Bank of England
Report and accounts
1980

Bank of England

Report and accounts for the year ended 29 February 1980[1]

Issued by Order of the Court of Directors 10 July 1980

(1) The discussion of domestic monetary and external policy has been taken up to the end of the financial year 1979/80.

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Court of Directors

29 February 1980

The Rt Hon. Gordon William Humphreys Richardson, MBE, *Governor*

Sir Jasper Quintus Hollom, KBE, *Deputy Governor*

George Blunden[1][2]

Sir George Adrian Hayhurst Cadbury

Sir Robert Anthony Clark, DSC

John Martin Clay

Leopold David de Rothschild

John Christopher Roderick Dow[2]

Geoffrey Ayrton Drain

John Standish Fforde[2]

Sir Hector Laing

Sir John Maurice Laing

Christopher William McMahon[2]

The Rt Hon. Lord Nelson of Stafford

Sir Lionel Alexander Bethune (Alastair) Pilkington, FRS[1]

The Rt Hon. Lord Robens of Woldingham, PC

Sir David Edward Charles Steel, DSO, MC

The Rt Hon. Viscount Weir[1]

The following changes in the composition of the Court took place on 1 March 1980:

- Sir Jasper Hollom's term of office as Deputy Governor expired on 29 February and Mr McMahon was appointed Deputy Governor for a five-year term in his place.
- Sir Jasper Hollom was himself appointed as a Director for a four-year term in place of Sir Maurice Laing, whose term of office expired on 29 February.
- Mr J. B. Page was appointed a Director to fill the remaining one year of Mr McMahon's term of office.

(1) Term of office expired 29 February 1980; reappointed for a further period of four years.
(2) Executive Director.

Senior officials

29 February 1980

J. B. Page	*Chief Cashier*
G. L. B. Morgan	*Chief Accountant*
S. W. Payton, CMG	*Chief of the Overseas Department*
D. A. Walker	*Chief of the Economic Intelligence Department*
D. A. Dawkins	*Chief of Exchange Control*
W. P. Cooke	*Banking Supervision*
P. A. S. Taylor[1]	*Chief of Administration*
R. D. Galpin	*Chief of Establishments*
M. J. S. Cubbage, MBE	*General Manager of the Printing Works*
M. J. Balfour J. S. Flemming C. A. E. Goodhart J. A. Kirbyshire J. L. Sangster A. A. Weissmüller	*Chief Advisers*
Sir Henry Benson, GBE The Rt Hon. Lord Croham, GCB	*Advisers to the Governor*
G. C. Gough	*Secretary of the Bank*

(1) Appointed CBE in the Queen's birthday honours list.

Executive Directors and senior officials

1 March 1980[1]

Policy and Markets

J. S. Fforde	**Executive Director** *Home Finance*
E. A. J. George	Assistant Director *Gilt-edged Division*
A. L. Coleby	Assistant Director *Money Markets Division*
C. A. E. Goodhart	Chief Adviser *Monetary Policy*
J. C. R. Dow	**Executive Director** *Economics*
D. A. Walker	Assistant Director *Industrial Finance, Financial Statistics and Economics Divisions*
J. S. Flemming	Chief Adviser *Economics*
A. D. Loehnis	**Associate Director** *Overseas*
M. J. Balfour	Assistant Director *Territorial Division*
J. L. Sangster	Assistant Director *Foreign Exchange Division*
D. G. Holland	Chief Adviser *International Division*

Financial Structure and Supervision

J. B. Page	**Executive Director**
W. P. Cooke	Head of Banking Supervision
D. A. Dawkins	Assistant Director *Financial Structure and Institutions Division*
A. A. Weissmüller	Chief Adviser *Banking Supervision*

Operations and Services

George Blunden	**Executive Director**
D. H. F. Somerset	Chief of Banking Department (Chief Cashier)
G. L. B. Morgan	Chief Registrar (Chief Accountant)
M. J. S. Cubbage, MBE	General Manager, Printing Works
R. D. Galpin	Chief of Corporate Services

Sir Henry Benson, GBE The Rt Hon. Lord Croham, GCB	Advisers to the Governor

G. C. Gough	Secretary of the Bank

(1) Significant changes in the senior management structure and organisation of the Bank were implemented on 1 March 1980 (see page 19).

Domestic monetary policy in 1979/80

Introduction

Monetary policy in 1979/80 operated against a difficult background. The annual rate of retail price inflation virtually doubled to nearly 20% in the course of the year, and the principal factors influencing the growth of money stock were expansionary until the later part of the year. Nevertheless, monetary control was fairly well maintained.

Despite action taken in the June 1979 Budget, including an increase in minimum lending rate (MLR) from 12% to 14%, sterling M_3 moved increasingly above the target range (which was 7%–11% at an annual rate for the period June 1979 to April 1980); there was exceptionally heavy demand for bank credit from the private sector and continued high public sector borrowing. The operation of the supplementary special deposits scheme (the 'corset') resulted in a substantial diversion of lending away from customary banking channels, so that the recorded rise significantly understated the true growth of credit provided to private UK borrowers. By late autumn, further determined action appeared necessary, and MLR was raised to a record 17% in November. Subsequently, the pace of monetary expansion slackened, and by the end of the financial year sterling M_3 had been brought back within the target range. (There was, however, a sharp increase in May.)

Exchange control was relaxed in the summer of 1979 and was abolished in October (see page 12). One consequence was that UK borrowers were no longer restrained from borrowing sterling from banks outside the United Kingdom or from borrowing in foreign currency for domestic purposes. In November, to guard against the possibility that domestic monetary control might be circumvented, the Governor of the Bank asked banks in the United Kingdom to refrain from using the euro-sterling market to by-pass the corset controls.

During the year, an extensive review of methods of control was undertaken by the authorities, and in March 1980 a consultation paper was published.[(1)] Existing methods—debt sales outside the banking system, variation of short-term interest rates, and fiscal policy—were judged adequate to achieve control of the money supply in the longer term; but the question was posed whether changes in technique could improve control over short periods (a year or less). Among changes proposed were the ending of the supplementary special deposits scheme, the ending of the reserve asset ratio requirement and the replacement of the existing cash requirement on the London clearing banks alone by a new requirement to apply more generally across the banking system. The Green Paper also considered, and welcomed views on, a variety of forms of monetary base control, or a scheme by which MLR might be linked more automatically to the behaviour of sterling M_3. In his Budget on 26 March, the Chancellor announced that the supplementary special deposits scheme would be ended in June 1980.

Profile of the year

Cost pressures arising from high wage settlements and a surge in commodity prices, particularly oil, made for a powerful renewed phase of price inflation starting in the winter of 1978–79. With the rise in money incomes and expenditure accelerating to an annual rate of about 20%, the demand for money is likely to have begun to rise, and the money stock accordingly moved above the previous Government's target for sterling M_3 of 8%–12% for the year to October 1979. Corrective action was taken in the June Budget in the form of a tightening of the fiscal stance for 1979/80, an increase in MLR to 14%, and the extension of the supplementary special deposits scheme to the end of 1979. But this action proved insufficient to secure monetary control in the face of rising inflation and inflationary expectations, and sterling M_3 continued to move above the new, lower

(1) *Monetary Control*, HM Stationery Office: Cmnd. 7858.

DCE and the money stock[a]

£ millions; *seasonally adjusted*

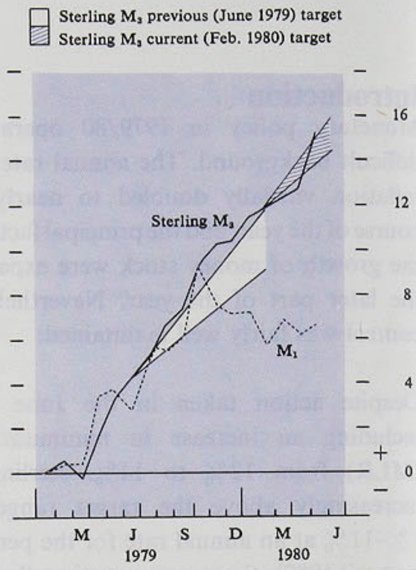
Mid-month	Jan. 79– Apr. 79	Apr. 79– July 79	July 79– Oct. 79	Oct. 79– Jan. 80	Jan. 80– Apr. 80
Central government borrowing requirement	+2,395	+2,588	+2,805	+2,342	+ 213
Purchases (–) of central government debt by UK non-bank private sector	–3,782	–2,686	–1,017	–3,085	–1,507
Other public sector [b]	+ 789	+ 128	– 312	+ 265	+ 56
Bank lending in sterling to:					
UK private sector [c]	+2,425	+1,946	+2,341	+2,253	+2,459
Overseas sector	– 117	– 17	+ 46	+ 270	+ 434
Domestic credit expansion	**+1,710**	**+1,959**	**+3,863**	**+2,045**	**+1,655**
External and foreign currency finance (increase –)	– 470	+ 111	–1,419	– 722	– 597
Other	– 325	– 376	– 326	– 242	– 360
Sterling M_3	**+ 915**	**+1,694**	**+2,118**	**+1,081**	**+ 698**
Percentage change in sterling M_3	*+ 1.8*	*+ 3.3*	*+ 4.0*	*+ 2.0*	*+ 1.2*
M_1	**+ 922**	**+ 380**	**+1,127**	**– 468**	**– 210**
Percentage change in M_1	*+ 3.6*	*+ 1.4*	*+ 4.2*	*– 1.7*	*– 0.8*

(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 debt and public corporation debt by the UK non-bank private sector.

(c) Including commercial bills held by the Issue Department of the Bank of England.

Monetary objectives



target range of 7%–11% at an annual rate (set in June 1979 for the increase over the period to April 1980).

Among factors on the supply side contributing to rapid monetary expansion in the late summer and autumn were a tendency for the public sector borrowing requirement (PSBR) to be temporarily higher than expected—reflecting delays in the payment of higher VAT and in the collection of telephone charges—and the continuation of very high bank lending to the private sector. This last development emerged early in 1979 and was associated in particular with growing corporate sector demands for credit brought on by declining profitability and cash flow together with unwillingness or inability to resort to the long-term capital market. Exceptionally heavy lending to persons in the second quarter of 1979, associated with the pre-Budget boom in consumers' expenditure, was also a factor, but did not persist. Over 1979/80 as a whole, the increase in total recorded bank lending to the private sector averaged £750 million a month, compared with just over £500 million per month in the previous year.

Initially, gilt-edged sales to non-banks responded well to the June 1979 Budget, but sentiment was affected by the evidence of accelerating inflation and a swollen PSBR, and net sales in the three months to mid-October were modest, despite considerable calls on stocks issued earlier.

External factors contributing to money supply became sharply contractionary in the four months to mid-November. With the current account in only modest deficit, this is likely largely to have reflected outflows resulting from the relaxation of exchange controls, the first stage of which (in June) permitted companies to repay immediately existing foreign currency loans and make new investment abroad more easily (although the latter opportunity did not appear to be exploited to any great extent).

The net outcome of these, and other, influences was that recorded sterling M_3 grew at an annual rate of 15½% between June and October. But the operation of the corset encouraged banks to issue acceptances rather than make loans themselves; many of these were then taken up by non-banks, thus diverting significant amounts of lending from normal banking channels. By mid-October 1979, non-bank holdings of acceptances had risen to £1.9 billion, compared with £0.8 billion in May.

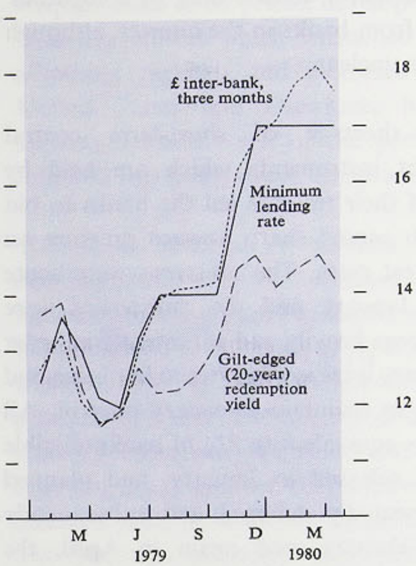
Against this background, and with the advent of much higher interest rates abroad, market interest rates began to rise during October, and the gilt-edged market weakened. Meanwhile, the trend of bank lending showed no clear signs of abating. A set of measures was introduced in November with the intention of re-establishing control of the money supply: MLR was raised to a record 17%; the period of the monetary target then in force was extended to October 1980; and it was announced that the supplementary special deposits scheme would continue for a further six months, to June 1980. Payments of petroleum revenue tax were advanced by two months, thereby bringing the estimate of the PSBR for 1979/80 back into line with the June forecast of £8¼ billion.

There then ensued a phase of rather slower growth of the money supply. The gilt-edged market responded favourably to the November measures, and there were very substantial sales of gilt-edged stocks to the non-bank private sector (£3.5 billion in the three months to mid-January). Having previously been abnormally high, the PSBR was very low in the early months of 1980, the first period in which higher VAT receipts were not offset by income tax rebates; certain special factors also helped to lower the PSBR in that period, in particular receipts from the sale of BP shares, advance payments for oil to the British National Oil Corporation, and the unwinding of earlier delays in the settlement of telephone bills. There continued to be monetary outflows abroad from the private sector, although on a scale less than its current account deficit. The private sector's external deficit was financed largely by a continuing increase in non-resident sterling deposits, which between October and April rose by more than sterling deposits held by residents.

Despite higher nominal interest rates and the beginning of a slowdown in economic activity, sterling lending to the private sector remained high, increasing by an average of nearly £0.8 billion per month from November to April and—after allowing for the bank acceptances held outside the banking system—did not fall much in May. The reassertion of monetary control therefore relied heavily on the combination of a low PSBR and very heavy sales of

Interest rates

Monthly averages



gilt-edged stocks. With the help also of contractionary external influences, the growth of sterling M_3 slackened significantly to an annual rate of $6\frac{1}{2}\%$ in the period from October to April. Growth of sterling M_3 during the year to April amounted to $10\frac{1}{2}\%$, compared with a rise of nearly 22% in the retail price index, and of around 19% in nominal incomes. The movements of other monetary aggregates over the year were far from uniform: M_1, particularly sensitive to interest rates, rose by only $2\frac{3}{4}\%$, while M_3 (which includes residents' foreign currency deposits) rose by just under 12%, reflecting in part the effects of the abolition of exchange controls. The various measures of private sector liquidity moved in broadly similar fashion to sterling M_3.

The combination of a low CGBR and substantial sales of gilt-edged stock to the non-bank private sector in the later part of the financial year, involving a degree of 'overfunding' of the borrowing requirement, inevitably led to a heavy drain of liquidity from the banking system. The underlying cause was the restraint of monetary growth in a period of very high bank lending, but the problem was considerably exacerbated in the March quarter not only by the usual seasonal pressure on bank liquidity associated with the main tax-gathering season but also by the special factors temporarily reducing the PSBR (see above). The exceptional reduction in the PSBR may well have been a factor contributing to companies' need to borrow from banks in the quarter, although to what extent is unclear.

The resulting shortage of short-term central government debt instruments which are held by banks as part of their reserves led the banks to bid for funds, which caused sharp upward pressure on short-term interest rates. The pressures were acute at times after January and the authorities were obliged to intervene heavily and persistently in order to avoid temporary increases in rates to levels beyond those necessary to maintain monetary control. All special deposits—equivalent to 2% of banks' eligible liabilities—were released in January, and planned recalls were repeatedly deferred and subsequently cancelled. In February, and again in April, the authorities bought significant quantities of non-reserve asset gilt-edged stocks from the banking system on a purchase for resale basis to help restore liquidity. Other forms of assistance were also given on occasion.

In his Budget on 26 March, the Chancellor announced that the PSBR would be reduced in 1980/81 to not more than £8½ billion, or 3¾% of GDP at market prices, compared with the (then) latest estimate of just over £9 billion (now put at £9¾ billion) for 1979/80, or about 4¾% of GDP. This was estimated to be consistent with growth of sterling M_3 within the new target range of 7%–11% per annum from February 1980 to April 1981.

The targets for the PSBR and sterling M_3 for 1980/81 formed part of the medium-term financial strategy also announced in the March Budget; this provides for a steady reduction in the growth of sterling M_3 and the PSBR as a proportion of GDP over the next four years, as an indication of the Government's firm intention to bring down the rate of inflation progressively and steadily over that period.

The supplementary special deposits scheme

In contrast to the two previous occasions when the supplementary special deposits scheme had been in operation, a number of banks incurred significant penalties under the scheme during 1979/80. This reflected the continuing high demand for bank credit and the associated pressure on banks' reserve assets, which limited the banks' scope for financing their lending by rearranging their asset structure.

Over the year to mid-April 1980, the banks' interest-bearing eligible liabilities (IBELs) rose twice as fast as sterling M_3. One factor accounting for this difference was the very moderate growth of non-interest-bearing liabilities. As noted earlier, M_1 rose only slowly in the year to mid-April, reflecting the rise in interest rates; indeed, in the six months from October to April it fell by nearly 5% at an annual rate. The second main factor accounting for the faster rise in IBELs was the rapid rise in overseas resident sterling deposits with banks in the United Kingdom; these are included in eligible liabilities but are not in sterling M_3, which includes sterling deposits only of UK residents. The increase in overseas resident deposits has been a factor enabling the banks to finance the demand for credit without undue pressure on interest rates.

Thus by mid-April the banks stood some 29% above their base level(1) on the three-month moving average, compared with the penalty-free limit of 22%. Twenty-eight banks were liable to make £219 million of non-interest-bearing supplementary special deposits, with eight banks in the third penalty tranche where the rate of deposit is 50% of excess IBELs.

The final calculation of any liability to make supplementary special deposits was based on the average of each institution's IBELs on the make-up days for April, May and June 1980.

(1) The average of IBELs outstanding on the make-up days for the six months November 1977–April 1978.

External policy

Introduction

High interest rates in support of domestic monetary policy and the state of the world's oil market generally kept sterling firm. Over 1979/80, sterling's effective exchange rate index rose by nearly 10%, to 72.6, ranging from a low of 66.0 to a high of 74.0; against the dollar alone sterling rose less, by 9¾ cents to $2.1640, though the range in this case was wider (from $2.0340 to $2.3355). Sterling was at or near the lower level of these ranges in April and May 1979 and again following the abolition of exchange controls in October; at other times there was strong demand for sterling, especially in July and more recently in February. Sterling has been in demand again since the end of the financial year, touching 2.3785 (74.9 in effective terms) in May.

Oil prices, political tension in the Near and Middle East, and increasing inflation differentials among countries made for unsettled exchange markets. The dollar enjoyed mixed fortunes; the yen was weak; and the deutschemark, after record strength in January, later received heavy support, as did the Swiss franc. Two realignments of currencies marked the European Monetary System's first year of operation. Interest rates rose in most centres, and the price of gold rose sharply (although part of this rise was subsequently reversed).

In accordance with the Government's intention to reduce substantially the foreign currency debt of the public sector, a net $3.1 billion was repaid, much of it ahead of schedule. Nevertheless the reserves rose by $1.9 billion (and by a further $3.1 billion following the annual revaluation at the end of March 1980).

Exchange rate developments

The quieter conditions in the foreign exchange markets which the US measures of November 1978 had eventually achieved lasted until the early summer of 1979. Selling of dollars then resumed and continued from time to time, despite rises in US interest rates, until the US authorities took firm action to curb monetary growth early in October, when discount rate was raised to 12%. However, frequent rises in oil prices, developments in Iran and later Afghanistan which threatened to spill over into adjoining regions, and increased inflation in the United States and elsewhere, brought troubled exchanges for the rest of the period and this was reflected in a sharp rise in the price of gold.

The dollar reached an all-time low against the deutschemark early in January 1980. In mid-February, however, the Federal Reserve discount rate was increased to a record 13%, and in March there was a further tightening of US monetary and fiscal policy. By the end of March, the dollar had recovered strongly, and the deutschemark and Swiss franc were receiving heavy support. (After the end of the 1979/80 financial year, however, the dollar fell back sharply.) The yen was generally very weak, the Japanese economy appearing particularly vulnerable to higher oil prices and disrupted supplies. In virtually all countries there were rises in interest rates.

This disturbed background, and important policy changes in the United Kingdom, gave sterling an erratic course. It was at its strongest in late July—$2.3355, 74.0 in effective terms (although, after the end of the financial year, it exceeded this level in May 1980). In the autumn the pound fell as low as $2.0562 (66.0); but it soon recovered, and in early February it approached its July levels. The state of the world's oil market and high interest rates (required for monetary control) were the main reasons behind the rise.

The European Monetary System came into being in March 1979. The United Kingdom did not participate in the exchange rate arrangements but from July swapped 20% of the gold and dollars held in the reserves with the European Monetary Co-operation Fund, obtaining European currency units (ECUs) in exchange. (The income from the swapped assets and the management of them remain with the United Kingdom.) Because of the strength of sterling during March, the Irish authorities were obliged to break the relationship between the Irish pound and sterling in order to prevent their currency from appreciating beyond the permitted margins of fluctuation in the exchange rate arrangement in which it participates.

UK external indebtedness and UK reserves

In his June 1979 Budget, the Chancellor stated the Government's intention to reduce substantially the United Kingdom's official foreign currency debt over the lifetime of the present Parliament. In the year to March 1980, there were net repayments of \$3.1 billion. Borrowings amounting to some \$2.2 billion were repaid on schedule, and a further \$2.8 billion were repaid ahead of schedule. Against this, new external borrowing amounted to \$1.9 billion. By end-March 1980, total outstanding official debt in foreign currencies had been reduced to \$20.3 billion.

The loans repaid ahead of schedule during the year included \$0.5 billion by the Greater London Council (originally due for repayment between 1979 and 1984) and \$1 billion by the Electricity Council (1979–83). In addition, all outstanding drawings (amounting to \$1 billion) under the 1977 stand-by with the International Monetary Fund were repaid. (These exclude repayments in the reserve tranche which have no net effect on the UK reserves because they lead to a corresponding increase in the UK reserve position in the Fund.)

In line with government policy, new borrowing was confined to small amounts and mainly comprised borrowing from the European Investment Bank and the European Coal and Steel Community by various public sector bodies to finance investment projects. There was also some routine commercial financing by nationalised industries, among which the issues of commercial paper in New York by the British Gas Corporation and the Post Office, begun last year, were completed; both continue to command extremely fine terms.

During 1979/80, after the repayment of public sector debt described above, the reserves rose by \$1.9 billion, or by \$5 billion if account is taken of the annual revaluation at the end of March.(1) This year's revaluation of \$3.1 billion was composed of a rise of \$3.6 billion in gold and a fall of \$0.5 billion in convertible currencies. At the end of March, the reserves stood at \$27 billion.

Exchange control

The new Government elected in May 1979 was committed to the progressive dismantling of exchange controls. The first steps in this direction were announced by the Chancellor in his Budget on 12 June. The main changes then were in the rules governing the permitted methods of finance for outward direct investment; the most important was the introduction of a general annual 'ration' of official exchange up to a total of £5 million per investment project per year which, it was expected, would cover the needs of most investors. In addition, outstanding foreign currency debt could be repaid with official exchange in five equal annual instalments. There were also increases in personal allowances for travel, emigration and cash gifts, and the need to use investment currency for the purchase from non-residents of private property abroad was abolished. All controls over the import of, and dealing in, gold coins were removed, and there were minor relaxations in the rules for outward portfolio investment.

In July, there were further relaxations. On the 5th, the prohibition on the use of sterling by residents to finance third-country trade was lifted. From the 19th, UK residents were allowed to use official exchange without limit to finance all outward direct investment and to repay foreign currency borrowing taken at any time to finance such investment. At the same time, the first significant steps in the liberalisation of

(1) New rates or prices for the valuation of non-dollar items in the reserves in the ensuing year are established each March. Gold is valued at the average of the London fixing price for the three months up to end-March, less 25%, or at 75% of its final fixing price on the last working day in March, whichever is the lower. Special drawing rights, ECUs, and convertible currencies other than US dollars are valued at the average of US dollar values in the three months to end-March, or on the last working day of March, whichever is the lower.

outward portfolio investment were taken. Official exchange was allowed for the repayment of foreign currency borrowing for portfolio investment which had been outstanding for at least one year as at 19 July. Official exchange was also allowed for the purchase of most securities denominated and payable solely in the currencies of European Community (EC) member states and of foreign currency securities issued by EC institutions and other international organisations of which the United Kingdom was a member.

The process was completed on 23 October when all remaining exchange control restrictions were removed (except for those against Rhodesia which were not lifted until 13 December when economic sanctions against Rhodesia by the United Kingdom ended). Thus a system of exchange controls which had been in existence in one form or another for more than forty years was brought to an end.

The effect of the removal of exchange control restrictions on the internal administration of the Bank is described on page 22.

International banking and capital markets

International bank lending once again grew very rapidly in 1979. The re-emergence of very large oil-exporter surpluses and corresponding payments deficits among consuming countries will require the international banks to make a further major contribution to the recycling of the necessary funds, which will at the same time lead to further substantial growth in international bank lending and in some respects also increase the risks involved in such lending. In this context, the Governors of the central banks of the Group of Ten(1) countries and Switzerland issued a statement in April 1980 underlining the importance they attach to maintaining the soundness and stability of the international banking system, particularly in the light of this new situation. They accordingly instituted arrangements for strengthening regular surveillance of international banking developments and reaffirmed the high priority they attached to bringing into full effect measures to improve prudential control of international banking, particularly in the fields of supervision of banks' international business on a consolidated basis, improved assessment of country risk exposure and the monitoring of banks' maturity transformation: work in all three areas is proceeding internationally under the aegis of the Committee on Banking Regulations and Supervisory Practices, of which the chairman is Mr W. P. Cooke of the Bank of England.

(1) Belgium, Canada, France, West Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States.

Other activities

Management of the stock registers

Transfer activity returned to the high level of 1978, and was particularly heavy in the second half of the year. In January, 122,439 transfers were registered —the highest monthly figure on record.

Transfers

Thousands

Year to end-February	1977	1978	1979	1980
	1,025	1,123	968	1,106

The nominal amount of stock managed by the Bank increased by over 20% during the year, the increase being entirely in British government securities: the nominal value of other securities declined by 27%.

Nominal value of stocks in issue

£ millions

End-February	1977	1978	1979	1980
British government securities:				
Stocks[a]	40,436	51,004	57,909	70,794
Bearer bonds	50	84	99	101
	40,486	51,088	58,008	70,895
Other securities:				
Government-guaranteed	908	808	794	254
Commonwealth etc.	154	138	131	116
Local authorities	812	792	746	724
Other[b]	457	473	508	502
	2,331	2,211	2,179	1,596
Total	**42,817**	**53,299**	**60,187**	**72,491**

(a) The figures do not include stock on the registers of the Bank of Ireland and the Department for National Savings.

(b) Including stocks of the Agricultural Mortgage Corporation Limited and Finance for Industry Limited.

Number of accounts

Thousands

End-February	1977	1978	1979	1980
British government securities[a][b]	2,044	2,032	2,118	2,225
Other securities:				
Government-guaranteed	117	98	90	40
Commonwealth etc.	43	39	35	27
Local authorities	136	115	105	91
Other[c]	48	45	43	41
	344	297	273	199
Total	**2,388**	**2,329**	**2,391**	**2,424**

(a) The figures do not include stock on the registers of the Bank of Ireland and the Department for National Savings.

(b) Excluding bearer bonds; the number of separate bonds in these years was: 1977: 56,127; 1978: 88,663; 1979: 104,028; 1980: 102,289.

(c) Including stocks of the Agricultural Mortgage Corporation Limited and Finance for Industry Limited.

Issues and repayments

Stocks issued for cash

		Issue price	£ millions nominal
1979			
22 Mar.	12¼% Exchequer Stock 1999	£97.50	800.00
11 April	11% Exchequer Stock 1991	£97.50	800.00
23 May	11½% Treasury Stock 2001/04	£95.50	800.00
21 June	12% Treasury Stock 1984	£97.50	1,050.00
21 June	12¼% Exchequer Stock 1999 (second tranche)	£95.50	1,000.00
19 July	3% Exchequer Stock 1984	£77.00	1,000.00
25 July	11¾% Treasury Stock 2003/07	£96.50	1,500.00
15 Aug.	11¼% Exchequer Stock 1984	£97.25	1,100.00
12 Sept.	12% Exchequer Stock 1999/2002 (second tranche)	£97.00	500.00
12 Sept.	11½% Treasury Stock 1989	£95.50	600.00
15 Nov.	13¾% Treasury Stock 2000/03 (second tranche)	£91.00	1,000.00[a]
22 Nov.	15% Treasury Stock 1985	£98.50	1,000.00
28 Nov.	14% Treasury Stock 1998/2001	£95.50	1,000.00
1980			
10 Jan.	14% Exchequer Stock 1984	£96.50	1,100.00
23 Jan.	13½% Exchequer Stock 1983	£96.75	800.00
23 Jan.	12½% Treasury Stock 2003/05 (second tranche)	£91.50	1,000.00
27 Feb.	14% Treasury Stock 1996	£95.50	800.00

(a) Full amount issued to the Bank which 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 9¾% Treasury Stock 1981 were issued as follows:

£ millions

	In compensation: Shipbuilding	Compensation on account: Aircraft	Total
1979			
18 June	0.96	1.09	**2.05**
4 Dec.	1.66		**1.66**
			3.71

Repayments at par

		£ millions nominal
1979		
9 Mar.	11½% Treasury Stock 1979	1,199.91
21 May	Government of Northern Rhodesia 6% Stock 1976/79	1.69
21 May	Nyasaland Government 6% Stock 1976/79	0.47
28 Aug.	London County 6% Stock 1976/79	20.00
17 Sept.	3% Treasury Stock 1979	649.18
20 Sept.	North of Scotland Electricity 4½% Guaranteed Stock 1974/79	14.97
26 Sept.	British Electricity 4¼% Guaranteed Stock 1974/79	275.00
1 Nov.	10½% Treasury Stock 1979	1,199.95
15 Nov.	British Electricity 3½% Guaranteed Stock 1976/79	250.00
21 Nov.	Corporation of London 5¼% Stock 1976/79	5.00
1980		
11 Feb.	Corporation of London 9½% Stock 1976/80	5.00
28 Feb.	New Zealand Government 6% Stock 1976/80	12.00

Local authority bonds

Twenty-five issues of local authority short-term bonds during the year, totalling £39.25 million nominal, were managed by the Bank; thirty such issues, totalling £37.75 million nominal, were redeemed.

Allotment commission

On 7 December the Bank announced, on behalf of the Treasury, the decision to discontinue the payment of commission to bankers and stockbrokers on allotments of new issues of British government stock made in respect of applications bearing their stamp. The volume of applications, and hence the cost of paying allotment commission, had increased significantly in recent years, and the decision was made in the context of severe restraint on government expenditure generally.

9% Treasury Convertible Stock 1980

9% Treasury Convertible Stock 1980, issued in 1973, carried an option for holdings to be redeemed at par on 3 March 1980 or to be converted into 9% Conversion Stock 2000 at a rate of £110 nominal Conversion Stock for every £100 nominal Treasury Convertible Stock. Fewer than 200 holdings were converted, into £0.58 million of the new stock.

Sale of British Petroleum shares

In November the Bank arranged, on behalf of the Treasury, for the sale of 80,000,000 ordinary shares of 25p each of the British Petroleum Company Limited. These were offered at £3.63 per share, of which £1.50 was payable on application on 9 November and the balance on or before 6 February 1980. Under the terms of the issue, preferential treatment was accorded to applications from employees of BP and its United Kingdom subsidiaries. The offer was oversubscribed and, for applicants who were not accorded preferential treatment, a basis of allocation was adopted which favoured the smaller applications.

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 15 March 1980, the date on which Government of Southern Rhodesia 5% Stock 1975/80 became due for repayment, the cumulative amounts shown by the registers to be due since November 1965 but not paid by the Bank were:

Gross interest	£27.28 million
Redemption monies[1]	£42.93 million

In addition, contributions due but unpaid to the sinking funds managed by the Bank for three of the four stocks yet to reach their final redemption dates amounted to some £2.63 million.

(1) Relating to Government of Southern Rhodesia 3½% Stock 1961/66, 3½% Stock 1967/69, 2½% Stock 1965/70, 3% Stock 1971/73, 4% Stock 1972/74, 6% Stock 1976/79 and 5% Stock 1975/80. The registers for these stocks remain open.

Information has been provided by the Ministry of Finance in Zimbabwe about payments made in respect of the stocks from Salisbury between November 1965 and December 1979. Steps are being taken to identify the relative accounts in the registers and take note of the payments, which relate to some £7.18 million of the above gross interest and £12.81 million of the redemption monies.

On 27 June 1980, agreement was reached between the Government of Zimbabwe and the Council of Foreign Bondholders on the terms of an offer to be made to holders in respect of outstanding interest and redemption money on Government of Southern Rhodesia stocks.

Gilt-edged settlements

Following the publication last year of the final report of the Joint Committee on Gilt-edged Settlements, a joint study group was set up by the Bank and the Stock Exchange to consider the principal proposal for a computer-based book-entry system to record purchases and sales; its deliberations are not yet complete.

The Joint Committee's other main proposal was that, in the short term, deadlines should be introduced for various processes leading to settlement. After study by a sub-committee of the Settlement Services Committee of the Stock Exchange, deadlines have been introduced progressively since last autumn, and the full range became operative on 10 March 1980. This has intensified the already great pressure on the Registrar's Department at times of heavy activity, but they have nevertheless succeeded in holding to the deadlines.

The note issue

The note issue was £9,775 million at the end of February 1980, £850 million (9½%) larger than a year earlier. As in previous years, the issue reached a peak (of £10,875 million) during the Christmas period.

The increase in the value of the circulation was met entirely by a continuation in the growth of the use of higher denomination notes. By the end of February 1980, the value of £10 notes in circulation was greater than that of £5 notes, and the £10 and £20 notes together accounted for 52% of the total note circulation by value, compared with 46% a year earlier. The value of £5 notes as a proportion of the circulation declined from 42% to 36%, and that of £1 notes from 9% to 7%, mainly reflecting the withdrawal of the old series C £1 notes, which ceased to be legal tender in May 1979. The series C £10 note ceased to be legal tender at the same time.

Value of notes in circulation by denominations

£ millions

End-February	1977	1978	1979	1980
10s[(a)]	13	13	13	13
£1	805	800	782	704
£5	3,431	3,625	3,694	3,540
£10	1,596	2,172	2,948	3,610
£20	652	852	1,125	1,419
Other notes[(b)]	261	314	338	476
Total	**6,758**	**7,776**	**8,900**	**9,762**

(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 Bank issued 1,819 million notes during the year, 8% more than in the two previous years. The growing use of cash dispensers led to a sharp rise in the number of new £5 notes issued, despite the fact that the £5 is now in absolute, as well as relative, decline.

Number of new notes issued by denominations

£ millions

Year to end-February	1977	1978	1979	1980
£1	985	990	978	969
£5	553	545	509	585
£10	107	133	176	230
£20	16	23	25	35
Total	**1,661**	**1,691**	**1,688**	**1,819**

The Bank plans to issue a £50 note, with a portrait of Sir Christopher Wren on the reverse, early in 1981.

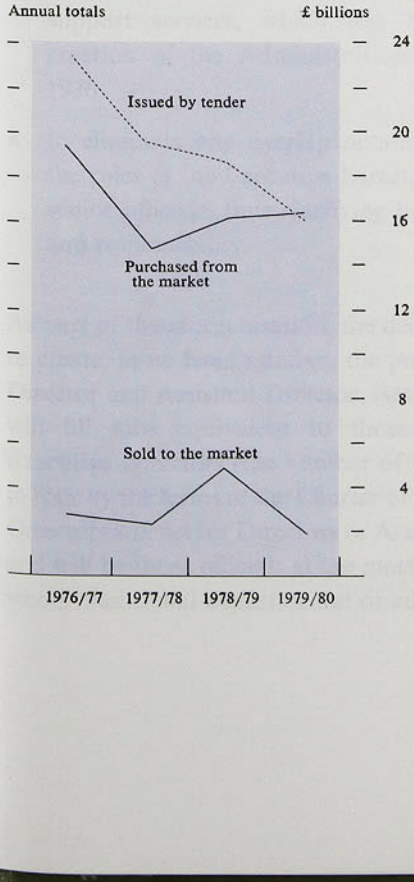
Money-market operations

The Bank's operations in the sterling money market in the year to end-February 1980 were on a substantially larger scale than in the preceding year (see table) reflecting the tight conditions which prevailed throughout most of this period. The amount of lending to the discount market almost doubled, and there were also increases in purchases of Treasury, local authority and commercial bills. The commercial bills were mostly bought for resale at fixed future dates, a technique which enables the Bank to reduce forecast surpluses in the market while relieving the current shortage. In addition to these regular forms of assistance, relief was provided at times of particular stringency by the release of special deposits, and, towards the end of the year, by the provision to the London and Scottish Clearing Banks of facilities whereby the Bank purchased government securities from these banks for resale at a later date.

Money-market operations
£ millions

	Treasury bills bought	Local authority bills bought	Commercial bills bought	Lending	Treasury bills sold
1979/80					
March	1,101	215	351	3,081	—
April	947	59	440	1,660	482
May	1,689	185	68	1,368	27
June	1,472	212	281	814	434
July	1,508	259	342	1,947	46
August	1,322	237	426	2,190	14
September	1,589	80	—	252	257
October	1,602	382	217	1,274	130
November	987	150	1	110	279
December	1,272	274	—	297	247
January	1,909	292	784	3,285	66
February	939	184	936	1,939	—
Total	**16,337**	**2,529**	**3,846**	**18,217**	**1,982**
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

Treasury bill operations



Surpluses in the market were infrequent during 1979/80; sales of Treasury bills, the usual method by which the Bank absorbs such surpluses, fell by over a half.

Banking supervision

The text of the report which the Bank has made on the exercise of its functions under the Banking Act during the 1979/80 financial year is reproduced on page 43.

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.

Certain amendments to the rules governing the relations of banks and brokers took effect on 2 January. Banks are now free to deal directly with each other in foreign exchange without using the services of a recognised broker; brokers need no longer ensure that at least two firms handle each of the currencies listed in the schedule of brokerage; and brokers need no longer refrain from offering commercial names to banks.

Sterling money markets

The formation of the Sterling Brokers' Association, foreshadowed in earlier *Reports*, was announced in July 1979. A Code of Conduct for Principals and Brokers in the Sterling Deposit Market was issued by the Bank, and a Joint Standing Committee representing brokers and principals was shortly afterwards established under the Bank's chairmanship. There are currently eighteen members of the Sterling Brokers' Association, which is open to any firm offering a broking service on a significant, regular basis. An undertaking to observe the Code of Conduct is a condition of membership. The formation of the Association has not, however, placed any restrictions on principals, who remain free to deal with any broker whether or not he is an Association member.

Commodity markets

Following the abolition of exchange controls, the Bank has agreed with the various market associations that it should maintain its close contact with them and continue to monitor them.

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 of £1 (now represented by 311,270,028 ordinary shares of 25p) purchased by the Bank from the company in January 1975 is still the subject of legal proceedings; the shares continue to be held by the Bank.

Joint operations ('The lifeboat')

The special committee of the Bank and the London and Scottish clearing banks continued to meet from time to time during the year. By the end of the year there were only three active companies receiving support, all of which had reduced their dependence compared with a year earlier. Sir Jasper Hollom continues as chairman of the committee.

Quarterly Bulletin

Because of steeply rising costs, the Bank concluded, with regret, that it had become necessary to introduce a charge for the *Bulletin,* and this was applied with effect from the June 1980 issue. Subscription details can be obtained from the Bulletin Group, Economics Division, Bank of England, London EC2R 8AH.

Internal administration

Reorganisation of the Bank

The changes in the management structure which took effect on 1 March 1980 were designed to cater for recent developments in the functions of the Bank. They coincided with the retirement of Sir Jasper Hollom, who had served as Deputy Governor for a period of ten years, and of two senior Heads of Department, Mr Taylor and Mr Payton.

Sir Jasper was appointed a Non-Executive Director for a four-year term from 1 March. He was succeeded as Deputy Governor by Mr McMahon, who was himself succeeded as a Director by Mr Page, until then the Chief Cashier.

The principal aims of the reorganisation were:

- to reinforce the arrangements for the discharge of the Bank's responsibilities in the field of domestic and external monetary policy by grouping more closely together those divisions chiefly concerned;
- to create a new area, under a Director, to carry out the Bank's extended supervisory functions;
- to complete the process of bringing together all support services, which was begun with the creation of the Administration Department in 1976;
- to eliminate any overlap or ambiguity between the roles of the Executive Directors and those of senior officials, thus clarifying lines of authority and responsibility.

As part of the reorganisation, the decision was taken to create, in no fixed number, the posts of Associate Director and Assistant Director. Associate Directors will fill jobs equivalent to those performed by Executive Directors (the number of which is limited to four by the terms of the Charter of 1946). Assistant Directors will act for Directors or Associate Directors and will be those officials at the most senior level for whom traditional departmental or advisory titles are not appropriate. Associate Directors will not be members of Court but may be invited to make regular presentations to it on matters falling in their fields of responsibility; other senior officials may also be asked to attend Court from time to time.

The first Associate Director, appointed as from 1 March, was Mr Loehnis, who took over the overseas work previously carried out by Mr McMahon.

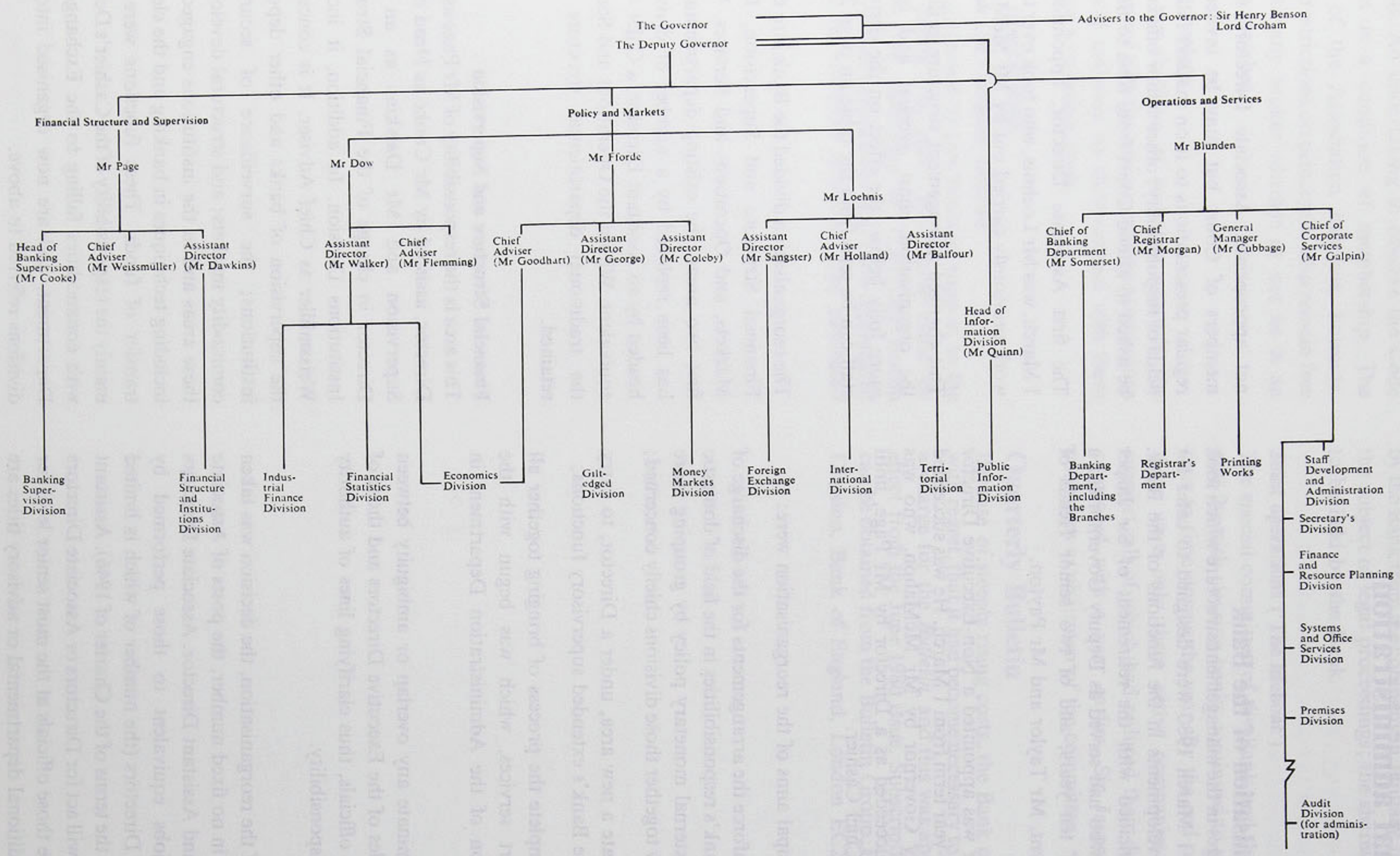
This changed management structure is illustrated in the organisation chart overleaf and is described more fully below: the effect on the distribution of staff can be seen from the table on page 22.

The reorganisation divided the Bank into three areas: Financial Structure and Supervision, Policy and Markets, and Operations and Services. Within the first two areas, the existing departmental structure has been replaced by a number of divisions, each headed by an Assistant Director, a Chief Adviser, or equivalent. Within the Operations and Services area, the traditional departmental structure has been retained.

Financial Structure and Supervision

This area is the responsibility of Mr Page as Executive Director, assisted by Mr Cooke as Head of Banking Supervision and Mr Dawkins as an Assistant Director in charge of the Financial Structure and Institutions Division. In addition, it includes Mr Weissmüller as Chief Adviser. It is concerned with the supervision of banks and other deposit-taking institutions; the surveillance of securities and commodity markets; and structural developments in these areas and in the institutions engaged in them, including techniques in banking and the clearing and transfer of funds. These functions were formerly mainly the responsibility of the Cashier's Department, with commodities falling to the Exchange Control Department, and are now organised into the two divisions referred to above.

Organisation of the Bank: March 1980



Policy and Markets

This area is concerned with domestic monetary and external policy, with market operations and with research. The co-ordination of operations and policy rests, under the Governor, primarily with the Deputy Governor. He is assisted by the Home Finance Director (Mr Fforde), the Economics Director (Mr Dow) and the Overseas Associate Director (Mr Loehnis). The area, which comprises the operational elements of the former Economic Intelligence and Overseas Departments and parts of the former Cashier's Department, now consists of eight divisions.

Under the Economics Director, with Mr Walker as an Assistant Director and Mr Flemming as Chief Adviser:

- The *Industrial Finance Division* (the former Industrial Finance Unit), which is closely concerned with developments in company finance and co-ordinates the industrial liaison work of the Bank. A regular and systematic flow of information is received from the Agents at the Bank's branches.

- The *Financial Statistics Division*, which collects and analyses data from the banks and others (mainly financial institutions) to meet the needs of economic and, in particular, monetary policy. It also provides specialised statistical services to the rest of the Bank and co-operates with the Government Statistical Service and statistical bodies overseas.

- The *Economics Division*, which is concerned with all aspects of UK economic policy. It is responsible for the Bank's economic forecasts, which are prepared with the help of an econometric model, and undertakes longer-term studies, the results of which are frequently published in the *Quarterly Bulletin*.

Under the Home Finance Director, with Mr Coleby and Mr George as Assistant Directors and Mr Goodhart as Chief Adviser on monetary policy:

- The *Gilt-edged Division*, which is concerned with policy and operations in the gilt-edged market and with other long-term borrowing operations, including borrowing in foreign currencies.

- The *Money Markets Division*, which is responsible for the Bank's daily operations in, and lending to, the Discount Market, for day-to-day liaison with the Discount Market and the treasurers of the clearing banks, and for general oversight of the short-term money markets in sterling.

Under the Overseas Associate Director, with Mr Balfour and Mr Sangster as Assistant Directors and Mr Holland as Chief Adviser:

- The *Foreign Exchange Division*, responsible for the foreign exchange and gold markets and the management of the Exchange Equalisation Account.

- Two Divisions concerned with overseas affairs more generally, which, for convenience, have been named the *Territorial Division* and the *International Division*.

Operations and Services

This area, which is the responsibility of Mr Blunden as Executive Director, contains the greater part of the Bank's staff and consists of the following departments:

- The *Banking Department*, headed by Mr Somerset,[1] which is responsible for the banking and note issue functions of the former Cashier's Department, including the Bank's branches.

- The *Registrar's Department*, headed by Mr Morgan,[1] which is the former Accountant's Department renamed to give a more accurate description of its function.

- The *Printing Works*, under the General Manager, Mr Cubbage.

- The *Corporate Services Department*, under Mr Galpin, which is responsible for staffing and administration generally (formerly the functions of the Administration and Establishment Departments) and for the provision of many other services for the Bank as a whole. The Audit Division is attached to this department for administration: it of course works as an independent unit.

(1) For statutory reasons the Chief of the Banking Department also carries the traditional title of Chief Cashier; for similar reasons the Chief Registrar retains that of Chief Accountant.

In addition, there is an *Information Division*, reporting directly to the Deputy Governor, which is responsible for the Bank's relations with the press and public.

The reorganisation of the Bank, and the abolition of exchange controls in particular, created unusual pressures for the staff, and it is a tribute to their loyalty and efficiency that the work of the Bank did not suffer during this difficult period.

Cash limits

Expenditure in 1979/80 on four of the services which the Bank provided to the Government—the note issue, management of both the national debt and the Exchange Equalisation Account, and administration of exchange control—was included in the programme of cash limits on public expenditure. The outturn amounted to £64,000,000 compared with a cash limit of £64,500,000. A cash limit of £69,200,000 has been agreed for the first three of the above services for 1980/81.

Numbers of staff

The average number of employees during the year was a little under 7,350, or 350 less than in the previous year. Their aggregate remuneration amounted to £44,145,485. At 29 February 1980, the Bank employed nearly 6,250 full-time and 750 part-time staff; this included more than 500 full-time staff who were due to leave the Bank's service on 1 March under the voluntary severance scheme described below. The number of banking staff on 2 March was thus about 1,000 (22%) fewer than a year earlier, reflecting not only the abolition of exchange controls but also staff savings achieved elsewhere in the Bank. The following table shows the broad distribution of staff employed at the end of February 1980 and illustrates the structure of the Bank both before and after reorganisation. It includes half the total of those working part time (either alternate weeks or part-days each week), but excludes the 500 or so who left on 1 March.

The comparisons shown in the table are only approximate. For instance, the Policy and Markets area also includes some members of the former Cashier's Department. Further, the number of staff in the Corporate Services Department exceeds the combined total in the former Administration and Establishment Departments because other support services, including staff administration, for Policy and Markets and Financial Structure and Supervision, which were previously included within individual departments, are now centralised.

Before reorganisation			After reorganisation
Banking staff			
Economic Intelligence Department	250	375	Policy and Markets
Overseas Department	225		
Exchange Control Department (including Glasgow Agency)	50	100	Financial Structure and Supervision
			Operations and Services:
Cashier's Department (including over 250 at branches)	1,050	925	Banking Department (including 275 at branches and Glasgow Agency)
Accountant's Department	950	950	Registrar's Department
Printing Works	200	200	Printing Works
Administration Department	450	975	Corporate Services Department
Establishment Department	350		
	3,525		
Unallocated (including seconded staff and trainees)	75		
Total banking staff	3,600		
Technical and services staff	925		
Printing Works staff	1,575		
	6,100		

Voluntary severance scheme

The size and speed of the loss of jobs arising from the abolition of exchange controls were such that it was not possible to rely on natural wastage to eliminate the resulting staff surplus. As a contingency plan, the Bank had prepared a voluntary severance scheme and this was ready when exchange controls were abolished on 23 October. The offer was opened as widely as possible to most sections of the banking staff, on the condition that departures under the scheme would result in a reduction in the staff surplus either directly or indirectly; but there was an over-riding proviso that departures must not prejudice the efficient functioning of the Bank in the short term nor leave it with an unacceptable balance of staff in terms of rank, age, ability and experience for the future.

In the event, some 730 applicants were accepted under the scheme, including 70 whose departure dates had to be deferred beyond 1 March. The operation involved the transfer to other jobs of at least 600 (more than one in six) of those remaining in the Bank; but by the beginning of January it was possible to confirm that the required reduction in staff numbers had been achieved without compulsory redundancies.

Recruitment

Recruiting plans for 1979 had been curtailed before June in recognition of the uncertain future of exchange control; this was followed at the time of the Budget by a general moratorium on all further recruitment, but this did not extend to the considerable number of recruits who were already in the course of being appointed. Developments by mid-July, however, forced the Bank to take the unprecedented and unpalatable step of withdrawing offers—albeit with appropriate compensation—to just over 200 potential recruits who had been accepted but had not yet started work. As a result, the year's intake was limited to about 20 graduates, (mainly specialist), 70 'O' level entrants recruited in London for clerical work or for training as typists, and 20 similar staff elsewhere.

Secondments

At the end of February 1980, thirty-seven staff were on secondment to other institutions at home and abroad, compared with forty-four a year earlier. They comprised nineteen seconded overseas and eighteen in this country; of the latter, six were with government departments and ten with the Council for the Securities Industry.

Premises

Construction of the new Glasgow Agency was completed during 1979 and the formal opening by the Governor took place on 28 April 1980.

Work to remodel and extend the Southampton Branch was completed by mid-1980.

Relocation

Partly because of the increasing emphasis on the need for reductions in government expenditure, a search is being undertaken for a suitable site outside London to which to relocate the Registrar's Department in a few years' time.

Computer developments

The year has seen the further development and enhancement of many of the Bank's major computer systems. The handling of the Treasury bill tender became fully automated during the year, and a computerised budget planning and control system was brought into operation.

In the Registrar's Department, two new ICL 2900 series computers and associated hardware have been ordered to replace the existing ICL 1904 computers which have been in service since 1973. It is planned to take delivery of the new equipment during the summer of 1981. Plans are also in hand to increase computer capacity in the rest of the Bank by the replacement of an older IBM computer with a new 3031 machine and by the enhancement of the existing 370/158 equipment during 1980.