

Extract from a speech by the Governor

Given at the annual banquet of the Overseas Bankers Club at Guildhall on 1st February 1971

. . . After the protracted and severe credit squeezes of recent years many may think that my only interest in the banking institutions of the City of London is that they should heed my requests and obey my instructions. This is not so. I am very much alive to my responsibility for ensuring, so far as I can, that our banking system is a healthy one operating in conditions conducive to its growth and increasing strength.

This is all the more important because of the increasingly international character of the London banking community. Over the past fifteen months some twenty foreign banks have opened offices in London, and the pace shows little sign of slackening despite the rise in the cost of suitable premises and of the technical specialists required. . . . Four countries – Argentina in May 1969, and Brazil, Mexico and Bulgaria in 1970 – have recently established a banking presence in London for the first time. They take their place among the 160 or so banks from 48 different foreign countries operating here through branches, subsidiaries or representative offices, far outnumbering the 75 British banks. We welcome these new arrivals to the City – and new members of the Overseas Bankers Club.

In recent years many banks, as we all know, have come here primarily to seek international business, particularly in the euro-currency markets. During this period, such business has been the major growth point in the City's financial activities and there are a number of reasons why we welcome this development.

It is a striking tribute to London as an international financial centre which has flourished notwithstanding the economic difficulties through which the United Kingdom has passed. These difficulties have obliged us to impose restrictions both on our domestic bank lending and on some of London's long-established international operations in sterling, such as the financing of third country trade. The new business and techniques have been a valuable offset to these constrictions. The result has been a useful addition to our invisible earnings which, in total, are of vital and increasing importance to our balance of payments. The knighthood which I am sure we were all delighted to see conferred on Sir Cyril Kleinwort at the New Year gave overdue recognition to the importance of invisibles and of the Invisible Exports Committee of which he is the energetic Chairman.

Necessary constriction has taxed ingenuity and bred innovation. This has happened in the field of domestic banking and finance. In international banking, maybe, developments have been even more striking, partly because the U.S. curbs on foreign lending and investment have prompted a continuing search for new approaches to the credit needs of major corporations. The pace has been swift and U.K. banks have contributed their full share to the innovations which have broadened and deepened London's role as a financial centre. But a vital factor has been the cross-fertilisation of ideas between banks of many different national backgrounds in this process of invention and development.

The growth in size and sophistication of the euro-dollar and euro-bond markets will be well known to you all. Certificates of deposit denominated in dollars or sterling are now familiar instruments, with a well-developed secondary market. London-based banks and investment dealers play an active part in the primary market for euro-bonds and pioneered the techniques of roll-over credits and floating rate notes. Euro-dollar commercial paper is a comparatively new arrival, and the acceptance and discounting of dollar bills of exchange, in some cases for financing the domestic operations of a major U.S. corporation, are features (albeit small) of London's activities. The credit needs of big industrial corporations have prompted the establishment of numerous multinational consortia banks. These international groupings, so many of which are based in London, are playing a growing role in helping domestic banks to match the global outlook on trade and finance which increasingly characterises the biggest international corporations. The development of the inter-bank and local authority markets, and the new interest being shown in less familiar activities such as factoring and leasing, are further examples of that liveliness of mind which has been evident in the City in recent years.

In the present company, I trust I shall be forgiven for concentrating as I have on developments in the banking sector. This is not of course to decry the valuable part played by other financial institutions in contributing to the multiplicity of services required in an international financial centre, and in so doing earning considerable sums in foreign exchange. Much work has been and is being done, by the Bank and others, to quantify more precisely the contribution which these institutions make to the U.K. balance of payments. We are grateful for the co-operation of trade associations and individual firms which have helped this work forward.

In formulating their attitude to these new institutions, markets and instruments, the U.K. authorities have been guided by the same considerations that have long underlain their attitude to the domestic banking system. As far as banking regulations and exchange control are concerned, I am sure you are well aware that we try to maintain the maximum flexibility of outlook, so as to keep interference with the evolution and working of the markets to the minimum. In leaving the banks as much independence as circumstances permit, we believe that we contribute to the banks' sense of responsibility in the conduct of their own affairs. It also ensures that a proper prudence continues to act as the mainspring – or should I say the governor? – of their operations. If in the midst of your numerous and varied banking activities you have been able to read the Bank's *Annual Reports* and *Quarterly Bulletins* – which, as you will understand, I feel bound to recommend – you will know that we for our part continue to maintain close and watchful contact with the international monetary system, no less than with our own domestic one, so that we may be in a position to offer a timely word of guidance should the occasion arise. Such a stance seems to us best calculated to provide an environment in which London-based banks and other institutions can most fruitfully and adaptably meet the changing needs of international trade and finance.