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A MEETING OF DIRECTORS AT THE BANK

THURSDAY 2 JANUARY 1997

Present:

Mr George, Governor

Mr Foot

Mr Kent

Mr Plenderleith

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

Howard J. Davies

[illegible]
Secretary
15.1.97

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 8 JANUARY 1997

Present

Mr George, Governor

Mr Davies, Deputy Governor

Mr Kent

Mr King

Mr Plenderleith

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

Mr Plenderleith noted the continuing strength of sterling on the foreign exchange markets; he also commented briefly on the Official Reserves figures for December.

Howard J. Davies

Jm Footman
Secretary
15.1.97

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 15 JANUARY 1997

Present:

Mr George, Governor

Mr Davies, Deputy Governor

Sir David Cooksey

Mr Foot

Mrs Heaton

Mr Kent

Sir Chips Keswick

Mr King

Sir David Lees

Dame Sheila Masters

Sir Jeremy Morse

Mr Neill

Mr Plenderleith

Sir David Scholey

Mr Simms

Appointments

On a recommendation from the Governor, Court approved the appointment of John Footman to succeed Alastair Clark as Deputy Director in the Financial Structure area of the Bank, following Mr Clark's appointment as an Executive Director, which was to be announced that day. Court also approved, in accordance with paragraph 11(2) of the Charter of 1946, the appointment of Alastair Clark as the Executive Director, with effect from 1 March, with responsibility for the Financial Structure area.

Court approved the appointment of Peter Rodgers, the Financial Editor of the Independent, to succeed John Footman as Secretary of the Bank.

Minutes

The Minutes of the Court of 18 December and the Meetings of 24 December 2 and 8 January, having been circulated, were approved.

Monthly Economic and Monetary Report and Market Charts (Mr Bowen in attendance)

At the Governor's invitation, Mr King spoke about the international environment. The prospects for 1997 were potentially favourable, in that both Europe and Japan had scope for faster growth, without any threat to inflation. In the US, the position was more difficult, in that unemployment was probably already below the natural rate, but growth there should be close to trend, albeit with some action on interest rates because of inflation worries. However, growth was likely to be held back in Europe, by concerted attempts to carry out, over a short time scale, a fiscal consolidation in order to meet the Maastricht criteria.

The latest OECD and IMF projections had US growth over the next two years at 2 - 2.5%; in Japan 2% rising to 3 - 4%; and in Europe 2.5%.

But the conjunctural outlook was swamped by longer-run issues, most importantly unemployment, the long-term outlook for the public finances and world trade. In Europe, little was being done to bring unemployment down. Cyclical unemployment remained a major problem, and structural unemployment even more significant. And the shorter run attempts to reduce fiscal deficits were in most countries small when set against the long-run pension funding problem.

The US had faced up to these problems more quickly, and unemployment had not been on an upward trend for a long time. The budget deficit, as a fraction of GDP, was now lower than in other major economies. The Boskin report on the measurement of inflation, if acted upon, could cut the rate of growth of transfer payments; Boskin had suggested that CPI inflation was 0.5 - 1% overestimated.

The Governor said that the concern, in the short run, was that Japan and the EU were more likely to come out below forecast than above. The risks in the UK and the US ran in the other direction. This could be a source of tension, including in exchange markets. There would be a further discussion of the international position at February's Court.

Sir David Scholey commented that the Boskin adjustment was interesting: there was a parallel issue relating to the black economy, which had recently been an issue in Germany. Mr King said that there were no satisfactory estimates in this area.

Turning to the domestic economy, Mr King said that recent short-term indicators had been a little softer. Manufacturing output was down 0.5% in November, the surveys were a bit weaker, and cost pressures were very weak. But the data were heavily biased towards manufacturing, which accounted for only 1/5 of the economy. Services remained strong.

Last June, the Bank had recommended that 6% was the appropriate level for short-term interest rates. Rates were still 6%, yet over the intervening months domestic demand had accelerated and output growth had started to rise above trend. Activity could well turn out to be under-recorded. The unemployment data published that morning showed another large fall, and broad money was still growing strongly.

We remained under the shadow of the recent rise in sterling - up 15% since May in effective terms. This would have an effect on input prices and net trade, but without fully understanding the reasons for the rise, it remained hard to assess.

Mr King asked Members specifically for views on earnings pressures in the light of the unemployment numbers, on the impact thus far of the exchange rate, and on the services sector.

Mr Plenderleith said that the rise in sterling was puzzling. One factor was clearly the weakness of the DM. Another was that our interest rates were higher than in other markets. There might also be a re-rating of the UK in train, though this was hard to test. The mystery was that the inflow was not reflected in the gilts market, where it was hard to explain our yield premium relative to other markets. One conclusion might be that investors were taking a cautious view of UK policy, and thus positioning in sterling only on a short-term basis: if so, we could not be confident that sterling's strength would persist.

Sir David Lees said that behind the employment/earnings data lay a continuing shift from low to high-skill jobs. Low skill jobs were still being eliminated, but the demand for high-skill jobs of various kinds had increased. This would have implications for earnings. On the exchange rate, as the Agents' reports said, it was only at about this stage, as annual contracts were renewed and exchange cover ran off, that the impact started to be felt. Thus far, while a lot of companies had suffered from translation impact, there had been less effect on trade.

Mr Neill said that technically qualified people were becoming scarcer and this was leading to some pressures on pay. Generally, however, increases at around inflation were being conceded. There was still much over-capacity in the European volume car sector, and pressure on the big players to get their costs down. The rise in sterling had initially been reflected in margins rather than volumes, but increasingly that would change.

Sir Chips Keswick said that for a variety of reasons there was a greater propensity to hold cash at present. With low inflation, the fear of holding deposits was less, certainly at 6%.

Sir Jeremy Morse saw a partial parallel with 1964; an inflow of hot money, inflationary pressures beneath the surface, and the risk of an outflow after the election leaving the inflation problem exposed. The IMF had pressed the UK during that period to focus on domestic credit expansion.

He found the exchange rate trend less puzzling and felt that the reasons given by Mr Plenderleith, together with Sir Chips Keswick's point, added up to a convincing story. It was right to be cautious about sustainability: it depended on the balance between the re-rating explanation and the interest rate explanation. The Governor said that the exchange rate nevertheless presented us with a considerable dilemma.

Sir David Cooksey said that every business he was involved in - spanning textiles, electronics and bio-technology - was cutting employment: he could not see where the increased employment was coming from. He added that a significant fiscal tightening was likely to flow from the introduction of self-assessment, which would accelerate flows to the exchequer.

Mr Simms expected construction to remain muted even though the sector was entering the year with more confidence than for some time. After so much pain, companies were unlikely to behave over-confidently just yet. He expected upward pressure on management pay. The exchange rate was not, at this stage, a critical issue.

The Governor, summing up, said that no-one seemed to be saying that activity was roaring away. Our sense, too, was that the economy was robust, but not in boom conditions.

Prospects for the City's Exchanges (Messrs Clark and Bond in attendance)

Introducing the paper, Mr Kent drew attention to three key threats to London's exchanges: product sharing/co-operation; the impact of EMU; and the pressure to choose between open outcry and electronic trading. Each was significant: coming all at the same time represented a considerable challenge.

Mr Bond said that his paper had concentrated on the City's exchanges because they were a manageable part of the story, linked by common issues. There were four equity exchanges: the Stock Exchange, which was now - after a difficult few years - making good progress both on their trading platform and on governance; Tradepoint, which was struggling and looking less of a threat to the Stock Exchange (whose listed securities it traded); AIM, the replacement for the USM, which had made good progress since its launch; and Ofex, a stockbroker's trading facility, which was in danger of being undermined by the forthcoming changes in the stamp duty regime. And there were four futures markets: LIFFE, which had successfully completed its merger with the LCE, and had enjoyed a better year in 1996 than in 95, but was facing intense pressure from the DTB; the LME, which despite the scandals (which showed they had a lot to do on regulation and governance) was performing well as a market; the IPE, currently trying to extend its range with a new market in natural gas; and OMLX, the London end of the Swedish futures exchange, set up to avoid Swedish transaction taxes and with a niche in Scandinavian equity options.

While the picture was reasonably healthy, the challenges were considerable.

EMU posed a major challenge to LIFFE. There were prospective contract changes, and a reduction post-EMU in the number of contracts. In addition, they had space problems on their trading floor; but the post-EMU environment, and the floor/electronic trading issue, made the investment decision complex and risky.

Electronic trading was a wider issue. It was not invariably better, but it was cheaper, and it made contract rationalisation and links between exchanges easier to achieve. But it also made it easier for other centres to capture business in London. Finally, there were questions about governance: essentially a choice between member-owned and commercial exchanges.

Sir Chips Keswick (and other Directors) commented that the paper was a good one. He said that the exchanges themselves made very little money: their economic value was to their members. They should facilitate, not lead. The underlying strength of London lay in the quality and strength of settlement systems here.

Sir David Scholey sensed a strong concern in the paper about London's long-run competitiveness. The capacity of exchanges to stick to their past and rely on their historic strengths was almost infinite. Lloyd's was an example: and the London Stock Exchange's performance over the previous ten years had been abysmal. The paper asked whether we should continue to probe and question the exchanges on these issues. It was absolutely vital that we should. Markets would come and go, inevitably, but the Bank should be monitoring that process.

Sir Jeremy Morse strongly agreed. The City had three major strands: the markets, the financial companies, and the supporting operations. Markets were right at the centre. If we lost out in that area, either because of EMU or because of the tide of change, it would be damaging to the City. He agreed that the Bank's work was vital. He believed that we should continue as part of it to promote collaboration between exchanges and where necessary mergers. He also felt that the trend must, in the long run, be towards electronic trading. Mrs Heaton agreed: electronic trading was undoubtedly the way ahead, as it was for settlement, so markets were bound to become less settled, and traders more mobile. Sir David Cooksey commented on the performance on the AIM. He thought the comparison with the US was instructive; NASDAQ had now outstripped the NYSE in numbers of trades (though not by value), mainly because it offered a degree of liquidity in equities that was simply not available here. The USM had lost liquidity in 1987, and never recovered it. He was worried about what would happen to the AIM in the next market dip. NASDAQ, on the other hand, should provide liquidity.

Mr Plenderleith observed that there was an important distinction between markets and exchanges. Many markets operated here without any exchange structure. He was relatively relaxed about the success of exchange structures: they could come and go; but they needed to be realistic about the contribution that they could make.

Others could supply the services. Their roles should be just to do what users want, no more. The London Stock Exchange could do well by collaborating with overseas exchanges and sharing the very advanced trading platform that it had now developed.

Dame Sheila Masters wondered how the Bank could address governance problems on exchanges. Sir Jeremy Morse assumed that HMG was unlikely to take a lead, so the Bank clearly had a role. Mr Clark said that it was very unlikely the Bank would itself seek to promote root and branch changes in governance arrangements. But it would help to facilitate change - as it had recently, for example, with the Stock Exchange - and it could sometimes help to deal with the consequences of governance problems - for example in picking up the TAURUS project, which had been bedevilled by conflicting interests. The Governor said that he had been encouraged by Court's support for the Bank's continuing catalytic role in this area.

The Activities of the Agents (Mr Allen in attendance)

Mr Allen said that the paper provided an overview of how the agency network was changing. Cardiff and Greater London were now open, an Agent for the East Midlands had been appointed, and a second Deputy Agent in the South East was being located in Cambridge. The flow of information has increased a lot already, and a review had been undertaken of the quality, including a retrospective comparison of what the Agents had been saying relative to the ONS data. The formats of the Agents' reports had been changing, and the statistical annexes made more precise.

Sir Jeremy Morse said that he had been grateful for the report. He noted that the Agents were still pursing a role outside economic reporting - representing the Bank in the provinces, fulfilling speaking engagements etc. He wondered if there was any notable variation in quality as between Agents, and what would determine the choice of Agents in the future. Finally, he asked where we were on winding up the branch operations.

Mr Allen said that there was not in practice a huge variation in quality between the different Agents: few of them were economists, but all were economically literate. They needed to be able to listen and to understand what was being said to them. This was not necessarily a job for younger people: it could often suit an individual in his or her mid-50s.

The Deputy Governor said that branch closures would all now take place in October 1997. The key was to disengage the branches from the distribution and circulation of notes, and we were doing this by forming note clubs among the banks. The first had been rolled out in Birmingham, and our impression was that it was working quite well. The branches, meanwhile, were running down their old stocks of notes. On the personnel side, developments were satisfactory, and redundancy packages were being agreed. Sir David Lees asked what steps were being taken to involve Court more with the work of the Agents, and about the involvement of the Liverpool Agent as Chairman of the Regional Investment Fund - he did not recall Court having approved the Agent becoming the Chairman. The Secretary said that both the Agents and Non-Executive Directors' offices had been encouraged to identify opportunities for the Non-Executive Directors to visit branches and to participate in branch functions. Mr Simms said that it was important for the Agents to issue positive invitations, rather than general ones. The Deputy Governor said that although Court had originally approved the Bank's participation in the Liverpool Regional Investment Fund, and not the Agent becoming Chairman, a combination of circumstances had led to the original Chairman being unable to take up the position and exceptionally the Agent had agreed to take it on. The Deputy Governor had been consulted, had visited the Fund premises and had carefully considered the risks to the Bank. He was satisfied that they were manageable, and also that the Bank had earned a good deal of credit in Liverpool from having provided the Agent as Chairman.

Objectives of Supervision (Mr Page in attendance)

With reference to a Minute of 18 December, Mr Foot said that since the discussion in December, the paper had now been changed. It set out the objectives, standards and processes of supervision, and he would like it to set the framework for a number of other papers. It was to be discussed in the Board of Banking Supervision on Wednesday, and would subsequently be shown to the Treasury and other UK regulators. Sir Jeremy Morse said that the document was an extremely important one, but although his interests had been in the drafting, for a document of this kind the drafting was crucial. He now liked the way the document was ordered, though he would like the point about protection of depositors - "can't save everybody" - to come rather earlier. He suggested "enhancing but not completely assuring" as a suitable formulation. The Governor agreed.
Dame Sheila Masters asked if we had exposed any of the paper to the banks: Mr Foot said that this had not yet been done, but we would try it on the BBA and on one or two "thoughtful" clearers shortly. Sir Chips Keswick said that it was important to make it clear that the Bank's role did not extend to interference in the management of banks. The Bank should always guard against the temptation to become more dirigiste. Sir David Scholey said that the new document represented a significant step forward, and was now a useful long-term paper. He suggested that on page 2 of the standards paper we should make it clear that we prefer to consult and persuade rather than to dictate, but in the last resort, if necessary, we would dictate. On paragraph 5 of the standards

paper, he suggested the use of the word "effectiveness" rather than "efficiency". Sir David Lees on paragraph 12 of the same paper, said that words "while respecting commercial confidentiality" should be included.

Banking Act Report - initial outline (Mr Page and Ms Robertson in attendance)

Mr Foot said that the structure of this report had settled down over the past couple of years, with an important editorial section at the beginning in which the Bank expressed views and tried to stimulate debate about supervisory issues. A complication this year was that the Financial Stability Review was now being published, covering some of this material. Another complication was that the Report would probably appear in the early weeks of a new government. The main topics for the review section were likely to be the Objectives of Supervision, Risk-based Supervision, Supervision of non-EEA banks, Section 39 Reports and Internal Controls. Sir Chips Keswick thought that the programme was rather substantial, and wondered whether we needed to do it all. Mr Foot said that much of the work was already done, as part of the Bank's normal processes, and so it was really a matter of incorporating it into the Report rather than conducting fresh research. Sir David Scholey said that it was very important to cover the question of relations with other supervisors and regulators. The Governor agreed. Sir David Scholey felt that margins should only be included if BOBS thought that there was a "time bomb" ticking and a very specific warning seemed appropriate. Mr Page said that there would be an earlier paper in the Financial Stability Review making the point that the mortgage margins experience was not as worrying as some thought.

Sir Jeremy Morse said he would be interested to see how the BAAR handled the TSC Report. The Deputy Governor said that there was nothing very much to respond to in the TSC Report, in so far as it had made specific suggestions they were things we were doing already. The Governor felt that it was right not to tackle the TSC head on, the real answer to their comments was to show how well we were doing.

Quarterly Financial Report (Mr Midgley in attendance)

Mr Midgley said that expenditure was turning out a little bit lower than expected. Following Actuarial advice, it had been concluded that there was no need to make any contribution to the Staff Pension Fund this year, which would contribute £12mn to profit. In addition, the balance sheet was larger than expected, making the income from CRDs greater. All of this meant that the profits for the year were likely to be significantly higher. The underspend was related both to staff and to direct expenditure, partly balanced by additional spending of CGOII.

Dame Sheila Masters said that spending less was not always good: was there an implication that S&S should fail to build up resources as rapidly as it had been promised. Mr Foot said that there would be a full report at February's Court, but it was true that it had taken a while to secure some of the key staff in the wake of the Arthur Andersen Report. A number of people were now coming on board, but would not affect expenditure until next year. The significant shortfall in S&S, however, was in legal fees. Sir Jeremy Morse asked whether we ought not to be tempted to "spend up to the limit" towards the end of the year. The Deputy Governor said that this issue did arise in the context of the pay ceiling, where we would aim to spend as close as we could to it. This was in fact a perfectly justifiable policy given that we needed to provide more pensionable pay to reward some of the high fliers, and that there was some need to provide for redundancies which we are planning. Mr Midgley said that severance costs were already in the data provided. Sir David Scholey said that the Pension Fund valuation was conducted every three years, and wondered whether taking a pension holiday now, with all the attendant benefits to the Treasury in terms of higher dividends, was justifiable. Mr Midgley said that the Treasury would not get the full benefits of a pension holiday, in that our charging-out rates to them would still reflect a normal pension provision; but it was true they would benefit from a higher dividend.

Mr Neill asked whether the Bank had any standard contingency provision in the budgets; the Deputy Governor said that there was no formal system, but we had recently agreed to be more explicit in providing budget cover when people were asked to take on new tasks. Sir David Lees asked why the Printing Works' table suggested a significant underspend in the first nine months but a slight overspend by the end of the year. Mr Midgley thought that the figures were wrong; he subsequently confirmed that the figures provided by the Printing Works in their monthly table were inaccurate: on the corrected date of the gap between budget and actual staff costs in the first nine months was some £0.5mn, and was therefore consistent with an expected undershoot of £0.2mn for the year as a whole, as shown in the other table. The latter, correct, figures were the ones used in the rest of his report, and there were therefore no further consequences of the error. Sir Chips Keswick asked whether the accounts raised the question of reducing the CRD rate. The Governor said that he hoped that it would in due course be possible to reduce the CRD rate when we could do so with confidence.

Report of the Audit Committee

Sir David Lees drew attention to four points in the minutes of the Audit Committee: that the Committee would take an overview on the NMB audit; that following the work done on risk assessment, the Committee expected to put Court in a position to make a statement this year about the adequacy of internal controls; that both the Audit Committee and the Remuneration Committee had concluded that (in the absence of definitive guidelines or legislation) the Bank should not be a pioneer in the field of pension disclosure for Directors; and that arrangements were in hand to put the Audit out to tender.

The Deputy Governor spoke about the loss in Issue Office. A cage of notes delivered to Thomas Cook had been found £10,000 short. Fingerprints found on the wrapper had been those of a former member of staff. The matter had been put in the hands of the police who had arrested him; he was due to answer bail on Friday 17 January and was likely then to be charged. Another individual, named by the first as a collaborator, had been suspended. The Deputy Governor would be reporting to Court, in due course, on a wider review of security in the Bank which he had commissioned before this loss had occurred.

The Executive Report

Members had no comments on the Executive Report paper laid before Court which referred to the EMI Report on monetary policy operation in Stage 3 and the annual seminar on finance for small banks.

The Deputy Governor drew attention to two small changes which it was proposed to make to the 'Matters Reserved to Court' paper, namely:

(i) with new legislation permitting staff/pensioners etc to appoint trustees to the Staff Pension Fund, Court could now approve only those trustees nominated by the Bank; and

(ii) Court needed to approve the appointment of the Chairman of the Trustees of the Houblon-Norman Fund.

Court <u>approved</u> these changes.

Howard J. Davies

John Footman
Secretary
19.2.97

A

TO MEMBERS OF COURT

THE WRITTEN EXECUTIVE REPORT: COURT ON 15 JANUARY 1997

The European Monetary Institute Report

Last Friday the EMI published its framework document on the operation of a single monetary policy in Stage 3 of EMU. It covers the determination of the monetary strategy, the practical implementation of policy and the supporting framework.

The Bank published a memorandum on the same day making it clear that we welcomed the substance of the report. The contentious area is reserve requirements; the EMI will continue to prepare for these, though the final decision on whether to apply them is left for the ECB when it is formed - ie the "ins". The Bank's memorandum makes clear our continuing opposition to reserve requirements.

The EMI report, and the Bank's memorandum, will be in Court folders.

Summary of proceedings at the Governor's Annual Seminar on Finance for Small Firms: 10 January 1997

The Governor hosted the fourth annual seminar on finance for small firms on 10 January 1997. Participants in the seminar included representatives from the banks and other finance providers, Government, academia, the accountancy profession and small business representative groups.

CRA1089.DOC

The Bank's Fourth Report on Finance for Small Firms

The Governor welcomed attendees and asked for comments from participants on the contents of the Bank's draft fourth annual report. Among the points raised during the discussion were:

- There had been a substantial improvement in the financing of small firms and their relationships with finance providers since the Bank's first annual report in January 1994. Indeed, one small business organisation believed that UK banks offered the best small business service in Europe. However, there was some discussion about the extent to which the improvement in relationships might reflect simply the stronger state of the economy, rather than structural changes in the provision of finance to the sector.
- Many small businesses were still wary of increasing their borrowing and it would take time for them to become convinced that macro-economic stability would endure.
- Although bank lending decisions now placed more emphasis on business intentions and cash flow, rather than security, the effects of this change would take time to become fully evident. This was partly due to the limitations of the financial information provided to banks by businesses, which formed the basis on which such lending decisions were made.
- Some participants considered that there was an over-reliance on the relatively unproven Business Link network for delivery of services to small businesses. However, in the case of improving the financial management skills of business owners, the banks were perhaps being expected to take on a disproportionate share of the burden.

The report will be published on 29 January.

The financing of technology-based small firms

The Deputy Governor opened the discussion and commented on the very encouraging response that the Bank had received to its report on the subject. Among the issues on which there was general consensus was the lack of management skills among technology-based small firms, the requirement for improved understanding of such firms by finance providers, the need to increase the profile of corporate venturing in the UK, and the role of 'serial entrepreneurs' and business incubators in assisting the development of new technology-based firms. The Deputy Governor suggested that this item remain on the agenda for the 1998 seminar, so that progress over the course of 1997 could be assessed.

Preparations for the Euro

The Governor summarised the Bank's current work in providing the business community (including small businesses) with information on the introduction of the Euro, and asked participants for their views on the extent to which small businesses were aware of the practical issues that would affect their activities, were the UK to participate in Monetary Union. It appeared that around two thirds of owners believed (often incorrectly) that the Euro would not affect their business. Those that thought that it would influence their activities were not aware of how it would do so, nor of the preparations that would need to be made. The Governor asked the small business organisations to continue to inform the Bank of the extent of enquiries from their members regarding this subject. This would help the Bank to gauge the need for further information, and how such information could best be disseminated to the UK's business community.

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 22 JANUARY 1997

Present

Mr George, Governor

Mr Davies, Deputy Governor

Mr Foot

Sir Chips Keswick

Dame Sheila Masters

Mr Plenderleith

Sir David Scholey

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Court, having been circulated, were noted.

Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets. He noted that, led in part by the strong dollar, sterling had continued to rise and this had now brought some rise in the gilt market. The main avenue through which demand for sterling was emerging seemed to be short-term inflows through the banking system. The Governor confirmed, in resonse to a question, that there was no evidence that the French or Germans were increasing the proportion of their reserves held in sterling and added that he thought that current foreign exchange market developments reflected as much a negative view of the mark as a positive view of sterling. However, as he had said in his speech at the Scottish Chartered Institute of Bankers earlier that week, the dilemma for interest rates posed by the contradictory internal and external pressures remained uncomfortable. Of the options to take chances with the inflation target or to grit teeth and bear the exchange rate tension, he preferred the latter.

The Governor referred to the Symposium on single currency issues which the Bank had hosted for an invited audience at the Barbican the previous day. His impression from attending during the morning was that the occasion had been well worthwhile; and Alexandre Lamfalussy, the EMI President who had opened the Symposium and stayed throughout the morning, had been impressed with the focus, understanding of issues and progress in preparation at the technical level in London, which were all apparent from the discussions.

The Deputy Governor reported comments made to him that the Bank's initiatives in producing the quarterly report and in arranging the Symposium had kick-started attention on practical single currency issues in a range of institutions, unblocking lack of interest at Board level. There was clearly an appetite - eg from the retail sector - for the Bank to do more but careful thought would have to be given to where effort and resources should be directed.

Sir David Scholey asked if there was any progress as regards Target. The Deputy Governor said that there was, in effect, an agreement - at this stage - to differ on the question of limitations on the availability of intra-day credit. The Governor added that, in accordance with the Treaty, if there was no prior agreement the decision was for the European Central Bank and the issue was left to the latter to address. There was thus unlikely to be progress on the matter until the summer of 1998. The Bank had clearly won the intellectual argument but it was necessary to take every opportunity to highlight both the risk characteristics of limiting intra-day credit in Target and also the option of setting up alternative arrangements in London.

Howard J. Davies

Inman

Secretary

19.2.97

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 29 JANUARY 1997

Present

Mr Davies, Deputy Governor

Mr Foot

Mr King

Mr Plenderleith

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

Howard L. Paine

Secretary

19.2.97

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 5 FEBRUARY 1997

Present

Mr George, Governor

Mr Davies, Deputy Governor

Mr Foot

Mr Kent

Mr Plenderleith

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

Mr Plenderleith noted that sterling, having come back some 3% from its peak, had latterly picked up again, though the reasons for its appreciation were unclear. He added that the Official Reserves figures for January showed no underlying change.

Howard J. Davies

[illegible]
Secretary
19.2.97

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 12 FEBRUARY 1997

Present

Mr George, Governor

Mr Foot

Mr King

Mr Plenderleith

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

Mr Plenderleith said that conditions in the foreign exchange markets remained volatile, with rapid swings in exchange rates. Notwithstanding the intentions, differing interpretations were being put on the G7 meeting and it was difficult to discern when and where the market would settle.

19.2.97

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 19 FEBRUARY 1997

Present:

Mr George, Governor

Mr Davies, Deputy Governor

Sir David Cooksey

Mr Foot

Sir John Hall

Mrs Heaton

Mr Kent

Sir David Lees

Dame Sheila Masters

Sir Jeremy Morse

Mr Neill

Mr Plenderleith

Sir David Scholey

Sir David Simon

Sir Colin Southgate

In accordance with paragraph 10 of the Charter of 1946, the Governor convened Court in the absence of the Deputy Governor and the Executive Directors.

Recommendations from the Remuneration Committee

Sir David Scholey, in his capacity as Chairman of the Remuneration Committee, said that the Committee had agreed to put the following recommendations to Court:-

[redacted]

(i) on appointment to the position of Executive Director with effect from 1 March 1997, T A Clark's special remuneration be £125,000 pa.

(ii) Martin Foster, the proposed successor to Ian Watt who is an Adviser to the Governor and Head of the Special Investigations Unit, be offered a choice of the following remuneration packages:-

[redacted]

Court agreed to these recommendations.

The Deputy Governor and the Executive Directors joined Court. The Minutes of the Court of 15 January and the Meetings of 22 and 29 January and 5 and 12 February, having been circulated, were approved.

Inflation Report Discussion (Messrs Allen and Bowen in attendance)

Mr Allen said that RPIX inflation was now running at 3.1%, and had risen over the past few months even though most commodity prices were low and sterling had been strong. This was due partly to oil prices, and partly to the strength of domestic profit margins. However money and GDP growth were high, and likely to continue at rates incompatible with the inflation target. Consumer demand was particularly strong, and the indications were that the labour market was getting tighter. Earnings were now growing at 4 1/4%. It would not take much more before earnings growth was incompatible with the inflation target.

The main unexpected development since the previous Inflation Report was the rise in sterling; it had risen by 16% since August and by 7% since November. The Report discussed the possible reasons for this: these included changing views on monetary and fiscal policy here and abroad - though it was thought this could account for no more than a quarter of the rise; a movement of investment funds away from countries likely to go into EMU; the possibility that sterling was being supported by the oil price; or that investors perceived a genuine improvement in UK performance in the tradeable goods sector. We did not know which if any of these explanations was right, though we attached most significance to monetary and fiscal policy and to the oil price.

Our projections now had consumer spending continuing to rise above its long-term average on account of stronger employment, consumer confidence and windfalls from de-mutualising building societies (even though we had made conservative assumptions about how much of this would be spent). Despite slower growth in external demand because of the strength of the pound, we expected output growth to be above trend over the new few years, with the risks on the upside. On the basis of unchanged interest rates, inflation was expected to fall in 1997 on account of sterling's price level effects, and then to rise, as sterling weakened and demand growth took over, to 3% by the end of 1998. This was lower than most outside forecasts. The Bank nevertheless continued to see a need for a modest tightening of policy if the Government's inflation target was to be met.

Mr Plenderleith also discussed the recent strength of sterling. He said that a part was attributable to bilateral exchange rates; it was clear that the weakness of the deutschemark and yen was a factor in the strength of sterling and the dollar. There were also cyclical forces at work; we and the Americans were further ahead in the monetary policy cycle than the Germans and the French. There was also some froth in the markets which as always led to overshooting. The recent level of DM.2.77 was almost touching our former ERM floor. There were suggestions of a fundamental re-rating of sterling, and perceptions of sterling as a safe haven from EMU.

The Governor commented that at the recent meeting of the G7 in Berlin, there had been a clear sense that exchange rate movements had gone far enough.

The Governor also commented on his appearance at the Treasury Select Committee that Monday. He noted that the press had written this up as representing a climbdown by the Bank on interest rates; in fact that had been completely inaccurate, but it had coincidentally helped to weaken the pound, which was helpful. Nevertheless, the exchange rate dilemma remained. We could never be confident ourselves about effects of the exchange rate on the economy, and it was clear that the reason for the strength of the pound and the dollar recently had a lot to do with developments in Europe and Japan. If the exchange rate were to ease, as forward markets indicated, then that would be very welcome.

Sir Jeremy Morse commented that it was interesting for sterling to be so strong just before an election: formerly there would have been a fear of a Labour government, which was clearly not present now. He was pleased that the evidence to the TSC had not been a climbdown by the Bank; however, he noted that we seemed to be changing our view on the exchange rate, perhaps taking a more commonsense view of its effects. The Governor said that if there was a change it was only because the exchange rate had now moved further than last time; he did not think that the analysis had changed significantly. We had looked harder at the explanations, and had concluded that oil was probably a bigger factor than we had thought before.

Sir Colin Southgate commented that January sales were strong, though there had been a falling away in February, and Mr Neill said that the latest SMMT survey, while confusing, seemed to show reasonable strength in the motor industry. Sir David Simon said that energy demand had been growing at a steady trend rate over the past eight months. It showed little volatility despite the fluctuations of the price of oil. It was now likely that the oil price would fall off, which would be helpful for sterling if that was indeed the explanation for its strength. UK manufacturing was now beginning to suffer from the stronger exchange rate, though he had found demand in France and Germany to be quite robust at present, which was another helpful sign for the UK. Sir John Hall said that consultants to the Millennium Commission had advised that inflation factors of 5% to 8% should be built into projections of tender prices over the next couple of years.

Sir David Scholey asked how much we drew on and took account of the view of international money managers on the exchange rate. Mr Plenderleith said that we were making a particular effort to do so at the moment; over the past two weeks we had talked to a number of major players directly, both UK and international, and Mr King in his current trip to New York would be talking to some of the major hedge funds. We were making particular efforts at present with corporate treasurers. From these contacts we did sense a change in mood, a shift in perceptions about the UK economy which was leading investors to give sterling a larger weight in portfolios. This was not just a short-term speculative view, although it was limited at the moment to the currency: there was less commitment to a particular long term capital market. Sir David Scholey said that the fund managers' priority in recent years had been getting the currency right, and taking positions on sector and stock later. He suggested that the Bank should talk to Fidelity and other big international fund managers if they weren't already.

Sir David Cooksey said that, for the 40 or so companies that he was involved with, the rise in the exchange rate was leading directly to sharp cuts in profit projections. This was particularly the case as exchange cover began to run out. In the circumstances it was difficult for many of them to make money, and this was bound to feed through to equity markets. Mrs Heaton asked if we took a view on the dynamics of adjustment - it was surprising that it had taken so long for companies to react. Mr Allen said that the impact of the rise in sterling was likely to be delayed because of forward cover and because firms that had sunk costs in export markets would not willingly give them up; our impression from the Agents at present was that firms were accepting lower margins for the time being.

Sir John Hall asked how, if the rise in sterling turned out to be a long-term trend, this would affect our entry level into EMU. The Governor said that it would be very surprising if the Government accepted the present rate, which was supported by a 2% interest differential over Germany, as the right spot range for sterling to enter the single currency.

Sir David Lees supported those who said that the speed of the change would have a dramatic effect on the economy. The second round effect of the sterling movement would take some time to work through, but it would certainly come if sterling continued to rise or held its present level. He asked if there were any statistics on direct investment in the UK; the Deputy Governor commented on direct investment: he said that the figures were not very recent or reliable, but they suggested that if merger and acquisition activity was included, the UK was a major home for inward direct investment; if it was excluded, then our inflows were slightly lower than France as a percentage of GDP. But both France and the UK were substantially ahead of Germany on all counts.

The Governor, summing up, said that the dilemma was not greatly changed. His impression was that Members of Court accepted the Bank's analysis. The minutes of his meetings with the Chancellor showed that we had asked tentatively for a 1/4% rise last December, and said that we might need to come back for more in January; and that in January we had asked firmly for 1/4%.

Supervision Report (Messrs Page, Watson, King and Chalmers in attendance)

Mr Watson said that good progress was being made in the recruitment of staff. A new head of SIU was about to be appointed; a head of IT in S&S was in place; a head of training would be arriving in March. Two Senior Banking Advisers (grey panthers) had been recruited; it was hoped that more would follow. About 35 new people had joined the Division since last summer, mostly new graduates. Recruitment of experienced people had been less easy, although there had been some achievements. On policy change, the promised objectives paper had been published, as had a consultative paper on Section 39 reports. The next step was to publish the RATE model paper.

The Governor, commenting on the grey panthers, said that the Bank would have to make a real effort to use them well. He had seen Nick Clegg on Monday, and had felt him to be exactly the right sort of person to give help and advice to the line supervisors.

Sir David Scholey asked what the difficulties with recruitment of experienced people were. Mr Foot said that salary came into it in some cases, status in others. However pay was not a critical issue. Mr Page said that, although we were trying hard to get experienced staff, we had always expected to make up the bulk of our additional staffing requirements through the graduate intake and an intensified training programme. Relative to our original plans, we were about up to speed on recruitment.

Mr Stuart King discussed the changes in S&S's use of IT. He said that the aim was to be at the "cutting edge" in use of IT, making high quality information available so as to enable high quality analysis. S&S's business required the effective use of a substantial information pool. A system needed to permit information to be channelled not only upwards and downwards - the drainpipe - but sideways, as well, eg so as to enable more peer group comparisons to be made. Attitudes to IT in the past had not been uniformly friendly; reliability had been an issue. The aim now was to make IT seem quick and easy to the supervisors, so they could get the information they wanted and the tools to analyse it quickly.

Developments to date included a number of "quick wins", such as more high performance PCs and more printers. Infrastructure reliability had been addressed. The IT strategist was now in place. He came from a legal firm and had experience of text management and of selling IT to "recalcitrant" users. The support team had been expanded and user training enhanced. They were researching products in the market that would help the supervisors - workflow products were a particular example. It was recognised that as the business changed as a result of many significant changes in the way supervision was done - the RATE model, Section 39 reports, statistical changes etc - the IT requirement would also change. It was, therefore, essential that we considered how supervision would be done in the future before finalising the IT requirements. A new project team had been set up to do this.

Mr Foot said that this was one of the most important aspects of the change programme. Past problems in IT in S&S meant that effort would need to be put into persuading staff of the benefits to them of the IT and training them in its effective use. It was also essential that the IT strategy embraced the process as well as the system. It was not just a matter of finding clever programs to help us to do quicker what we did already.

Mr Neill said that he was encouraged by the presentation. He felt that network stability was an important issue; if people didn't trust a network they wouldn't use it. The same argument applied to quality of support. He encouraged S&S to explore workflow programs. Sir Colin Southgate agreed that reliability was a key issue; if systems were not permanently up and running, users would be discouraged. He hoped that some of the Barings issues - eg warnings when a 25% limit was breached - could be addressed through the systems; Mr King said that this was indeed the aim. Sir David Cooksey wondered whether the new systems would help with analysis as well as simply collection of data; Mr Page said that a data analysis unit was being set up in Mr King's area to pre-process statistics, eg to identify oddities against peer groups.

Dame Sheila Masters asked what this would mean for staffing in S&S; she thought that analysts' tasks would switch more from routine processing towards having to make more judgements. Mr Page said that there had been an assumption in Arthur Andersen that we would be providing more back-up support to the analysts so that they could be free to do more analysis and more direct supervision. Sir David Simon said that using IT to change behaviour was a complicated matter. He had been impressed that the S&S team saw process change being necessary as well as system change; and impressed that they had identified the drainpipe effect. Drainpipes were very dangerous: you had to horizontalise the judgement process. This became easier with good data management. He urged S&S to take some risks with their smart people. It was important to empower junior staff. It was also important not to minimise in any way the cost of IT.

Mr Chalmers talked about his role in monitoring the activities of banks in offshore financial centres. He said that the function was itself relatively new, dating back to the Bingham Report, and had its origin in a view that the UK could be a victim of crimes originated in off-shore centres. There were three areas of interest: firstly frauds originating in off-shore centres and directed at the UK; the second, attempts by off-shore banks to gain footholds in the UK; and third money laundering. Mr Chalmers said that he worked closely with the SIU. He had developed a database of off-shore banks, and was aware of 2,500 licence and off-shore centres (excluding the "developed" country off-shore centres, like Luxembourg). The IMF estimated that some $1,800 bn deposits were currently in off-shore centres. The function was to provide good intelligence on banks and centres, and this was based on information flows, especially through contact with the regulatory authorities in those centres. The relationships differed from centre to centre, being extremely good with the

Cayman Islands, to cordial but uncommunicative with Western Samoa. As part of the process we were able to give advice to centres on legislation and licensing decisions, and on money-laundering issues.

Sir Jeremy Morse asked whether the information gathered through this work was usable. Mr Chalmers said that this varied with the type of information and the source. But there were instances where we could make productive use of the database - we had recently advised the Maltese on a licensing decision involving an individual whose activities in the Pacific we had been monitoring.

Sir David Scholey said that, as a member of BoBS, he had gained a very clear view of what went into the supervisory processes and he felt that this would be of interest to other Members of Court. It was agreed that this would be the subject of a future pre-Court presentation.

The Executive Report

The Deputy Governor reported that settlement had now been reached with the Officials group on the basis of an across-the-board payment of 2 1/2% for satisfactory performers, and discretionary funds amounting to 3.9% of the paybill which were used to reward better performers, especially in the younger groups. Separately, a bonus distribution had been made to the Officers group ahead of their restructuring later in the year.

Sir David Lees said that he had heard concerns expressed that IT staff might be in very short supply around the millennium, and asked if we had taken steps to protect ours against being bid away. The Deputy Governor said that he had been reviewing the impact of the year 2000 on the Bank, and in the light of advice had concluded that, while our systems were not vulnerable, we needed to make sure that other people who connected with us - the perimeter - were equally well-prepared. Banks and APACS had formed working parties. Supervisors were asking their institutions about readiness. It was true that our EDP staff were more vulnerable and mobile than some other categories, and we were currently recruiting them ahead of the EMU work, which would be IT intensive. The Deputy Governor agreed to consider Sir David Lees' suggestion that we might seek to lock key people in with loyalty bonuses.

Mrs Heaton asked about the transition provisions in the money markets; Mr Plenderleith said that, while they were nominally for two years, many firms would not take advantage of them, and probably for not as long as two years.

Sir Jeremy Morse asked what the Bank's plans were for British Invisibles. Mr Kent said that the key objective was to co-ordinate the conflicting interests of the Corporation of London, British Invisibles, the Bank and City interests. The Governor said that there would be an opportunity for a fuller discussion next month.

Members had no comments on the other items referred to in the Executive Report note laid before Court, namely Bank catering contracts and an invitation to the Non-Executive Directors to attend dinner at the Senior Staff Conference later in the year.

The Bank's Budget for 1997/98 (Mr Midgley in attendance)

Mr Midgley introduced the Bank's budget. He said that expenditure was not a major issue at present, as the Bank was going to be flush with income next year. The issue, rather, was the level of the CRD ratio. The timing of any reduction would be critical, as we would need to decide whether to build up our reserves or reduce the call on the banks immediately. The key expenditure constraint as ever was the paybill. If we staffed ourselves fully and to budget, then it was true to say that the pay situation was tight. However we were unlikely to do this; the bigger problem for us, now as before, was getting enough bodies on the ground. The major new issue identified was the need to plan for EMU, whether we were in or out, and that contingency was now written into the budget amounting to about 50 man years.

Sir David Scholey agreed that CRDs were the critical issue, and suggested that a preliminary presentation on that issue would be helpful. He also asked if Mr Midgley had a target list for outsourcing. Mr Midgley said that we were always looking for outsourcing possibilities, and he was aware of more areas, particularly in computers. Sir David Cooksey said it would be helpful to get external benchmarks for services - like the Investment Unit and Registrars. The Deputy Governor said that we had already benchmarked Registrars - that was the basis for our present plan to reduce costs - and the Pension Scheme trustees would be discussing the future of the Investment Unit this week. Mr Plenderleith added that new benchmarking procedures had been introduced into the Banking Department. Sir Colin Southgate pointed out that this was probably the last year in which the Bank would be able to take a general provision against future, unspecified, redundancies. Mr Midgley took the point.

Mrs Heaton asked when decisions on the future of the Printing Works and of note distribution would be brought to Court; clearly important judgements were being made now in the budget. The Deputy Governor said that we were still looking at the options for security features; this had yet to be taken to the internal committees of the Bank, but would be brought to Court thereafter.

The Governor said that we would bring a paper on CRDs to Court as soon as possible.

Court approved the Budget for 1997/98.

Domestic Appointments

The Deputy Governor discussed the appointments to be announced shortly: Martin Foster as Head of the Special Investigations Unit, Messrs Chapman and Clegg as Senior Banking Advisers, Huw Evans as Senior Adviser in Supervision & Surveillance, and Paul Richards in the Policy Planning Group.

There being no changes to membership of the Remuneration Committee and the Trustees of the Court Pension Scheme, Court approved the Bank appointed Trustees of the Staff Pension Fund, namely:-

Mrs Heaton - Chairman
Sir David Simon
Dame Sheila Masters
Sir John Hall
Mr Clark
Ms Lowther

Court noted that a replacement for Sir Jeremy Morse, on the Audit Committee whose membership would otherwise remain unchanged, would not be considered until later in the year.

The Governor thanked Sir Jeremy Morse for agreeing to stay on as a Trustee of the Houblon-Norman Fund for the time being.

Sealing Committee Minutes for inspection

In accordance with the terms of reference of the Sealing Committee, the Minute Book of that Committee was laid before Court for inspection.

The Governor's Engagements

The Governor paid tribute to Sir Jeremy Morse and Mr Kent on the occasion of their last appearance at a long Court. He asked that his gratitude be recorded, together with that of his colleagues on Court, both past and present.

David Scholey

Secretary
March 1997

TO MEMBERS OF COURT

COURT WEDNESDAY 19 FEBRUARY 1997

THE WRITTEN EXECUTIVE REPORT

REFORM OF THE BANK'S OPERATIONS IN THE STERLING MONEY MARKETS

We set out our proposals for reforming our daily money market operations in a consultative document in early December. Three main changes were envisaged:

- to extend our daily open market operations to include operations in <u>gilt repo</u> as well as continuing operations in Treasury bills and eligible bank and local authority bills;
- to broaden the range of <u>counterparties</u> able to take part in these operations to include market participants active in the gilt repo or bill markets;
- to simplify the existing arrangements for <u>lending</u> secured money at the end of each trading day to adjust for any remaining imbalances in the market.

Responses to the proposals have been very favourable. The three main changes have all been endorsed. We therefore issued a definitive description of the changes earlier this month, and mentioned that the new arrangements would start on 3 March.

The focus of the consultation process has essentially been on technical aspects: the detailed operating procedures, the late lending arrangements, and the transitional arrangements which will be available to the discount houses. The main features of our proposals had been widely expected, and the discount houses who had previously been our counterparties appear to have adjusted well.

Applications from major technical market participants to be counterparties are currently being evaluated against the functional criteria we have set out. The prospect at the moment is that we shall have a substantial, but manageable, increase in the number of counterparties, and we expect to add further counterparties in due course. This will achieve our aim of broadening the ambit of our operations to give us direct contact with the main market participants in the repo market, which, since it first started a year ago, has become the main wholesale market in secured money.

BANK SENIOR STAFF CONFERENCE

In advance of Court's annual strategy discussion last November, a Senior Staff Conference was held at Pennyhill Park Hotel near Bagshot, Surrey. It was attended by the Executive Members of Court, Deputy Directors, Governor's Advisers, Heads of Department/Division and Special Advisers. The event was designed to provide an opportunity, off-site and free of distraction, for Directors and senior management to formulate the framework for the Bank's strategy and develop the budget setting programme for the next few years, in preparation for the discussion at Court.

Another similar conference will be staged this year on 16 September at the same location and the Governors have suggested that the Bank's Non-Executive Directors may wish to attend the dinner that evening, not to discuss the Bank's strategy, but as an opportunity to meet, informally, senior management whom they may not otherwise encounter.

Non-Executive Directors wishing to attend the dinner should notify the Secretary.

CATERING

Last year, the Bank invited companies to tender for staff and official catering at it Head Office, Kings Arms Yard and Eagle House sites. Initial bids were narrowed down to a shortlist of six companies. Full tenders from the shortlisted companies were received early last month, and a detailed evaluation of the tenders was undertaken, with support from Tricon Foodservice Consultants.

The contract has been awarded to Sutcliffe Catering (UK) Ltd. Sutcliffe, part of the Granada organisation, are an established and respected contract catering company, with substantial experience in staff catering.

The contract will start on 1 April 1997. During February, teams from both Sutcliffe and the Bank will be giving presentations and talking individually to all BE Services staff about how the transfer of the business will affect them. The process of consultation between the Bank and BIFU on the options which will be available to staff under the terms of the transfer will continue during this period.

The Bank remains committed to ensuring that staff enjoy the benefit of a high quality catering service. The initial transfer is unlikely bring any large-scale changes, although no doubt Sutcliffe will want to develop the service over time. Shortly before taking over the contract, Sutcliffe intend to issue to all Bank staff a brochure profiling the company and saying something about how they will operate at the Bank. The Catering Liaison Committee were kept informed at all stages in the tendering process but they were not involved in the final choice.

The contract for catering at the Sports Club has been awarded to Searcy's, who like Sutcliffe are well respected in the catering field and who have particular experience in event catering. This contract will begin on 1 March 1997. Tenders for the contract at the Printing Works were received late in January and are currently under consideration.

THE FUTURE OF BRITISH INVISIBLES (BI)

The promotion of UK financial services both at home and abroad is currently undertaken by a diverse range of bodies with too little co-ordination. No single body commands sufficient authority and credibility to provide strategic coherence and orderly planning for the collective good. The Corporation of London has in particular created friction with British Invisibles (BI) and Canary Wharf in its unilateral bid to speak for the whole financial community. The current Chairman (Sir Brian Pearse) and Director General (Alison Wright) of BI, which promotes the international activities of UK-based financial institutions and professional and business services, are both retiring from BI around Easter.

This provides an opportunity to review the structure of BI and its relationship with other promotional bodies.

The Governor has proposed, with the agreement of BI, the clearing banks, The Lord Mayor, The Corporation of London and the Scottish Financial Enterprise who are its main sponsors, that BI should evolve into a successor body to build on BI's strengths, but also bring together some of the promotional work of other bodies, in particular the Corporation of London. At the Governor's invitation, Mr Douglas Hurd is chairing a Senior Working Group which will make recommendations for how this should be achieved. Much of the detailed work is being done by an Executive Sub-Group - membership of both groups is attached. The Bank on behalf of the main sponsors, issued the attached Press Release on 14 February when we learned that the news had reached the press.

There will be no formal relationship between a revamped BI and the Chancellor's City Promotion Panel, but it will provide input to the CPP and respond to strategic guidance from it.

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 26 FEBRUARY 1997

Present

Mr George, Governor

Mr Davies, Deputy Governor

Mr King

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Court, having been circulated, were noted.

Secretary
19 March 1997

COURT OF DIRECTORS

For the period ended 28 February 1998

Declaration Made before	Date	
		Edward Alan John George, Esq, Governor
		Howard John Davies, Esq, Deputy Governor
		Sir David Gerald Scholey, CBE
		Mervyn Allister King, Esq
		Sir David Bryan Lees
		Sir Colin Grieve Southgate
The Deputy Governor	19.3.97	#Mrs Frances Anne Heaton
The Deputy Governor	19.3.97	#Sir John Chippendale Lindley Keswick
		Ian Plenderleith, Esq
		Sir David James Scott Cooksey
		Dame Sheila Valerie Masters, DBE
		Neville Ian Simms, Esq
		Sir David Alec Gwyn Simon, CBE
		Michael David Kenneth Willoughby Foot, Esq
		Sir John Hall
		John Mitchell Neill, Esq CBE
The Deputy Governor	19.3.97	*Andrew Robert Fowell Buxton, Esq
The Governor	28.2.97	*Thomas Alastair Clark, Esq

Reappointed 1 March 1997
* Appointed 1 March 1997

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 5 MARCH 1997

Present

Mr George, Governor

Mr Davies, Deputy Governor

Mr Clark

Mr King

Mr Plenderleith

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

Mr Plenderleith said that the new arrangements for money market operations, implemented on 3 March, had gone extremely smoothly. He also noted that the Official Reserves figures for February showed a small underlying fall.

Secretary
19 March 1997

MINUTES OF A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 12 MARCH 1997

Present

Mr Plenderleith

Mr Clark

Mr Foot

In the absence of the Governor and Deputy Governor, Mr Plenderleith was appointed Chairman pursuant to the provisions of Clause 6(2) of the Charter of 1 March 1946.

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

Secretary
19 March 1997

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 19 MARCH 1997

Present:

Mr Davies, Deputy Governor
Sir David Scholey
Mr Buxton
Mr Clark
Mr Foot
Mrs Heaton
Sir Chips Keswick
Mr King
Sir David Lees
Dame Sheila Masters
Mr Neill
Mr Plenderleith
Mr Simms
Sir David Simon
Sir Colin Southgate

The Deputy Governor welcomed Messrs Buxton and Clark on the occasion of their first attendance as Directors at a long Court. He also welcomed Mr Rodgers to Court as the Bank's new Secretary.

The Minutes of the Court of 19 February and the Meetings of 26 February and 5 and 12 March, having been circulated, were approved.

Monthly Economic and Monetary Report, including Market Charts (Mr Hatch in attendance)

In introducing the Report, Mr King said demand growth had been picking up for the whole of 1996 and output growth was rising through the second half of last year to above trend rates. The retail sales figures, just published that morning were surprisingly strong, while the unemployment and earnings numbers were disturbing.

The fall in unemployment, correctly predicted by the Daily Mirror as 68,000, was very sharp. There was some evidence that the introduction of the Jobseekers Allowance had encouraged people to stop pretending that they were unemployed, and while the demand for labour was rising it was not as fast as the figures implied.

Mr King was particularly concerned at the earnings figures. The whole economy growth rate was 5%, an increase of more than one percentage point over a year. Manufacturing earnings growth was 4 3/4% and earnings growth in services had risen a full percentage point in the last couple of months. Part, but not all, of the recent increase was due to the payment of bonuses, especially in the financial sector.

Mr King said it would not be possible to hit the inflation target two years ahead unless the rate of earnings growth fell. He suggested two possibilities. First, bonuses could fall back, and he expected this to happen to some extent; second, unemployment could stop falling, bringing earnings growth down. Mr King noted that earnings growth in the UK of 5% compared with 3 1/4% to 3 1/2% in the United States. The UK lagged behind the US in the cycle. The figures cast real doubt on our ability to hit the inflation target. Mr King referred to the Bank's forecast of a temporary fall in inflation in the near term, but said that looking two years ahead there was less prospect of hitting the inflation target than two months ago.

Turning to the markets, Mr Plenderleith said that there was quite a sharp change in atmosphere surrounding sterling which had topped out partly because the dollar had levelled, partly because the deutschemark had recently turned a littler firmer and partly because the yen was a bit steadier. Sterling had had a good run since August and at these higher levels there was as much downside as upside. The election brought more uncertainty and it was seen as sensible to take profits. Mr Plenderleith concluded that the long rally in sterling since August might have run its course and there was a settling back as the froth was blown off the enthusiasm. However, the Bank was not expecting any sharp fall.

Mr Plenderleith said there had been a slight tightening of interest rates around the world. In the UK, the upward-sloping curve had steepened by about 25 basis points towards the end of next year. This partly reflected a similar pattern in other countries. It also reflected a movement of a number of economies into the recovery stage of the cycle, and in the UK it may reflect a gathering expectation that rates will be tightened after the election.

Mr Plenderleith stressed the moderation of the process. The markets expected rates of only 7 1/2% towards the end of 1998, compared with 6% now. Six weeks ago, the markets expected 7 or 7 1/4% towards the end of 1998. The same phenomenon had appeared in the bond market. The major markets had all backed up in the last few weeks. Economies were moving down the track that people had foreseen, and there was an expectation that rates were more likely to go up in due course. Mr Plenderleith said that there had been a good deal of speculation in the markets that the Federal Open Market Committee may raise rates slightly at next week's meeting but equally the markets expected any increase to be moderate.

Sir David Scholey asked what was the Bank's stance now in commenting on this worrying picture. He said that the Bank still had not got the message across that the ship takes a year to a year and a half to turn. This message was also very strongly resisted on the political front.

The Deputy Governor said the position was difficult. The minutes of the monthly monetary meeting on 5 February were published that morning and there would be one more set between now and the election, which would be published on 24 April, the week before the election. There was to be another monthly meeting on 10 April. The Deputy Governor was not sure where the meeting would be. He noted that there would not be another Inflation Report before the election.

The Deputy Governor said he thought the Bank would feel constrained about saying anything that was not in the Inflation Report or in the minutes and the Bank would not be looking for public opportunities to repeat the message during the election campaign. However, the Bank's position would remain very clear and would be confirmed today. He believed there would be no occasion to say anything new. The figures now emerging validated what the Bank had said already.

Sir David Lees expressed concern at the earnings figures and believed it would be interesting to see how the bonus situation unwound. He asked whether there was evidence in the figures of a substantial increase in overtime. He also asked what was the percentage of imports invoiced in sterling. Mr King asked Mr Hatch to respond. Mr Hatch said overtime was an issue that the Bank had looked at and it would come through into the earnings numbers, but he imagined that it would be an order of magnitude smaller than in the late 1980s. Sir Chips Keswick commented that the invoice point was not crucial. Any sophisticated firm would take out cover against currency changes.

Mrs Heaton asked whether the price of goods was affected more by the exchange rate than was the case with services. Mr King replied that services were a much larger percentage of total activity than manufacturing. Although the share of manufacturing in the economy had declined, the proportion exported was higher than it had been 20 years ago. Therefore manufacturing, though smaller, was more vulnerable to changes in the exchange rate. This explained the concerns that had been expressed about the impact of a rising exchange rate on industry, even though services dominated the output figures.

In 1994, manufacturing had been strong and services had been weaker, a tale of two cities. Now it was the other way round. It was hard to persuade people of the strength of services rather than manufacturing. The statistics reported in newspapers related far more to manufacturing, giving a biased view of activity in the economy.

Mr Neill commented that the traditional UK car assemblers had been experiencing the threat of strikes for the first time in many years. That was worrying when productivity was poor on the international scale and imports at 65% of the car market were the highest ever. Mr Neill asked what compensating productivity gains there would be to offset the increases in pay.

Mr King said the trend in productivity growth at the moment was not particularly impressive. This was in part because of the slowdown in manufacturing, but since services had such a high share of output, it was the productivity growth in services that was crucial.

He noted that there was a cushion for the UK, in that inflation would fall in the short term because of the higher exchange rate. On the other hand, if by reading the Inflation Report people understood the longer term prospect of a rise, it would have an effect on wage bargaining. He said he shared Mr Neill's concern.

Mr Plenderleith commented that the early signs were that the restraining effects of the rise in sterling were not great, though earnings were a variable series and he would want to see the trend validated before reacting.

Sir David Scholey said a response of too little, too late, received the most brutal treatment from the markets. He asked whether, at the next monetary meeting with the Chancellor, the Bank should refer to the Court's feeling on the subject, and to the frustration in the Court's mind at the Chancellor's resistance to the Bank's advice over the last four to five months. The Deputy Governor agreed to consider the point.

Mrs Heaton asked whether it was right to move interest rates in stages of a quarter per cent. The Deputy Governor said the Bank had made clear there was a trade-off between timeliness and size, and nothing it had said prevented a recommendation of a half per cent in future if the figures justified it.

Mr Simms, asked by the Deputy Governor for his views on the construction sector, said the industry and the unions were negotiating a new agreement that traded a number of old practices for what in his view was an inflationary pay package, ahead of the retail price index. It posed no threat of a wages boom for the first two years but was a cloud on the horizon for years three and four.

The International Economy

Mr King introduced a paper on the international conjuncture, which he said showed a satisfactory convergence on inflation, but an unsatisfactory picture on unemployment in France, Germany and elsewhere. The reaction in Belgium to the Renault rationalisation did not improve the prospects for structural change. The major economies on the continent were showing a lagged response to tight monetary and fiscal policy, and there was a possibility that there may yet be further monetary easing in Europe.

In Japan, there was a serious fiscal problem which, looking ahead, was likely to become worse. In the US, there were few signs of inflationary pressure, but tightening could not be deferred for too long.

Mr King reported on his recent discussions at the IMF on the implications of monetary union for the rest of the world. At one extreme was the German view that nothing would change apart from the label. There was some truth in that. At the other extreme was the view put by Fred Bergsten that EMU presented an opportunity to set targets for the dollar, the yen and the euro, which would lead to a reallocation of portfolios, with the Americans having to accept a reduction in the usage and in the value of the dollar.

Mr King said there were a number issues related to monetary union which had not been explored, such as relationships with international institutions. For example, the head of the legal unit of the Central Bank of Belgium had remarked at the meeting that only countries can join the IMF, not currencies, so it would be contrary to European law for an individual country to go to the IMF and express a view on interest or exchange rates. Mr King thought this absurd. But there had to be some discussion about who represented the monetary union on these bodies.

Sir Chips asked where this would leave the BIS. Mr King replied that it might seem odd to have a group of 11 central bank governors, almost half of whom were in the same central bank. This raised questions about the G10. The US believed it was eurocentric, and that there would need to be a wider group. Mr King also said there might be room for an informal G3, covering the dollar, the yen and the euro.

Sir David Scholey asked whether the Americans believed EMU would go ahead on schedule. Mr King said participants in the meeting had been primed to say that it would, but it was harder to assess what they really thought. There was all to play for at this stage.

The Deputy Governor said that, at his meetings in France the day before, there had been no question of admitting to the possibility of a delay. Nevertheless, there was some interest in how a delay would work if it were necessary. Similarly, Mr Plenderleith noted a shift in people's private thinking at the last monthly meeting he had attended in Basle. There was still no admission that a delay was contemplated, but there was a willingness to talk about how a delay could be managed. A distinction was being made between orderly and disorderly postponement.

Sir David Scholey asked about the impact of monetary union on unemployment. Mr King said that discussions he had attended on the issue had been depressing. There was a view that unemployment was structural, and could not be blamed on monetary policy or the move to EMU. It was not, however, true that all unemployment was structural. The Maastricht timetable for the start of monetary union had forced many countries to do things that they would not otherwise have done. But that timetable was coming to an end. The pressure was to make changes, such as tax increases, that improved the immediate chances of qualifying in 1997-8, and there was less incentive to work for longer-run improvements.

Sir David Simon said that last week he had been in Germany and France, where he had noticed a shift in mood at a political level, but not at an industrial level. The European Round Table was absolutely committed to proceeding with the timetable for monetary union. Companies could handle the issue of unemployment. They were not going to be put off by a euro-political debate they regarded as a side-show. It had to be done for world competitiveness reasons, and it would be done. It was 60:40 that it would still go ahead and we should act on the assumption that it would do so.

The Deputy Governor said that, on his visit to Japan last week, he had argued that London would remain as a major financial centre. However, the Germans and French had made a lot of effort in Japan. They were telling the Japanese that EMU would go ahead, and that the financial centre of the euro area would not be outside the single currency area.

The Deputy Governor said that, in the midst of all this uncertainty, the Bank had a clear line. The prudent assumption in the face of political determination was that EMU would go ahead on time, so the Bank itself and the London market must be ready.

Centre for Central Banking Studies

In introducing Mr Price, the Deputy Governor said that Court had not discussed the Centre for two and a half years, and that it was an important part of the Bank's international activities, through its contacts with other central banks and governments.

Mr Price said one of his problems was the great enthusiasm of his staff. He had wanted to consolidate but each year his staff wished to put on extra courses, because of the demand. The Centre must not let quality suffer by stretching its resources too thinly. Mr Price emphasised the efforts they made to find out what the clients wanted and to pay attention to shifts in demand.

He said there had been strong growth in the number of courses given at home, though this was a little deceptive because courses had been getting shorter. There had been no similar growth in away courses where one of the problems was that, though they were cheaper, the Centre had less control over the choice of participants. Another feature was a growing demand for short programmes in London.

Mr Price said an outside consultant had given a glowing account of the Centre's Know How Fund work, though there was a possibility that this was an activity from which the Fund may be wanting to disengage.

The Deputy Governor responded that the Bank did not have to have such a Centre, but it secured a lot of advantages from it. For example, it was in the supervisors' interest if the Bank strengthened the quality of supervision elsewhere.

Dame Sheila Masters asked whether the Centre used distance learning and technology-based courses. Mr Price said this had been thought about but they had concluded it would not be cost-effective, though a number of outside firms wanted to sell their services. Where basic education was concerned, universities could do a better job, and packages were available to them. Given the relatively small scale of the Centre's activities, the investment had not so far seemed worthwhile.

[redacted]

Mr Buxton asked whether it was possible to charge for some of the courses, and Mr Neill asked whether there were any constraints on entering partnerships with the private sector, to turn the Centre into a profitable business. Mr Price responded that the Centre did not know the elasticity of demand for its services, and he pointed out that the Bundesbank paid for air fares and hotels and gave DM100 a day in expenses to participants on its courses. We, on the other hand, required participants to fund those costs (or secure support from the Know How Fund). He suggested that there were topics that could perhaps be left to the private sector, such as foreign exchange reserve management. The Centre was also prepared to participate in technical assistance overseas where contracts had been won by private sector firms. Sir David Simon noted that there might be opportunities for commercial sponsorship of courses for some nationalities. BP, for example, might be interested in the case of Central Asian oil producers.

The Deputy Governor said that the extent to which the Centre could be made commercial was constrained by the heavily-subsidised competition. But management would look harder at the suggestions raised by Court, and at the possibility of a closer link between the Centre and the Bank's own training effort. He was comfortable that the Centre did link to the Bank's core purposes. Training central bankers assisted the Bank because it strengthened the economies concerned, encouraged anti-inflation discipline and improved banking supervision in those countries.

British Invisibles

With reference to a Minute of 19 February, the Deputy Governor introduced a discussion about British Invisibles. Mr Clark said the intention was to achieve greater coherence in the way London presented itself and to try to increase modestly the resources devoted to this activity. One element was to try to bring together the Corporation's activities with those of British Invisibles, to create a modified organisation with greater emphasis on promotion.

Mr Clark said the work had started with what had perhaps been an optimistic timetable. This had provoked some resistance, compounded by a perception that the exercise was more ambitious than was actually the case. There was also some concern among practitioners about the Corporation's prospective role. At the practical level, the work was being carried out by two groups. One was chaired by Douglas Hurd. The other - the "sherpas" - was chaired by himself. They intended to put their recommendations to the Hurd group around Easter, with a view to a discussion in the Hurd group about mid-April. The conclusions would then go to the Governor, to British Invisibles, to the Corporation and to Scottish Financial Enterprise for their reaction. It would probably be a further month or two before whatever emerged was implemented.

Dame Sheila Masters asked to whom a new body would be accountable. Mr Clark said the governance structure might be close to the existing British Invisibles structure, which was based on a company limited by guarantee. He hoped the guarantors would include the present members of BI but there would be a new and probably special arrangement with the Corporation. Some degree of re-labelling would, however, be necessary to draw in parties that had not participated as fully in the past.

Sir David Scholey said that the British Overseas Trade Board had shown active disinterest in this area. Mr Clark said that the degree of disinterest had increased if anything and its financial support had been reduced. The Deputy Governor noted, as a former member of the BOTB, that BI had not been as active in advancing its case as it might have been.

Sir Chips Keswick said that from a practical point of view and from the financial services point of view, British Invisibles was a child of exchange control. As a practitioner he had doubts about the value for money Hambros secured from its support for British Invisibles. Sir Colin Southgate said that he too was not a great fan of putting public money into these things. If the industry would not pay for it, it should be shut down. Mr Buxton thought it would be a good idea if any changes in the current arrangements were brought to the BOTB, perhaps in the form of a paper by the chairman of British Invisibles. The Deputy Governor said that, if a better focus could be achieved and the City Corporation and British Invisibles could be brought together, it would produce something more worthwhile.

Sir David Scholey said that the Bank had gone out of its way to show visitors that the City was extremely international. That was what British Invisibles did not do. The Deputy Governor replied that he had been on one or two missions with British Invisibles. He thought the breadth of representation was reasonably fair. It did not just consist of British-owned firms. Mr Buxton believed that British Invisibles did quite a reasonable job for the City as a whole, and invisible exports, but he thought the organisation and the funding could be better. The Bank's initiative should be pursued further.

The Executive Report

The Deputy Governor introduced the Executive Report. Mr Clark spoke about the attempt to produce a settlement for the Barings bondholders. He said that some of the assumptions and arithmetic had probably been over-optimistic and some of the optimism had not been borne out over the last few days. It was up to the various parties to indicate whether they would do more to bring it to a conclusion. The outcome was finely balanced.

Mr Plenderleith said his impression was that the money market reforms had gone very smoothly. Sir Chips Keswick noted that some concern had been expressed among smaller firms about what turnover was required to deal in the market. Mr Plenderleith responded that the Bank had tried to give an indication to most people. Where there was doubt, the Bank was prepared to discuss the question with them. Sir Chips asked whether he could say that to the London Investment Banking Association. Mr Plenderleith said that any individual bank that was concerned should contact the Bank.

The Deputy Governor reminded Members that they should notify the Secretary at least seven days before committing to become a member of the board of any company or undertake any duty or assume any post or engagement which may affect their position as a Member of Court. Under the agreed arrangements for reporting Director's commitments to Court, he pointed out that copies of each Member's commitments were to be found in folders.

The Deputy Governor reminded Members of the function of the Printing Works Advisory Group whose membership had now been agreed, namely Raymond Turner, Design Director, BBA; Alec Daly, Deputy Director General, CBI, and Head of the National Manufacturing Council; Ruth Warman, Personnel Director, Vauxhall Motors Ltd; and Peter Jarrold, Chairman of Jarrold & Sons and President of the British Printing Industries Federation.

[redacted]

[redacted]

Sir David Scholey asked Members of Court what questions they would like to ask at an informal meeting in May with the members of BOBS. It would be useful to have advance notice to prepare the agenda. Members could notify the Deputy Governor or himself.

Payment to HMT in Lieu of Dividend (Mr Midgley in attendance)

The Deputy Governor introduced Mr Midgley to discuss the payment to the Treasury in lieu of dividend. Mr Midgley said that the normal rules applied this year. There was nothing exceptional and he had reason to believe that the Treasury would be comfortable with what was proposed. He pointed out that the profits number had changed. There was nothing significant in that. The Bank had taken the opportunity to review a number of issues. These included revaluation of property, treatment of the refurbishment to the Printing Works and the Court's encouragement to take a very hard look at provisions, particularly severance terms. The Deputy Governor asked for Court's approval to pay £23.5mn to the Treasury as an interim payment.

Sir David Scholey asked how that would compare with the Treasury's expectation. The Deputy Governor said he would not expect difficulty with the Treasury. It was a modestly rising dividend on an underlying basis.

Court AGREED that, pursuant to Section 1(4) of the Bank of England Act 1946, an interim payment of £23.5mn be paid to HMT, in lieu of dividend, on 4 April.

Note Issue Strategy (Messrs Bartlett and Dennis in attendance)

The Deputy Governor asked Mr Plenderleith to introduce a paper on the Bank's note issue strategy for the next few years. Mr Plenderleith said that the Bank's notes were the most prominent and popular product with the man in the street, possibly even more popular than the Deputy Governor's speeches! It was sensible to have a forward strategy for the note issue. The paper focused on three features. The first was counterfeiting, where there had been a sharp rise. The public information campaign had been stepped up to help people recognise genuine notes. Efforts were being made with the co-operation of the police. The Bank could bring out a stop-gap replacement of the £10 and £20 notes quite quickly if it felt that counterfeiting was building up to an uncontrollable point.

Mr Bartlett said that, putting all the evidence together, there had been a noticeable reduction in counterfeiting in 1996 after quite worrying levels the previous two years. In 1997 the reduction had continued. The police said that the situation was under control. [redacted]

[redacted]

[redacted]

There was concern with both the £10 and with the £20, rather than just the £20 note which was the problem a year ago. He said that, though we had a lull, counterfeiting could re-emerge [redacted]

There was no urgent need to respond with a very strong upgrading of our notes. [redacted] The problem was the machinery, which was not readily available - though it would be in about a year's time. We would, anyway, upgrade the notes because it is about ten years since the current series of notes was conceived.

[redacted]

[redacted]

Turning to the third matter, the Deputy Governor said there was some awkwardness in relation to EMU. To introduce a new set of notes in the very near future would, in effect, be making a comment on the likelihood of EMU. But it would be clear this year if Britain were to be in the first wave. Against that background, the Bank needed to plan a revised series of existing notes rather than a complete redesign. [redacted] The Bank's judgement was that these would be needed whether or not we joined EMU.

Mr Neill asked how long it took to wash old notes out of the system. Mr Bartlett said it would take six to nine months if we really wanted to, otherwise it would be a year. Sir David Lees asked whether, if we looked further ahead to the Euro, it was likely that there would be a move to consolidate production. The Deputy Governor said the logic from the efficiency and quality control point of view would be to have a consolidation of printing. A curious feature of EMU was that, setting aside the Scots, there were four pieces of paper that were legal tender in Great Britain, and in the Euro zone there could be 105 if all the national features were printed. Despite the logic of consolidation there was no current willingness on the part of other central banks to envisage it. Mr Dennis suggested that, when the EMI started to pay for the notes, it would address the problem. The United States had two printing works and one design centre. Sir Colin Southgate emphasised the importance of being one step ahead on note technology.

Secretary
16 April 1997

SMC0083.DOC

TO MEMBERS OF COURT

COURT: WEDNESDAY 19 MARCH 1997

THE EXECUTIVE REPORT

Barings Bondholders

Members of Court will be aware that the City Disputes Panel has been formulating proposals intended to bring to an end current and prospective litigation in relation to Barings bonds. The Bank agreed to contribute to the process by encouraging the lead and co-managers of the bond issues to recognise a wider interest in a speedy resolution of the problem A contribution from each of the underwriters will probably be necessary before the financial aspects of a deal can be concluded. Discussions with the underwriters and other interested parties continue.

Money Market Reform: The Bank's New Counterparties

The changes to the Bank's daily money market operations, announced in February after market consultations, took effect on March 3. The market in gilt repo inaugurated last year had effectively developed as a secure, liquid and efficient market in secured money, which the Bank could safely use as a means of providing daily liquidity to the market.

In parallel with the addition to our range of instruments, the Bank is now prepared to deal with a range of counterparties beyond the discount houses which were previously the intermediaries for the Bank's transactions with the market. Dealing with a larger group of counterparties should allow us to provide liquidity at the point where it is most needed, and should help to stimulate competition among the main money market participants. We will now deal with banks, building societies and securities firms, supervised by the Bank, the BSC, the SFA or a competent authority in the European Economic Area, which satisfy the Bank that they meet certain functional criteria. The criteria are, broadly, designed to ensure that counterparties have the technical capability to deal efficiently with us, that they have and maintain an active presence in the gilt repo and/or bill markets, and that they do participate regularly in the operations. Counterparties are also expected to participate regularly in the weekly Treasury bill tender. The Bank has dropped the requirement that the discount houses collectively underwrite the tender.

The Bank has not published a list of its counterparties, and does not expect to do so. The firms with which we deal will vary over time, reflecting their ability and wish to meet the criteria, but changes in the group with which we deal should not be seen as having any wider significance.

In addition to the banks, securities firms and building societies who have become new counterparties, five of the discount houses have decided to make use of the transitional arrangements we provided, to allow them to adapt their business strategies to the new environment. One of the six discount houses, Union, announced in late February that they would not take up the transitional arrangements, and they ceased to be counterparties on 3 March. This reflects a strategic restructuring by the firm, away from proprietary trading and towards fee-earning business. Union's outstanding book, including their participation in the Bank's twice monthly facility, has been wound down in an orderly way.

Nazi Gold

Following the distribution of gold to Albania last October, the Tripartite Commission's remaining holdings amount to 5.5 tonnes[1] (worth around £40mn at current prices). Under the terms of the Paris Agreement of 1946, the remaining gold should be distributed pro rata to the ten countries who have already received an initial distribution. There is considerable public pressure currently being exerted, particularly in the US, for the remaining gold to be used instead to compensate surviving Holocaust victims or to fund charities for them. The Swiss Government have recently announced that they will make some £3bn available for such purposes in recompense for alleged Swiss wartime activities.

There is also pressure, again from the US, to make the Tripartite Commission's archives publicly available. The US Treasury and State Department are taking this line and are pressing HMG and the French Government to go along with it. They have also approached the Bank seeking support for their line. The FCO's view is that documents relating to the origins of the gold should be made available, a view which we share. No decision has yet been taken, but if such documents are made available, they may well reveal uncertainties about the origins of some of the gold and will thus probably increase the pressure for it to be distributed to charitable causes.

[1] 3.5 tonnes at the Bank and 2 tonnes at the FRB, New York.

<u>Gilts Funding Remit</u>

The Government's Debt Management Report and Remit to the Bank for gilt financing in 1997-98, which reflects substantial Bank advice and input, was published on March 12. The key points are as follows.

Total gilt sales target £36.5bn, reflecting a CGBR of £20.0bn, redemptions of £19.6bn, and net financing of £3bn from National Savings. The target will be revised in the light of any over- or under-achievement of the gilt financing target for 1996-97. Index-linked gilts to comprise 20% of new issuance (£7.3bn). Within conventional gilt issuance, a slight change away from the pattern of "equal thirds" in previous years to 35% short (3-7 years), 30% mediums (7-15 years), 35% longs (15 + years). This takes into account the pattern of future refinancing, and reflects the likely pattern of investor demands including that expected for strips when the strip facility is introduced; it also fits best with the continued use of "dual auctions".

The Government is announcing that the authorities see positive merit in introducing a programme of index-linked auctions. When sufficient experience is available of the US index-linked auctions inaugurated in January, the Bank will initiate consultations with the market on the form of such a programme. In the event that index-linked auctions are held in 1997-98, the authorities will review whether the 20% target is still appropriate, taking account of the consultations.

Following the successful introduction in 1996-97 of dual auctions (two auctions in the same week, allowing us to capture a broader range of investor demand for gilts at any one time) a programme of 7 single and 4 dual auctions is planned to meet the conventional funding target; the Remit sets out the dates. The month in each succeeding quarter in which a dual auction will be held will be announced, along with the stocks to be auctioned, in the regular announcement at the end of the preceding quarter, following consultations with the market.

New conventional benchmark issues in 1997-98 will be strippable, and we envisage further conversions of non-strippable stocks into strippables to promote the liquidity of the planned strip market.

As usual, the Remit will be revised in the event of a material change in the gilt financing requirement, substantial market movements or volatility; it is also open to revision following the General Election.

MINUTES OF A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 26 MARCH 1997

Present

Mr George, Governor

Mr Clark

Mr King

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Court, having been circulated, were noted.

Mr King noted that there had been little market reaction to the increase in US interest rates announced the previous day.

Secretary
16 April 1997

MINUTES OF A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 2 APRIL 1997

Present

Mr George, Governor

Mr Clark

Mr Foot

Mr King

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

16/4/97

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 9 APRIL 1997

Present

Mr George, Governor

Mr Clark

Mrs Heaton

Sir Chips Keswick

Mr King

Sir David Lees

Mr Plenderleith

The Minutes of the Court of 19 March and the Meetings of 26 March and 2 April, having been circulated, were noted.

The Governor asked Mr Plenderleith whether he had any comments on the markets. Mr Plenderleith said that the pound had strengthened considerably over the last couple of weeks, having been seen to level out in mid-March. The recent movement was driven principally by currencies other than sterling, notably a distinctly firmer dollar, which had been helped by indications from the US authorities that they favoured a strong dollar.

In the other direction, he noted the renewed weakness of the German mark, as a result of more optimistic expectations that monetary union may start on time. The pound had thus been led up by a strengthening dollar against a weaker mark; sterling's level against the dollar had not changed much. Mr Plenderleith said that the overall rise in sterling was uncomfortable. It was now fractionally above what had been its floor in the Exchange Rate Mechanism. The Governor agreed that it was a distinctly uncomfortable position for sterling.

Secretary
16 April 1997

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 16 APRIL 1997

Present:
Mr George, Governor
Mr Davies, Deputy Governor
Mr Buxton
Mr Clark
Sir David Cooksey
Mr Foot
Mrs Heaton
Mr King
Dame Sheila Masters
Mr Neill
Mr Plenderleith
Sir David Scholey
Mr Simms
Sir David Simon
Sir Colin Southgate

The Governor welcomed Mr Buxton, this being the first Court they had attended together.

The Minutes of the Court of 19 March and the meetings of 26 March and 2 and 9 April, having been circulated, were approved.

Monthly Economic and Monetary Report, including market charts (Mr Hatch in attendance)

Introducing the Report, Mr King said that for several months there had been a policy dilemma. There was increasing evidence that domestic demand was growing rapidly, and feeding into higher output, but the rise in the exchange rate was a threat to net trade over the next year or so. Over the past month that dilemma had become more acute, because activity had increased and the exchange rate had reached around 100 on the index, a rise of 20 per cent in a year, and considerably more against the German mark and the currencies of our other European trading partners.

However, the exchange rate effect was swamped by the impact of higher domestic demand and output growth, of 3.25-4 per cent, and faster still in services. Mr King noted the new index of service activity published by the Chartered Institute of Purchasing and Supply as evidence that activity had accelerated in February and March, and even in manufacturing, growth was above trend. This evidence was consistent with unemployment and labour force data published on the morning of the Court meeting which confirmed that the labour market was continuing to tighten fairly rapidly. Turning to earnings, Mr King said that the 5 per cent earnings growth also published on the same morning was difficult to reconcile with the achievement of the inflation target. He noted, however, that wage settlements were constant at about 3 per cent, and pointed out the rise in wage drift which accounted for the difference between these two figures.

Broad money was growing at above 11 per cent in February, implying that demand and output growth would continue at above trend rate. Overall, the picture was one that Mr King would expect to see associated with rising interest rates to dampen activity, but the rise in the exchange rate complicated the picture considerably. There was not yet much evidence of an impact on domestic activity or on export volumes, though he expected the latter to be quite sizeable in due course, as surveys had already suggested.

Turning to the Public Sector Borrowing Requirement, published the same morning, Mr King said it was better than expected at £22bn, some £4.5bn better than expected in November. Of the major European countries the UK may be the only one to meet the Maastricht deficit criterion.

Mr King asked Members of Court three questions: did they think the exchange rate effect would prevent output growing above trend for the next year or so; how did they reconcile 3 per cent growth in settlements with 5 per cent earnings growth; and was the fact that the higher exchange rate was not yet reflected in import prices a result of a delay in pass through or of the pass through being less than in the past?

Turning to the market charts, Mr Plenderleith said the main feature was a further quite material rise in sterling. Part of this was due to an upward shift of interest rate expectations in the market, which had expected a quarter point rise in the spring and more later but now expected 0.5 per cent in the spring in one or more steps.

However, Mr Plenderleith said the main factor driving the markets was not the UK economy but our counterpart currencies. The dollar had performed strongly, whereas the German mark had been weakening as expectations grew that monetary union would begin on time, and the yen had been weakening because of Japanese domestic problems. These movements in our counterparty currencies reflected developments in their own economies and were not reasons for allowing ourselves to be distracted from the proper monetary stance required for the UK economy.

Mr Plenderleith noted that in the financial year just ended the Bank had accomplished the Treasury funding remit with sales of just under £40bn, meeting the target of 15 per cent index linked stock and the required maturity pattern for conventional stocks, and the mandate had been renewed for a further year. The bad news was that the target remained much the same, because although the PSBR would be lower, maturities would be substantially greater.

The Governor noted that there had been surprisingly little impact of the exchange rate up to now on export orders. Mr Buxton commented that CBI surveys showed export demand falling quite sharply but domestic demand rising sharply, and therefore the overall picture was quite healthy. He believed earnings growth was driving demand quite strongly and was more important than settlements.

The Governor commented that the tradable goods sector was about one eighth of the economy, so there would have to be a large net trade impact to offset domestic economic strength. Mr Neill noted the efforts of the Japanese motor industry in the past to cope with a rising yen, and said the best British factories were able to generate large increases in competitiveness. One explanation for why earnings were growing faster than wages was that Britain was moving faster on productivity than its European counterparts, though there was still a big gap. There was an opportunity for British industry to make very substantial productivity gains to offset sterling's strength.

The Governor asked Mr Neill about shifts in sources of supply overseas. Mr Neill said parts of his company had achieved 30 to 40 per cent reductions in unit costs but when total acquisition costs were taken into account it could be more competitive to source locally. Sir Colin Southgate said that Japan had increased productivity in its factories, but this did not apply to back offices. Mr Plenderleith said that on a recent visit he had noted that Japanese financial services were overmanned and uncompetitive. Mr Neill said it was a matter of looking at what Japan was good at and applying it to the British economy. Sir Colin commented that 5 per cent earnings growth was a key issue. If it was coming from productivity growth that was acceptable, but if it was coming out of larger and larger bonuses it was quite frightening.

Sir David Simon said many companies had enormous capacity to compete against Germany, France and Benelux, even at current exchange rates. But he did not have a feel for which companies those exports were coming from. After meeting the Governor of the Bank of France a week earlier, Sir David had asked his own company's subsidiaries in France and Germany to make inquiries about their customers' views on growth rates. Both companies said their industrial customers had found competing with the UK had been much easier over the last two quarters. Industrial customers on the Continent were much more confident about forward growth rates than the historic data suggested. Sir David remarked that British industry's energy requirements had been slowing and were expected to slow still further.

Sir David Cooksey said the textile company he was involved with, had half its sales overseas and half in the UK, and had struggled to lift sales. But this year in the first three months the increase was 11-12 per cent, practically all because of UK sales. The small firms he was involved with were, by contrast, suffering from sterling's strength - though they were seeking to maintain market share at the expense of margin.

Mr Simms said construction industry wage pressures were mostly in London and the South East. He did not believe construction activity was likely to be turned off by a 0.5 per cent interest rate rise, and while the housing market might be affected, it was only 15 per cent of the industry. He also noted that the industry was seeking a four year wage agreement. But the pressure cooker was beginning to boil and it would not be long before there were more signs of steam than just in London and the South East.

Mr Buxton commented that domestic demand was so strong that even with a downturn in export orders, growth was likely to remain above trend. The Governor remarked that in terms of the policy implications, nothing that had been said discouraged the Bank from the policy position it had maintained for some time. The Bank was acutely conscious of the dilemma. The tradable sector was not dominant but was nevertheless large, and once it had been ground down it was difficult to re-establish. The dilemma was not just the interest rate and exchange rate conflict but the fact that it was quite difficult to know what to do about the exchange rate even if it was decided to pay more attention to it. To a very large extent, the exchange rate's strength was not due to the situation in the UK, but to the weakness of the Continental currencies. The Governor commented that unless there was a deliberate sacrifice of the domestic stability objective it was extremely difficult to see what could be done. The good news was that the strength of sterling may not last forever but one could not rely on that either.

The Deputy Governor noted that at the recent Monetary Meeting he had made known the Court's concern at the Chancellor's decisions in recent months not to accept the Bank's advice. This was in response to a suggestion made at the last Court meeting by Sir David Scholey.

Mr King, commenting on productivity, said that his concern was that on the limited data available, unit costs in manufacturing were rising more rapidly than in any of the other Group of Seven countries. Britain was not experiencing a benefit that would offset the rise in the exchange rate. Turning to earnings, he said the one bright spot was that the 5 per cent increase was the result of large bonuses in services, and the actual rate had fallen back quite significantly this month as bonuses had dropped out. But he reiterated that it was still at a level that made the inflation target hard to achieve.

Architecture of the International Monetary System (Mr Drage in attendance)

Introducing a paper on the role of the IMF and other institutions in the international monetary system, Mr King said there was a great deal of interest among the Group of 10 deputies in looking not just at the Bretton Woods institutions but at the wider range of international institutions with economic responsibilities. Current account constraints were no longer as important as at the time the Bretton Woods institutions were created. They had changed from organisations helping with current account imbalances to helping developing and emerging economies make the transition to developed status.

The current role of the IMF was an ad hoc response to events such as the recent problems in Mexico and there was a growing feeling that it was instead time to steer the process of change. It was easier to start organisations than to close them down, he noted. Mr King emphasised the importance of ensuring that the rules under which the institutions operated were designed to promote markets, and said that the paper he was introducing set out in detail how the functions of the IMF had altered. The important points to consider were the implications of the shift from public to private financing, issues arising from the changing importance of various economies and the relationship between the Bretton Woods institutions and other international organisations. Mr King noted that some people called this the architecture of the world financial system but he would describe it rather as an unplanned, sprawling development. Mr King asked whether all these institutions should be encouraged to continue, and remarked

- with reference to the anniversary of their foundation - that life began at 50.

Mr Buxton emphasised the importance of involving the private sector and noted that the flow to emerging markets last year was $230bn, of which a high proportion was private equity and bank money. The flow should be encouraged to go to countries to which it was not at the moment going, such as India. Too much was going to South East Asia.

The Governor said his impression was that the World Bank and the IMF were focusing on making those countries that were missing out on this flow more attractive, for example by encouraging the transition in Eastern Europe. They had less of a role in the wider world economy unless and until there was a crisis such as Mexico.

Mr Drage said the IMF and the World Bank had got their act together better, with the Fund advising on overall public spending and taxation and the World Bank far more involved in the composition of public spending. The next area for working out their respective roles was financial sector reform, as at the moment the issue of who did what in a country was determined by who got there first.

Sir David Scholey said a lot of work had been done at the World Bank on operating relationships with the IMF. Mexico and Russia were examples of that. He asked which countries were likely to have the most effect on the debate and whether the UK was punching above its weight. Mr King responded that the UK saw its role as mainly influencing the debate within the Group of 7. He noted that the IMF managing director had the advantage of conflicting views, with the G7 wanting to limit resources and developing countries wanting to expand them. A group of fairly strong developing countries had been encouraged to become part of the NAB (New Arrangements to Borrow), and it was expected that their natural sympathies over time would lie more with the contributors to the IMF and the World Bank. The first meeting of the NAB would be in Hong Kong in the Autumn.

The Governor said he was conscious of a significant dialogue in Washington between the World Bank and the IMF, but he was not sure this had been systematically presented to the membership. Mr King noted that Stan Fischer, number two at the IMF, was formerly chief economist at the World Bank, and was conscious of their need to get their act together, because if they did not, others would point out the overlap. In response to Sir David Scholey, Mr Drage said that the UK was indeed punching above its weight, and was constantly putting ideas on the table. According to Mr King, this had led to comment from the Italians at a recent meeting that the UK was behaving like French rationalists, as opposed to taking a pragmatic approach to the issue.

Sir David Simon said that for anyone providing capital for large private sector projects in developing countries in co-operation with international institutions, talking to the World Bank was like a plumber speaking to someone whose main language was Greek. The process was absolutely opaque. Mr King responded that Jim Wolfensohn at the World Bank was trying to turn round one of the most difficult bureaucracies. The IMF was better at making sure the plumber was given clear instructions and knew what the deal was. The IMF was making very clear what the rules of the game were, for example in its recent insistence that private bond markets would not be bailed out of involvement in Mexico. But there were still very big differences of view about the scale of resources required for the IMF.

Sir David Scholey made a distinction between high growth rapidly developing economies and those that are almost capable of relying on private sector investment. He believed it was very difficult to wean the upper end of the emerging markets away from welfare and support, and industry and commerce wanted the World Bank and the International Finance Corporation locked in because it would improve the profitability of their projects. The Governor agreed.

Mr Drage said that the top tier of emerging economies might be beyond needing to use the Fund. He said Sir David was making a very important distinction between those that are emerging markets and others that have been developing for a long time and which needed a very different type of programme. Mr King agreed with this distinction, and said it was exactly the one employed in deciding who should join the NAB. There was little enthusiasm for mainland China to join, but Hong Kong had become a member. The Governor remarked that the role of the international institutions was to encourage the weaker countries to become part of the market system.

Returning to the structure of international institutions, Sir David Scholey said that since it was not possible to close any of them down, the best that could be achieved was to combine them with others.

The Executive Report

Sir Colin Southgate commented with respect to the CREST system that Tandem, the manufacturers of the hardware, sometimes failed to deliver the power required. Mr Clark replied that it was not an option to buy more hardware because the configuration was the biggest possible. In reply to Mrs Heaton, Mr Clark said a number of improvements were in progress at CREST and in parallel, efforts were being made to improve the performance of individual firms.

The Deputy Governor proposed three agenda items for the Court meeting with BoBS, with short papers in each case. These would be an update of the last nine months work, post-the Arthur Andersen report, a note on the future structure of regulation and a short review of how BoBS had carried out its function of assessing risk in the banking system over the last year.

The Governor asked Court whether it would be helpful for Executive Directors to be present at the meeting on 7 May when the independent members of BoBS join Court, saying he would be content either way. Sir David Scholey and Sir Colin Southgate spoke strongly in favour of inviting Executive Directors to be present and the Governor said he would air the question with BoBS at its next meeting. [BoBS confirmed this arrangement.]

The Deputy Governor advised Court that the tendering process for external auditors had stalled due to lack of available competition. Coopers had been the Bank's external auditors for as long as anybody could remember. But because of one conflict of interest and several legal disputes involving the Bank and other firms of auditors, largely arising from BCCI, there was a danger that no invitations to tender could be accepted. The Deputy Governor proposed a two year delay in putting the audit out to tender, with a review in about 18 months time. Mr Buxton said an advantage of tendering was that it would cut the cost. The Deputy Governor noted that the finance director would be seeking a small cost reduction but Dame Sheila Masters and Sir David Cooksey said that the price the Bank was paying was relatively low for the work and a significant reduction was unlikely on tendering. Court agreed to the deferment.

The Deputy Governor introduced a recommendation relating to changes to the Board of Debden Security Printing Limited. It was recommended that with immediate effect, and pursuant to Section 375 of the Companies Act 1985, as amended and extended by the Companies Act 1989, and until otherwise resolved by the Court of Directors:-

(a) MR LEE DOBNEY shall become a Director of Debden Security Printing Limited in place of MR D F HILLS and MR IAN WALKER. The Board will then consist of MR A W JARVIS, MRS M A P SHEPHERD, MR M D JONES, MR R F SORRELL and MR LEE DOBNEY;

[redacted]

(b) MR A W JARVIS, or failing him, MRS M A P SHEPHERD, or failing her, MR M D JONES, or failing him, MR R F SORRELL, or failing him MR LEE DOBNEY be authorised to act as the representative of the Governor and Company of the Bank of England at any meeting of Debden Security Printing Limited.

Court APPROVED the recommendation.

Members had no comments on the items referred to in the Executive Report paper concerning Nazi gold and Barings bondholders.

The 1997 Annual Report - in draft (Mr Midgley and Mrs Bishop in attendance)

The Deputy Governor said that last year's new format had been followed quite closely. He commented that the strategy section incorporated new priorities agreed by Court at the end of last year. Court discussed a number of amendments which were noted by Mrs Bishop for incorporation in the Report. The Deputy Governor said that the profits stated in the Report reflected a cautious and prudent view. Court also discussed the draft of the Governor's Foreword to the Report.

Quarterly Financial Report (Mr Midgley and Mrs Evans in attendance)

In presenting the Financial Report for the final quarter of the Bank's year, Mr Midgley said it was intended to concentrate not on the profit and loss outturn but on income and expenditure. On the expenditure side, the Bank was slowly becoming accustomed to regular reporting of information. He relied to a large extent on individual areas of the Bank to confirm their plans. During the year, there was a realisation that planned spending would not quite be achieved. Offsetting that, more was spent on bonuses than had been forecast. It had been a feature of the last three years of active pay bill management that the Bank had not spent up to the limit.

Sir Colin Southgate commented that the Printing Works had not been able to spend its capital budget accurately for the last six years. In response to a question from Sir David Scholey, the Deputy Governor said there was more potential for savings, with some decisions taken which would have further consequences, such as the closure of the branches and the staff cuts at the Registrars Department. Other areas being examined were Head Office note distribution, security, and property and building maintenance. The Personnel Division was also being reviewed in a benchmarking exercise by Coopers & Lybrand. In response to a question from Sir Colin Southgate, the Governor asked for the figures for non-audit work done by Coopers for the Bank to be given to Sir Colin.

Sir David Simon criticised the language of the Quarterly Financial Report as encouraging people to spend up to their budgets. Mr Midgely said the language was purely for Court and that it was not employed in documents available to Bank staff, where emphasis was placed on performance. The Governor said the Bank should think about changing the language, as long as it was understood that performance against target implied underspending.

The Bank in the Community 1996/1997 - Community Affairs Review (Mr Bennell and Mrs Barnard in attendance)

The Deputy Governor introduced the latest review of the Bank's community affairs involvement. Mr Bennell said the review fleshed out a paragraph in the Directors' Report on Bank involvement in the community. The focus in the last year had increasingly been on supporting the staff's charitable and community activities. The general theme of the Bank's involvement was getting disadvantaged people back to work.

Mr Neill said he strongly supported the Bank's involvement in community affairs, and Mr Buxton inquired why the Bank was not part of the Per Cent Club, particularly since its payments exceeded one per cent of profits. The Governor said that the problem of joining the Club formally was that the Bank was in the public sector and public money was involved, so it was preferable not to make the formal commitment.

Mr Bennell was asked by the Deputy Governor to explain why it was proposed to transfer responsibility for charitable giving and community involvement policy from Personnel to Secretary's. Mr Bennell said the responsibility did not fit well with the reorganised Personnel Division and since these activities were part of the public face of the Bank, for which Secretary's Department were generally responsible, it made sense to transfer the responsibility there. Mr Bennell also said that because of the change of responsibilities it was proposed to defer a planned review of the community involvement policy due this year to 1998.

Court AGREED that: -

(i) responsibility for the application of the Bank's community involvement policy and charitable giving be devolved to the Secretary; and

(ii) the review of the community involvement policy be deferred to 1998, and then brought to Court.

Houblon-Norman Fund Report

There being no comments on the accounts of the Houblon-Norman Fund for the year to 30 June 1996, the Governor invited Mr King to comment on the Report of the Committee and the work of the Fellows.

Mr King said that the Committee had recommended four new fellows: Professor Stephen Cecchetti, who subsequently became Chief Economist of the New York Federal Reserve, so would be spending a shorter period with the Bank than first planned, and at the New York Fed's expense; Professor Harold James, author of a history of inflation who would research the transmission of financial shocks during the inter-war depression; Professor Laurence Kotlikoff, who would extend his US work on generational national accounts to the UK; and Alessandro Missale, a specialist in debt management. The Governor remarked that over the last few years, the calibre of Houblon-Norman Fellows had markedly improved under Mr King's guidance.

After drawing Court's attention to his engagements, the Governor said the formal proceedings were concluded.

7 5 97

MINUTES OF A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 23 APRIL 1997

Present

Mr George, Governor

Mr Clark

Mr Foot

Mr King

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Court, having been circulated, were noted.

7.5.97

MINUTES OF A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 30 APRIL 1997

Present

Mr George, Governor

Mr Davies, Deputy Governor

Mr Foot

Mr King

Mr Plenderleith

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business, subject to ratification by the next Court.

The Minutes of the last Meeting, having been circulated, were noted.

Howard J. Davies

7.5.97