

New refinance facilities for export and shipbuilding credits

In May 1969 new arrangements were agreed between the Bank of England and the London clearing and Scottish banks governing the Bank of England facilities for refinancing medium and long-term export credit and lending for domestic shipbuilding. The new arrangements consolidate two of the earlier refinancing schemes and replace the third one.¹ They also incorporate certain modifications to those earlier schemes agreed upon in principle in November 1968,² the main effect of which is to provide the clearing and Scottish banks with automatic access to refinance where fixed rate lending for exports³ and shipbuilding is absorbing more than a defined share of their total resources.

The new arrangements fall into two parts. Part I extends the basic refinancing scheme for medium and long-term export credits, first introduced in 1961, to cover fixed rate lending for shipbuilding. Transactions eligible for refinancing under this part therefore now include:

- a export credits extended for at least two years from the contract date and supported by an Export Credits Guarantee Department guarantee issued either direct to the bank (a 'bank guarantee' or 'financial guarantee') or to the exporter and assigned to the bank; and
- b fixed rate finance for ships built in British yards for British owners and guaranteed by the Ministry of Technology.

The facility is available to banks incorporated in the United Kingdom or Commonwealth which are substantially British owned and controlled, and which traditionally engage in these types of business. When a bank participating in the scheme represents that it needs, in the last resort, to raise cash to meet a withdrawal of deposits, or that its operations are being hindered by a shortage of immediately realisable liquid assets, the Bank of England stand ready to refinance – on the original terms – up to 30% of the amount outstanding in respect of each eligible transaction. In the case of export credits, the Bank will refinance the balance repayable within eighteen months if it amounts to more than 30% of the total of an outstanding credit. The Bank may, however, set a limit to their commitment to a particular bank, although not to a clearing or Scottish bank. Any amounts refinanceable under Part I of the new arrangements may be treated as liquid in a bank's balance sheet.

Part II of the new scheme replaces the supplementary refinance facility extended in 1965⁴ for fixed rate export credit of more than five years' duration as well as the 1967 facility for refinancing fixed rate lending for shipbuilding.⁵ In their stead it introduces a single new facility, under which a clearing or Scottish bank may refinance fixed rate lending for either purpose to the extent stated below.

¹ Earlier refinancing schemes relating to export credits were described in the *Bulletins* issued in March 1961 and March 1965, and the fixed rate shipbuilding credit scheme and refinancing facility was described in the June 1967 *Bulletin*.

² See Bank of England *Report* for the year ended 28th February 1969, page 43.

³ The banks' original arrangements for fixed rate lending for exports were described in the March 1962 *Bulletin*.

⁴ This facility would not have become operative before 1970.

⁵ The 1967 shipbuilding scheme is thus replaced by Part I and Part II of the new arrangements.

Transactions eligible under Part II are the same as those eligible under Part I, except that export credits must carry an E.C.G.D. 'bank guarantee' or 'financial guarantee' and must have been granted under the fixed rate export credit scheme. The facility in Part II, therefore, applies exclusively to fixed rate finance and is restricted to the clearing and Scottish banks, which provide the bulk of this finance. The Bank of England's refinancing commitment extends to any amount of eligible lending which may not be treated as liquid (that is, lending other than that refinanceable under Part I) in excess of 5% of the bank's total gross deposits, calculated as an average over the previous twelve mid-month make-up days. In contrast to the Part I facility, refinance under Part II is not tied to specific transactions, but relates to the global amounts outstanding, and the amount of refinance is accordingly adjusted monthly. Interest is payable at the rate currently applying to the fixed rate schemes – which, since their introduction, has been 5½%.

The new facility in Part II provides the participating banks with an assurance that the growth of their fixed rate advances will not constrain their lending in other forms. The need for this assurance arose from the rapid expansion – both past and prospective – of fixed rate finance, which has not generally been and is not now subject to credit restriction. Moreover, the demand for fixed rate credit is bound to increase. Government policy must continue to give high priority to exports; and the banks have agreed to match with fixed interest loans for shipbuilding a recent increase, from £200 million to £400 million, in the limit on guarantees for shipbuilding which may be issued by the Ministry of Technology. The new facility is, therefore, designed to ensure that the banks can continue to accommodate this essential lending.

At mid-June 1969, the total advanced and outstanding under the terms of the arrangements stood at about £650 million. Of this, rather over £250 million was refinanceable under Part I of the scheme. The extent of the commitment to provide refinance under Part II will of course depend on the growth of fixed rate lending relative to bank deposits. At 20th August, the refinance facility under Part II had been used to the extent of £14 million. Refinance is provided out of the resources of the Issue Department of the Bank of England against promissory notes, and included as "other securities" among the assets of that Department in the Bank of England's weekly return.¹

¹ In the statistics of central government finance (Table 1 of the annex) an adjustment is included within "other central government funds and accounts" to offset changes in the Issue Department's holdings of securities other than government securities. Otherwise, fluctuations in the public's holdings of Bank of England notes could not be taken as a measure of the Issue Department's contribution to the finance of central government. (See the article "Exchequer and central government finance" in the March 1966 *Bulletin*.)