

## RE-FINANCING OF MEDIUM-TERM EXPORT CREDITS

On the 6th February 1961 it was announced that, after discussion between the Bank of England, the Committee of London Clearing Bankers and the representative banking organisations of Scotland and Northern Ireland, a new facility had been arranged by the Bank of England to promote the availability of medium-term credit for U.K. export business.

Throughout the post-war period great importance has been attached to ensuring that U.K. exports should not be held back by inadequate credit facilities, though equally it has also been regarded as essential that this country should not give more or longer credit than it could afford. From the end of the war until July 1958, the advances policy of the banks was subject to a series of detailed requests from the Chancellor of the Exchequer; during this period it was always made clear that advances for exports were regarded as one of the categories to be particularly favoured. This encouragement, combined with the support of insurance cover offered by the Export Credits Guarantee Department, led the banks to undertake a substantial volume of export financing involving lending on medium term, broadly definable for this purpose as between three and five years. However, there were clearly limits to the extent to which the banks could prudently commit their resources to lending in a non-marketable form over such a period. Recently these limits had begun to be approached, although they had not yet actually been reached, and this required consideration of fresh arrangements.

It was desirable to disturb as little as possible the existing pattern of financing and the normal relationships between banker and customer. It was therefore decided that the best plan would be to provide facilities whereby the banks would be enabled to re-finance to a limited extent the lending they had already undertaken and would in future undertake in this field.

The new arrangements are limited to transactions where a participating bank has agreed either individually, or as a member of a group

of banks, to provide finance for an export contract involving deferred payments by the buyer over a term of more than three years, measured from the date of contract. The contract must also be covered by the Export Credits Guarantee Department either by a guarantee issued to the exporter, the benefit of which is assigned to the bank or banks concerned, or by such a guarantee supported by a "bankers' guarantee" issued directly to the bank. Where these conditions are satisfied the Bank of England will stand ready at any time to re-finance any instalments falling due for repayment by the buyer to the participating bank within the following eighteen months, to the extent to which they are covered by the Export Credits Guarantee Department.

Banks participating in the scheme will be required to inform the Bank of England at quarterly intervals of the total of the transactions which they have entered into, or have committed themselves to enter into, which would qualify for such re-financing.

When a bank wishes to take advantage of the scheme it will be necessary for it to supply the Bank of England with certain details of the underlying transactions. These are required because re-financing will be effected on precisely the same terms as regards the rate of interest and the amount and date of repayment of instalments as applied to the original transaction. The Bank of England are not, however, concerned with other details of the transaction. A participating bank itself assumes full responsibility to the Bank of England for the payment of interest and for the repayment of instalments of capital as and when due under the terms of the original contract, and this responsibility is in no way dependent upon the observance of the terms of the contract by any other party. No commitment commission or other charge is made by the Bank of England for this re-financing facility.

The Bank of England may withdraw completely from the scheme provided that three months' notice is given to participating banks

A similar period of notice is required for a partial withdrawal; for example, if it were desired to limit re-financing to instalments of credit falling due for repayment in twelve instead of eighteen months. A participating bank will, however, be entitled to re-finance on the terms previously ruling any transaction to which it has committed itself prior to the expiry of the three months' notice.

The clearing banks, Scottish banks and Northern Irish banks provide the great bulk of medium-term credit for U.K. exports and the scheme was designed in discussion with them and with their needs in mind. In so far, however, as other British banks provide medium-term finance for exports on similar lines as a normal part of their business, the Bank of England are ready to discuss the extension of the scheme to them. Some enquiries from other banks have already been received.

Because participating banks have the right at any time to re-finance such instalments of eligible credits as fall due within eighteen

months they can properly regard these instalments as coming within the category of liquid assets. In their monthly balance sheets the clearing banks have therefore transferred the amounts involved from "Advances to Customers and Other Accounts", where they have hitherto appeared, to "Other Bills Discounted and Re-financeable Credits", where they rank as liquid assets for the purpose of calculating the conventional liquidity ratio. As at present foreseen the clearing banks, Scottish banks and Northern Irish banks are unlikely to choose to re-finance large amounts of the credits they have given. Other British banks might, however, have more occasion to re-finance eligible transactions since they might feel a need to strengthen their cash positions rather than their general liquidity.

Amounts re-financed with the Bank of England will be included in the weekly Bank Return in the Banking Department under the heading of "Other Securities—Discounts and Advances". A separate total will not be shown.