600 spent a day or so in the Bank in discussions with one or more of the Bank's officials; and over 100 visitors, whose stay lasted for up to five weeks, were provided with programmes enabling them to observe the work of several departments. The Bank's officials visited fifty-seven countries, and the Bank continued to assist certain central banks and other financial institutions overseas with banking and currency problems. Thirteen members of the staff were stationed abroad doing this kind of work at 28th February 1975.

Sterling guarantees

In his Budget speech on 12th November the Chancellor of the Exchequer announced that the guarantee of certain official overseas holdings of sterling, which had first been made available in September 1968, would be discontinued when the existing nine-month arrangement expired at the end of 1974. Unlike the 1968 agreements and the six-month arrangement of September 1973, the guarantee which expired on 31st December did not fall to be implemented. In explaining the background to the Government's decision the Chancellor indicated that, although the guarantees had made an important contribution to international financial stability since 1968, the emergence of the oil-exporters' surpluses had deprived them of much of their relevance.

The Bank worked closely with the Treasury in the complex preparations and negotiations leading to the original Sterling Guarantee Agreements of September 1968, and negotiated the related $2 billion Basle Facility. They were similarly engaged in the renewal of the agreements for a further two years in September 1971, and in the two short-term extensions of the guarantees of September 1973 and March 1974. Moreover, as agents for the Treasury, the Bank have been responsible for the administration of the arrangements, which has entailed a large amount of complicated processing and checking in communication with each country concerned, particularly when the guarantees were implemented.

Economic information and research

The new system of statistical reporting referred to in the last two *Reports* was agreed with the banks during the year, and a series of seminars was held, mostly in November and December, to explain the framework and underlying concepts to some 900 representatives of the banks. The new system is being implemented in stages: the first returns, covering the banks' foreign currency business with both residents and non-residents and their sterling transactions with non-residents, were introduced at the end of December 1974, and the main returns relating to domestic business in sterling followed in May 1975.

Last year's *Report* described the steps taken by the Bank to monitor financial developments after the introduction of short-time working in January 1974. The series of meetings begun at that time continued throughout the year, though rather less frequently after the immediate emergency had passed. The Bank also strengthened further their industrial contacts in the London area. The Bank would again like to record their gratitude for the co-operation of all concerned in providing valuable up-to-date information.

The long-established monthly meetings between members of the Economic Intelligence Department and economists from the London clearing banks, and the quarterly meetings instituted more recently with representatives of the accepting houses, also continued throughout the year.

During the year another thirty-two banks were added to the list of those submitting regular statistics to the Bank, and four left it. These changes brought the total of reporting banks to around 320. Of the new banks, fourteen were branches or subsidiaries in London of foreign banks, ten were subsidiaries in the Channel Islands or the Isle of Man of banks already on the list, five were consortium banks, and one was a former finance house.

In the September 1974 *Quarterly Bulletin,* Table 9 was extended to include an aggregate figure of the interest-bearing eligible liabilities of banks subject to the supplementary credit control scheme (see page 5), and also to show the number of banks or finance houses placing supplementary deposits in each penalty tranche, together with the amounts placed.

The Economic Intelligence Department was concerned with devising, and subsequently verifying, the additional quarterly returns requested by the Banking and Money Market Supervision Division of the Cashier's Department (see page 7).

The Bank have continued to take part in discussions with the Statistical Office of the European Community and representatives of other EEC countries about the preparation of various harmonised statistical series for banking and the money supply. The Bank have also taken part in other committees and working groups set up by the EEC, in particular to discuss and compare monetary developments and the various instruments of monetary policy in each of the member countries, and to consider economic policy and forecasting. A wide variety of statistical and other information is now supplied regularly to the SOEC and to the Committee of Central Bank Governors as well as to the IMF and the OECD. In the course of the year a member of the Economic Section became Chairman of the OECD Group of Financial Statisticians. The Bank also contributed to meetings of central bank economists held under the auspices of the BIS.

The programme of inquiries into the overseas earnings of certain financial institutions and the professions, designed to improve balance of payments estimates, continued in 1974. As noted in last year's *Report,* an inquiry into the earnings of the UK commodity markets was introduced during the year, and some 500 firms were asked to provide monthly figures for a twelve-month period. The response was good, and the results should be available later this year. A new inquiry, into the earnings of British export houses, is under consideration. The Bank have continued to provide the secretariat for the Committee on Invisible Exports and, in that capacity, conducted the second annual survey of member associations' prospects for invisible earnings. A summary of the results was published in July 1974.

For several years oil companies have provided the Bank with statistics of their external capital and invisible transactions for inclusion in official balance of payments figures. This has been useful in keeping the Bank closely in touch with oil matters, especially in the circumstances of the past year. Much work has also been done in seeing how the surplus revenues of oil-exporting countries have been employed: some results were published in the December 1974 and March 1975 issues of the *Quarterly Bulletin.* In the domestic context, increasing attention has been devoted to the progress and problems of North Sea oil development.

Circulation of the *Quarterly Bulletin* continues to increase: some 13,000 copies of the March 1975 issue were distributed on publication, with about a third going to readers overseas. There is also a continuing demand for recent back issues and for off-prints of articles, particularly those of an educational nature.

The Bank's Economic Section continued to devote the greater part of its resources to current issues of financial and economic policy, with particular reference to monetary policy, company finance, housing finance, and international capital flows. This has entailed the further development of forecasting techniques.

The section extended its econometric and statistical work with the help of a large-scale computerised model of the economy, which became fully operational during the year and continues to be further developed. Forecasts and simulations produced with the help of the model increasingly supported the section's economic advice. In conjunction with government departments, work also continued on producing the official short-term economic and financial forecasts. An integrated research programme into the financial behaviour of important sectors of the economy has been instituted, so as to improve forecasting techniques and, possibly, develop better formal links between real and financial developments in the economy.

Among other studies, demand-for-money relationships were re-examined in the light of developments since 1971. Some results were published in the September 1974 *Quarterly Bulletin* (page 284). But the further development of the historical series of balance sheets of financial institutions was hampered during the year by staff shortages.

Contacts with outside economists were well maintained; and research papers were presented by members of the section at a number of meetings and seminars. The Bank twice acted as hosts for meetings of the Money Study Group.

Helped by advertisements in the press, there was an increase in the number of experienced economists working full time on short-term contracts, normally of up to four years. This should enable more resources to be devoted to fundamental research.

Staffing and other internal matters

Numbers of staff

The weekly average number of staff employed during the year to the end of February 1975, including those working part time, was nearly 7,700, about 2% more than a year earlier.

Their aggregate annual remuneration amounted to £22,374,000. As at 28th February, those in full-time employment numbered nearly 7,000 and were allocated broadly as follows:

Banking staff		
Cashier's Department (including 325 at branches)	1,250	
Accountant's Department	1,125	
Exchange Control Department	775	
Overseas Department	250	
Economic Intelligence Department (including Economic Section)	250	
Others (mainly in Establishment, Management Services, Secretary's and Audit Departments, and at the Printing Works)	1,075	4,725
Technical and services staff		1,000
Printing Works staff		1,250
		6,975

Part-time staff numbered about 900, including nearly 600 at the Printing Works.

By the end of the year, the number of full-time banking staff had risen by 325 (including seventy-five transferred with their work from the technical and services and the Printing Works staffs) and the number employed part time by fifty. Most of the increase reflected the redress of staff shortages (notably in the Exchange Control Department) rather than significant new needs; it resulted from fewer resignations and easier recruitment in the second half of the year.

Staff wastage

Because of tight national incomes control, the Bank lost in some measure their capacity to compete successfully in the labour market, and heavy losses – mainly of junior staff – continued during the early months of the year. The rates of wastage diminished in the summer after the anticipation and eventual achievement of some improvement in salaries together with a restructuring of junior clerical and typing scales. Then in October, the Bank – in common with similar institutions – experienced a dramatic reduction in wastage because of declining prospects for employment in the economy generally, and in the City in particular.

The end of the year marked the completion of the limited offer (referred to in earlier *Reports*) of early pensions to certain staff within ten years of normal retirement. It had been designed to smooth the pattern of succession in a period of comparatively few ordinary retirements. Just over forty staff took advantage of the offer during the year; including the departure of a further twenty or so deferred beyond 28th February, the total since the inception of the scheme in 1971 was nearly 190.

Recruitment

Partly because of the high rate of turnover among junior staff, recruitment went on continuously throughout the year. Well over 5,000 enquiries about vacancies were received and some 2,000 interviews were conducted. The Bank's requirements were largely met by the end of December.

During the year forty-four honours graduates were recruited, together with 172 men and women who had undertaken a full General Certificate of Education advanced level course in two or more academic subjects; at the same time five people were recruited on short-term contracts for specialist tasks. A total of 338 recruits who had reached the ordinary level of the General Certificate of Education were engaged for general clerical work, a further sixty for training as typists, and twenty-one as punch operators. Another 221 men and women were recruited to the supplementary and part-time staffs.

Training

A new training centre in Bank Buildings was formally opened in February 1975. It houses the Training Division of the Establishment Department and various training schools of other departments. Centralisation should lead to better use of resources and increased exchange of training expertise.

An advanced development course, for staff seen as possessing potential for senior management, was held in November. The course lasted four weeks and the speakers included the Governors, other members of the Court, and representatives of the Treasury and other financial bodies.

The move towards courses designed to solve problems in specific areas of work has continued: short residential 'workshops' were held during the year for managers from the Data Processing Division of the Management Services Department and the Payments Division of the Establishment Department.

Further attention was devoted to the development of the Bank's systems of career planning and staff appraisal.

Attendance at external management courses has continued to play an important part in management development, though it was not possible to release quite so many people for longer courses this year. The Bank have continued to encourage full-time post-graduate studies and, at 28th February 1975, four advanced trainees were on leave of absence with full pay: three were attending courses at the London Business School, the University of East Anglia, and the University College of North Wales in Bangor, and one was learning Arabic at the Middle East Centre for Arabic Studies in the Lebanon.

The Bank have continued to provide staff on secondment to other organisations abroad (see page 23) and at home. At the end of the year six members of the staff were working in government departments (three at the Cabinet Office, two at the Treasury, and one at the Department of Industry), and another was attached to the Royal Commission on the Distribution of Income and Wealth. In the City, six members of the staff were attached to the Panel on Take-overs and Mergers, and one each to the Inter-Bank Research Organisation and the Central Trustee Savings Bank.

Visits by Bank officials were made to the Banca d'Italia's training establishment at Perugia, and to Paris to attend a two-day conference with the Banque de France as host. The outcome was the institution of an informal EEC central banks training group, which is intended to meet annually to consider training policy and administration. One consequence was that representatives of the Banca d'Italia and the Central Bank of Ireland visited the Bank to study training methods and facilities.

Staff representation

A revised system of representation for the technical and services staff, which draws their principal associations together in a Central Staff Committee and a Joint Negotiating Council, has been established. This has facilitated the introduction of integrated wage scales (in place of numerous direct links with outside rates of pay) and has led to the removal of many other anomalies among different categories of staff.

Developments in the use of computers

a Accountant's Department

The first phase of the development of the large and complex on-line computer system referred to in previous *Reports,* using ICL 1904S computers and associated equipment, has been completed. The staff of the department are now able to inspect and amend accounts on the stock registers through visual display units; the need for separate punching staff has largely been eliminated. Work continues on the next phase of the project, the computerisation of the index of stockholders, with implementation planned for 1977.

b Management Services Department

As foreshadowed in last year's *Report,* the computer installation at Head Office has been made more powerful: one of the IBM System 370 Model 145 computers has been replaced by a Model 158, and several lesser changes have been made as well.

The new systems for the Bank's cheque clearing procedures mentioned in previous *Reports* were implemented and have been operating successfully. The sub-system for foreign exchange accounting, also mentioned last time, which includes a network of terminals connected to the Head Office equipment, has been implemented since the end of the Bank's year. Work was begun on a sub-system to replace the present computer system for banking accounts.

Two sub-systems forming part of the longer-term plans for a comprehensive system for the main statistical work of the Economic Intelligence Department came into effect. Both entailed the use of on-line terminals to the Head Office computers. At the end of the Bank's year, the implementation of two more sub-systems was under way, and two much larger ones were due to follow in the latter part of 1975; three of the four deal with the new banking statistics.

Salaries and wages systems, adapted to run on the IBM System 370 computers, were implemented in April 1975. Work on an integrated staff information system will begin as soon as resources permit; despite assistance from outside the Bank, a shortage of specialist staff has continued to limit the development work carried out by the department.

The study of the future computer requirements for data processing at the Printing Works was completed.

The department has also been closely engaged in developments in inter-bank systems, particularly those concerned with money transmission, both nationally and internationally.

Other management services

The Bank's work is subject to continuous change, and techniques of organisation and method and of operational research have been deployed in a wide variety of studies round the Bank. More assistance has been derived from the behavioural sciences than in the past, and the Management Services Department and the Management Development Division in the Establishment Department have worked more closely together.

An examination of the current scheme for evaluating jobs held by the banking staff has been completed, and some adjustments made. Because so many jobs have altered to meet changing requirements, a fresh evaluation has been started, with increased staff participation – both in the completion of job descriptions and through the incorporation of a representative of the Bank of England Staff Organisation into the job evaluation team.

Towards the close of the year the Bank embarked on a review of their system of internal communications and of the flows of information which should pass through it.

Organisation of management services
In January 1975 the Management Services Department was rearranged into four divisions instead of two, primarily to give more drive and cohesion to its computer activities. The Data Processing Division is responsible for the design, programming, implementation, and maintenance of computer systems, and for the operation and development of the computer centre at Head Office and its teleprocessing networks. The Planning and General Studies Division is responsible for setting up and maintaining a long-range plan for the department; for feasibility studies and special assignments; and for liaison on matters of automation with banks and other institutions, both at home and abroad. The Business Systems Division is responsible for organisation and methods studies including clerical work measurement; for operational research; for the assessment and provision of office equipment; and, in collaboration with the Establishment Department, for all aspects of the staff's working environment. Finally, the Job Evaluation Division operates and, when required, reviews the Bank's scheme of job evaluation.

Strategic planning for financial institutions
The proceedings of the conference held under the auspices of the Bank and the University of Bradford's Management Centre in June 1972 have been published by The Bodley Head. The editors have included additional material on the same subject. The book has a foreword by Lord O'Brien of Lothbury, Governor of the Bank from 1966 to 1973.

The Bank film
A new film about the Bank was completed during the year and released for public showing in July 1974. It replaces *The Bank of England at work* which was made in 1966.

The film explains something of the history of the Bank and shows in broad terms the Bank's role in managing the national debt, their functions as bankers to the Government and the banking system, their international role, operations in the foreign exchange markets, and the management of exchange control. It also deals with the Bank's links with industry and shows certain processes in the design and printing of Bank notes. The film was produced primarily for showing to general audiences, but it will also be used in connection with staff recruitment and internal training. It runs for twenty-five minutes and is available on loan, free of charge, from two leading film libraries.