

Developments in UK banking and monetary statistics since the Radcliffe Report

The article on page 381 describes the origins of the Quarterly Bulletin in the recommendations of the Radcliffe Committee, and emphasises the importance attached by that committee to the assembly and dissemination of financial statistics. This article surveys the main steps in the provision of banking and monetary statistics since the Radcliffe Report, in response to the recommendations of the committee, the evolution of the financial system, and the changing needs of policy.

The recommendations of the Radcliffe Committee⁽¹⁾ set the course for the development of banking statistics in the 1960s, when the range and consistency of the information collected and made available by the authorities were greatly improved.

Increasingly, however, the changing needs of policy and the evolution of the financial system created fresh demands. The first major review of banking statistics took place in the early 1970s against a background of changes in the UK financial system in the wake of *Competition and credit control* (described below), and highly unsettled domestic and international economic conditions. The second review, in 1981–82, followed a series of measures with profound consequences for the functioning of the financial system: the Banking Act of 1979, which formalised prudential supervision; the abolition in 1979 of exchange controls, which had for forty years compartmentalised UK banks' international business; the introduction of monetary targets in the latter half of the 1970s and, in particular, the medium-term financial strategy (1980); the end of the supplementary special deposits scheme (the 'corset') in 1980; and the new arrangements for monetary control implemented in 1981. Pressures on the international banking system heightened at about this time.

The period since Radcliffe has been one of marked innovation and intensified competition in financial markets. Not only banks but their customers, especially large corporations and multinational businesses, have been quick to seize profitable opportunities. Technology has enabled participants in increasingly open financial markets to compare prices far more keenly than before; and new instruments have spread rapidly.

The collection of statistics has needed to keep pace. Broadly speaking, the Bank has aimed throughout at developing an integrated system of banking statistics to serve (with a varying degree of emphasis) several distinct purposes:

- monitoring, interpretation (for both internal and public purposes), and forecasting of domestic monetary conditions;
- administration of the arrangements for monetary control;
- supervision of individual banks and other institutions, latterly under the 1979 Banking Act;
- compilation of international banking statistics and surveillance of international banking operations;
- compilation of the national accounts, sectoral flow of funds, and balance of payments statistics.

Banking statistics up to the late 1960s

Relatively little by way of banking statistics was published regularly at the time of the Radcliffe Report. The London clearing banks published monthly statements which were consistent with respect to date and coverage. The Scottish and Northern Ireland banks and some other banks published annual statements (and the Scottish banks and the discount houses supplied monthly statements to the Bank of England). The British Bankers' Association published a quarterly 'industrial' analysis of lending by the London and Scottish clearing banks, some other domestic banks, and most members of the British Overseas and Commonwealth Banks Association.

The Radcliffe Committee recommended the regular provision of consistent figures from all banks. They asked that the figures should give an accurate representation of the general public's deposits and borrowing by excluding interbank business, internal accounts, and so on—which the limited range of banking statistics then available did not do. The committee requested, in connection with their recommendations for a quarterly series of financial statistics tracing the flow of funds among sectors of the economy and overseas, a quarterly breakdown of deposits with the clearing banks

(1) *Committee on the Working of the Monetary System*. The committee was appointed in 1957 and reported in 1959. Its recommendations gave rise to the Bank of England *Quarterly Bulletin* (December 1960) and to the Central Statistical Office's publication *Financial Statistics* (dating from 1962).

by sector. The committee also attached importance to firmer estimates of overseas assets and liabilities (including external transactions of the banks).

Most of these recommendations were implemented over a period of years. (Details of main changes in the banking statistics are recorded in the sources listed in the appendix to this article.) The first issue of the *Quarterly Bulletin* presented monthly statistics for the London and Scottish clearing banks (relating to common dates from autumn 1960);⁽¹⁾ monthly statistics from the Northern Irish banks, also published, were not fully consistent. There were quarterly statistics showing the assets and liabilities of the discount houses, and mid-year and end-year figures for accepting houses and overseas banks in London. New calendar quarter statistics from various British and overseas banks not previously covered were first published in late 1962. A year later, it was possible to present a coherent calendar quarter series covering, on broadly the same basis, domestic banks, overseas banks and accepting houses, and discount houses, excluding interbank items and internal accounts and with some allowance for transit items. A sectoral analysis of all bank deposits and advances was published at this time, to be followed by an improved 'industrial' analysis of bank advances—essentially an extension of the 20-year-old quarterly analysis published by the BBA. To aid interpretation of the statistics, seasonal adjustment of the London clearing banks' deposits and advances was introduced in June 1963. At the same time, a new series of banks' external liabilities and claims in sterling was published, followed by a parallel series of foreign currency business, including a geographical analysis.

By the mid-1960s, therefore, substantial progress had been made towards publishing a uniform, coherent set of quarterly statistics covering the banking sector, with sectoral information about holders of deposits and borrowers. By this time, too, a framework of quarterly flow of funds statistics had been developed setting out financial transactions in terms of six sectors, and in this the sectoral analysis of bank deposits and lending formed an important part.

The rapid expansion of the banks' foreign currency business during the 1960s could be monitored and analysed using the geographical detail introduced in 1964 (with figures going back to end-1962). The absence of controls over this type of business with non-residents and concerns about the liquidity of the eurocurrency markets prompted the introduction in 1968 of a periodic maturity analysis by main sectors of the banks' foreign currency liabilities and assets.

Competition and credit control

Although most of the statistical recommendations of the Radcliffe Committee had been implemented, competitive developments in the banking markets and changes in thinking about monetary policy were creating new statistical needs. London dollar and sterling certificates of deposit were introduced in 1966 and 1968 respectively and statistics collected. Statistics of domestic credit expansion (DCE) were published from 1969 (with a run of quarterly statistics back to 1959). In 1970, three measures of the stock of money were introduced,⁽²⁾ with quarterly figures from 1963 and separate statistics for sterling and foreign currency, distinguishing deposits with deposit banks, all other banks, and the discount houses.

These innovations reflected a changing emphasis in monetary policy; at the same time, the continued efficacy of direct controls on bank lending came into question. But the structure of the banking system—and indeed of the financial system more generally—was also becoming an issue following a report on bank charges by the National Board for Prices and Incomes⁽³⁾ and a Monopolies Commission report on clearing bank mergers.⁽⁴⁾

These influences culminated in the Bank's consultative paper *Competition and credit control*, published in May 1971, the main proposals in which were implemented later in the year. The proposals sought to promote the allocation of credit primarily by price while creating more uniform conditions of competition within the financial system. Some of the proposals directly affected banking statistics. Certain residual differences between returns submitted by the clearing banks and those from other banks (which had in part reflected earlier differences in function) were ended. The provisions of *Competition and credit control* necessitated the collection of monthly statistics of certain 'eligible' liabilities from all institutions covered by the new reserve asset ratio, which replaced the cash and liquid asset ratios applied to the clearing banks only.⁽⁵⁾ Monthly money stock figures quickly followed, but one measure of money, M2, was discontinued, on the grounds that the distinction between deposit accounts with deposit banks and discount houses on the one hand and the rest of the banking system on the other was no longer worth making.

The first review of banking statistics in the early 1970s

Although prompt action was taken to meet immediate statistical requirements arising from *Competition and*

(1) These statistics related to the third Wednesday in the month, following the long-standing practice of the clearing banks based on the belief that mid-month statistics collected on the same day of the week each month were less subject to distortion than end-month figures. (There was also an administrative convenience in that accounting staff tended to be less busy than at the month end.)

(2) M1 (cash and sterling current accounts held by the private sector), M2 (M1 plus private sector sterling time deposits with 'deposit' banks), and M3 (M2 plus all other sterling time deposits with banks, and foreign currency deposits, of UK residents).

(3) *Bank charges: report no. 34*, May 1967.

(4) *Barclays Bank Ltd, Lloyds Bank Ltd and Martins Bank Ltd: a report on the proposed merger*, July 1968.

(5) Broadly speaking, eligible liabilities represent the banks' sterling resources, other than capital. The reserve asset ratio also replaced the cash deposit scheme designed for the rest of the banking system but never in fact activated. The banking sector at this time consisted of those institutions included on the statistical lists of banks and discount market institutions, together with the Banking Department of the Bank of England and the National Giro. Inclusion on the statistical lists was usually closely associated with the granting of authorised bank status for exchange control purposes. In late 1972 the banking sector numbered over 260 institutions.

credit control, it was apparent that the profusion of returns, many of them developed over time to meet particular needs, had to be tidied up. The returns from the clearing and non-clearing banks were not in the same form, making it difficult to compile integrated figures for the banking system as a whole; there were serious inconsistencies between the information provided by the banks for analysis of domestic banking and that provided for international banking and balance of payments purposes; and the existing statistics had to some extent been overtaken by the development of new markets and financial instruments. Computer systems were increasingly being used to assemble and process statistics, and the Bank wanted to establish a new reporting structure which might be expected to stand for some time.

After extensive consultations with the banks, a new system was devised; it was introduced in mid-1975, with integrated returns from all institutions in the banking sector, made on common mid-month and end-quarter reporting dates and on common definitions. The integrated system was designed to meet supervisory, monetary, and flow of funds requirements as well as providing information for the compilation of international banking statistics. The keystone of the system was a detailed balance sheet submitted at mid-months and end-quarters, with a breakdown of all items into sterling and other currencies, together with an analysis by main sector of certain categories of asset and liability. (A balance sheet has the great advantage that it has to add up, thus revealing many types of clerical error automatically.) Additional returns were introduced to analyse further some of the main balance sheet items; these were designed to provide more detailed information and, so far as possible, to enforce consistency and eliminate error, and incorporated a uniform system for translating the value of foreign currency items into sterling. Funds placed through specialised financial markets such as the local authority market were distinguished from loans and advances made direct to customers, and investment in assets leased to customers was also shown separately.

Developments up to the second review: mid-1970s to early 1980s

These changes were made against the background of important developments, which continued to affect statistical requirements in the ensuing years. Thus, the troubles on the fringes of the banking system in the early 1970s led to increasingly formal prudential requirements, with capital adequacy, liquidity, and exposure to risk the matters of greatest interest to supervisors. It became important, where possible, to apply these criteria regularly to individual banks from the statistical information provided by them. The 1979 Banking Act formalised the process of prudential supervision, extending the Bank of

England's supervisory responsibility to deposit-taking institutions in the United Kingdom (except for building societies and some others listed as exempt).

The large increases in oil prices in 1973-74, and the ensuing changes in external flows, sharpened interest in the international movement of funds in which UK banks were becoming more heavily engaged. From 1974 onwards, the Bank of England played an active role with other central banks in securing more information on international banking activity (the Bank for International Settlements having already for a decade collected information from the main financial centres on their banks' external positions) which could be used to measure the growing indebtedness of developing countries to international banks, as well as interbank and other banking flows between the industrialised countries. A determined effort, centred on the BIS, was made to compile more detailed figures of international borrowing and lending. The central banks began to supply full country breakdowns of their banks' external liabilities and claims each quarter, and the BIS started publishing aggregate figures and commentaries on international banking developments. In 1976, a semi-annual maturity analysis was introduced because of official concern over the possible liquidity risks of international lending, and discussions began on the introduction of consolidated data which would measure the worldwide lending of banks owned in the BIS area. In 1980, a semi-annual consolidated country exposure report was introduced for UK-registered banks, based on the existing report used by the US authorities for American banks.

From end-1977, periodic surveys of the amounts outstanding of UK-registered banks' direct investment in related banking companies abroad, and foreign banks' investment in UK banks, were introduced to complement similar triennial surveys of inward and outward direct investment of other UK companies conducted by the Department of Trade and Industry since 1962.

The announcement in 1976 of a target for monetary growth represented a refocussing of domestic monetary policy. During 1977, a new definition of broad money was introduced, £M3, the same as M3 except that it excluded UK residents' holdings of foreign currency deposits; and, as the balance of payments greatly improved during 1977, emphasis switched from DCE (a limit on which was incorporated in a loan agreement with the IMF, as it had been in 1969) to £M3 as the main target variable.⁽¹⁾ The medium-term financial strategy (first published in March 1980) confirmed the central role of monetary targets in economic policy, setting ranges for the growth of £M3 four years ahead. Shortly afterwards, the supplementary special deposits scheme (the 'corset'), introduced in 1973 to restrict the growth of money supply in the face of strong demand for credit, was abolished.⁽²⁾ One reason for this

(1) Also in 1977, larger banks began to provide certain information weekly, though not for publication, allowing monetary developments to be monitored by the authorities during the course of the banking month.

(2) It imposed penalties, by requiring funds to be deposited without remuneration at the Bank of England, on banks whose interest-bearing eligible liabilities grew faster than a prescribed rate.

change was that the end of exchange controls in the previous autumn had reduced the efficacy of such controls on the domestic banking system, since they could be avoided by routing business abroad. The direct statistical consequences of the end of exchange controls, in terms of loss of information, were mostly felt on the balance of payments statistics,⁽¹⁾ but the further opening up of UK financial markets to world competition carried far wider implications.

Market developments and policy changes led to the introduction of new measures of money stock and private sector liquidity. The corset, by, in effect, imposing a tax on taking deposits and wholesale funds in interest-bearing form, encouraged a substitution of bill finance for conventional loans and advances, and many of these bills were held outside the banking system, removing this element of the banks' business from their balance sheets. Statistics covering a range of possible components of private sector liquidity were first presented in 1979. Subsequently, a new liquidity aggregate, PSL1, was devised, comprising the private sector's monetary assets included in £M3 and its estimated holdings of commercial bills (and certain other liquid assets), thereby taking some account of the effect of this form of disintermediation. To allow for the growing importance of building societies in banking-type business, PSL2 was also introduced, adding to PSL1 most holdings of building society shares and deposits.

M1 was displaying shortcomings as a measure of transactions balances. The growing practice of paying interest on sight deposits blurred the distinction between sight and short-period time accounts (notably 7-day accounts for retail customers of the banks and, for corporations and financial institutions, short-period term deposits in the money market), leading to unpredictable flows into and out of M1 stemming from interest rate considerations rather than from transactions needs; moreover, building society deposits were increasingly coming to be used as a transactions medium. A new measure of transactions balances, M2, was accordingly introduced in 1982, comprising private sector holdings of bank and building society deposits with a residual maturity of less than a month, but excluding, as a broad approximation to institutional holdings of temporary liquid balances, non-chequing accounts of over £100,000.

A policy debate took place during 1980–81 on methods of monetary control. In connection with this, statistics of various measures of the monetary base were published in the March 1981 *Bulletin*, with figures going back to 1919: one measure, M0, comprising notes and coin in circulation plus banks' operational balances with the Bank of England, was subsequently chosen as the target measure of narrow money.

Following the Banking Act and the Bank's August 1981 paper *Monetary control—provisions*, the banking sector was replaced in November 1981 by the wider monetary sector, consisting of all the 600 or so deposit-taking institutions recognised or licensed under the Banking Act, augmented by a number of other bodies.⁽²⁾ Seventy new institutions were added to the monthly reporting population but some 40 institutions were allowed, on grounds of size, to reduce the frequency of their reporting to end calendar quarters only. Approximately 200 institutions with very small balance sheets were asked to report quarterly from March 1983. Most of these institutions, except for some exempt on grounds of size, were required to deposit funds equivalent to $\frac{1}{2}\%$ ⁽³⁾ of their eligible liabilities in a non-interest-bearing (and non-operational) account at the Bank of England. Furthermore, banks whose bills were eligible for rediscount at the Bank made certain undertakings to place funds in stipulated ways in the money market.

The second review of banking statistics: 1981–82

The start of the second banking statistics review was postponed until the requirements arising from the review of monetary policy had been clarified. In the event it was necessary to implement some changes (mentioned towards the end of the last section) in advance of the main review of statistics.

Nevertheless, a good deal of tidying up, and some new initiatives, were left to the banking statistics review; and suggestions made by the Wilson Committee⁽⁴⁾ had to be taken into account. As in the earlier exercise, interested government departments (mainly the Treasury and the Central Statistical Office) were associated at an early stage. The system of supervision administered by the Bank under the Banking Act demands a range of statistics for prudential purposes. The provision of statistics other than for supervisory purposes has also always relied heavily on the willing co-operation of the banks: the obligation on the Bank to justify its statistical requirements, and on the banks to respond, helps foster a mutual understanding of objectives and constraints. In the interests of economy, the same statistical sources are used wherever possible for prudential, for operational, and for statistical purposes, and every attempt is made to meet the statistical needs of the banks themselves as well as those of the monetary authorities. Nevertheless, the great weight of statistical detail now supplied by the banks places a costly burden on them, and on the Bank as collecting agency. With these considerations in mind, discussions with the banks, through the good offices of the BBA, continued over several months.

Besides the changes to the statistics already mentioned, the review led to new or improved coverage of growing

(1) A quarterly portfolio investment enquiry, covering banks and other intermediaries, has made good some of this loss of information.
 (2) The Banking Department of the Bank of England, the National Girobank, the trustee savings banks, and banking institutions in the Channel Islands and the Isle of Man opting to comply with the UK monetary control arrangements.
 (3) $\frac{3}{4}\%$ for institutions for which Northern Ireland is the principal place of business in the United Kingdom.
 (4) *Committee to Review the Functioning of Financial Institutions*. The Committee was appointed in January 1977 and reported in May 1980.

areas of bank activity. These included leasing (and the Bank assumed responsibility for collecting statistics from leasing institutions outside the monetary sector), and lending for house purchase, an area in which the banks' activity greatly increased following the abolition of the corset. More detailed information on lending for personal consumption was also agreed, and the basis for the industrial analysis of advances was changed from the 1968 Standard Industrial Classification to the 1980 SIC. The analysis of maturity of sterling assets and liabilities was extended and improved. On the external side, the review led to an improved analysis of banks' positions by country and currency, principally for inclusion in the BIS international banking statistics, and introduced statistics on the eurosterling business of overseas affiliates of British-owned banks. Other improvements to the statistics included an annual valuation at market prices of certain assets which had previously been reported only at book value, and more detailed information on interest received by UK banks from overseas residents. For the purposes of the published statistics, British banks were rearranged, from September 1983, into three groups, namely retail banks (clearing banks⁽¹⁾ and some others with a mainly retail business, such as the Northern Ireland banks, the National Girobank, and the trustee savings banks), accepting houses, and a residual 'other British' category.

Developments since 1983, and prospective changes

Changes to the monetary aggregates have been minor since 1983. M0 is now published as a weekly average (and not as on one day in the month), and £M3 has been redefined to exclude public sector deposits.

A number of statistical changes are expected in the next year or so. Two matters of special interest to bank supervisors, consolidated supervision (in this context, taking the business of group companies, both bank and non-bank, into account in assessing a bank's position), and business not directly represented by items on the bank's balance sheet (that is, contingent liabilities and

commitments) are under consideration. A particular lacuna, resulting from the banks' increasing tendency to lend internationally through acquiring securities (bonds and notes) rather than through syndicated credits and other traditional lending instruments, will be filled by the banks' recent agreement to provide a geographical analysis of their investments. Another area where developments in banking activities may be outstripping the ability of existing sources adequately to measure the flows involved is fee and other 'financial services' income. A finer analysis of some categories of lending is likely to be needed as major changes in financial markets come into effect, to aid interpretation of monetary developments.

Furthermore, it is intended from autumn 1986 to compile banking and monetary statistics for calendar months instead of for banking months.⁽²⁾ The middle of the month has traditionally been considered more neutral and representative than the end month, the latter being influenced by salary payments, taxes due, interest crediting, etc. A related advantage has been thought to lie in reporting on the same (middle) day of the week in each month. The drawback to mid-month reporting, however, is that the monthly banking statistics are not compatible with most other economic and financial statistics, complicating their interpretation. Moreover, mid-monthly figures for those aggregates which include components other than notes and coin and items from the banks' balance sheets must be partly estimated.

Since 1982 (and following discussion during the second review of banking statistics), the weekly reporting institutions have provided an end-calendar-month return instead of a Wednesday return in the last week of the month. The end-month figures are subject to different influences, including day-of-the-week effects. For this sample of banks, however, the end-calendar-month returns do not appear to be more volatile than mid-month returns. Since there are good reasons of consistency for moving to end-month reporting dates, discussions with the banks began in autumn 1984 with a view to making the change, which is to take place in the autumn of 1986.

(1) Meaning the London and Scottish clearing banks. Important changes in the clearing system will shortly be implemented. Four separate clearing companies will be established, with wider membership than the present clearing houses: some participation of non-banks in the clearings is possible, and bank participants will not necessarily be classified as retail banks.

(2) Statistics for calendar quarters have been compiled for many years, necessitating two (mid-month and end-month) returns in quarter months.

Appendix

The statistical developments mentioned in this article are described in detail in articles published in earlier *Bulletins*. A selected list of such items is set out below.

A subject index of articles in previous issues of the *Bulletin*, including regular articles with a statistical content which are not listed below, and also topics such as seasonal adjustment, is on page 388 of this issue.

Statistical articles

New banking statistics: accepting houses and overseas banks in London (December 1962, page 267)

New series of external liabilities and claims in sterling (June 1963, page 98)

Overseas sterling holdings (December 1963, page 264)

Banking statistics (December 1963, page 285)

UK banks' external liabilities and claims in foreign currencies (June 1964, page 100)

New classification of bank advances (March 1967, page 48)

The UK banking sector 1952-67 (June 1969, page 176)

Domestic credit expansion (September 1969, page 363)

The eurocurrency business of banks in London (March 1970, page 31)

The stock of money (September 1970, page 320)

A revised presentation of external liabilities and claims in sterling (December 1970, page 432)

Changes in banking statistics (March 1972, page 76)

Banking sector balance sheets (December 1973, page 453)

New banking statistics (June 1975, page 162)

DCE and the money supply—a statistical note (March 1977, page 39)

Components of private sector liquidity (September 1979, page 278)

Banking statistics: country exposure (December 1980, page 460)

The monetary base: a statistical note (March 1981, page 59)

Purposes of banking statistics (September 1981, page 374)

Money and banking figures: forthcoming changes (December 1981, page 531)

Transactions balances—a new monetary aggregate (June 1982, page 224)

Composition of monetary and liquidity aggregates, and associated statistics (December 1982, page 530)

Review of banking statistics (March 1983, page 69)

UK banks' external liabilities and claims in sterling: geographical analysis (September 1983, page 392)

Revised presentation of banking statistics (December 1983, page 562)

Changes to monetary aggregates and the analysis of bank lending (March 1984, page 78)

General articles

Control of bank lending: the Cash Deposits scheme (June 1968, page 166)

The operation of monetary policy since the Radcliffe Report (December 1969, page 448)

Competition and credit control (June 1971, page 189)

Credit control: a supplementary scheme (March 1974, page 37)

Monetary control—provisions (September 1981, page 347)

The nature and implications of financial innovation (September 1983, page 358)

Competition, innovation and regulation in British banking (September 1983, page 363)

Among papers published by the Bank on supervisory matters, the following also bear on the development of statistics:

The measurement of capital (September 1980)

Foreign currency exposure (April 1981)

The measurement of liquidity (July 1982—reprinted in the September 1982 *Bulletin*, page 399)

Off balance sheet risks (April 1985—reprinted in the June 1985 *Bulletin*, page 248)