

Credit control

Notice to banks and deposit-taking finance houses, issued by the Bank of England on 18 November 1976.

1 Supplementary special deposits

Banking figures for October indicate continuing rapid growth in lending to the private sector. Further monetary restraint is therefore necessary. Accordingly, the Bank have decided, with the approval of the Chancellor of the Exchequer, to reintroduce immediately the supplementary special deposits scheme that was suspended on 28th February 1975.

The scheme will apply, as before, to all banks (except banks in Northern Ireland) and to deposit-taking finance houses. These institutions will be required to place with the Bank supplementary special deposits, bearing no interest, in relation to the growth in each institution's interest-bearing resources on the following basis:

- (i) interest-bearing resources to be the interest-bearing element, defined as in the previous activation of the scheme, of each institution's eligible liabilities;
- (ii) the growth in each institution's interest-bearing resources as defined in (i) above to be measured from the average of the amounts outstanding on the make-up days for August, September and October 1976;
- (iii) up to 50% of the growth in each institution's interest-bearing resources, on a three-month moving average basis, over and above a rate to be specified, to be placed on non-interest-bearing deposit with the Bank, subject to —
- (iv) no deposit being required to be lodged within the first six months of the reactivation of this scheme;
- (v) supplementary special deposits being repayable in full should the growth in an institution's interest-bearing resources fall back to the rate specified or in part if the amount of the excess should decline;
- (vi) the requirement to lodge supplementary special deposits being capable of variation or suspension at the Bank's discretion.

The rate of growth specified is 3% for the first six months, and $\frac{1}{2}\%$ per month for two further months. The arrangements thereafter will be notified in due course.

The rate of deposits required will be progressive with the excess rate of growth of each institution's interest-bearing resources; in respect of an excess of 3% or less, the rate will be 5%; in respect of an excess of over 3% but not more than 5%, the rate will be 25%; thereafter, the rate will be 50%.

The effect of these arrangements is that if, for example, the average of an institution's interest-bearing resources on the make-up days for February, March and April 1977 were to exceed the average amount outstanding on the make-up days in August, September and October 1976 by more than 3%, a non-interest-bearing special deposit on the scale specified above would be required to be lodged during May 1977.

As when the scheme was last in operation, supplementary special deposits will not be payable by any institution with a three-month moving average of interest-bearing eligible liabilities of less than £5 million. Any institution attaining an average of £5 million or more

will become subject to the scheme, in accordance with detailed arrangements set out in a separate notice.

2 Qualitative guidance

The priorities which banks and finance houses are requested to observe in the direction of their lending remain as they were set out in the Bank's notice of 22nd July 1976. Banks and finance houses are asked to ensure that, in providing acceptance credit facilities, they observe the same degree of restraint as would apply to lending for the finance of the underlying transaction.