

Official transactions in commercial bills, shipbuilding paper and export credit paper

A substantial part of bank lending in sterling takes the form of commercial bills (or acceptances), sometimes under facilities providing an option between acceptances and outright lending by way of loans or advances. In endorsing (or 'accepting') the bills, a bank undertakes to pay the amount due on maturity. The bills may then be sold at fine rates in the market, all the more so if the accepting bank is one of the 140 or so institutions whose bills are eligible for rediscount at the Bank of England. The total amount of sterling acceptances drawn by all sectors and outstanding at mid-February 1986 was £19.5 billion; acceptances represent some 10% of total outstanding bank lending in sterling to UK residents, nearly double the proportion of ten years earlier.⁽¹⁾

The banks also have substantial loans outstanding under the special schemes for lending for exports (recorded as lending overseas) and home shipbuilding—£6.1 billion and £0.8 billion respectively at mid-February 1986.

For various reasons, the banking system has been persistently short of cash in recent years. The authorities have relieved the shortages to a large extent by operations in commercial bills, either in the form of outright purchases of paper (which are then held by the Bank of England to maturity), or through purchases with an agreement to resell the paper at a future date. From time to time supplementary facilities have been provided to banks against promissory notes backed by special scheme shipbuilding or export credit loans.⁽²⁾

The assets acquired through these operations are divided between the Issue and Banking Departments of the Bank.⁽³⁾ The Issue Department's capacity to hold assets is limited to the amount of Bank of England notes in circulation, which comprise the whole of its liabilities. In recent years, the Issue Department's holdings of government securities have been reduced and those of bills and promissory notes have grown. Holdings of the latter are included in the weekly *Bank Return*, within the category of 'other securities'. In 1982, the National Loans Fund was empowered to build up surplus balances in the form of deposits with the Banking Department; the approximate amounts can be inferred from movements in public deposits with the Banking Department in the weekly *Bank Return*. The Banking Department may use the proceeds of the NLF deposit to acquire assets from the banking system, thereby relieving the money-market shortages

resulting from surpluses accumulating on the National Loans Fund account.

The statistical treatment of these transactions depends on whether the assets are taken up by the Banking Department, which is part of the monetary sector, or by the Issue Department, which is included within the central government sector. A purchase of such assets by the Banking Department gives rise only to a redistribution of holdings within the monetary sector. In this case, therefore, published statistics of sterling lending by the London and Scottish banks' groups, and by the individual groups of banks in the statistical annex Tables 3.2–3.8 (where the Banking Department is included among retail banks), are affected, but the total of monetary sector lending is not affected. Issue Department

Bank of England transactions in commercial bills and in guaranteed export credit and shipbuilding paper

£ millions

Transactions in:	Banking Department	Issue Department		
	Commercial bills	Commercial bills	Shipbuilding paper	Export credit paper
Financial years				
1977/78	—	30	—	—
1978/79	3	101	—	—
1979/80	189	765	—	—
1980/81	194	2,015	—	—
1981/82	8	4,240	—	—
1982/83	501	787	—	440
1983/84	174	3,586	—	440
1984/85	4,184	2,695	281	2,318
Quarters				
1984 1st qtr	252	2,867	—	—
2nd "	20	2,592	—	—
3rd "	269	2,022	—	—
4th "	162	765	—	—
1985 1st qtr	4,311	2,890	281	2,318
2nd "	401	109	34	72
3rd "	3,227	352	45	25
4th "	1,647	3,776	292	2,271
Banking months				
1985 Feb.	1,564	512	281	756
Mar.	748	506	—	349
Apr.	1,229	900	—	36
May	637	185	12	25
June	1,729	523	64	407
July	1,963	1,208	18	273
Aug.	2,765	989	50	28
Sept.	652	82	5	30
Oct.	369	246	47	14
Nov.	1,464	1,635	131	890
Dec.	1,015	2,248	114	1,363
1986 Jan.	2,815	2,132	—	777
Feb.	1,981	1,780	11	781
Amounts outstanding at end-1985	761	11,169	—	—

(1) Most commercial bills are held by institutions in the monetary sector or, as explained later, by the Issue Department of the Bank of England. Holdings by the non-bank private sector were some £0.6 billion at mid-February 1986.

(2) See for example "Overfunding and money-market operations", June 1982 *Bulletin*, page 201 and 'Funding the public sector borrowing requirement: 1952-83', December 1984 *Bulletin*, page 482.

(3) The Banking Department has not, in recent years, held promissory notes backed by export credit or shipbuilding paper.

transactions in commercial bills etc, on the other hand, directly affect holdings reported by the monetary sector as a whole; the practice is to add them back into monetary sector lending in the calculation of the counterparts to the changes in £M3. The reality of the situation—that the lending represented by the commercial bills originates in the banking system and its recorded amount should not be affected by subsequent official transactions to relieve shortages in the money market—is thereby reflected in the monetary statistics.⁽¹⁾

Except to the extent that they can be inferred from the *Bank Return*, Banking Department transactions in commercial bills have only been published combined with Issue Department transactions, for three-month periods, and in rounded form. Issue Department transactions in commercial bills and shipbuilding paper are published monthly in *Financial Statistics* Table 11.5 (and, for calendar quarters, may be found, together with transactions in export credit paper, in Table 7 of the statistical annex to the *Bulletin*). In the flow of funds accounts, Issue Department transactions in commercial bills, shipbuilding paper and export credit paper are combined as 'Issue Department transactions in bills'—line 15 of Table 19.1 of the annex and of Table 1.1 of *Financial Statistics*.

It is now intended to publish statistics of these transactions in each month's press release of money and banking statistics. Figures for both Banking and Issue

Department transactions in recent years are shown in the accompanying table.

The industrial and sectoral analysis of commercial bills

It is not practicable for *holders* of commercial bills to analyse their holdings according to the industrial activity of the borrower. Instead, commercial bills are analysed in this way at the point at which they are drawn under acceptance facilities. This is the basis of the quarterly analyses published by the Bank in Table 5.1 of the statistical annex.

In the sectoral analysis of commercial bill holdings in the quarterly financial accounts (see tables in section 1 of *Financial Statistics* and Table 19.1 of the statistical annex), the convention adopted hitherto has been that the Issue Department holds only bills on which industrial and commercial companies have borrowed. In future it will be assumed that the Issue Department holds bills representing the proportions in which acceptance facilities are drawn upon by different sectors. This change will affect the sectoral distribution of commercial bills ascribed to the banks' own holdings (which is calculated by residual), but not the sectoral distribution of commercial bill holdings of the banks and the Issue Department taken together.

(1) See for example Table 11.3 of the statistical annex. In tables which refer to the monetary sector alone, however, (eg Table 6 of the annex) Issue Department transactions are *not* added back into monetary sector lending.