BANK OF ENGLAND

Report and accounts for the year ended 28 February 1979

BANK OF ENGLAND

REPORT AND ACCOUNTS FOR THE YEAR ENDED 28th FEBRUARY 1979[1]

Issued by Order of the Court of Directors 12th July 1979

[1] The discussion of domestic monetary and external policy has, for convenience, been taken up to the end of the financial year 1978/79.

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28th February 1979

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[1] E. B. Bennett retired on 2nd May 1979; D. A. Dawkins was appointed in his place.
[2] J. L. Sangster, a Deputy Chief Cashier, was appointed a Chief Adviser on 1st March 1979.

REPORT FOR THE YEAR

DOMESTIC MONETARY POLICY IN 1978/79

Introduction

The immediate objective of monetary policy in 1978/79 was to keep the growth of the money supply within the ranges laid down by the Chancellor of the Exchequer, with the more general purpose of providing support to the Government's efforts to moderate inflation.

This objective was expressed for operational purposes as a target range for the growth of sterling M_3.[1] This had been set at 9%–13% for the year to April 1978 but, in the event, sterling M_3 rose by over 16% in that period. The aim for 1978/79, announced by the then Chancellor in his Budget speech of 1978, was to reduce the pace of monetary expansion in 1978/79 to the target range of 8%–12%. This aim was achieved; sterling M_3 grew by 10½% in the year to April 1979, though the modest deceleration compared with the previous year came only after an active and eventful period both for the monetary authorities and for the financial markets.

Difficulties in containing the pace of monetary expansion arose at various periods: in the months after the 1978 Budget, leading to corrective action in early June, including a rise in minimum lending rate (MLR) to 10%; again in the autumn, leading to the increase in MLR to 12½% in early November; and again at the turn of the year, leading to the rise in MLR to 14% in early February. These phases and the intervening calmer periods are set out in detail in the following sections.

Special deposits were released or recalled on several occasions, and some £6¼ billion of new government stock was issued; a new development towards the end of the period was the use of the tender technique for the issue of gilt-edged stocks. In November 1978, the target range for sterling M_3 was rolled forward unchanged at 8%–12% for the year to October 1979.[2]

Since the period covered in this *Report*, measures have been taken to ensure continuing restraint of the pace of monetary expansion in 1979/80. In his Budget on 12th June, the Chancellor announced an increase of 2% (to 14%) in MLR,[3] the extension of the supplementary special deposits scheme for a further three months (to the end of the year), and a new, lower target range of 7%–11% for the annual rate of growth of sterling M_3 over the ten months to mid-April 1980.

Profile of the year

By May 1978 it had become clear that action was required if the rate of growth of sterling M_3 was to be kept within the target range of 8%–12% announced in the previous month. There were two main reasons. First, revised information about the pattern of government finance in 1977/78 revealed an acceleration in the upward trend in the money stock early in 1978 which required correction. Secondly, both investors in gilt-edged stocks and financial

[1] Sterling M_3 consists of notes and coin in circulation with the public, plus all sterling deposits (including certificates of deposit) held by UK residents with institutions included in the UK banking sector.

[2] The reasons for having rolling twelve-month targets, reviewed every six months, were set out in last year's *Report*, page 10.

[3] MLR had been reduced from 14% to 13% on 1st March and to 12% on 5th April.

commentators had concluded that the monetary target was inconsistent with fiscal policy as it emerged after the Budget at the then level of interest rates (even though by then there had been some rise in rates from the unduly low level to which they had been pushed by exchange inflows in late 1977).

The first response was a rise in short-term interest rates. MLR had been increased administratively from $6\frac{1}{2}\%$ to $7\frac{1}{2}\%$ at the time of the 1978 Budget and was allowed during May to rise to 9% as a result of the formula linking it with the discount rate on Treasury bills.[1] This action proved to be insufficient to restore the credibility of the monetary target.

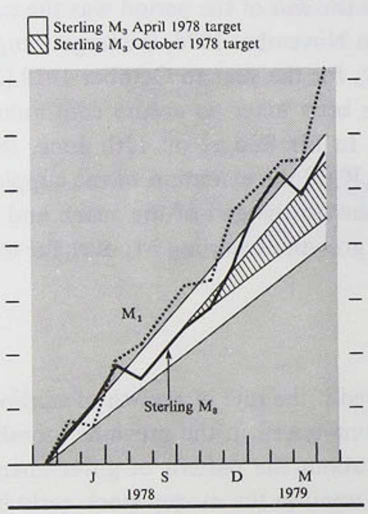
Consequently, on 8th June 1978, MLR was raised to 10%; the supplementary special deposits scheme was reactivated, because the high rate of growth of sterling M_3 was partly due to an acceleration in bank lending; and fiscal measures were adopted to ensure that the public sector borrowing requirement (PSBR) would be kept within the Budget forecast.

This action had the intended general effect. In particular, it restored confidence to investors in the gilt-edged market, whose purchases had been low, though by no means negligible, in the preceding few weeks, and large sales were made outside the banking system.

There ensued a period of relative stability in monetary conditions, though special deposits had to be temporarily released during June and July to prevent undue fluctuations in short-term money-market rates; and the rate of growth of sterling M_3 appeared to be below the lower end of the target range. The reactivation of the supplementary special deposits scheme caused some diversion of finance to channels outside the banking system, and by September it was apparent that, after allowance for this diversion, the rate of growth of sterling M_3 was near the top end of its target range.

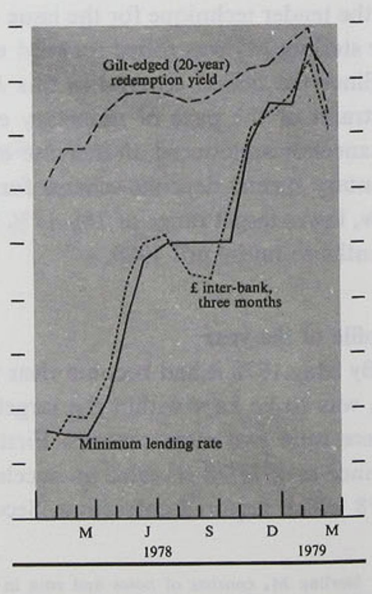
Monetary objectives

Seasonally adjusted — Percentage change since mid-April 1978



Interest rates

Monthly averages — Per cent per annum



[1] This link was terminated on 25th May 1978, when the Bank announced that MLR would in future be set by administrative decision rather than by the formula used since October 1972. Although the formula had in general worked well, it had been found that a close automatic link with Treasury bill rate could on occasion lead to undesirable and erratic movements in interest rates; MLR would continue to be adjusted flexibly, taking account of market developments.

At this time, sterling short-term market rates of interest and yields on gilt-edged stocks started to rise. At the short end, a particular factor was the rise in US short-term interest rates in response to the weakness of the dollar. More generally, investors became doubtful as to whether the rise in earnings during the winter would be kept to the level sought by the Government. Consequently, expectations were generated of an acceleration in the rate of inflation.

By early November, it was judged that interest rates could be stabilised by official action at a level consistent with achievement of the monetary target in the circumstances of revised inflationary expectations. On 9th November, MLR was raised from 10% to 12½% and the rolling forward of the monetary target referred to above was announced. In consequence, the level to which gilt-edged yields had risen over the preceding weeks was accepted as a new and for the time being secure level; and once again large sales of gilt-edged securities were made outside the banking system.

By January, a difficult situation had again arisen. Some very large wage settlements led to a further sharp upward revision in inflationary expectations. There was industrial disruption. Some financial analysts were predicting that the PSBR in 1979/80 was likely to be substantially higher than the £8 billion then officially forecast for 1978/79. Preliminary unpublished statistics indicated that bank lending was accelerating. Demand for gilt-edged stocks was subdued.

As in September and October, the operations of investors in the market brought about a general rise in interest rates, starting towards the end of December in the gilt-edged market and in the middle of January in the short-term money markets. Once again, the judgment required was to determine the time when the situation could be stabilised.

Two steps were taken. First, the then Chancellor affirmed, on more than one occasion, his intention to keep the PSBR in 1979/80 to £8½ billion. Secondly, MLR was raised from 12½% to 14% on 8th February. At the same time, it became clear to both investors and commentators that the inflationary expectations stimulated by the wage settlements of January had been exaggerated. As a result, expectations were not merely stabilised but sharply reversed, and the two tap stocks issued on 22nd February were massively oversubscribed. There followed an unprecedently sharp and quick fall in interest rates. Again special deposits were released to prevent further undue fluctuations in short-term money-market rates.

As in most cases during the course of the year, the issues of gilt-edged stock were in a form which called for payments by instalments, thus matching the raising of the finance fairly closely to the expected needs of the Government over a period of one to two months. Further partly-paid issues were made and sold in March and early April, thus securing substantial finance for the Government through to early June, but as a result of the oversubscription of the stocks issued on 22nd February, a change was made in the method of issuing stock: these issues were by tender, but with a minimum price prescribed.

The reversal of expectations in the domestic financial markets in February and March was accompanied by a strengthening of sterling, which had remained quietly firm in the exchange market for some months, and there were substantial inflows. These were met partly by allowing the effective rate for sterling to appreciate and partly by intervention in the market to buy exchange.

On 1st March, MLR was reduced to 13% in acknowledgment of the fall in short-term sterling rates which had taken place over the preceding three weeks. Thereafter, it was clear that a further reduction in short-term interest rates would be inappropriate for domestic monetary policy, especially as the rate of growth of bank lending had accelerated sharply in January and February. On the other hand, the external inflows seemed likely either to bring about an undue appreciation of the exchange rate or, if this were prevented by intervention, to undermine domestic monetary control. Striking a balance between these considerations, it was decided to reduce MLR to 12% on 5th April and to modify exchange market tactics so as to allow a wider fluctuation in the rate. At the same time, the operation of the supplementary special deposits scheme was rolled forward for a further three months.

In the event, the outturn for the growth of sterling M_3 during 1978/79 was $10\frac{1}{2}$% (unadjusted); the increase in the first six months of the new target period was rather faster, $12\frac{3}{4}$% at an annual rate, a little above the target range of 8%–12%, as bank lending began to grow rapidly (see table). Interest rates generally rose during 1978/79; short rates rose rather more than long rates, and there was consequently a marked flattening of the yield curve.

Bank lending (not seasonally adjusted)

	Feb. 78– Apr. 78	May 78– July 78	Aug. 78– Oct. 78	Nov. 78– Jan. 79	Feb. 79– Apr. 79
Bank lending in sterling to the private sector					
Three-month average (£ *millions*)	32,253	33,905	34,770	35,727	38,128
Change over previous period at an annual rate (per cent)	*16.2*	*22.1*	*10.6*	*11.5*	*29.7*
Interest-bearing eligible liabilities					
Percentage over base—three-month average		*7.2*	*1.6*	*4.2*	*7.0*
Penalty-free limit (per cent)			*4.0*	*7.0*	*10.0*
Reserve asset ratio					
Three-month average (per cent)	*14.0*	*13.7*	*13.4*	*13.5*	*13.6*

Bank lending and the supplementary special deposits scheme

Bank lending to the private sector began to rise more rapidly in the spring of 1978 than it had done earlier in the financial year 1977/78, with lower interest rates and a lessening in the overseas inflows which had probably earlier reduced companies' need to borrow. Lending to finance consumer spending, either directly or indirectly, was buoyant and, at the time of the 1978 Budget, the Bank repeated its qualitative guidance on the direction of bank lending. Largely in response to this more rapid rise in bank lending, the supplementary special deposits scheme, the 'corset', was re-imposed on 8th June 1978, as part of a package of fiscal and monetary measures. The penalty-free limit of 4% growth in interest-bearing eligible liabilities (IBELs) from the six months' base November 1977/April 1978 to the three months' average August/October 1978 implied some reduction in IBELs from the level ruling in May 1978, following very fast growth in previous months, but was nevertheless expected to leave ample room for priority lending.

As well as a stronger underlying demand for credit than had been the case when the scheme was previously in force, reserve asset pressure on the banks made it more difficult for them to reduce IBELs. This tight reserve asset position occurred during June and July 1978 as a result of large sales of gilt-edged stocks by the authorities, low central government borrowing and the usual sharp rise in the note circulation in July. The Bank announced a temporary reduction in the rate of call for special deposits in June and again in July. These moves were to be seen as a technical smoothing operation for relieving pressures on the reserve asset position of the banking system and on interest rates, which were in excess of what was necessary for the purposes of monetary restraint at the time. These pressures eased in August, and there was a sharp reduction in IBELs in that month.

Bank lending in the three months to October was only about half what it had been in the previous three months. However, banks were also facilitating the provision of credit by accepting bills which were then discounted in the market; to the extent that these were taken up outside the banking sector, the bank lending figures will have understated the underlying demand for credit. It is estimated that some £600 million of this disintermediation may have occurred between mid-June and mid-October 1978. This was rather more than in previous periods when the supplementary special deposits scheme was in force, though there was some re-intermediation in the early months of 1979.

Bank lending began to rise more rapidly during the winter, as 'corset' pressures eased. Over the year to mid-February, there was a sizable increase in lending to manufacturing, but lending to finance consumer spending, either directly or indirectly, rose less rapidly in the latter half of the year than earlier. Bank lending rose particularly fast in February and March 1979, though the effects of industrial disruption are likely to have been at least partly responsible for this. However, rising labour and other input costs which the strength of sterling made it difficult to pass on are likely to have put pressure on corporate liquidity in the early months of this year, and this may have increased companies' need for bank borrowing. In April and May, there is evidence that lending to finance consumer spending, either directly or indirectly, was again expanding; both retail sales and car registrations were particularly high at that time.

There was renewed pressure on the banks' reserve asset position in January, with a seasonally low central government borrowing requirement. Following the substantial sales of gilt-edged stocks in February, the Bank once more announced a temporary release of special deposits to prevent undue fluctuations in short-term interest rates. The recall of 1% was cancelled in March, and the remaining 2% was recalled in banking in May as pressures eased.

Factors affecting domestic credit expansion and the growth of the monetary aggregates

Over 1978/79 as a whole, external factors exerted a negative influence over the money stock (see table). Sterling shared in the weakness of the domestic markets in the spring of 1978,

DCE and the money stock[a] (£ *millions*, seasonally adjusted: mid-month)

	Jan. 78– Apr. 78	**Apr. 78– July 78**	**July 78– Oct. 78**	**Oct. 78– Jan. 79**	**Jan. 79– Apr. 79**
Central government borrowing requirement	+1,141	+2,098	+2,210	+2,298	+2,206
Net purchase (−) of central government debt by non-bank private sector	−1,032	−2,262	−1,412	−1,982	−3,579
Other public sector [b]	+ 385	+ 156	− 552	+ 371	+ 771
Bank lending to:					
UK private sector[c]	+1,287	+1,668	+ 724	+1,412	+2,386
Overseas	+ 647	+ 158	− 4	+ 82	− 111
Domestic credit expansion	**+2,428**	**+1,818**	**+ 966**	**+2,181**	**+1,673**
External and foreign currency finance (increase −)	− 375	− 157	− 20	+ 60	− 497
Other	− 282	− 4	− 329	− 153	− 231
Sterling M_3	**+1,771**	**+1,657**	**+ 617**	**+2,088**	**+ 887**
Percentage change in sterling M_3	*+ 4.0*	*+ 3.6*	*+ 1.3*	*+ 4.3*	*+ 1.8*
M_1	**+ 740**	**+ 904**	**+ 634**	**+ 832**	**+1,016**
Percentage change in M_1	*+ 3.3*	*+ 3.9*	*+ 2.6*	*+ 3.3*	*+ 4.0*

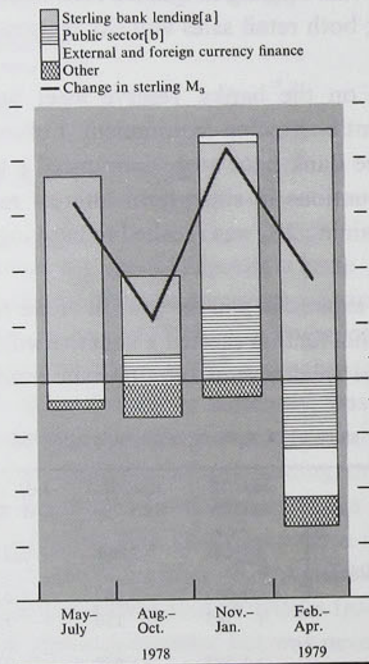
[a] Further details are shown in Table 11 in the statistical annex to the Bank's *Quarterly Bulletin*.
[b] Contribution to the public sector borrowing requirement by the rest of the public sector, less purchases of local authority and public corporation debt by the non-bank private sector.
[c] Including commercial bills held by the Issue Department of the Bank of England.

reflecting a lower current account surplus as well as capital outflows. External markets were not affected to the same extent as domestic markets by the worries about pay policy in November and January; nevertheless external factors still exerted a negative influence on money stock in the second half of the year as, with the current account in deficit, the increase in the reserves did not reflect inflows into the private sector. Thus the rise in sterling M_3 over 1978/79 was lower than domestic credit expansion (DCE), in marked contrast to the previous financial year. Although sterling M_3 rose by $10\frac{1}{2}\%$, around the mid-point of the target range, DCE was £6.3 billion, a little above the limit agreed with the International Monetary Fund (IMF) of £6 billion.

As the chart shows, the PSBR was again broadly covered, over 1978/79 as a whole, by sales of government debt to the non-bank private sector, in spite of the fact that the PSBR outturn was a little above the forecast at the time of the April 1978 Budget (i.e. there was no large shortfall such as had occurred in the previous two financial years). As well as gilt-edged sales of some £7 billion, there were also sizable official sales of certificates of tax deposit at times

Factors affecting sterling M_3

Seasonally adjusted £ millions



[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 the private sector other than banks.

during the year when rates were favourable; although some were later encashed to meet tax payments, there was a net increase of some £1,100 million in the amount outstanding during the year as a whole. National savings also made a contribution, with a good response to the eighteenth issue of national savings certificates. Bank lending to the private sector was considerably higher in 1978/79 than in the previous financial year, even allowing for inflation; as explained above, this may partly have reflected lower inflows from abroad, which in

1977/78 may have reduced companies' need to borrow domestically, but there was also probably growing pressure on companies' liquidity in the early months of 1979.

The growth of the narrowly-defined money stock (M_1) was $14\frac{3}{4}\%$ over the year as a whole, despite the rise in interest rates which would have been expected to exercise a sharply moderating influence. Although in some months the rise was concentrated in the interest-bearing element, over the year as a whole non-interest-bearing M_1 rose somewhat faster than total M_1—by $16\frac{3}{4}\%$, or a little above the rise in nominal incomes. Holdings of notes and coin rose faster than would be suggested by the growth in consumers' expenditure.

EXTERNAL POLICY IN 1978/79

Introduction

The general aim of external policy was to achieve as much stability as possible for sterling in the exchange market, though without seeking to maintain any particular rate in the face of market pressure. Over the financial year 1978/79, sterling's effective exchange rate index rose by 7%, having ranged within the year between a low of 60.9 and a high of 66.2. The Bank's intervention operations were throughout this period limited to smoothing market movements.

This relative stability was maintained against a background of very considerable international exchange rate fluctuations, described in the next section.

Towards the end of the financial year, and subsequently, demand for sterling has been strong. Inflows in March and April were large and were threatening to come into conflict with the policy of monetary restraint. Accordingly, as noted earlier in the *Report*, MLR was reduced in April, and the exchange rate allowed to move more freely. Thereafter, the effective rate index for sterling rose, reaching 69.0, its highest for $2\frac{1}{2}$ years, by late June.

The United Kingdom participated fully in the discussions on, and preparations for, the new European Monetary System initiated in March 1979 but decided not to participate at that time in the exchange rate arrangements.

There were considerable repayments of external debt in 1978/79. After net debt repayments of $1.9 billion, the UK official reserves fell by $2.8 billion.[1] The repayments of external debt reflected the authorities' twin aims: reducing the total outstanding; and smoothing the 'hump' of repayments due between 1979 and 1984.

Subsequent to the period covered by the *Report*, it was announced in the Budget on 12th June that exchange controls in several areas, notably direct investment, were to be eased.

Exchange rate developments

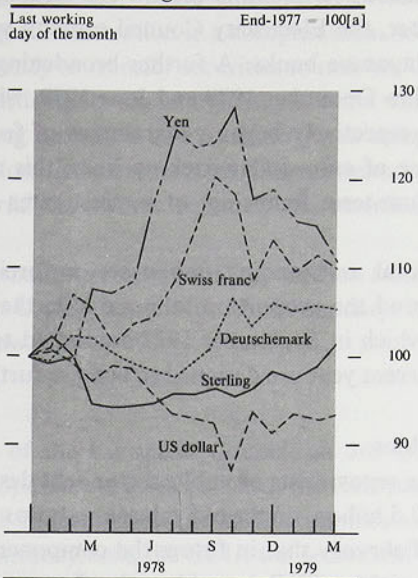
As already noted, although sterling rose by 7% in effective terms during the course of 1978/79, it was relatively steady compared with other major currencies, which experienced large swings, particularly during the first half of the period (see chart opposite).

The six months to the end of October was a period of continuing and indeed growing disturbance in world exchange markets. The storm centred on the US dollar but this in turn affected other currencies. The proximate causes of these turbulent conditions were, as in previous such periods, large and continuing imbalances on current account, augmented and exacerbated from time to time by very large capital flows—far larger indeed than could generally be contained by official intervention. After the measures of 1st November in support of the US dollar, world exchange markets entered a somewhat quieter period, aided initially by substantial official intervention; subsequently there was some reversal of the earlier sharp and perhaps exaggerated changes in exchange rates.

The relative stability of the effective rate index for sterling over the last nine months of 1978 (when it rose by $3\frac{1}{2}$%) concealed widely differing changes against individual currencies—an appreciation of $8\frac{3}{4}$% against the US dollar, for example, and a depreciation of $\frac{1}{2}$% against the deutschemark. Underlying the relative stability, however, was the fact that, with the UK current account in approximate balance and UK policies directed firmly towards constraining

[1] On the old basis of valuation. See page 14 for the effect of the revaluation on 31st March 1979.

Effective exchange rates



[a] Original indices based on 21 December 1971, rebased on 30 December 1977.

monetary growth, sterling was able to stay comfortably on the sidelines. There were more obvious candidates for those wishing to speculate on, or protect themselves against, exchange rate changes. It was indicative of this stability that, a month after the US dollar support measures announced on 1st November, sterling's effective value had fallen by less than 1%, while the Swiss franc and deutschemark had dropped by $8\frac{1}{2}$% and $7\frac{3}{4}$% respectively. The market's view of the pound was also resilient to other economic news which might have caused pressure on the exchange rate. Thus, the widespread industrial disruption of early 1979 and the high level of wage settlements which threatened to emerge brought very little adverse reaction in the rate. Towards the end of the period under review, demand for sterling became heavy, partly reflecting high UK interest rates and increasing North Sea oil production at a time of rising world oil prices.

External indebtedness

The UK authorities' policy in respect of external debt management continued to be to make net repayments, year by year, of outstanding public sector foreign currency debt, while at the same time reducing the bunching of maturities falling due between 1979 and 1984. Significant progress was made in the latter direction during 1978/79 by a combination of early repayments and new borrowing. In the year to end-March 1979, net repayments amounted to \$1.9 billion. Borrowings amounting to \$1.0 billion were repaid on schedule, and a further \$3.0 billion of maturities in 1979–84 were repaid ahead of schedule, including some \$2 billion to the IMF. Gross new borrowing amounted to \$2.1 billion, mostly for maturities in the years beyond 1984.

In restructuring the bunching of maturities between 1979 and 1984, the opportunity was taken both to achieve reductions in the cost of debt servicing and to extend the range of sources of new borrowing available to the public sector. Renegotiation in August 1978 of the Government's \$1.5 billion euro-currency loan brought an improvement in terms as well as an extension in maturity. Apart from regular borrowing from the European Investment Bank and the European Coal and Steel Community under the exchange cover scheme, the first issue of $350 million bonds by the Government in the US capital market was successfully made in May last year; in September, the Electricity Council raised a syndicated bank loan of $500 million from a group of Japanese banks. A further broadening of markets available to the public sector was achieved in December 1978 and June 1979, when the British Gas Corporation and the Post Office respectively began programmes of funding in the US commercial paper market; with the use of euro-dollar back-up lines, this market enables borrowers to take advantage, for medium-term financing, of interest rates generally applicable to very short periods of time.

By end-March 1979, total outstanding public sector foreign currency debt had been reduced to $23.4 billion; and the proportion falling due in the years of highest repayments between 1979 and 1984, which in September 1977 amounted to 80%, had been reduced to 67%. Operations in the current year are designed to achieve further progress in this direction.

Reserves and support facilities

During 1978/79, after the repayments of public sector debt described above, the reserves fell by some $2.8 billion to $17.5 billion, on the old valuation. It was announced by the Chancellor of the Exchequer on 8th February that in future the components of the reserves other than dollars—special drawing rights (SDRs), gold and other currencies—would be revalued annually on 31st March.[1] The revaluation this year resulted in an upward revision of some $3 billion to gold holdings and $1½ billion to the other components, giving a new total of reserves at 31st March 1979 of $21.9 billion.

The $3 billion Basle facility relating to the official sterling balances, which was arranged through the Bank for International Settlements (BIS) in February 1977, was allowed to expire in February 1979. No drawings were made by the United Kingdom during the life of the arrangement. Nevertheless it provided valuable material and psychological backing for the Government's policy of achieving an orderly reduction in the reserve rôle of sterling.

Exchange control

Changes in exchange control rules during the year to 28th February 1979 for the most part reflected continuing efforts to simplify procedures. There was some decrease in the overall volume of work.

In June 1978, the majority of monetary limits affecting payments abroad for 'invisibles' by authorised banks on behalf of UK residents (and non-residents temporarily employed in the United Kingdom) were raised. In the same month, the special limitations imposed in 1970 on investments by institutional investors in overseas investment or unit trusts were lifted. The abolition of the '25% requirement' in January 1978 had removed the need for them.

In August 1978, the Bank introduced a new system of classification for foreign currency securities owned as portfolio investments by UK residents. It contained for the first time a positive definition of securities eligible to be sold with the benefit of the investment currency premium, and set out the way in which authorised depositaries should in future classify securities for exchange control purposes. At the same time, a new authority was delegated to authorised depositaries to enable them to sell the majority of 'restricted securities' without the benefit of the investment currency premium; the treatment of stock dividends on foreign

[1] Gold is to be valued at the average of London fixing prices over the three months ended 31st March less a discount of 25%; SDRs and other currencies are to be valued in dollars at the average of mid-day exchange rates over the three months.

currency securities was also modified. These changes were welcome to the market as the first step towards simplifying administration in a complex area. Also in August, the delegation to authorised banks of authority to transfer securities to non-residents in accordance with the terms of wills and certain settlements made by UK residents was extended to all authorised depositaries. In the following month, a new authority was delegated to authorised dealers in gold to approve applications for purchases by UK residents of gold of a fineness of nine carats or below for industrial use, where formerly the permission of the Bank had been required.

An examination of the remaining restrictions imposed on sterling lending to non-resident controlled companies in the United Kingdom, led, in January 1979, to further relaxations. Few such restrictions are now left.

European Monetary System

Following the resolution of the European Council on 5th December 1978 that a zone of monetary stability in Europe should be established, the European Monetary System (EMS) came into operation on 13th March 1979. The EMS combines an exchange rate mechanism based on a new European currency unit, the ECU, the settlement of intervention debts in the new ECU, expanded credit facilities and increased Community measures to strengthen the economies of less prosperous member states. The exchange rate mechanism comprises a grid of bilateral rates at which intervention is compulsory, similar to that under the 'snake' arrangements, and a divergence indicator which, by measuring the movement of each participating country's currency from its ECU central rate, signals the point at which, by presumption, the country in question should take action by way of intervention or general policy measures to restrain the divergence. Unlimited very short-term financing of intervention under the exchange rate mechanism is provided through the European Monetary Co-operation Fund (EMCF) and is denominated in its books in ECU.[1] To provide a means of settlement for this purpose, central banks participating in the exchange rate mechanism have initially deposited with the EMCF, on a swap basis and against the issue of ECU, 20% of their gold and US dollar reserves. It has also been resolved that, within two years from the inception of the EMS, credit and other arrangements will be consolidated in a European Monetary Fund which will take the place of the existing EMCF.

The United Kingdom, while participating in the EMS viewed as a whole (including the depositing of 20% of the official gold and US dollar reserves with the EMCF), decided not to take part in the exchange rate intervention arrangements.

The Bank was heavily engaged within various EEC committees in technical work on the structure and operational details of the system. The greatest part of this work took place in the Committee of Central Bank Governors, the Monetary Committee and the Economic Policy Committee.

Other external matters

The Bank has continued to be deeply involved in international moves to ensure that satisfactory information is available on the development of the international banking and capital markets. Both of these markets expanded strongly in 1978. With domestic loan demand still subdued in many of the major industrial countries and with central banks intervening at

[1] A fuller description of the EMS exchange rate intervention arrangements was given in the June 1979 issue of the Bank's *Quarterly Bulletin*, page 190.

times heavily in the foreign exchange markets, the international bank credit market was particularly active as banks sought out lending opportunities overseas. The persistence of serious payments deficits in several countries and the desire of others to rebuild their official foreign currency reserves meant that international demand for funds was again substantial; but competition among the banks to meet these demands brought about a progressive reduction in the lending margins and a lengthening of the maturities at which credits were made available. Issuing activity in the external bond markets also increased, despite a set-back in the US dollar sector, as a result of greater lending in the currencies of the main surplus countries. The Bank has paid close attention to these developments in demand and supply conditions and to the factors which underlie them. It has been particularly concerned to see that such information is easily available and well understood by commercial banks so that their judgments may be as well-informed as possible. When, therefore, the BIS produced a manual describing the information publicly available from international organisations on countries' external indebtedness, a copy was sent to each bank in London. At the same time, the Governor's own view of the importance of the document was also made known to the London banks. Work has also been devoted to analysing the nature and rôle of these markets—see, for example, the article in the Bank's *Quarterly Bulletin* for March 1979 (page 35) analysing some of the systematic relationships that have been observed between certain domestic and euro-currency interest rates.

The Bank played a part in the development of the Export Credits Guarantee Department's arrangements for officially-supported medium and long-term foreign currency supplier credits. The arrangements were completed in July 1978 and were described in an article in the September 1978 issue of the *Quarterly Bulletin*, page 377. A guide, *Money for Exports*,[1] outlining the various sources of finance, insurance and advice available to exporters is being prepared by the Bank and is to be published on 31st July.

The Bank received some 2,000 foreign visitors during the year, mainly from other central banks, from commercial banks abroad and from banknote printing works.

[1] Available at an inclusive price of £1.25 from the Economic Intelligence Department, Bank of England, London, EC2R 8AH.

SUPERVISION, SUPPORT OPERATIONS AND CITY LIAISON

Banking supervision

A Banking Bill was introduced by the Government into the House of Commons last November and received the Royal Assent on 4th April 1979. Under the new Act, all institutions accepting deposits for onward lending or to finance, wholly or to a material extent, other business must be authorised by the Bank of England, either by being 'recognised' as a bank or by obtaining a licence. The Act provides for continuing supervision of recognised banks and licensed institutions by the Bank; for the establishment of a deposit protection fund, to which all institutions authorised under the Act will be required to contribute; and for the regulation of advertisements for deposits and of the use of banking names and descriptions. These various provisions will come into force as the necessary orders are laid before Parliament. Timing is a matter for the Government; but it seems unlikely that any part of the legislation will come into operation before the autumn.

Meanwhile, the Bank has continued to extend the scope of its non-statutory supervision over deposit-taking institutions operating in this country, examining particular aspects of banks' business in greater depth, and extending its supervision to smaller deposit-taking institutions in anticipation of the enactment of the Banking Bill. Increased emphasis has been placed on the surveillance of international operations conducted by UK-registered banks through their branches or subsidiaries abroad or through independent affiliates. At the same time, all supervised institutions have been asked to keep the Bank informed in advance of all changes in their overseas operations. Similar information in respect of UK operations is also being requested from UK-registered banks and from foreign banks operating branches in the United Kingdom.

The discussions (mentioned in last year's *Report*) with the senior management of all branches of foreign banks in the United Kingdom are being continued on an annual basis. These discussions help the Bank to keep abreast of the operations of these banks in London and to satisfy itself of the nature and extent of the control exercised over them by their foreign parents and parental supervisory authorities.

The Bank has undertaken a further review of its policy towards the capitalisation of deposit-taking institutions, and has issued to banking associations a consultative document on techniques for assessing the need for capital by individual institutions. This is designed to carry forward discussion of the issues considered in the paper on 'The capital and liquidity adequacy of banks', which was published in the Bank's *Quarterly Bulletin* for September 1975 (page 240).

The Bank's contacts with supervisory authorities in other countries have also been maintained and developed. The Committee on Banking Regulations and Supervisory Practices, based on the BIS, of which the chairman is Mr W. P. Cooke of the Bank of England, has continued to serve as a major forum for the discussion of matters of concern to banking supervisory authorities in respect of international banking activities. The EEC Group of Bank Supervisory Authorities, for which the Bank provides the secretariat, has also continued to meet regularly; it provides a valuable informal forum where supervisors in the Community can meet to discuss questions of common interest. A new official body, the EEC Advisory Committee on Banking Co-ordination, met for the first time in June 1979: its establishment was provided for in the first Banking Co-ordination Directive, and its task will be to set general guidelines for further progress within the Community in co-ordinating banking practices.

All these various international committees of bank supervisors are of necessity limited in their membership. To bring together supervisors from a wider range of countries, the Bank of England, in association with the BIS committee, sponsored an international conference of banking supervisors in London in July 1979.

Regulation of the securities market

The joint review body established by the Department of Trade and the Bank has continued its regular review of developments in domestic securities markets and of proposals, affecting securities markets, under discussion in the EEC.

The Bank also continued to maintain close and regular contact with the Stock Exchange and with the Council for the Securities Industry, which was established last year and on which the Bank is represented.

Gilt-edged settlements

The committee appointed in August 1977 to study the system of gilt-edged settlements[1] published its final report in two parts in March and April this year. The principal proposal (which is currently being considered by the Bank and the Stock Exchange) is for a computer-based book-entry system, which would be maintained in a Central Gilts Office, to record purchases and sales.

Market supervision

Foreign exchange and currency deposit markets

The joint standing committee of representatives of banks and of the Foreign Exchange and Currency Deposit Brokers' Association continued to meet regularly under the chairmanship of the Bank.

The European Commission completed its investigation of the complaint by Sarabex Ltd concerning the structure of the markets, and confirmed that it was satisfied that the competition rules laid down in the Treaty of Rome were no longer being breached. This was after the Bank had accepted direct responsibility for the establishment of minimum and maximum scales of brokerage and for the admission of new brokers to these markets, and after a procedure had been established for appeals against any decision by the Bank which a broker considered would adversely affect his ability to offer a service.

Sterling money markets

The joint standing committee referred to in last year's *Report* has continued to meet and to make progress against the background of the modifications in foreign exchange markets described above. It is expected that it will shortly be possible to announce the formation of a Sterling Brokers' Association.

Commodity markets

The frequent contact with, and surveillance of, markets which has been a feature of recent years was again maintained during a year in which markets were relatively quiet.

[1] See last year's *Report*, page 17.

Dealings in a new aluminium contract started on the London Metal Exchange (LME) in October 1978. Computer recording of forward transactions in all metals by ring dealing members, in preparation for the daily monitoring of transactions by the LME, began in February 1979.

Support operations

The Burmah Oil Company Limited

The Bank continued to give financial support to the company during the year. The claim made by Burmah for the restitution of 77,817,507 British Petroleum ordinary stock units purchased by the Bank from the company in January 1975 is still the subject of legal proceedings; the stock continues to be held by the Bank.

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 from time to time during the year. The four active companies still receiving support all made significant progress in reducing their dependence on the supporting banks.

City liaison

The City Liaison Committee met on several occasions during the year under the chairmanship of the Governor.

The Bank has continued to provide secretarial facilities for the Committee on Invisible Exports and for the various specialist City committees established to co-ordinate City opinion on particular topics.

The EEC Committee has maintained its rôle of keeping in touch with the wide range of Community developments affecting the City. Both the Capital Markets Committee and the Company Law Committee have continued to meet, but steps are under way to merge them into a single committee with terms of reference which will effectively embrace the interests of each. The Taxation Committee has continued its regular contact with the Inland Revenue. At meetings of the Telecommunications Committee, the users of Post Office services in the City have pursued studies of future developments concerning both domestic and international communications.

The City Communications Centre continued to provide a day-to-day liaison point for the City, a source for information and contacts for press and broadcasting, and a forum for promoting the City's relations with Parliament, industry, schools, trade associations and other sectors. It collaborated with the Bank in the preparation and production of *Money for Business* (see below) and has published a booklet containing summaries of the City's second stage evidence to the Wilson Committee.

THE BANK AND INDUSTRY

The Bank attaches great importance to hearing at first hand from those engaged in industry how they see their prospects and problems. To this end, contact was maintained during the year with some 2,500 companies around the country and with the representatives of trades unions in several regions. Particular efforts are made to ensure that the Bank is kept informed of developments likely to have an adverse effect on company finances as a whole; for example, the network of industrial contacts was used extensively during the period of industrial disruption at the beginning of this year to obtain an assessment of the trading position generally and, in particular, to receive warning of any impending financial problem.

Demand continues for the financing guide *Money for Business*, which the Bank and the City Communications Centre published in June 1978;[1] and a reprint has been required. As already noted, a companion guide, *Money for Exports*—a guide to the various sources of finance and insurance available to exporters—is to be published on 31st July.[2]

The Bank has also continued to be represented on, and to contribute to the work of, the NEDC Committee on Finance for Industry (the 'Roll Committee').

[1] See last year's *Report*, page 19.
[2] See footnote on page 16.

OTHER FUNCTIONS

Management of stock registers

Transfer activity, as the figures below show, was not as heavy as in 1977 and 1978, although still heavier than in any other previous year.

Thousands	Year to end-February	1975	1976	1977	1978	1979
		768	873	1,025	1,123	968

The nominal amount of stock managed by the Bank rose by almost 13% between 1978 and 1979, and the total is now more than twice as large as in 1975; the increase in the number of accounts held, however, has been much less pronounced.

Nominal value of stocks in issue (£ *millions*)

End-February	1975	1976	1977	1978	1979
British government securities:					
Stocks [a]	27,769	33,491	40,436	51,004	57,909
Bearer bonds	35	40	50	84	99
	27,804	33,531	40,486	51,088	58,008
Other securities:					
Government-guaranteed	908	908	908	808	794
Commonwealth etc.	164	161	154	138	131
Local authorities	663	753	812	792	746
Other [b]	384	390	457	473	508
	2,119	2,212	2,331	2,211	2,179
Total	**29,923**	**35,743**	**42,817**	**53,299**	**60,187**

Number of accounts (*thousands*)

End-February	1975	1976	1977	1978	1979
British government securities:					
Stocks [a]	1,859	1,878	2,044	2,032	2,118
Bearer bonds	[c]	[c]	[c]	[c]	[c]
	1,859	1,878	2,044	2,032	2,118
Other securities:					
Government-guaranteed	114	116	117	98	90
Commonwealth etc.	49	47	43	39	35
Local authorities	145	145	136	115	105
Other [b]	47	48	48	45	43
	355	356	344	297	273
Total	**2,214**	**2,234**	**2,388**	**2,329**	**2,391**

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

[c] The number of separate bonds in these years was: 1975: 45,000; 1976: 47,000; 1977: 56,127; 1978: 88,663; 1979: 104,028.

Issues and repayments

Stocks issued for cash

			Issue price	*£ millions nominal*
1978	2 March	$8\frac{3}{4}$% Exchequer Stock 1983	£96.50	800.00
	27 April	12% Exchequer Stock 1998	£96.00	800.00
	18 May	$9\frac{1}{4}$% Exchequer Stock 1982 (second tranche)	£94.75	800.00
	15 June	12% Exchequer Stock 2013/2017	£96.00	1,000.00
	16 June	10% Exchequer Stock 1983	£95.00	900.00
	2 August	12% Exchequer Stock 1999/2002	£96.00	800.00
	23 November	$12\frac{1}{4}$% Exchequer Stock 1985	£97.25	700.00
	23 November	$12\frac{1}{2}$% Treasury Stock 2003/2005	£95.00	800.00
1979	17 January	12% Treasury Stock 1983 (second tranche)	£97.25	950.00
	26 January	Variable Rate Treasury Stock 1983	[a]	400.00
	22 February	$13\frac{1}{4}$% Exchequer Stock 1987	£96.00	500.00
	22 February	$13\frac{3}{4}$% Treasury Stock 2000/2003	£96.00	800.00

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

In addition, as compensation under the Aircraft and Shipbuilding Industries Act 1977, further sums of $9\frac{3}{4}$% Treasury Stock 1981 were issued as follows:

£ millions		In compensation		Compensation on account		
		Aircraft	*Shipbuilding*	*Aircraft*	*Shipbuilding*	**Total**
1978	9 May				4.88	**4.88**
	18 July		13.12			**13.12**
	1 August			3.80	2.26	**6.06**
	30 August	58.62	8.76			**67.38**
	14 November		0.94			**0.94**
	5 December			32.20	7.28	**39.48**
						131.86

Repayments at par

			£ millions nominal
1978	1 March	Guaranteed 3% Stock	10.74
	15 March	9% Treasury Stock 1978	1,499.77
	15 June	Hull Corporation $5\frac{3}{4}$% Redeemable Stock 1976/78	3.00
	15 June	Swansea Corporation $5\frac{3}{4}$% Redeemable Stock 1976/78	3.00
	14 July	$10\frac{1}{2}$% Treasury Stock 1978	499.96
	15 July	North of Scotland Electricity 4% Guaranteed Stock 1973/78	13.74
	10 August	Corporation of London $6\frac{1}{2}$% Stock 1975/78	12.00
	26 September	5% Exchequer Stock 1976/78	399.72
	1 October	Liverpool Corporation $3\frac{1}{2}$% Redeemable Stock 1968/78	2.91
	1 October	Liverpool Corporation $5\frac{3}{4}$% Redeemable Stock 1976/78	10.00
	21 November	Agricultural Mortgage Corporation Limited $3\frac{1}{2}$% Debenture Stock 1975/78	1.17
	11 December	New Zealand Government 4% Stock 1976/78	6.75

Local authority bonds

There were twenty-seven issues of local authority short-term bonds during the year, totalling £35.25 million nominal; thirty-four such issues, totalling £48.75 million nominal, were redeemed.

Southern Rhodesia stocks

No funds have been received since November 1965 to service Government of Southern Rhodesia stocks for which the Bank acts as paying agent. At the end of February 1979, the approximate cumulative amounts due since November 1965 but unpaid were:

Gross interest	£25,602,000
Redemption monies[1]	£33,914,000

In addition, contributions due but unpaid to the sinking funds managed by the Bank for five of the six stocks yet to reach their published final redemption date amounted to some £3,856,000.

Handling of new issues

The two stocks issued on 22nd February were very heavily oversubscribed. The Bank's handling of these new issues became the subject of an inquiry by the Council for the Securities Industry following formal complaints to that body from two stockbroking firms that, because of the crush of people at the new issues counter, they had been prevented from lodging their applications before the lists were closed. After due consideration, the Council concluded that neither the Bank nor the brokers could escape blame for what happened on that day. The Bank has since modified its arrangements for the physical lodgment of applications and subsequent issues have been by tender.

The note issue

The note issue was £8,925 million at the end of February 1979, £1,125 million (14%) larger than a year earlier. As in previous years, the fiduciary issue reached a peak (of £9,600 million) during the Christmas period.

Value of notes in circulation by denominations (£ *millions*)

End-February	1975	1976	1977	1978	1979
10*s*[a]	13	13	13	13	13
£1	884	831	805	800	782
£5	3,014	3,261	3,431	3,625	3,694
£10	815	1,157	1,596	2,172	2,948
£20	397	500	652	852	1,125
Other notes[b]	232	280	261	314	338
Total	**5,355**	**6,042**	**6,758**	**7,776**	**8,900**

[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.
[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 continuing growth in the use of higher denomination notes accounted for virtually all the increase in the note circulation. By the end of February 1979, £10 and £20 notes together accounted for 46% of the circulation by value, compared with 39% a year earlier; the value of £5 notes, as a proportion of the circulation, declined from 47% to 42%, and that of £1 notes from 10% to 9%.

[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.

The Bank issued 1,688 million new notes in the year, a marginal decrease from the previous year because of the further growth in the use of higher denomination notes mentioned above and the continuing effects of the campaign to encourage greater recirculation of clean used notes.

Number of new notes issued by denominations (*millions*)

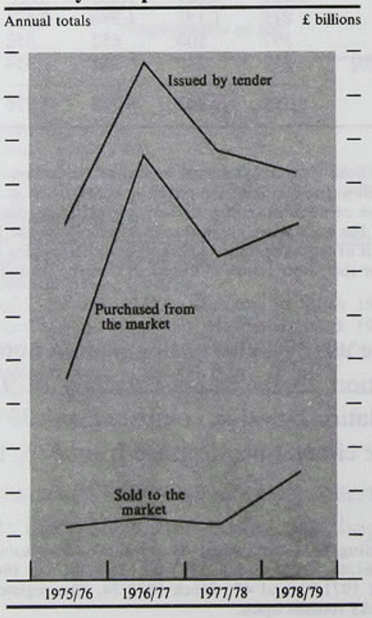
Year to end-February	1975	1976	1977	1978	1979
£1	1,092	1,021	985	990	978
£5	446	482	553	545	509
£10	55	111	107	133	176
£20	8	11	16	23	25
	1,601	**1,625**	**1,661**	**1,691**	**1,688**

A £50 note, an addition to the current series, is in course of preparation. The portrait on the reverse of the note will be of Sir Christopher Wren.

Money-market operations

The Bank's operations in the sterling money market in the year to end-February 1979 were on a rather smaller scale than in the recent past (see table), reflecting partly more stable conditions in the supply and demand for funds during the year as a whole and partly the temporary release of special deposits at times of particular stringency and their subsequent recall in whole or in part when conditions were easier. There was a sharp fall in lending to the discount market. However, purchases of Treasury bills, the Bank's normal method of relieving shortages, were a little higher than in the previous year and those of commercial bills were well up. The latter were mainly bought for resale at fixed future dates; this technique enables the Bank to reduce forecast surpluses in the market while relieving the current shortage. Nevertheless, surpluses occurred rather more frequently, and the Bank sold Treasury bills to absorb these surpluses on almost twice as large a scale as in the past two years (see chart).

Treasury bill operations



Money-market operations (£ *millions*)

	Treasury bills bought	Local authority bills bought	Commercial bills bought	Lending	Treasury bills sold
March	1,537	115	274	351	199
April	1,657	166	132	—	1,033
May	1,600	109	128	102	573
June	1,066	135	596	2,965	37
July	1,353	130	587	2,625	—
August	1,753	131	16	198	83
September	1,276	196	32	2	562
October	1,257	135	43	87	414
November	920	45	292	72	539
December	1,059	134	—	114	377
January	1,575	154	90	104	501
February	996	59	313	3,117	593
1978/79	**16,049**	**1,509**	**2,503**	**9,737**	**4,911**
1977/78	14,740	1,392	47	21,663	2,360
1976/77	19,389	1,458	699	29,519	2,761

Financial statistics

A change in the Bank's policy on publication of statistics was announced in the December 1978 issue of the *Quarterly Bulletin*, page 543. The volume of financial statistics, particularly banking statistics, has grown considerably since the *Bulletin* first appeared in 1960, and a wide range of them also appears in the Central Statistical Office's (CSO) *Financial Statistics*. To avoid wasteful duplication, therefore, the size of the statistical annex to the *Bulletin* has been reduced, with effect from the March 1979 issue. Most of the information no longer carried is to be found in *Financial Statistics*. To help those users of financial statistics who store data in computers, the Bank is also making available a magnetic tape service covering most of the series previously published, and intends to provide a service of computer print-outs to meet specific demands.

A review of the reporting system for banking statistics set up in May 1975 was put in hand towards the end of 1978, when a meeting was held with representatives of the various banking groups within the British Bankers' Association. In the light of experience and of new developments in the markets, a number of the definitions were amended. To ease the burden of reporting, the Bank reduced the frequency of some returns; but some possible additions to the series are still being considered.

A revised version of the Bank's handbook on the flow of funds, *United Kingdom flow of funds accounts: 1963–1976*, was published in May 1978. The section on presentation now describes the different classifications used by the Bank, the CSO and the various international bodies. There are more tables than before, including long runs of seasonally-adjusted quarterly figures. Work on sector balance sheets continues, and figures for insurance companies were introduced in an article in the September 1978 *Quarterly Bulletin*, page 371.

Economic analysis and research

The Economic Intelligence Department has continued to carry out analysis and research necessary to help the Bank fulfil its operational requirements and policy responsibilities and to produce the regular commentary on economic and financial developments which appears in the Bank's *Quarterly Bulletin*. As usual, it has also been the main source of articles published in the *Bulletin*: over the last year these have included a note on the measurement and significance of the terms of trade; a further study of company profitability, illustrating some of the concepts involved in the inflation-accounting debate; a description of the accounting relationships connecting external flows and domestic monetary growth; and a review of the channels through which North Sea oil developments have been financed. In addition, a series of discussion papers has been instituted to make some of the Bank's economic research available in a less formal setting than the *Bulletin*. The work they report is generally of an exploratory nature; has not always led to definite conclusions; and is in some cases rather more technical than would normally be reproduced in the *Bulletin*. Two such discussion papers had been published by the end of February 1979—one dealing with the effect of life assurance and pension funds on the amount and form of personal saving, the other with links between the gilt-edged and foreign exchange markets. Since then, two more have been published, one describing the development of a small monetary model of the UK economy and the other a method of identifying companies possibly at risk of failure.

As mentioned in last year's *Report* (page 24) a panel of academic consultants was established in 1977 to discuss particular economic issues and has met approximately four times a year since then. A list of topics covered in past meetings and of authors of principal papers is shown below:

	Topic covered	Author of main paper
1977		
5 October	Monetary targets	
1978		
6 January	The nature of the recession and the prospects of recovery	G. D. N. Worswick
14 April	Inter-sector flow of funds and the rate of interest	Prof. M. H. Miller
14 July	The economics of overseas investment	Sir Alexander Cairncross
13 October	The causes and effects of low profits	Prof. R. J. Ball
1979		
26 January	Cost-price inter-relationships	R. N. Brown, C. A. Enoch, P. D. Mortimer-Lee
27 April	The monetary approach to the balance of payments	Prof. D. E. W. Laidler

INTERNAL ADMINISTRATION

Cash limits

Expenditure on four of the services which the Bank provides 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 1978/79 amounted to £57,600,000 compared with a cash limit of £61,500,000. A cash limit of £64,500,000 has been agreed for the 1979/80 financial year.

Public information services

Following a review of the Bank's public information services, a Public Information Division was established in April 1978, in the Administration Department, to centralise existing services and to facilitate their development. The responsibilities of the new division embrace the work of the Press Office, arrangements for speaking engagements by Bank staff, answering enquiries from the public on general matters concerning the Bank, and the organisation of tours of the premises. Work is currently in progress on new publications to explain the work of the Bank, especially for schools and other places of education.

Premises

It is expected that the construction of the new Glasgow Agency and the extension and remodelling of the Southampton Branch, both mentioned in last year's *Report* (page 26), will be completed towards the end of 1979.

Numbers of staff

At 28th February 1979, the Bank employed just over 6,800 full-time and 800 part-time staff; this was about 50 fewer than a year earlier. The average number of employees during the year—a little under 7,700—was also slightly lower than in the previous year. Their aggregate remuneration amounted to £37,389,710.

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)	1,200	
Accountant's Department	1,075	
Exchange Control Department	700	
Economic Intelligence Department	250	
Overseas Department	225	
Printing Works	225	
Administration Department	475	
Establishment Department	350	
Unallocated (including seconded staff and trainees)	100	4,600
Technical and services staff		1,000
Printing Works staff		1,600
		7,200

Staff wastage and recruitment

Resignations, which had already shown signs of an upturn in the latter part of 1977, continued to rise from the low levels of recent years, particularly among computer and typing staff. In consequence, recruitment was also heavier. An intake of nearly 40 graduates and 120 'A' level entrants included about 50 in all for computer work. Some 280 'O' level entrants were recruited in London for clerical work or for training as typists and about 40 similar staff elsewhere. A few specialist appointments included, as in past years, some on short-term contract.

Last summer a selective early pension scheme was introduced. Its main purpose was to smooth succession over the years ahead, but it will also facilitate the elimination of some posts. An expected 70 or so voluntary departures under the scheme over the period to August 1980 will help to spread retirements of staff, now in their early fifties, who were recruited in large numbers in the early post-war years; some smoothing of this hump had already been achieved by similar offers earlier in the decade.

Secondments

The Bank has continued to release staff on secondment to other institutions at home or overseas. At the end of February, twenty-three staff were working abroad and another twenty-one on secondment in this country—six with government departments, eight with the Council for the Securities Industry, and most of the rest with other City institutions.