Financial review

The review describes developments in various financial markets during May to July.

Summary

The money market *Conditions in the market were generally kept very tight and issues of Treasury bills at the weekly tender remained large; the Bank's minimum lending rate went up by 1% to 11½% on 21st May.*

Capital markets *In the gilt-edged market conditions were mixed, but the authorities sold more stock in the second quarter than in the first. The equity market was very subdued.*

Foreign exchange and gold markets *Sterling weakened further in May and early June but then partly recovered; the gold price fell sharply during the period.*

Euro-currency markets *In the second quarter, the underlying growth of the London market was probably slower than in the first.*

Oil money movements *The exporting countries' surplus was little changed in the second quarter.*

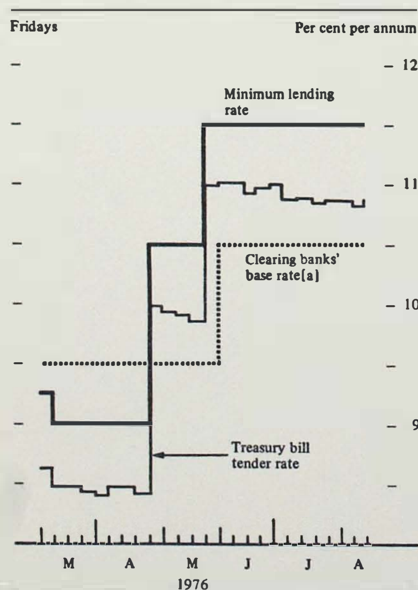
Licensing and supervision of deposit-taking institutions *A recent White Paper sets out proposals on the licensing and supervision of deposit-taking institutions, and on setting up a deposit protection fund.*

The money market

Conditions in the money market were generally kept very tight during May to July. The large shortages were mainly caused by official sales of gilt-edged stocks, compounded by heavy tax payments towards the end of June and July and, periodically, by foreign exchange settlements. Also, issues of Treasury bills at the weekly tender were for the most part large, reaching a record £600 million on 7th May, an amount repeated several times subsequently. By the third week in May short-term interest rates began to turn up – a development which was welcome to the authorities in view of the weakness which sterling was displaying and the rise in US interest rates during the month (see chart on page 304). The authorities did not therefore resist a rise of about 1% (to just under 11%) in the average discount rate at the tender on 21st May, and the consequent increase of 1% in the Bank's minimum lending rate to 11½% (see chart opposite).

Short-term interest rates in London

A rise of 1% in minimum lending rate on 21 May was closely followed by a similar increase in the clearing banks' base rate.



[a] Changes are recorded when at least three of the major London clearing banks have changed their rate.

Following the increase in minimum lending rate, seven of the London and Scottish clearing banks raised their base rates on 25th/26th May from 9½% to 10½%, and their deposit rates from 5½% to 6½%. Two banks raised their base and deposit rates to 11% and 7% respectively, but came back into line with the others on 14th June.

The tightness of money created difficult conditions for the discount houses, with the average cost of their borrowed funds rising steadily; and their desire to compete aggressively for Treasury bills was tempered from time to time. Conditions were eased slightly towards the end of June when the Bank, anticipating heavy government disbursements at the end of the quarter, lent an exceptionally large amount to the houses from Friday, 25th June, to Wednesday, 30th June, at a rate below minimum lending rate. At the same time, the Bank allotted only three quarters of the £600 million Treasury bills on offer at the tender. This was the first time since Bank rate was replaced by minimum lending rate in October 1972 that the Bank had lent at below that rate; and the first time since August 1974 that the full amount of bills on offer at the tender had not been allotted. The tactic of lending at less than minimum lending rate was repeated on the following Monday, also for

repayment on 30th June; but the Bank made it clear that their action on both days was quite exceptional and designed to ease the extreme shortages which had temporarily produced an unduly sharp rise in short-term interest rates.

At the beginning of May, Treasury bills were yielding about ¼% more than sterling certificates of deposit of similar maturity, and the non-bank private sector continued to add substantially to its holdings of bills. But the differential in favour of Treasury bills was not sustained, and the sector increased its holdings much more slowly during the remainder of the period.

Capital markets

Conditions in the gilt-edged market were mixed during May to July. Turnover rose sharply in May but subsequently declined; yields rose on balance (see chart).

Demand for gilt-edged began to strengthen at the beginning of May, as optimism over the prospects for containing inflation increased with the Government and TUC leaders reaching agreement over the second stage of the incomes policy. The long-dated tap stock – a second tranche of £600 million 12½% Treasury Loan 1993 – of which very little had been sold up to the end of April, was exhausted by the third week of May. Market conditions did not permit immediate replacement: with sterling under pressure and the Bank's minimum lending rate going up by 1% on 21st May, yields rose strongly before falling back again early in June, after the announcement of the $5.3 billion standby credit and the miners' endorsement of the second stage of the incomes policy. A new issue, £800 million of 13¼% Exchequer Loan 1996 at £94.00 per cent, was announced on 7th June – the same day as the standby credit – with a redemption yield of 14.17%, almost 1% more than the previous long-dated stock had offered when it was announced on 6th February. Also in early June, the authorities sold a sizable amount of the short-dated tap (9¾% Treasury Stock 1981); as the month progressed, short-dated yields fell more than long-dated. However, uncertainties about the economic outlook led to a rise in yields on all maturities in July.

During the June quarter the authorities sold £860 million net of stock (see chart), mostly in May and June. Net sales of stocks within one to five years of maturity amounted to £385 million, sales of medium-dated to £30 million and of long-dated to £715 million. The authorities bought £270 million of stocks within one year of maturity.

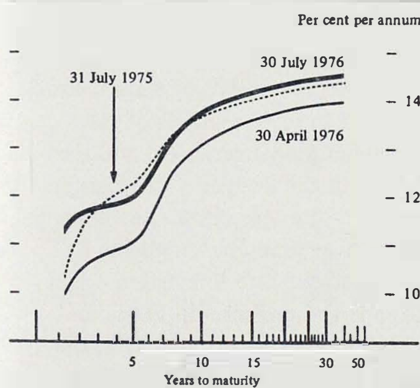
The equity market was very subdued throughout May to July, and the volume of business continued to decline. The FT-Actuaries industrial (500) share price index, which stood at 181 at the end of April, rose in the first week of May to 183 (the highest for two and a half years), largely in anticipation of agreement on the second stage of the incomes policy. However, the index fell back to 162 early in June under the combined pressure of an unusually large rights issue of about £200 million by Imperial Chemical Industries Limited and the further weakening of sterling. After a partial recovery, prices eased again in the second half of July, and by the end of the month the index had reverted to 162.

New issues of equity capital (including the ICI issue) raised £410 million during May to July, compared with some £315 million in the previous three months. Among these issues were three offers for sale – the first for about three years. The statistics relate only to listed public companies, and the latest figure does not, therefore, include about £40 million raised by Equity Capital for Industry Limited. During the period the queue of prospective borrowers was steadily reduced, and by the end of July was the shortest since February 1975.

Net sales of unit trust units totalled £45 million, compared with £55 million during February to April.

Time/yield curves of British government stocks[a]

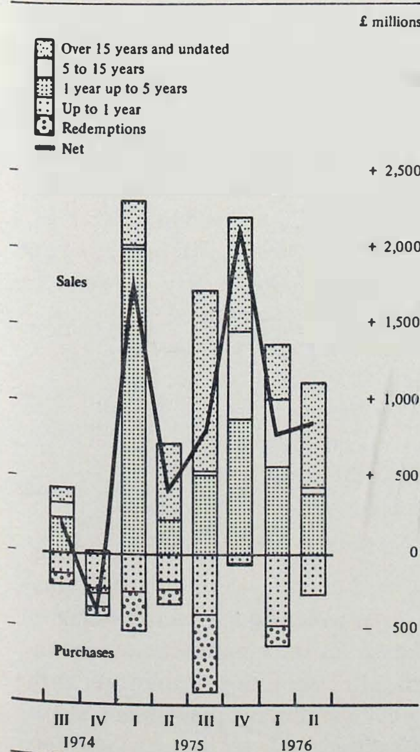
Yields on all maturities rose during the period.



[a] The lines measure the nominal rate of interest which a stock at each maturity should bear if issued at par. The curve runs from the shortest-dated stock with a life of more than one year to the longest-dated stock. The construction of these curves has recently been revised (see June *Bulletin*, page 212).

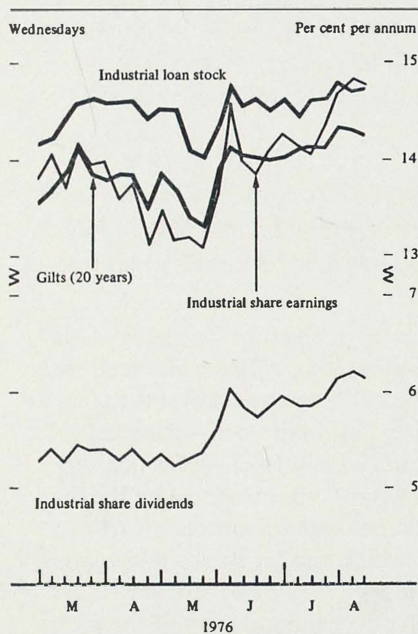
Official transactions in gilt-edged stocks by maturity

In the June quarter, the authorities sold £860 million net of stock, mostly long-dated.



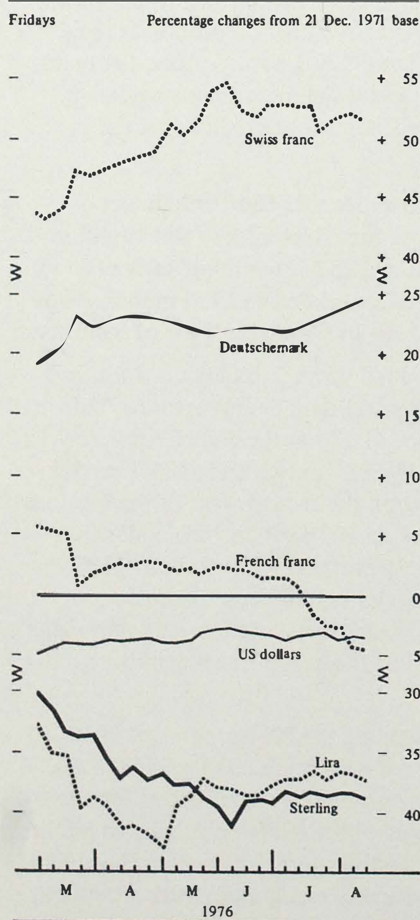
Security yields

After rising strongly in the second half of May, yields on long-dated gilt-edged and on debentures were subsequently little changed.



Effective changes in exchange rates

Sterling continued to weaken in May and early June, but then partly recovered.



The average turnover in the debenture market was lower than in the previous three months and yields, as measured by the Bank's index, rose a little (see chart). Net new money raised by companies by way of loan capital and preference shares amounted to about £30 million: some £40 million had been raised in the previous three months.

Foreign exchange and gold markets

Sterling weakened further in May and early June (see chart below), but then partly recovered after the announcement of the $5.3 billion support facility and on expectations of cuts in public expenditure. Most of the other main currencies were generally steadier than they had been in the preceding three months, partly because of exchange restrictions which helped to counter the weakness of the lira and the strength of the Swiss franc. In July, the French franc depreciated sharply while the deutschemark came under heavy upward pressure, and the 'snake' was stretched to its limits.

After recovering briefly to $1.84 at the end of April, sterling fluctuated around $1.82½ during the first week of May. The pound was initially unsettled by criticism from some trade unions of wage restraint and, later in the week, by disappointment in some sections of the market that the pay policy agreed between the Government and the TUC exceeded the limit of 3% suggested in the Budget – the market probably did not at first appreciate that tighter conditions accompanied the 4½% settlement. However, sterling subsequently strengthened somewhat in calmer market conditions and the rate reverted to $1.84, before rising US interest rates led to renewed pressure on the pound (and some other European currencies) in mid-May: by the 20th, the rate had fallen back to around $1.80. The announcement of a sharp increase in the US money supply increased expectations of a further rise in US interest rates, and the subsequent demand for dollars led to a fall of as much as 2 cents in sterling, to $1.78, in spite of the increase of 1% in the Bank's minimum lending rate. In the final week of May the pound eased further in thin, nervous markets to close the month at $1.76.

Sterling's effective depreciation since the Smithsonian settlement in 1971 widened from 36.9% at the end of April to 39.6% at the end of May. During the month the authorities intervened periodically to moderate erratic movements in the rate so that, in spite of a drawing of $806 million from the International Monetary Fund and net foreign currency borrowing of $235 million by the public sector, the official reserves rose by only $575 million in May.

In early June sterling came under further heavy pressure. The pound fell by 3 cents to $1.72¼ on the 2nd; and in an interview that evening, the Chancellor made no reference to the possibility of cuts in public expenditure plans, which was probably influential in causing the rate to reach a record low of $1.70¼ on the following day. However, after the $5.3 billion short-term credit facility and the miners' acceptance of the incomes policy had been announced on the 7th, sterling appreciated sharply, touching $1.80 on the 8th before fluctuating narrowly around $1.77 for the next three weeks. Although appreciable official support was needed on occasions, the market's lack of confidence in sterling diminished as the month progressed. Towards the end of June the pound strengthened further on expectations that cuts in public expenditure were being prepared, and it closed the month at $1.78½.

Sterling's effective depreciation, after widening to a record 41.9% on 3rd June, narrowed to 38.8% by the end of the month. The official reserves fell by $111 million in June, after net foreign currency borrowing of $395 million by the public sector and drawings of $1,030 million under the short-term swap facility.

The pound continued to recover in the early part of July, reaching $1.80½ on the 7th, before easing back to $1.78. Around the middle of the month, the weakness of the French franc disturbed the market and temporarily put the pound under further pressure, but by the end of July it had recovered to $1.78½.

Sterling's effective depreciation was also unchanged on balance in July, closing the month at 38.8%. The official reserves rose by $58 million, after $326 million of net borrowing in foreign currencies by the public sector; there were no drawings on the short-term swap facility.

The dollar strengthened in May, when US interest rates were rising and an improved set of trade figures was announced; but most of this gain was lost in the following month when some US interest rates eased a little. Around the middle of July, the dollar benefited from the weakness of the French franc, but with the 'snake' currencies appreciating towards the end of the month, the dollar's effective depreciation closed the period little changed on balance at 3.7%.

Within the 'snake', the deutschemark remained at the top of the band throughout the period; but towards the end of June the guilder was replaced at the bottom of the band by the Belgian franc, and by the middle of July the divergence between the Belgian franc and the deutschemark widened the band to its limits. With the deutschemark in heavy demand towards the end of July, the other 'snake' currencies had to appreciate against the dollar in order to preserve their margins with the deutschemark. Support was given for these currencies through sales of dollars and deutschemarks.

The French franc eased against the dollar in May and, unlike most other European currencies, it continued to weaken in June, largely because of a poor set of trade figures and pessimism over the outlook for inflation. In the middle of July, the rate declined more sharply on expectations that the French authorities would not support the franc as actively as before and on fears that the drought would seriously worsen the trade balance; although the franc then recovered a little, an effective appreciation of 2.7% at the end of April turned into an effective depreciation of 2.8% at the end of July.

The lira came under strong pressure early in May, before strengthening on the announcement of new exchange restrictions. After weakening temporarily around the middle of June because of anxieties about the outcome of the general election, the lira recovered strongly after the results were known, enabling the Banca d'Italia to buy a sizable amount of dollars: over the period as a whole its effective depreciation narrowed from 42.9% to 37.0%.

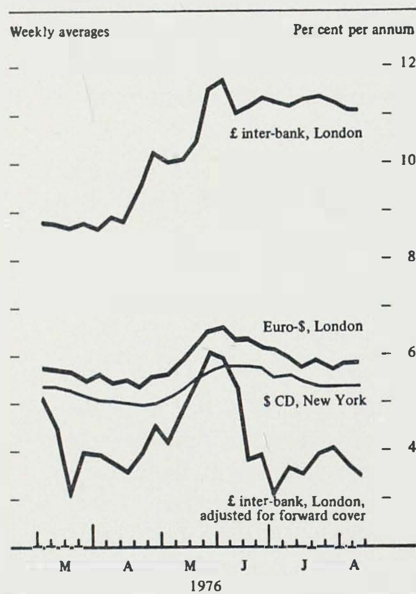
The Swiss franc continued to strengthen in the first few weeks of the period, particularly in early June, prompting the authorities to introduce a series of measures (including a ½% cut in Bank rate) designed to counter its appreciation. This helped to keep the rate down for a time, but it later recovered slightly before fluctuating narrowly for the rest of the period. The Swiss franc's effective appreciation strengthened from 49.0% at the end of April to 51.8% at the end of July.

The Canadian dollar continued to appreciate during May and June, largely because of capital inflows and heavy demand from tourists attending the Olympic Games. In July the capital inflow diminished but, although the rate then eased, the Canadian dollar strengthened over the period as a whole from an effective appreciation of 4.2% to 4.9%.

The yen fluctuated fairly narrowly until late June, when expectations that the authorities would permit it to appreciate led to speculative pressures which raised the rate sharply by mid-July. Over the period as a whole, the yen's effective appreciation rose from 1.1% to 3.4%.

UK and US three-month interest rates

Although the uncovered comparison in favour of the pound widened on balance between April and July, the covered differential moved in favour of the dollar.



The three months' euro-dollar rate rose steadily during May (see chart), reflecting the upturn in US domestic interest rates, and reached 6¹³⁄₁₆% per annum on 1st June, compared with 5⁹⁄₁₆% at the end of April. The rate then drifted gently downwards, as the slower growth of the US money supply in June eased fears of tighter credit conditions, and touched 5⁹⁄₁₆% on 14th July (its lowest point during the period), before closing the month at 5¹³⁄₁₆% per annum. The three months' inter-bank sterling rate was little changed in the first half of May, at 10%–10¼%, but rose sharply on the 21st when minimum lending rate went up by 1%. The rate subsequently rose to a peak of 12¹⁄₁₆% on 2nd June on expectations of a further increase in minimum lending rate; but when this did not occur, it fell back to fluctuate around 11¼% for the remainder of the period. The uncovered comparison in favour of the pound narrowed from 4⅜% at the end of April to 3¹⁵⁄₁₆% in mid-May, before widening sharply to 5½% on 2nd June. It then narrowed again to 4½% on 7th June, reflecting the fall in the inter-bank sterling rate, but thereafter rose gradually to 5¾% around the middle of July when the euro-dollar rate touched a low point. At the end of the month the uncovered comparison was 5⁷⁄₁₆%. The forward premium on three months' dollars continued to fluctuate widely. After ending April at 5½% per annum, the premium reached 6⅛% in the first week of May and again in early June, when the pound was under heavy pressure. Some banks abroad were left short of sterling when it began to appreciate strongly from 7th June, and demand to borrow sterling increased sharply in consequence. This pressure was intensified by the authorities' continuing squeeze on the sterling swap market, and the premium on forward dollars rose steeply to 8¾% on 29th June – the highest for eighteen months. It subsequently narrowed slightly, but was still as high as 7¼% at the end of July.

In anticipation of the International Monetary Fund's first gold auction on 2nd June, the price on the London gold market eased from $128 per fine ounce at the end of April to less than $125 towards the end of May. After recovering to $127 around the time of the auction, the price fell steadily to $122 when the second auction was held on 14th July. Subsequently, widespread speculative selling was generated by the belief that future auctions would further depress prices and by fears of further substantial sales by the USSR: the price touched $107¾ on the 20th (the lowest for two and a half years) before ending the month at around $112 per fine ounce.

Euro-currency markets

Figures recently published by the Bank for International Settlements[1] show that, in the first quarter of 1976, the external assets and liabilities of banks in European reporting countries rose by only $3.1 billion and $1.6 billion respectively, after increases of around $20 billion in the previous quarter. Indeed, after allowing for changes in currency valuation over the three months, there was probably very little growth in the market. But this was largely because of a sharp reduction in inter-bank activity between reporting countries, as end-year positions built up in the fourth quarter[2] were unwound early in the first.

The net amount of credit channelled through the market to ultimate users within or outside the European reporting area rose by some $6 billion, compared with $9 billion in the fourth quarter. Outside the European reporting area, the banks lent mainly to Eastern Europe (+$1.5 billion, thus continuing the heavy volume of lending during 1975) and Japan (+$1.9 billion). On the other hand, there was little new direct lending to non-oil developing countries; and outstanding claims on the off-shore banking centres, which also act as a channel for much of the lending to developing countries, actually declined.

[1] Measured in terms of the external foreign currency assets and liabilities of the commercial banks in the European countries reporting to the BIS, viz. Belgium/Luxembourg, France, Western Germany, Italy, Netherlands, Sweden, Switzerland and the United Kingdom.
[2] See June *Bulletin*, page 173.

Liabilities and assets by customer[a]

The London euro-currency market continued to expand in the second quarter, mainly reflecting transactions with banks abroad.

$ billions

	1975			1976	
	30 June	30 Sept.	31 Dec.	31 Mar.	30 June
Foreign currency liabilities of UK banks to:					
Other UK banks	42·2	43·3	44·5	45·2	44·4
Other UK residents	4·7	5·1	5·5	5·3	5·4
Overseas central monetary institutions	29·1	29·5	30·6	31·4	31·6
Other banks overseas	74·3	77·3	81·4	82·4	85·4
Other non-residents	16·5	16·7	16·6	17·5	18·5
Other liabilities[b]	1·1	1·2	1·4	1·2	1·1
Total liabilities	167·9	173·1	180·0	183·0	186·4
Foreign currency assets of UK banks with:					
Other UK banks	42·6	43·1	44·4	44·9	44·1
Other UK residents	15·8	16·0	15·8	15·9	15·6
Banks overseas	76·7	81·0	86·5	88·7	92·1
Other non-residents	31·5	31·6	32·2	32·7	33·4
Other assets[b]	1·9	1·9	2·1	2·0	2·0
Total assets	168·5	173·6	181·0	184·2	187·2

[a] Figures differ from those in Table 6; see additional notes to Tables 21 and 22.

[b] Mainly capital and other internal funds denominated in foreign currencies.

UK banks' liabilities and claims by country or area

In the second quarter the largest suppliers of new funds were the United States and the oil-exporting countries; the EEC became a net borrower.

$ billions

Net source of funds to London –/net use of London funds +

	1975			1976	
	30 June	30 Sept.	31 Dec.	31 Mar.	30 June
United States	– 1·3	– 1·5	– 3·2	– 2·7	– 5·2
Canada	– 1·6	– 2·0	– 2·4	– 2·1	– 2·4
European Economic Community	– 0·4	– 3·1	– 1·2	– 0·9	+ 1·2
Other Western Europe	–14·3	–14·0	–13·9	–15·1	–13·0
Eastern Europe	+ 3·7	+ 3·9	+ 4·4	+ 5·3	+ 5·4
Japan	+12·5	+12·9	+12·6	+13·7	+13·4
Oil-exporting countries[a]	–17·7	–17·7	–19·3	–18·9	–20·9
Countries engaged in off-shore banking	+ 4·7	+ 7·6	+ 9·7	+ 7·5	+ 8·4
Other countries	+ 3·2	+ 3·0	+ 3·3	+ 2·9	+ 2·9
	–11·2	–10·9	–10·0	–10·3	–10·2

[a] Listed in the footnote to Table 20 of the statistical annex.

Maturity structure of UK banks' net foreign currency position

Net borrowing up to one year rose very little in total between February and May, but there were large fluctuations among the main maturity bands.

$ billions

Net liabilities –/net assets +

	1976	
	mid-Feb.	mid-May
Less than 8 days[a]	– 7·3 – *3·3*	– 7·9 – *4·4*
8 days to less than 3 months	–16·2	–14·7
3 months to less than 1 year	– 6·7	– 7·8
Net borrowing up to 1 year	–30·2	–30·4
Net lending at 1 year and over	+30·4	+30·8
	+ 0·2	+ 0·4

[a] Figures in italics include all holdings of London dollar certificates of deposit, regardless of maturity, as these are immediately realisable assets for the holding bank.

One reason why euro-currency lending by banks in the European reporting area increased more slowly in the first quarter than in previous months may have been that borrowers made more use of the international and foreign bond markets: issues of bonds in these markets (other than Canadian issues in New York) amounted to $6.3 billion in the first quarter, compared with $4.8 billion in the fourth. In contrast, the amount of new external lending by banks in the United States (other than to the European reporting area) was much the same in both quarters, at around $4 billion. Most of the lending in the first quarter was to branches of US banks in the main off-shore centres, which also borrowed from other sources and channelled a significant part of the total to non-oil developing countries. Table 23 in the statistical annex reproduces data issued quarterly by the BIS, and gives a more detailed geographical analysis of the external assets and liabilities in domestic and foreign currencies combined of the commercial banks in the Group of Ten countries and Switzerland, together with branches of US banks in certain off-shore centres.

Only limited information is at present available for the second quarter of 1976. The amount of newly-announced medium-term credits (which enter the BIS figures only when the loans are taken up) was a little higher than in the previous quarter; the average size (around $86 million) was much larger, and the average maturity (6 years) was longer. Foreign and international bond issues also rose a little faster.

The size of the London market, measured by the banks' gross foreign currency liabilities, increased by $3.4 billion in the second quarter, slightly more than in the first (see table). But the rise in the previous quarter would have been larger but for the reversal of end-year window-dressing in January; and the underlying growth of the market in the second quarter was therefore probably slower than in the first. Inter-bank activity in the United Kingdom declined, but liabilities to banks and other customers overseas rose by over $4 billion, nearly all of which was lent abroad.

By area, net lending to the London market by the United States rose by as much as $2.5 billion in the second quarter (see table). The oil-exporting countries, which are by far the largest suppliers of funds to London, lent a net $2 billion, raising the amount outstanding from this source to nearly $21 billion. On the other hand, net lending by 'other Western Europe' (the next largest source of funds) fell by some $2 billion, and more than reversed the rise in the previous quarter. The European Economic Community, previously a net supplier of funds, took over $2 billion from UK banks to become a net borrower during the quarter.

The latest quarterly maturity analysis of the foreign currency positions of banks in the United Kingdom was completed as at 19th May (see Table 22 in the statistical annex). Between mid-February and mid-May, the banks' net borrowing up to one year was virtually unchanged in total, after rising by $0.9 billion in the previous three months, but there were sizable fluctuations within the various maturity categories (see table). Net liabilities at eight days to less than three months fell sharply, by $1.5 billion, and at mid-May accounted for 48% of net borrowing up to one year, compared with 54% in February; the other two broad categories each accounted for 26% of the total. The latest changes were largely confined to the 'other overseas banks': the net positions of the other groups of banks were little changed.

Oil money movements

The estimates of total oil revenues shown in the first table on the following page are based on oil production. Consumption of oil by the exporting countries during the whole period is now known to have been higher than was previously thought; so the estimates of exports, and hence of oil revenues paid in US dollars, have been correspondingly reduced.

Estimated oil revenues of exporting countries

Oil revenues rose a little further in the second quarter.

$ billions

	1974	1975	1976		
	Year	Year	1st qtr	2nd qtr	1st half
US dollars	70·8	84·8	25·4	26·8	52·2
Sterling	19·0	12·0	1·6	0·8	2·4
	89·8	96·8	27·0	27·6	54·6

Estimated deployment of oil exporters' surpluses

The total surplus was little changed in the second quarter.

$ billions

	1974	1975	1976		
	Year	Year	1st qtr	2nd qtr (provisional)	1st half
United Kingdom					
British government stocks	0·9	0·4	0·1	–	0·1
Treasury bills	2·7	– 0·9	–0·1	–0·7	– 0·8
Sterling deposits	1·7	0·2	–0·4	–0·5	– 0·9
Other sterling investments[a]	0·7	0·3	0·1	0·1	0·2
Foreign currency deposits	13·8	4·1	–0·1	2·3	2·2
Other foreign currency borrowing	1·2	0·2	–	0·6	0·6
	21·0	4·3	–0·4	1·8	1·4
United States					
Treasury bonds and notes	0·2	2·0	0·9	1·5	2·4
Treasury bills	5·3	0·5	–0·1	0·3	– 0·4
Bank deposits	4·0	0·6	0·6	0·5	1·1
Other[a]	2·1	6·9	1·3	1·3	2·6
	11·6	10·0	2·9	3·6	6·5
Other countries					
Bank deposits	9·0	5·0	1·0	0·5	1·5
Special bilateral facilities and other investments[a] [b]	11·9	12·4	3·5	2·1	5·6
	20·9	17·4	4·5	2·6	7·1
International organisations	3·5	4·0	1·6	0·2	1·8
Total	57·0	35·7	8·6	8·2	16·8

[a] Includes holdings of equities and property etc.
[b] Includes loans to developing countries.

With exports rising since the beginning of this year, total estimated oil revenues of the exporting countries were rather higher in the second quarter than in the first; the percentage paid in sterling declined further, to 3%. Revenues are likely to rise further during the second half of the year because of a higher volume of exports and an increase in the average price of oil resulting from changes in the differential between various grades.

In spite of the rise in revenues, the exporting countries' cash surplus available for investment abroad, for government loans, or for additions to reserves was slightly less than in the first quarter (see table below). Imports probably increased, though more slowly than in 1975.

Sterling investments in the United Kingdom continued to decline in the second quarter, but foreign currency deposits placed direct with UK banks rose by as much as $2¼ billion.

The total invested in the United States from 1974 onwards has been revised upwards; and the US share of the surplus is now estimated to have increased from 20% in 1974 to nearly 40% in the first half of 1976. A further rise in deposits with US banks in the second quarter probably reflected the need for higher working balances to finance larger imports from the United States and elsewhere. Investment in Treasury bonds and notes rose to a new peak.

Special bilateral facilities and other investments outside the United States and the United Kingdom were smaller in the second quarter; and with subscriptions to the IMF oil facility virtually completed, contributions to international organisations amounted to only $0.2 billion. In contrast to the previous quarter, much more of the surplus (about half) went into the exporting countries' financial reserves.

Licensing and supervision of deposit-taking institutions

On 3rd August, a White Paper was issued by the Government on the subject of licensing and supervision of deposit-taking institutions. The Government hope to introduce legislation to implement the White Paper as soon as the Parliamentary timetable permits.

The White Paper sets out proposals for the prior authorisation of deposit-taking institutions. The intention is that the Bank should be given responsibility for the supervision of all banks and other deposit-taking institutions (apart from those which are already subject to statutory regulation, e.g. building societies). Deposit-taking institutions will fall into two groups. Certain institutions of high standing will be exempt from the licensing provisions of the new Act; it is expected that most of the institutions which comprise the present primary banking sector will qualify for such exemption. All other institutions will be subject to the licensing provisions. The aim of these proposals is to introduce a new statutory system which will cover those deposit-taking institutions which have not until now been adequately supervised while leaving substantially unchanged the Bank's existing arrangements for the supervision of the established banks.

To supplement the improved and extended supervisory arrangements, the White Paper also contains proposals for a deposit protection fund for small sterling deposits with institutions in both deposit-taking sectors. This fund will also be administered by the Bank.