Bank of England

Report and accounts for the year ended 28 February 1978

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Court of Directors

28th February 1978

The Rt Hon. Gordon William Humphreys Richardson, MBE, *Governor*
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The Rt Hon. Lord Nelson of Stafford
Sir Lionel Alexander Bethune (Alastair) Pilkington, FRS
The Rt Hon. Lord Robens of Woldingham, PC
The Rt Hon. Viscount Weir

It was announced in January 1978 that Mr Gordon Richardson had been reappointed Governor for a further term of five years from 1st July 1978.

Sir David Steel, DSO, MC, was appointed until 28th February 1981, in the place of Lord Roll, who retired on 28th February 1977.

The terms of office of Lord Robens, Sir Adrian Cadbury and Mr J. S. Fforde expired on 28th February 1978; they were reappointed for a period of four years.

The term of office of Lord Greene also expired on 28th February 1978, and Mr Geoffrey Ayrton Drain was appointed in his place for a period of four years.

Senior officials

28th February 1978

Departmental	
Chief Cashier	J. B. Page
Chief Accountant	G. J. Costello[1]
Chief of the Overseas Department	S. W. Payton, CMG
Chief of the Economic Intelligence Department	M. J. Thornton, MC[2]
Chief of Exchange Control	E. B. Bennett, DSC
Banking Supervision	W. P. Cooke
Chief of Administration	P. A. S. Taylor
Chief of Establishments	K. J. S. Andrews, MBE[3]
General Manager of the Printing Works	M. J. S. Cubbage, MBE
Adviser to the Governor[4]	Sir Henry Benson, GBE
Chief Advisers	M. J. Balfour C. A. E. Goodhart J. A. Kirbyshire A. D. Loehnis D. A. Walker[2]
Secretary of the Bank	G. C. Gough

[1] G. J. Costello retired on 3rd April 1978; G. L. B. Morgan was appointed in his place.
[2] M. J. Thornton retired on 10th March 1978; D. A. Walker was appointed in his place.
[3] K. J. S. Andrews retired on 4th March 1978; R. D. Galpin was appointed in his place.
[4] Lord Croham, GCB, was appointed an Adviser to the Governor from 10th April 1978.

Introduction

This *Report* relates to the year ended 28th February 1978.[1] The purpose of this *Report* is to give an account, in the context of the year as a whole, of activities and operations in the areas where the responsibilities of the Bank lie. It is divided into the following sections:

- domestic monetary policy
- external financial policy
- exchange control and other external matters
- the Bank's actions in respect of supervision of markets and support operations
- industrial finance
- other functions of the Bank
- internal administration
- the accounts.

Economic and financial developments in the period covered by the *Report* have already been described in detail in the *Quarterly Bulletin*. Furthermore, during the period, the Governor has, in a number of public speeches, placed particular emphasis on the need for financial and economic stability and the necessary rôle to be played in achieving this by adherence to appropriate monetary targets. The Governor's speeches on this and other subjects, including profitability, building societies, and the world economy, have been reproduced in the *Quarterly Bulletin*.

[1] The accounts and most of the text relate to the accounting year which ended at this date. The discussion of monetary and external policies, however, has been taken up to the end of the financial year 1977/78 and in important cases makes reference to developments since that date.

Domestic monetary policy

General

The financial year 1977/78 was the first in which the authorities operated throughout the year with publicly-announced targets for the growth of the money supply. The reasons for the adoption of monetary targets were discussed by the Governor in his Mais Lecture.[1] In the view of the Bank, neither the economy, nor economic policy, can function well without a background of financial stability, and the main rôle for monetary targets is to provide a framework of stability within which other policy objectives can be more readily achieved. They also provide an appropriate environment in which inflation can be steadily brought down. At a more technical level, monetary targets give a clear indication of the intentions of monetary policy and a standard by which it can be judged.

Following the agreement with the International Monetary Fund (IMF), in December 1976, the Chancellor reaffirmed in his spring 1977 Budget his intention that domestic credit expansion (DCE) should be within the limit of £7.7 billion for 1977/78.[2] He estimated that this limit should be consistent with an increase in sterling M_3 in the range 9%–13% for the same period. For much of the year the rate of monetary expansion remained within this range; but in later months there was an acceleration, which brought the growth of sterling M_3 in the year to mid-April 1978 to over 16¼%. DCE in this period at £4.4 billion was, however, well within the limit set.

Against the background of acceleration in the growth of the monetary aggregates (with DCE in particular having been faster than intended during the spring), a series of corrective steps were taken, culminating in the announcement on 8th June of the proposed increase in the national insurance surcharge together with the reimposition of the supplementary special deposits scheme and the increase in minimum lending rate (MLR) to 10%. This action was designed to bring the trend growth of sterling M_3 within the target range for 1978/79, which was set at 8%–12%. In agreement with the IMF, a limit of £6 billion was also set for DCE in the same period.

The fixing of the 1977/78 target

The early months of 1977 had seen the continuation of the improvement in financial confidence which began after the generally good reception of government measures and conclusion of the agreement with the IMF in December 1976. A large volume of funds moved into sterling, and the official reserves, which had been under severe pressure since March 1976, were substantially built up. These inflows helped to put continuous downward pressure on short-term interest rates. Moreover, heavy sales of gilt-edged, prompted by expectations of substantial falls in long-term rates from historically high levels, coupled with slow growth in bank lending to the private sector, led to a fall in M_3 between November 1976 and February 1977: this brought the banks well within the limits allowed for the growth in their interest-bearing eligible liabilities under the supplementary special deposits scheme which had been reimposed in the previous November. Over 1976/77, M_3 grew by rather less than the target set in July 1976: by some 10% compared with 12%. Sterling M_3,[3] which the Chancellor had expected in December 1976 to grow by 9%–13% in 1976/77 similarly fell short, with the outturn at 8½%. It was against this background that the Chancellor reaffirmed, in his 1977 Budget speech, the DCE limit of £7.7 billion and indicated that he expected this to be consistent with an increase in sterling M_3 in the range 9%–13% for the twelve months to mid-April 1978. It was hoped that the moderation this implied would involve a further decline in the rate of inflation without holding back recovery in the real economy. It was recognised that, with a projected public sector borrowing requirement (PSBR) of £8.5 billion for the financial year 1977/78, substantial sales of government debt to the non-bank private sector would be necessary if the public sector's dependence on bank finance was to be sufficiently curtailed. Only then would there be adequate room within the monetary targets for the banks to provide enough finance to the private sector to support a recovery in real activity.

[1] Reprinted in the March 1978 issue of the *Quarterly Bulletin*.

[2] Subsequently extended until mid-July 1978.

[3] The difference between M_3 and sterling M_3 is represented by UK residents' deposits (with UK banks only) in foreign currencies, which are included in M_3 and excluded from sterling M_3. Fluctuations in these foreign currency deposits are unlikely to have the same economic implications as movements in sterling deposits. Movements in such foreign currency deposits will vary according to whether such deposits are held in a bank in the United Kingdom or abroad. Also it appears that such movements are mainly associated with activity—notably investment—abroad.

The influence of external factors

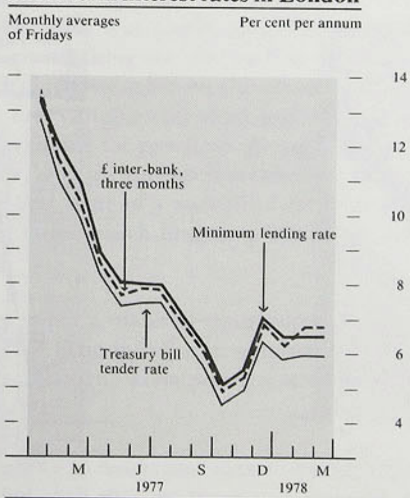
For much of the year, external factors had a major and expansionary influence on domestic monetary conditions. The turn-round in market expectations about the exchange rate attracted substantial flows into sterling during the year. This was no doubt partly a reaction to the very sharp erosion in confidence in 1976, but it owed much also to the evident determination of the authorities to establish and maintain a climate of financial stability. Sterling also benefited in the early months of 1977 from the measures taken in the previous November to limit sterling finance of third-country trade.[1]

In particular given the very low level of the reserves in December 1976, the authorities were content to let the increase in the demand for sterling be reflected in higher reserves, and exchange market intervention was undertaken accordingly, keeping sterling broadly in line with the US dollar, and adding very substantially to the reserves. Upward pressure on sterling was, however, strongly boosted in the summer of 1977 by the weakening in the US dollar, and in July it was decided in pursuance of the aim of broad exchange rate stability to switch the focus of intervention from the dollar rate to the effective rate for sterling. Inflows continued, however, and, with a weakening dollar in the early autumn, accelerated substantially; with the threat of an excessive growth in the money stock, the decision was taken at the end of October to allow the exchange rate for sterling to float more freely. This decision reflected the particular weight attached by the authorities to maintaining control over the monetary aggregates. The 'uncapping' of sterling did not, however, bring the expansionary influence of external factors on the money stock to an end. Even when the authorities are not intervening at all, a private sector surplus on current and capital account, offset, say, by non-resident outflows from sterling bank deposits or by non-resident sales of public sector debt to the authorities, can result in money supply growth being greater than DCE on account of external factors.[2] It was only towards the end of the financial year, when funds began to flow out, that the direct expansionary effects began to be reversed.

The course of interest rates

From November 1976 until November 1977, pressure in the markets was almost continuously towards lower interest rates (see chart). The downward pressure on short-term rates came in large part from the inflows noted above. At the same time, generally improved confidence—particularly about the outlook for inflation—also helped to drive down long-term rates. The trend of interest rates abroad was also downward, but much less steeply.

Short-term interest rates in London



Although these developments were welcome from the point of view of reviving activity in the economy, the authorities were concerned at the extent of downward pressure on short-term rates, partly because of the boost this would tend to give to bank lending and thereby the monetary aggregates, but also because of the associated risk that an unduly rapid fall in rates might soon need to

[1] See the March 1977 *Quarterly Bulletin*, page 7.
[2] See 'The domestic financial implications of financing a balance of payments deficit on current account' in the March 1975 *Quarterly Bulletin*.

be reversed. The authorities sought as a result to moderate the fall in short-term rates—repeatedly between February and April 1977 and again between July and October; and the normal formula relating MLR to the average rate of discount at the weekly Treasury bill tender was suspended on a number of occasions.[1]

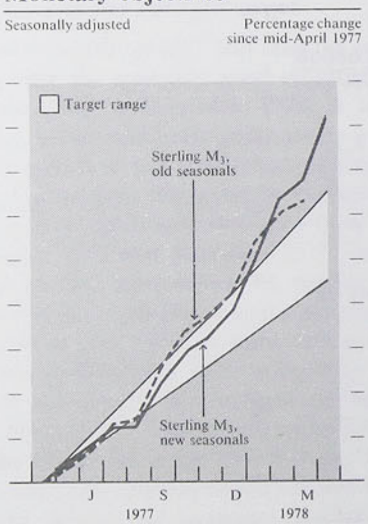
Even so, MLR fell from its peak of 15% in October 1976 to 9% by mid-April 1977 and to 5% by mid-October. After the decision at the end of October to allow sterling to float more freely, there was an upward adjustment of rates, and MLR rose to 7% towards the end of November. Thereafter, there was a period of greater stability but without any persistent trend; although MLR fell to 6½% early in January 1978, there was, from the middle of that month onward, quite frequent upward pressure on rates. In the Budget, in mid-April, MLR was increased by 1%. During the first half of May, it rose again, in two steps, to 9%, and in early June to 10%.

Factors affecting domestic credit expansion and the growth of sterling M_3 in 1977/78

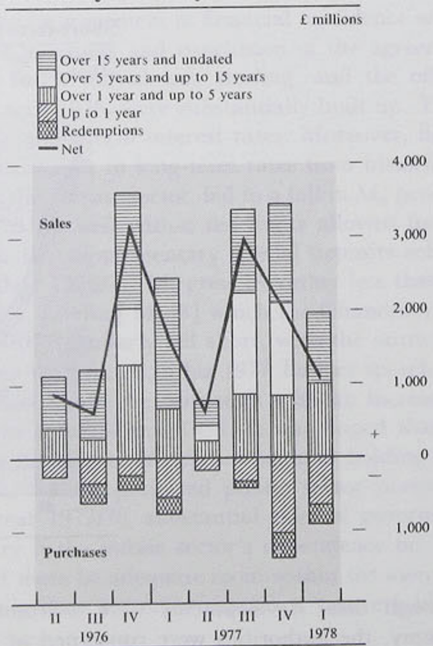
Despite the effect of the inflows, the growth in sterling M_3 in the first half of 1977/78 was roughly in line with the target range (see chart), while DCE at an annual rate was running at only about one fifth of the limit agreed with the IMF. The PSBR proved in the event to be much lower than had been originally forecast, despite further modestly expansionary measures in July and October. In addition, the private sector purchased very substantial quantities of public sector debt, while bank lending, no doubt in part because of the effects of the inflows on the financing needs of companies, increased only moderately. The narrowly defined money stock (M_1), however, grew rapidly, reflecting the sharp fall in interest rates.

Over 1977/78 as a whole, the PSBR was more than covered by *net sales of government debt to the non-bank private sector* (see chart on the opposite page). Until the end of 1977, conditions for selling gilt-edged were frequently very favourable, and a number of the new stocks were oversubscribed at issue. In the early months of 1978, however, following a marked rise in the proportion of gilt-edged stocks held in the portfolios of savings institutions over the previous two years and with growing expectations that interest rates might have to rise, conditions became more difficult.

Monetary objectives



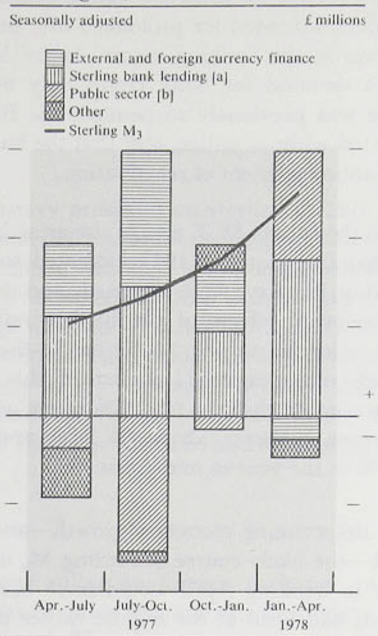
Official transactions in gilt-edged stocks by maturity[a]



[a] Components are on occasion too small to be shown separately.

[1] On 25th May 1978, new arrangements were introduced for determining MLR: see the June 1978 *Quarterly Bulletin*, page 173.

Sterling M_3



[a] Total sterling bank lending plus purchases of commercial bills by the Bank's Issue Department.

[b] Public sector borrowing requirement less net purchases of public sector debt by private sector other than banks.

During 1977/78 the authorities developed two *new techniques for selling debt*.[1] The first—the issue of stocks in part-paid form, i.e. with only a proportion of the price payable on application—was in fact used for the majority of gilt-edged issues made. Gilt-edged issues in part-paid form can help to reduce the extent of short-run month-to-month fluctuations in monetary growth. Expected government receipts and payments can be more closely matched, and this can facilitate keeping monetary growth within the target range.

A second new technique was introduced in May 1977, when the first gilt-edged stock carrying a variable rate of interest was issued. This was partly aimed at strengthening total demand for gilt-edged, but was designed mainly for smoothing out the net flow of total sales, since such an instrument might, it was thought, prove particularly valuable on occasions when expectations as to the course of interest rates were uncertain. The first variable rate stock was allotted in full to the Issue Department of the Bank on 27th May, being available for purchase through the Government Broker. The rate of interest was set as the daily average, over an appropriate reference period, of Treasury bill rate, plus a fixed margin of ½%. Although the first issue of a variable rate stock sold well, official supplies being exhausted by 22nd June, a second issue, which became available in early July, sold only slowly and was not exhausted until May 1978.

Bank lending to the private sector was not a material contributory factor in the acceleration of sterling M_3 during the second half of 1977/78. The increase in nominal terms in this period was less than in the first half of the financial year, although, when account is taken of the deceleration in the rate of inflation, there was a rise in real terms.

The Bank maintained *qualitative guidance* to banks and deposit-taking finance houses on the direction of their lending throughout the period, and this guidance was restated at the time of the April 1978 Budget. The *supplementary special deposits scheme* was also in operation until August 1977. The scheme had been reintroduced in November 1976, at a time when bank lending had been rising rapidly, and it was subsequently extended in May 1977 for a further six months. Interest-bearing eligible liabilities (on which liability to supplementary special deposits is assessed for each bank) fell sharply between mid-November 1976 and mid-March 1977, and this brought the banks collectively well below the level in the base period. Although there was a rise subsequently, the banks were still more than 5%

[1] The first, the issue of part-paid stocks, was not strictly new but had not been used since 1940.

below the free limit in mid-July. There is no evidence that the scheme constrained bank lending to industry. The scheme has never been intended for prolonged use, because it would tend over time to have adverse effects on competition in the banking sector. As by August it no longer seemed to be serving any useful purpose, with demand for bank credit only modest, it was suspended. As in February 1975, when the scheme was previously suspended, the Bank's announcement emphasised that the scheme could be reactivated without notice, and that the base date to which the limits would relate could be before the date of announcement of reactivation.

There was a sharp acceleration in the rate of DCE and of the growth of sterling M_3 in the second half of 1977/78. The figures for the fourth quarter of 1977 indicated some acceleration. But this, and a sharp rise in sterling M_3 in banking January, were expected, and thought to be largely explained by special factors, notably the once-for-all effects of the further reflationary package announced in October. The original seasonally-adjusted sterling M_3 figures in the months of February and March (showing rises of 1.1% and 0.5% respectively)[1] confirmed this expectation suggesting that the January surge was indeed temporary and that the 9%–13% range would, at most, be only marginally exceeded. The banking April figures, however, showed a large and erratic rise of 2.5%, raising the growth of sterling M_3 to over 16¼% in the year to mid-April.

Given the vagaries of the factors determining monetary growth—and in particular the erratic month-to-month behaviour of the PSBR—the likely course of sterling M_3 in any particular month cannot be certainly predicted. But the rise in banking April would have been less damaging to confidence if the previous course of sterling M_3 had been at the middle rather than above the upper point of the target range.

Developments in 1978/79 to June

For 1978/79, the Chancellor announced a target range of 8%–12% for the growth of sterling M_3. Unlike the previous targets, this will be reviewed and rolled forward after six months, thereby reducing the possible extent of the problem which arose late in 1977/78, where a sharp jump at the end of the year, and unexpected revisions to the figures, left the authorities with inadequate time to respond to the changed circumstances within the target year: the same problem had arisen, but in reverse, with the sudden decline in monetary growth, at the end of 1976/77. Of particular relevance here is the fact that monetary aggregates respond to factors affecting them only with a lag; it seems likely, for example, that delayed reactions to the sharp fall in interest rates in the year up to November 1977 played a significant part in the monetary expansion evident in early 1978. The adoption of rolling targets, where regular reviews are possible, is a recognition of this and in no way lessens the importance attached by the Bank to stability in the growth of the money stock.

The notably buoyant tone in financial markets ruling in 1977 was modified in the first months of 1978, as a result of a number of developments discussed in the Bank's *Quarterly Bulletin* for June 1978. These developments created an atmosphere after the Budget in April which, since they made it difficult to sell government stock on a sufficient scale, threatened to lead to a continuation of excessive monetary expansion. MLR which was at 6½% before the Budget was then increased in successive stages to 10% on 8th June. With the last increase in June, the Bank also reimposed the supplementary special deposits scheme. The monetary measures in June were accompanied by the government announcement of a proposal to increase the national insurance surcharge in order to keep the PSBR for 1978/79 to the forecast of £8½ billion and the growth of sterling M_3 well within the target range. These measures were well received and resulted in sales of government debt on a sufficiently massive scale to make it probable that the growth of sterling M_3 over the first months of the current financial year will be kept to small dimensions.

Notwithstanding the difficulties experienced in controlling the growth of the money stock, the practice of fixing and publishing targets for its growth has, in the view of the Bank, provided a useful yardstick against which performance could be judged, and hence resulted in earlier corrective action than might otherwise have been taken.

[1] Later revisions to the seasonal adjustments, however, increased these to 2.4% and 0.6%, respectively.

External financial policy

Exchange rate and reserves

As already noted, after the very heavy pressures on sterling in 1976, there was a marked recovery in international confidence over the end of the year following government measures to restore internal and external equilibrium, and the agreement with the IMF. The authorities took advantage of this radically changed background to maintain a stable relationship with the US dollar, keeping the rate for sterling at around $1.72. A stable exchange rate was consistent with the Government's counter-inflation policy while avoiding a serious loss of international competitiveness from an appreciating rate. But a stable exchange rate was not seen merely as a compromise between these various objectives; it was also important as a means to accumulate reserves to a more satisfactory level and to restore a calmer and more confident atmosphere for the exchange markets, and for trading relationships, after the upheavals of 1976.

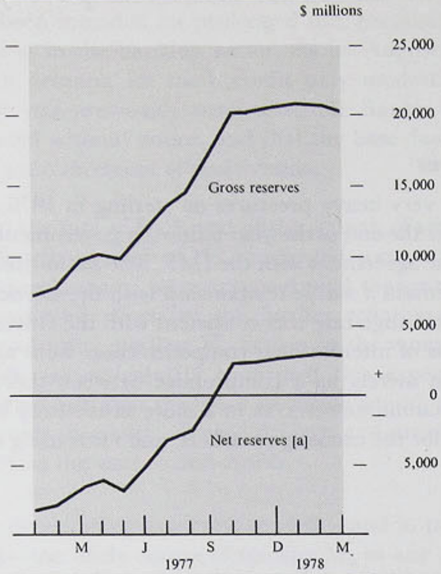
In the generally steady conditions ruling in foreign exchange markets until mid-year, a stable dollar/sterling rate also implied a fairly stable effective rate for sterling. But in July the dollar weakened, and sterling's effective rate depreciated. That depreciation was incongruous in relation both to the aim of stability and to the strength of sterling in the markets which was showing itself in continuing inflows. It was therefore decided, at the end of July, to have more regard in market intervention to the effective rate. The change in the reference point did not imply any fundamental change in policy: the stability which was still sought could under the prevailing conditions better be secured by relating to the effective, rather than the dollar, rate.

The maintenance of stability required, on occasion, intervention in support of sterling. But the persistent pattern was of intervention to moderate upward pressure on the rate, and as a result, the reserves continued to increase from the dangerously low levels to which they had fallen in 1976. This rebuilding of reserves was a complementary objective of policy. Despite the rapid increase in gross reserves, net reserves—that is after subtracting outstanding official short and medium-term borrowing—remained negative until October (see chart on following page).

There was, however, a potential conflict between the policy of maintaining exchange rate stability and the policy of restraining the monetary aggregates. In the early part of the year, the unwelcome effects of continuing inflows on the money supply had been largely absorbed or offset. But the conflict sharpened in the autumn, as the current account moved into surplus and inflows increased as the dollar weakened. In October alone the reserves increased by over $3 billion to over $20 billion, and even the fall in MLR to 5% failed to check the inflows. It was clear that the exchange rate could no longer be kept down without risking excessive expansion of the monetary aggregates. Although there was widely-held concern about the implications, for competitiveness and longer-term exchange rate stability, of a sharp rise in the rate in the short term, maintenance of control over the monetary aggregates was the higher priority. Official intervention to hold down the rate therefore ceased at the end of October.

Thereafter, the main concern of the authorities was with smoothing operations designed to maintain an orderly market. The general tendency of the rate was upwards until end-January, with the effective rate reaching 66.5. Underlying factors in this increase included the move into current account surplus, the improved outlook for inflation, and the continuing weakness of the dollar. The market then took a somewhat less optimistic view of prospects. The effective rate fell steadily in February and into March, and then more sharply towards the end of March. Substantial support was given in April to arrest the downward impetus. This was successful, and although further support was needed in May the effective rate was maintained between 61 and 62 during May and June without major difficulty.

Gross and net reserves



[a] Comprising gross reserves less outstanding official short and medium-term borrowing as defined in Table 25.1 of the statistical annex in the June 1978 *Quarterly Bulletin*. No deduction has been made for certain long-term government borrowings (mainly the post-war North American loans), nor for medium-term foreign currency borrowing by the public sector outside the exchange cover scheme, nor for foreign currency bonds issued by the Government under the Third Group Arrangement.

In addition to operations in the spot market, the Bank intervened in short-dated swap markets at times in order to even out flows in the sterling money market, and in longer-dated swap markets to match forthcoming payments by public sector customers with foreign currency receipts.

In conducting their exchange rate operations, the Bank remained in close contact with other central banks: the Bank participate in the network of eleven central banks which, under the auspices of the European Economic Community (EEC), exchange information on developments in foreign exchange markets four times each working day. The network also includes the Federal Reserve Bank of New York, the Bank of Canada and the Bank of Japan.

The Bank's foreign exchange operations also included executing orders for foreign currency on behalf of customers, mainly government departments and overseas central banks, and management of the Government's $2.5 billion and $1.5 billion euro-currency borrowings.

External indebtedness

As part of the Government's aim of achieving an orderly reduction in the reserve rôle of sterling, arrangements were completed in February 1977 under which the Bank for International Settlements, with the support of central banks in eleven countries,[1] provided the United Kingdom with a $3 billion facility designed to protect the exchange rate and the official reserves from the impact of any further run-down of official sterling balances. This facility has in the event not been used. As a further contribution towards the orderly reduction of overseas official sterling balances to working levels, the Bank arranged, on behalf of the Government, in April 1977, a special issue of foreign currency bonds to official foreign holders of sterling. Subscriptions to these bonds, which were denominated in US dollars, deutschemarks, Swiss francs and yen, amounted to some £395 million.

With the current account still in deficit until the autumn, and with a large proportion of the reserves potentially volatile, it seemed prudent to pursue a cautious policy with respect to external debt; the second tranche of the Government's $1.5 billion euro-currency loan arranged in January 1977 was drawn down on schedule in August/September, and drawings on the IMF standby continued until August.

[1] Austria, Belgium, Canada, Denmark, Western Germany, Japan, the Netherlands, Norway, Sweden, Switzerland and the United States.

But with the improvement in confidence already described, there was no need to continue the heavy borrowing which had characterised the previous year and external borrowing under the exchange cover scheme by nationalised industries and local authorities, apart from a single euro-dollar bond issue of $100 million by the National Coal Board, also in August, was largely confined to regular borrowing from the European Investment Bank (EIB) and the European Coal and Steel Community (ECSC).

In the autumn, as the current account moved into substantial surplus and the reserves continued to increase, policy became directed towards reducing the outstanding total of external debt, while at the same time trying to alleviate the heavy bunching of maturities between 1979 and 1984: of the $25 billion of external debt outstanding at end-September, almost $20 billion fell due for repayment in these years. Emphasis was accordingly given first to prepaying more expensive debt falling due in the peak years, and secondly to new borrowing for repayment in the years after 1984. Prepayments of public sector market debt started modestly in the last quarter of 1977, and gathered momentum in the early months of 1978. By end-June $1.1 billion of market debt had been prepaid, and arrangements were in hand for prepaying a further $0.4 billion. In addition, in April, the United Kingdom also repurchased $0.9 billion from the IMF ahead of schedule. The Chancellor announced in his Budget speech that a further $1.0 billion would be repaid to the IMF ahead of schedule and that the Government would issue $350 million of bonds on the US capital market; this issue, which was successfully completed in early May, and continuing borrowings from the EIB and ECSC, all had maturities beyond the peak years.

Exchange control and other external matters

Exchange control

Against the background of the country's improving external position, a number of changes in the exchange control rules were introduced during the year. Further measures were taken to simplify administration and reduce costs: nevertheless, the volume of work remained heavy.

Until last year, the processing of applications for eligibility for the investment currency premium in respect of securities not in deposit had represented a heavy administrative burden which the passage of time was exacerbating. These were principally securities of the overseas sterling area which, as a class, became depositable on 23rd June 1972 when that area was excluded from the Scheduled Territories. Accordingly, in May 1977 it was announced that, with effect from 31st August, the Bank would no longer permit UK residents to sell foreign currency securities with the benefit of the premium when such securities had not been held in deposit; the deadline was subsequently extended to 31st October. The announcement was given wide publicity, and some 50,000 applications were received before the extended deadline expired.

Mention was made in last year's *Report* of new arrangements for closer monitoring of transactions in foreign currency securities and investment currency. These were implemented in March 1977 and entail a new system of returns from authorised depositaries and periodic spot checks on the records of dealers in investment currency. This process of strengthening the authorised depositary system was reinforced by a reminder from the Bank to solicitors, in October 1977, of their responsibilities under the Exchange Control Act 1947, particularly in relation to transactions involving foreign currency securities and investment currency.

A number of adjustments to the exchange control rules were announced by the Chancellor of the Exchequer on 26th October 1977. The limits for emigration, travel, and cash gifts and personal loans to non-residents were raised, and the restrictions on sterling borrowing by non-resident controlled manufacturing companies in the United Kingdom were removed. The rules relating to the financing of merchanting trade, which had been tightened in 1976, were modified to allow merchants to build up modest foreign currency resources; banks and insurance companies were also allowed to retain larger amounts in foreign currency to finance their foreign currency business.

In December 1977, following discussions with the Commission of the European Communities about the liberalisation of capital movements, a number of relaxations were announced, to take effect from 1st January 1978. These relaxations included further increases in the allowances for UK residents emigrating to the EEC, or making cash gifts to residents of the EEC, and more generous provision of official exchange for direct investment in EEC countries under the so-called 'super criterion' arrangements.

At the same time, it was announced that the '25% surrender requirement' on the sale proceeds of foreign currency securities, which had been introduced in April 1965, would be abolished, again with effect from 1st January 1978. Representations had been received from the market over a long period of time that the '25% surrender requirement' inhibited the proper management of foreign currency portfolios, and its removal was generally welcomed.

In the light of these changes, the Commission authorised the maintenance, on a temporary basis, of the United Kingdom's remaining restrictions on certain capital transactions with other EEC member states.

Following representations by the British Numismatic Trade Association, the restrictions on the importation of gold coins were relaxed in December 1977, to apply only to coins minted after 1937, instead of 1837. Also in December, an amendment to the Exchange Control Act, which had been included in the Finance Act 1977, was brought into effect. This gave powers to control the raising of finance by non-resident controlled UK companies by means of bills of exchange and similar instruments. Other methods of raising finance by such companies have always been subject to control.

Other external matters

The policy implications of external developments during the year under review have been discussed earlier in this *Report*; this section deals with other aspects of the Bank's work on overseas affairs.

In March 1977, the Governor came to the end of his term as chairman of the EEC Committee of Central Bank Governors and of the Board of Governors of the European Monetary Co-operation Fund. The Bank continued to provide the alternate director of the IMF for the United Kingdom and to be represented on a number of committees of the EEC and the OECD.

In the period under review, the Bank have paid particular attention to the evolution of international indebtedness. This work forms part of the Bank's more general monitoring of the operations of the international capital markets.

On export finance, the Bank played an active rôle in the development of the arrangements for the provision of medium and long-term buyer credits in foreign currency, [1] and in negotiating with the banks a new scheme for the provision of officially-supported medium and long-term sterling export credit.[2]

Over 2,000 foreign visitors, a record number, were received during the year, mainly from other central banks, but including a number of commercial bankers and government officials.

[1] Described in the December 1977 *Quarterly Bulletin*, page 451.
[2] Described in the March 1978 *Quarterly Bulletin*, page 61.

Supervision, support operations and City liaison

Banking supervision

Within the existing supervisory arrangements for banks registered in this country, the Bank have developed further their examination of the business of the London and Scottish clearing banks, including operations carried out through their subsidiary companies. And a start has been made on prudential discussions with the senior management of some of the overseas banks with branches in the United Kingdom, of which there are some 140; it is intended that such discussions should be steadily extended to cover more of these banks and that they will take place annually thereafter. Prime responsibility for these branches necessarily still rests with the supervisory authorities in the countries where the parent banks are located, but it is now generally accepted that host authorities should be prepared to assist that process by undertaking limited local supervision.

The Government have reiterated their intention to introduce legislation on deposit-taking institutions as soon as Parliamentary time becomes available; it is hoped to publish draft clauses at an early stage to allow for further consultation with the banking sector and other interested parties. It remains the intention that the legislation should provide a framework for the prior authorisation and supervision by the Bank of all deposit-taking institutions (other than those already supervised in other ways, e.g. building societies and trustee savings banks) and should include provisions to set up a deposit protection scheme to afford depositors with recognised banks and licensed deposit-taking institutions a measure of protection in the event of insolvency.

On 18th April 1977, Section 31 of the Companies Act 1976 came into operation, empowering the Secretary of State for Trade to prevent a foreign company from starting to carry on business in Great Britain under a corporate name registered overseas. The Department of Trade is thus now able to exercise full control over the use in the United Kingdom of the word 'bank' or any derivative by companies registered abroad.

In June 1977, Mr W. P. Cooke succeeded Mr Blunden as chairman of the Committee on Banking Regulations and Supervisory Practices, which draws its members from the countries of the Group of Ten. The Bank continue to value highly the formal and informal links with the supervisory authorities of other countries which are afforded by this Committee, and also by participation in the EEC Group of Bank Supervisory Authorities, for which the Bank have recently agreed to provide a secretariat.

Regulation of the securities market

The Joint Review Body established between the Department of Trade and the Bank in 1976 to monitor developments in the securities market has continued to meet during the year. The Bank have found these regular meetings a useful addition to the day-to-day contacts maintained with the Department of Trade on matters of detail.

At the time the Joint Review Body was established, it was made clear that the Bank would be seeking further development of non-statutory surveillance of the securities industry with a view to making the existing, largely self-regulatory, machinery more effective. After extensive discussions between the Bank, institutions active in the securities industry and other interested parties, the formation of the Council for the Securities Industry was announced on 30th March. This new supervisory body, under the chairmanship of Mr Patrick Neill, QC, comprises all the major organisations involved in the securities industry, together with representatives, appointed by the Governor, of the individual investor and the wider public interest. It has been built in large part on the existing regulatory machinery of the stock exchange, as the central market for securities, and of the City Panel on Take-overs and Mergers. The main object of the new Council is to sustain, in the public interest, proper conduct and high standards in the securities industry. It has two main operating arms—the Take-over Panel, which will continue with its present responsibilities for administering the Code on Take-overs and Mergers, and a Markets Committee which will be responsible for the framing and amendment of codes of conduct, the consideration of proposed UK and EEC legislation, and for keeping under review developments affecting securities markets generally. The Bank are represented on the Council and have also provided a secretariat. The financing of the Council will be provided from two sources: direct contributions by the bodies represented on it, and a levy on contract notes relating to transactions in UK securities in excess of £5,000.

Gilt-edged settlements

In August 1977, the Bank joined with the stock exchange to promote a study of the system of settlements of transactions in gilt-edged stocks. The study is directed by a committee, under the chairmanship of Mr G. D. Burnett, consisting of the Government Broker, representatives from the Bank, and the members of the stock exchange. The committee's mandate is to obtain agreement on the measures necessary:

- to ensure a reliable and effective system of settlement throughout this decade and beyond;
- to supervise the implementation of agreed short-term measures;
- to establish an appropriate framework for implementing long-term measures.

The committee published an interim report in May 1978.

Market supervision

Foreign exchange and currency deposit markets

The Bank continued to take part in the work of the Joint Standing Committee of Representatives of Banks and of the Foreign Exchange and Currency Deposit Brokers' Association, for which they provide a chairman and secretariat. The committee provides a forum where the participants, all of whom are actively involved in the foreign exchange and currency deposit markets, can discuss matters of common interest. The structure of the markets has been challenged by Sarabex Ltd, a broking firm which is not a member of the association, and the case is currently being investigated by the Commission of the European Communities.

Sterling money markets

The joint standing committee referred to in last year's *Report* has made substantial progress in formulating a draft Constitution and Rules for the proposed Sterling Brokers Association. The committee has continued to consult closely with other interested parties, in particular the local authority associations, the members of which are significant users of the sterling money markets, and the stock exchange, whose members have traditionally provided a limited broking function in money as part of their overall service to clients.

Commodity markets

Close and regular contact has been maintained with the markets during the year. Following discussions with the Bank, penal cash deposits were imposed in the cocoa terminal market when prices increased dramatically during March and April 1977; this action had helpful effects which were felt also in the coffee market.

Discussions with the London Metal Exchange about methods of improving market security led to the approval, in February 1978, of a scheme for the daily monitoring of ring-dealers' trading commitments; the International Commodities Clearing House will provide computer facilities and planning for the implementation of the new system is in progress.

Support operations

The Burmah Oil Company Limited

The Bank continued throughout the year the financial support for this company which arose from the difficulties it encountered towards the end of 1974. Because of the claim made by Burmah for the restitution of the 77,817,507 British Petroleum ordinary stock units purchased by the Bank from Burmah in January 1975, this stock has continued to be held by the Bank. In a related operation, however, 66,785,591 units of BP ordinary stock were sold by the Bank to the public from the Government's holding in BP. A note on this operation is to be found on page 22.

Joint operations ('The Lifeboat')

The special committee of the Bank and the London and Scottish clearing banks, set up in December 1973 under the chairmanship of the Deputy Governor, continued to meet, though much less frequently than in previous years. The number of active companies still receiving support has fallen to four, and the amount of support outstanding has been reduced to approximately one half of the peak level of about £1,300 million reached in December 1974. The amount outstanding is expected to continue to fall steadily.

Other operations

In September 1977, as part of the support it had for some time been providing to the Slater, Walker group, the Bank acquired from Slater, Walker Securities Limited—now Britannia Arrow (Holdings) Limited—its wholly-owned subsidiary, Slater, Walker Limited, an authorised bank. Slater, Walker Limited was then reorganised under a board chaired by the Deputy Governor of the Bank. Although now a wholly-owned subsidiary of the Bank, Slater, Walker Limited's accounts will be filed separately and not consolidated with those of the Bank.[1] With this acquisition, the Bank ended their involvement with the rest of the Slater, Walker group.

In October 1977, Edward Bates and Sons (Holdings) Limited which had also been in receipt of support from the Bank and, to a limited extent, from the 'Lifeboat', sold its wholly-owned United Kingdom banking subsidiary, Edward Bates and Sons Limited, for a nominal consideration to a consortium of overseas (mainly Arab) investors and Barclays Bank International Limited. Before this company was sold to its new shareholders, the Bank, through a wholly-owned realisation company, EBS Investments Limited, acquired from Edward Bates and Sons Limited certain loans and other assets on terms which eliminated that company's net asset deficiency and gave it a nominal net worth. Some of the Arab shareholders also made a substantial contribution to the elimination of the asset deficiency. At the same time, EBS Investments Limited acquired from Edward Bates and Sons (Holdings) Limited both the latter's 83% shareholding in a French bank, Banque Pommier SA, and a number of other subsidiaries. Edward Bates and Sons (Holdings) Limited itself then went into liquidation.

A comprehensive account of the Bank's support operations generally, covering both those conducted jointly with the London and Scottish clearing banks and those concerning the Slater, Walker and Edward Bates groups, may be found in a paper which the Bank presented to the Select Committee on Nationalised Industries and to the Committee to Review the Functioning of Financial Institutions (The Wilson Committee) earlier this year. This paper was also made available to the Press and was reprinted in the *Quarterly Bulletin* for June 1978, page 230.

City liaison

The Governor has continued to preside over the City Liaison Committee, which discusses matters of interest to the City as a whole and keeps in touch with the more detailed work of the specialist City committees.

The EEC Committee has been particularly concerned with developing the UK response to the Commission's proposals for a code of conduct relating to transactions in transferable securities.

The Capital Markets Committee considered a wide range of subjects with actual and potential impact on investors and the capital markets. Evidence on the rôle of the markets in providing finance for industry was prepared for the Wilson Committee, and a paper commenting on the Government's Green Paper *The Future of Company Reports, a Consultative Document*, Cmnd 6888, was submitted to the Department of Trade.

The Company Law Committee published a note criticising the main conclusions of the Majority Report of the Bullock Committee, and also commented to the Department of Trade on the Green Paper on company reports referred to above. The Committee has also submitted a paper to the Department of Trade on the White Paper *The Conduct of Company Directors*, Cmnd 7037.

The Taxation Committee has maintained its links with the Inland Revenue, making representations on the Finance Bill and on the Revenue's consultative document on capital gains and inflation. The Committee also submitted evidence to the Wilson Committee, identifying in particular the problems of taxation for small firms.

The Telecommunications Committee continues to link the Post Office and users of Post Office services in the City.

The City Communications Centre, set up by the City Communications Organisation, has worked to develop more effective provision of information on financial questions and the range of City activities, including the collation and publication of summaries of the City evidence to the Wilson Committee (see also below).

[1] See note on page 34.

Industrial finance

The Bank and industry

Industry and commerce stand to be significantly affected by the operations of the Bank in the implementation of domestic monetary and external financial policy. The Bank thus seek to be well informed as to current business opinion and maintain contact with a wide range of industrialists. In past years this contact has been primarily based on the work of the Bank's branches in major provincial centres. Since the appointment of Sir Henry Benson as adviser to the Governor on industrial matters, and the establishment of the Industrial Finance Unit as part of the Economic Intelligence Department, contacts have increasingly been developed with the head offices of firms in the London area.

The Bank are also concerned with the problems facing particular sectors of industry, especially where their solution may involve extensive financial rearrangement. For example, the inquiry into the clothing industry which Mr J. P. Koppel was asked to undertake at the end of 1976 has now been completed and the results are being discussed with industry, representatives of the City and government departments.

Industry and finance

As part of their general responsibility for the efficient functioning of the financial system, the Bank are concerned that the financial system should be appropriately responsive to the requirements of industry. They have therefore provided evidence to the Wilson Committee in the first stage of its work, which is concerned with arrangements for financing industry and trade. The Bank's main evidence relating to this stage was contained in a paper 'Savings and investment: recent developments in financing arrangements', which was subsequently published in the *Quarterly Bulletin* for September 1977 (page 310). The Bank also gave oral evidence on 6th December 1977,[1] and helped to prepare a number of background papers for the Committee.

The second stage of the Committee's inquiry is to cover, *inter alia*, the functioning and supervision of financial institutions. In this connection, the Bank have submitted to the Committee a series of five papers of evidence and others containing background material; in due course the Bank will be required to give further oral evidence.

It seems clear that many smaller and some medium-sized firms may not be aware of the wide array of financial facilities that are available to them. The Bank have therefore prepared, jointly with the City Communications Centre, and in consultation with City institutions and government departments, a comprehensive guide, *Money for Business*,[2] which describes the different types of finance available for different purposes from both private and public sector institutions and the ways in which businessmen may set about obtaining funds that may be required; the guide also lists the institutions from which finance can be obtained. Some 80,000 copies have been distributed direct to businesses, particularly in manufacturing industry.

The Bank keep in close touch with two agencies designed to meet particular industrial financing needs—Finance for Industry (see below) and Equity Capital for Industry. The Bank have also continued to be represented on the NEDC Committee on Finace for Investment, which was reconstituted early in 1978, with wider terms of reference, as the Committee on Finance for Industry.

Finance for Industry Limited

Finance for Industry Limited (FFI) (of which the Bank are shareholders) raised £56 million in the twelve months to the end of March 1978 for onward lending to British industry: £10 million from the

[1] Volume 5 of the Evidence on the Financing of Industry and Trade published by HM Stationery Office reproduces the Bank's stage one evidence, including a transcript of the oral evidence.

[2] Copies of the guide may be available through banks, accountants and other financial institutions or they can be obtained direct, at a cost of £1.00, from the Bank.

issue of loan stock by its subsidiary company, Industrial and Commercial Finance Corporation, £14 million from term deposits and £32 million from two sterling-related euro-bond issues. FFI was the first wholly-domestic UK company to tap the newly-emerged euro-sterling market, in November 1977.

In the year to the end of March 1978, the FFI group made or committed loans totalling £200 million—of which a record £130 million was represented by lending by ICFC to small and medium-sized firms, compared with £70 million in 1976/77. Total loans or commitments by the FFI group since its formation in 1973 amount to some £660 million.

Other functions

Management of stock registers

Turnover was again heavy in the gilt-edged market, and the number of transfers registered was nearly 10% greater than in the previous year; indeed over the past three years, as the figures below show, the number of transfers registered has risen by over 45%.

Thousands	Year to end-February	**1975**	**1976**	**1977**	**1978**
		768	873	1,025	1,123

Moreover, the new and extensive use of partly-paid issues[1] greatly added to the volume of the work in this area, and there were also complexities associated with the issue of variable rate gilt-edged stocks.

The nominal value of stocks managed by the Bank increased by nearly 25% during the year, rather more than in each of the preceding two years: new issues amounted to almost £13,000 million and redemptions to nearly £3,000 million. Although the number of gilt-edged accounts fell slightly, there was a sharp increase in the number of bearer bonds in issue, reflecting greater overseas interest in the market.

	Nominal value of stocks in issue (£ millions)				Number of accounts (thousands)			
End-February	**1975**	**1976**	**1977**	**1978**	**1975**	**1976**	**1977**	**1978**
British government securities:								
Stock[a]	27,769	33,491	40,436	51,004	1,859	1,878	2,044	2,032
Bearer bonds	35	40	50	84	[b]	[b]	[b]	[b]
	27,804	33,531	40,486	51,088				
Other securities:	908	908	908	808	114	116	117	98
Government-guaranteed	164	161	154	138	49	47	43	39
Commonwealth etc.	663	753	812	792	145	145	136	115
Local authorities	384	390	457	473	47	48	48	45
Other[c]								
	2,119	2,212	2,331	2,211	355	356	344	297
Total	**29,923**	**35,743**	**42,817**	**53,299**	**2,214**	**2,234**	**2,388**	**2,329**

[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: 1975: 45,000; 1976: 47,000; 1977: 56,000; 1978: 89,000.

[c] Including stocks of the Agricultural Mortgage Corporation Limited and Finance for Industry Limited.

Repayments and issues

The main repayments and issues undertaken during the year are listed below:

£ millions nominal

Repayments at par

1977 10 March	6¾% Treasury Stock 1977	849.9
15 March	British Electricity 3% Guaranteed Stock 1974/77	100.0
1 June	New Zealand Government 3% Stock 1973/77	4.8
15 August	Greater London 7¾% Stock 1977	40.0
10 September	Liverpool Corporation 7% Stock 1976/77	15.0
26 September	11½% Treasury Stock 1977	600.0
15 November	3% Treasury Stock 1977	849.1
1 December	Middlesex County Council 6¼% Redeemable Stock 1975/77	20.0
11 December	Agricultural Mortgage Corporation Limited 6½% Debenture Stock 1975/77	7.5
20 December	British Transport 4% Stock 1972/77	241.8
30 December	New Zealand Government 7½% Stock 1977	10.0
1978 8 February	London County 6% Stock 1975/78	20.0

[1] See page 9.

£ millions nominal

Issues

1977	10 March	@ £98.50	Greater London 13¼% Stock 1984	50.0
	24 March	@ £96.00	12¼% Exchequer Stock 1992	800.0
	6 April	@ £97.00	9¼% Exchequer Stock 1982	800.0
	27 May	[a]	Variable Rate Treasury Stock 1981	400.0
	2 June	@ £94.00	11¾% Treasury Stock 1991	800.0
	1 July	[a]	Variable Rate Treasury Stock 1982	400.0
	4 August	@ £97.50	9½% Exchequer Stock 1981	800.0
	4 August	@ £97.50	City of Liverpool 13% Stock 1985	25.0
	11 August	@ £96.00	12½% Exchequer Stock 1994	1,000.0[b]
	25 August	@ £87.00	3% Exchequer Stock 1983	600.0
	25 August	@ £96.75	9¼% Treasury Stock 1983	800.0
	15 September	@ £96.50	12% Treasury Stock 1995	1,000.0[b]
	22 September	@ £98.25	8¼% Treasury Stock 1982	800.0
	13 October	@ £92.00	3% Exchequer Stock 1981	600.0
	20 October	@ £96.00	10½% Exchequer Stock 1997	900.0[b]
	17 November	@ £95.50	10% Treasury Stock 1992	600.0
	15 December	@ £96.75	8¼% Exchequer Stock 1981	900.0[b]
	22 December	@ £95.00	10½% Treasury Stock 1999	800.0
1978	12 January	@ £95.00	10¼% Exchequer Stock 1995	800.0

[a] Full amount issued to the Bank who subsequently responded through the Government Broker to bids made through the market.

[b] Part of each of these issues was reserved for the Commissioners for the Reduction of the National Debt for public funds under their management: £200 million of 12½% Exchequer Stock 1994, £200 million of 12% Treasury Stock 1995, £100 million of 10½% Exchequer Stock 1997 and £100 million of 8¼% Exchequer Stock 1981.

In addition to the above, on 1st July 1977, a tranche of £1.9 million 9¾% Treasury Stock 1981 was issued under the Aircraft and Shipbuilding Industries Act 1977 in compensation for the quoted securities vested in British Shipbuilders; and on 7th February 1978, a further tranche of £22.0 million 9¾% Treasury Stock 1981 was issued as compensation on account for certain unquoted securities, the values of which had not yet been agreed. Also, thirty-two issues of short-term bonds (with a value of £48 million) were redeemed during the year and there were thirty-seven issues (with a total value of £53.5 million).

Southern Rhodesia stocks

Once again no funds have been received to service Government of Southern Rhodesia stocks for which the Bank act as paying agents. At the end of February 1978, the approximate cumulative amounts due since November 1965 but unpaid were:

Gross interest	£24,078,000
Redemption moneys [1]	£33,914,000
Sinking funds [2]	£3,950,000

Sale of British Petroleum stock

In the summer of 1977, the Bank arranged, on behalf of the Government, for the sale of 66,785,591 ordinary stock units of £1 each of the British Petroleum Company Limited. Of these 53,428,591 stock units were allocated to applicants in the United Kingdom at a price of £8.45 per stock unit, of which £3 was payable on application on 24th June and the balance on or before 6th December. The remaining 13,357,000 stock units were made available for public offering in the United States of America and Canada. In the UK portion of the sale, arrangements were made for preferential consideration to be given to applications from UK occupational pension schemes, employees of the BP group and sub-underwriters, and a basis of allocation was adopted which gave favourable treatment to the smaller applications.

The operation, one of the largest and most complex of its kind ever undertaken, aroused great public interest, and the UK offer was substantially oversubscribed.

Bank of England Nominees Limited

Bank of England Nominees Limited, a wholly-owned subsidiary of the Bank, was incorporated on 6th April 1977 to hold securities as nominee on behalf of Heads of State and their immediate families, governments, official bodies controlled or closely related to governments and international organisations formed by governments or official bodies. Subject to certain undertakings and restrictions, the company has been granted exemption, under Section 27(9) of the Companies Act 1976, from disclosing the beneficial ownership of the securities it holds.

[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.

[2] Including some £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.

The note issue

The fiduciary issue was £7,800 million at the end of February 1978, £1,025 million (15%) larger than a year earlier. As in previous years, the fiduciary issue reached a peak (of £8,350 million) during the Christmas period.

Value of notes in circulation by denominations

£ millions

End-February	1974	1975	1976	1977	1978
10s[a]	13	13	13	13	13
£1	906	884	831	805	800
£5	2,513	3,014	3,261	3,431	3,625
£10	644	815	1,157	1,596	2,172
£20	324	397	500	652	852
Other notes [b]	173	232	280	261	314
Total	**4,573**	**5,355**	**6,042**	**6,758**	**7,776**

[a] The 10s note ceased to be legal tender in November 1970; but notes still in the hands of the public can be cashed at the Bank.

[b] The issue of denominations higher than £20 was discontinued in 1943 but such notes are still used internally in the Bank, e.g. on behalf of banks of issue in Scotland and Northern Ireland as cover for their note issues in excess of their permitted fiduciary issues.

The growth in the use of higher denomination notes continued. By the end of February 1978, £10 and £20 notes accounted for 39% of the value of notes in circulation compared with 33% a year earlier; the value of £5 notes, as a proportion of the circulation, declined from 51% to 47%, and that of £1 notes from 12% to 10%.

The Bank issued 1,691 million new notes in the year, again only a small increase over the previous year because of further growth in the use of higher denomination notes together with the continued encouragement of the recirculation of clean used notes.

Number of new notes issued by denominations

Millions

Year to end-February	1974	1975	1976	1977	1978
£1	981	1,092	1,021	985	990
£5	382	446	482	553	545
£10	42	55	111	107	133
£20	8	8	11	16	23
Total	**1,413**	**1,601**	**1,625**	**1,661**	**1,691**

A new £1 note was introduced on 9th February 1978, thus completing the series of notes announced by the Bank in 1968.[1] A feature of the new £1 note is that it has only one serial number. The space at the left-hand side of the note has been deliberately left blank for encoding marks which may in future be applied for use in note-sorting equipment.

Economic and statistical information and research

The Bank's concern with the development of financial statistics was underlined when they undertook responsibility for organising the Statistics Users Conference on Financial Statistics in November 1977.[2] It was one of an annual series inaugurated in 1970 by the Standing Committee of Statistics Users, an independent body representative of various national organisations and professional associations and serviced by the Social Science Research Council. In an opening address to the conference, the Governor underlined the Bank's involvement in the collection and use of financial statistics and the value of such gatherings in promoting the right kind of development in statistics.

As regards the collection of banking and monetary statistics, the Bank have been concentrating on consolidating the main banking series, and developing integrated computer systems which enable the statistics to be readily verified, stored and analysed.

[1] The £20 note in this series was introduced in 1970, the £5 note in 1971 and the £10 note in 1975.

[2] A copy of the report of the conference is obtainable from the Bank at a price of £4.00.

The most significant new developments were:

- The monitoring of movements in the sterling balances of official holders in connection with the Bank for International Settlements (BIS) facility for the sterling balances established in February 1977;[1] no drawings have been made on this facility.
- A survey of the maturity structure of commercial bank lending to countries outside the reporting area, conducted as an experiment by the BIS, which was described in last year's *Report*. Banks in particular have found this analysis useful and it will in future be conducted regularly every six months.
- As an aid to improving the interpretation of the monthly figures for the monetary aggregates, the collection of some weekly statistics from a number of the larger banks; as yet these figures are experimental, and no decision has been taken about their eventual publication.

The Bank's operational responsibilities and policy developments in the course of the year have called for a wide range of economic analysis and research to be undertaken in the Economic Intelligence Department. This has in part been reflected in the regular commentary on economic developments which appears in the Bank's *Quarterly Bulletin*. The economic analysis undertaken makes use, in particular, of the continued development of the Bank's short-term forecasting model of the UK economy and of work on medium-term prospects. Contributions to the wider discussion of specific issues continue, in the main, to take the form of special articles in the *Quarterly Bulletin*. Recent special articles have included: a review of developments in the personal sector from 1966 to 1975; a descriptive analysis of the many components of the United Kingdom's invisible earnings; a further commentary on company profitability and the cost of capital; an examination of the trend of national debt in relation to national income; a note on the methods by which UK financial forecasts are prepared; further work on the determinants of the demand for money; a discussion of measures of competitiveness in international trade; a description of methods of seasonal adjustment of the monthly money supply figures; and an examination of the causes of the current recession. The preparation of Bank papers for the Wilson Committee has also called for contributions from the Economic Intelligence Department and the Economics Division in particular.

In order to keep the Bank better in touch with academic thinking on matters of economic and monetary policy, a panel of academic consultants has been set up, under the chairmanship of Mr R. C. O. Matthews. An inaugural meeting was convened in the autumn of 1977, and there have been meetings quarterly since then. Because it is only possible for a limited number of academics to attend any particular session, the practice is that participants vary from meeting to meeting according to the subject under discussion. Thus far, discussions have concerned the adoption of monetary targets, the causes of the current recession, and inter-sectoral flows of funds as related to the determination of interest rates. The purpose of the panel is to provide an informal off-the-record forum for discussion of a wide range of topics, which it is hoped will be useful both to the Bank and to the academic members.

[1] See page 12.

Internal administration

Cash limits

Expenditure in four areas in which the Bank provide services to the Government—the note issue, management of the national debt, management of the exchange equalisation account and administration of exchange control—is included in the programme of cash limits on public expenditure. The outturn in 1977/78 amounted to £54,100,000, compared with the cash limit of £60,000,000. A cash limit of £61,500,000 has been agreed for the 1978/79 financial year.

Numbers of staff

At 28th February 1978, the Bank employed some 6,825 full-time and 850 part-time staff. The combined total was much the same as a year earlier, but the weekly average of just over 7,700 employees during the year represented a reduction of nearly 2% on the average for the previous year. Their aggregate remuneration amounted to £34,560,751.

Those employed at the end of the year (including half the part-time staff, who work either alternate weeks or half-days each week) were distributed as follows:

Banking staff		
Cashier's Department (including 375 at Branches)	1,175	
Accountant's Department	1,100	
Exchange Control Department	750	
Economic Intelligence Department	250	
Overseas Department	225	
Printing Works (banking staff)	225	
Administration Department	450	
Establishment Department	350	
Unallocated (including seconded staff and trainees)	75	4,600
Technical and services staff		1,025
Printing Works staff		1,625
		7,250

The stability in staff numbers was maintained despite a greatly increased workload in the Accountant's Department arising from new issue and transfer activity (see page 21). Continuing pressure in the Exchange Control Department was relieved to some extent by the transfer of certain work to the Manchester and Birmingham branches; some sixty jobs outside London have been created as a result.

Staff wastage and recruitment

Wastage, though still very low by past standards, increased somewhat in the latter part of the year, particularly among junior staff, and this trend has continued subsequently.

After very restricted recruitment in 1976, it was possible to expand the intake of staff towards more normal levels in 1977. Graduate entrants numbered 25 and 'A' level entrants 64; about 190 'O' level entrants were recruited in London for junior clerical work or for training as typists, and a further 50 or so similar staff at the branches and elsewhere. A number of specialist appointments included, as usual, a few on short-term contract.

Secondments

Opportunities at home and abroad for staff secondments continue to arise and form an important aspect of management development. As well as twenty-five staff working abroad at the end of the year, thirteen were on secondment in this country: six were with government departments and seven were attached to various City institutions. At the same time, the Bank have been more ready to accept people from outside to come to work on secondment in the Bank and, at the end of the year, three people from Whitehall and one from the City were attached to the Bank.

Premises

Work was begun during 1977 on the construction of the new Glasgow Agency, which will facilitate the distribution of Bank of England notes in Scotland and provide new offices for the exchange control staff there. It is expected to be completed towards the end of 1979.

Work has also begun on extending and remodelling the Southampton branch which was built in the 1930s. As well as improving the note-handling facilities and bringing them up to modern standards, additional office accommodation is being provided. When the work at Southampton is finished, probably in summer 1979, the programme of reconstruction of the Bank's branches which began in the 1960s will have been completed.