Operation of monetary policy

This article, the first since the change to calendar month reporting of the monetary aggregates, broadly relates to the three calendar months from August to October 1986. Narrative descriptions of market developments cover events from mid-August to the end of October, following on from the September Bulletin.

Review

The period under review was a turbulent one in financial markets, with the weakness of the exchange rate in particular giving rise to spasmodic strong upward pressure on short-term interest rates and associated weakness in the capital markets. The authorities accepted that some rise in interest rates was required to maintain sufficiently firm monetary conditions, but judged that the market pressures were exaggerated by short-run influences. As a tactical matter, therefore, they delayed making any move until those influences had subsided and there was a prospect that the market would stabilise around a 1% rise in the structure of interest rates. After some initial uncertainty the new interest rate level was looking more settled by the end of the period.

The evidence about monetary conditions did not all point in one direction. Industrial confidence, which had seemed somewhat fragile earlier in the summer, appeared to become somewhat more robust as signs emerged that the pause in activity was coming to an end. And recorded unemployment began to decline.

Retail price inflation, as measured, rose from below $2\frac{1}{2}\%$ to 3% and seemed likely to edge up further in the months ahead under the impact of the lower exchange rate, the stabilisation of commodity prices and higher mortgage interest rates. But underlying inflation did not show serious signs of similar acceleration. Producer output prices were rising by about $4\frac{1}{4}\%$. And although unit labour costs, especially in manufacturing, remained uncomfortably high—both absolutely and by comparison with other major industrial countries—there was some tentative evidence of a modest decline in the rate of pay settlements, and productivity was expected to pick up as the pace of activity recovered. There was some evidence, too, that house prices were no longer accelerating.

The pattern of monetary growth was not significantly different from earlier in the year. There was some acceleration in M0, which nevertheless remained within its target range; and although the broader measures of money, £M3 and PSL2, increased somewhat more slowly than they had in the spring, their twelve-month rates of growth remained high and, in the case of £M3, well above target. The demand for credit from both banks and building societies remained strong. (The behaviour of the broad monetary aggregates over a longer time scale is discussed in the Governor's Loughborough lecture on page 499.)

The most notable change during the period was the weakening of the exchange rate, which fell from an ERI of 72.2 at the end of July to a low point of 67.1 by mid-October. The exchange rate had in fact previously remained firmer than might have been expected given the extent of the fall in the oil price earlier in the year, and some decline was necessary to provide over time for the adjustment of the current account of the balance of payments. But by October the authorities judged that the depreciation which had by then occurred was fully sufficient to offset the impact on the current account of the change in the oil price since last year. Any significant further fall at that stage could have had unnecessarily damaging implications for future inflation.

It was against this mixed background that the authorities concluded that a rise in interest rates would be appropriate to offset the easing of monetary conditions which had resulted from the exchange rate decline. But policy considerations did not call for a sharp increase from their already high level.

The problem then became one of market tactics. To have moved in the turbulent market atmosphere of the fortnight that followed the G5 meeting in Washington would not have been sensible. Stabilisation of the markets at that time would probably have meant a larger rise than the 1% increase that the authorities judged appropriate. The 1% increase in base rates which was eventually sanctioned on 14 October came at a time when the authorities judged that the market background was ready to stabilise. After some initial market nervousness, the new rate structure became reasonably settled.

Monetary aggregates and credit

The discussion of the monetary data in this section is confined to the new calendar month series (seasonally adjusted, except for twelve-month growth rates, or unless otherwise stated), but it should be noted that data prior to October are based upon an interpolation of the calendar quarter monetary figures, as discussed in the note on page 519.

The TSB share sale in late September had a marked influence upon the behaviour of many of the main monetary aggregates in both September and October. M0, though, was probably not affected by the TSB sale. It was unchanged in October, but its twelve-month growth rate is now 4.9%, compared with just over 3% in July. £M3 was also broadly unchanged in October, but this largely reflected an unwinding of a substantial upwards distortion, perhaps as much as 1½% at end-September, caused by the TSB sale. The growth of £M3 in September and October taken together averaged 1.6%, indicating some acceleration in this period after the modest growth seen during June, July and August, but below the growth rates seen in the spring. The growth of PSL2 on the other hand averaged 1% in September and October, much the same as in the previous three months.

Among the components of £M3, non-interest-bearing M1, as might be expected, was probably the most distorted by the TSB sale. If this distortion was unwound by end-October, there would appear to have been some acceleration in the growth rate since June. The twelve-month growth rate of non-interest-bearing M1 has risen from 9.6% in June to 11.5% in October while that of M1 has also increased, from 21.5% to 23.3%. It is possible, however,

Table A
Growth rates of the monetary aggregates
Percentages

	Unadjusted			Seasonally adjusted	
Calendar months	12 months to June 86	12 months to Sept. 86	12 months to Oct. 86	Apr. 86– June 86	July 86– Sept. 86
M0(a)	+ 3.2	+ 4.8	+ 4.9	+1.0	+1.6
£M3	+18.6	+18.7	+18.3	+5.1	+4.2
Non-interest-bearing M1	+ 9.6	+15.9	+11.5	+4.6	+8.6
M1	+21.5	+24.2	+23.3	+6.3	+7.5
M2(b)	+13.3	+15.0	..	+3.8	+4.4
	+14.0	*+15.0*	..	*+3.8*	*+4.1*
PSL1	+17.6	+18.4	+18.1	+5.2	+4.5
PSL2 (new definition)(c)	+14.8	+15.2	+15.5	+4.1	+3.1

.. not available.

(a) Weekly average.

(b) Excluding the effect of changes in the terms of existing accounts. Figures including such effects are shown in *italics*.

(c) See June 1986 *Bulletin*, page 186.

Table B
Components of £M3

£ millions; *seasonally adjusted*

	1986						
	Quarters(a)			Calendar months(b)			
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Non-interest-bearing M1	650	1,600	3,410	180	– 80	3,200	–2,670
Interest-bearing M1	2,920	2,340	1,840	1,030	310	500	1,740
Total M1	3,570	3,940	5,260	1,210	230	3,700	– 930
Time deposits and CDs	4,650	2,120	710	– 20	210	640	1,100
£M3	**8,210**	**6,060**	**5,970**	**1,190**	**440**	**4,340**	**170**

(a) Seasonal adjustments constrained over the calendar year.
(b) Seasonal adjustments constrained over the financial year.

Table C
Changes in £M3 and its counterparts[(a)]

£ billions; *seasonally adjusted*

Calendar quarters	3 months Apr.86– June 86	3 months July 86– Sept. 86	12 months to June 1986	12 months to Sept. 1986
1 Central government borrowing requirement	+5.9	+3.2	+15.6	+15.2
of which:				
own account borrowing	*+2.5*	*+2.9*	*+ 5.6*	*+ 6.9*
on-lending to:				
local authorities	*+3.3*	*+0.5*	*+ 8.7*	*+ 7.4*
public corporations	*+0.1*	*–0.1*	*+ 1.3*	*+ 0.9*
2 Other public sector borrowing	–3.8	–0.8	– 9.1	– 8.1
3 **PSBR** (= 1 + 2)	**+2.1**	**+2.4**	**+ 6.5**	**+ 7.1**
4 Net purchases (–) of central government debt by the non-bank private sector	–2.2	–1.6	– 5.4	– 5.6
of which:				
Gilt-edged stocks	*–0.9*	*–0.9*	*– 2.7*	*– 2.9*
National savings	*–0.5*	*–0.9*	*– 2.1*	*– 2.4*
CTDs	*–0.4*	—	*– 0.1*	*– 0.5*
5 Net purchases (–) of local authorities' and public corporations' debt by the non-bank private sector	+1.8	+0.2	+ 3.1	+ 2.7
6 External and foreign currency finance of the public sector(b)	–0.3	–0.9	– 1.3	– 1.8
of which, gilt-edged stocks (purchases –)	*–0.7*	*–0.4*	*– 1.7*	*– 1.7*
7 **Overfunding** (–) = (3 + 4 + 5 + 6)	+1.4	+0.2	+ 2.9	+ 2.4
8 Sterling lending by the banking system to the UK private sector(c)	+6.6	+6.9	+22.8	+25.0
9 External and foreign currency finance of the monetary sector(d) / 10 Net non-deposit sterling liabilities (increase –)	–1.0	–1.1	– 2.9	– 3.5
11 Change in £M3 = (7 + 8 + 9 + 10)	**+6.9**	**+6.0**	**+22.7**	**+24.0**

(a) Counterparts may not add up to the total change in £M3 because of rounding.
(b) Includes net overseas purchases of public sector debt, *less* the public sector's net acquisition of claims on the overseas sector.
(c) Including changes in Issue Department's holdings of commercial bills and of promissory notes relating to shipbuilding paper guaranteed by the Department of Trade and Industry.
(d) The net external sterling deposit liabilities of the monetary sector (increase –) *plus* the net foreign currency liabilities of the monetary sector to all sectors (increase –).

that some monies transferred from other financial assets into £M3 assets in September in anticipation of the TSB sale were still within £M3 at end-October, particularly those of unsuccessful applicants who may have been awaiting the British Gas share issue.

Among the counterparts to £M3 in October, the most striking feature was the strength of bank lending to the private sector, which grew by £3.4 billion. However, bank lending is estimated to have been particularly low in September (£0.9 billion), so that in the two months taken together, bank lending averaged £2.1 billion a month compared with £2.5 billion over the previous six months. The month-to-month movement in bank lending was partly offset by an opposite swing in the public sector's contribution to £M3 growth, with a substantial underfund, of £2.7 billion before seasonal adjustment, in September followed by an overfund, of £1.8 billion, in October. In the first seven months of the financial year, the PSBR was underfunded by some £0.8 billion before seasonal adjustment, but comfortably funded when seasonal influences are allowed for.

Statistics are available for the sectoral breakdown of deposits and lending on a calendar quarterly basis. Their interpretation for the third quarter is also complicated by distortions associated with the TSB share sale. Transactions associated with the sale spanned the end-quarter period and produced an unusually large adjustment for items in transit and suspense. As usual, these have been apportioned 60% to industrial and commercial companies' (ICCs') non-interest-bearing sight deposits and 40% to ICCs' borrowing. For example, in the third quarter the transit adjustment boosted ICCs' recorded deposits by £1.1 billion and reduced their recorded borrowing by £0.7 billion. In fact, however, much of these adjustments could be attributed to persons and non-bank financial institutions (OFIs). There was an additional distortion to PSL2 caused by the TSB issue. Cheques drawn by building societies to enable depositors to subscribe to the share issue which were not cashed by end-September were recorded as a run-down in holdings of deposits with building societies within PSL2, though in practice the building societies retained the funds.

Despite all these possible distortions to broad money and credit during this period, some clear trends in the sectoral data can be discerned. As was discussed in the Governor's Loughborough lecture (see page 499), the broad money holdings and borrowings of the various sectors of the economy follow differing trends. In general, the income velocities of persons and ICCs have shown a more stable trend in recent years than that of OFIs (see Chart 7, page 502). The behaviour of OFI bank deposits and borrowing so far this year has again followed a less predictable path than that of the other sectors.

The growth of OFI deposits with the monetary sector, which rose rapidly during 1985 and early 1986, has moderated somewhat. The ratio of OFIs' £M3 holdings to their gross financial wealth increased during 1985, possibly reflecting changes in the relative expected rates of return on gilts and bank deposits. The investment behaviour of building societies is a particular example of this, and the building society figures for the last two months suggest a further shift towards bank deposits. Bank lending to OFIs, which had been strong in the first half of the year, accelerated during the third quarter. In part this reflects investment in OFIs ahead of Big Bang as well as building societies raising funds in the wholesale markets. Other Big Bang effects can be seen in the personal sector accounts, where unincorporated businesses (which included some securities dealers—see the box on page 478) accounted for an unusually high percentage of both total personal sector bank deposits and bank lending during the first three quarters of the year.

Figures for the personal sector as a whole indicate that, during the first half year, it built up liquid assets rapidly, much of the increased buildup being in bank deposits. In the third quarter, building society net inflows were about £1.9 billion down on the quarterly average for the first half of the year, largely reflecting funds withdrawn in connection with the TSB share sale. After taking account of estimated TSB distortions (including the subsequent recovery of inflows into building societies), however, there are tentative signs of à slowdown in growth in persons' liquid assets.

Personal sector borrowing from banks and building societies, on the other hand, increased strongly during the second and third quarters, with mortgage lending particularly buoyant. There was an increase in the rate of growth in the total stock of mortgages outstanding in each quarter of this year. Lending by both banks and building societies has increased, although the banks' market share of new lending virtually doubled between the first and third quarters as a consequence of an array of special offers. There is, however, some evidence to suggest that the rate of increase in net mortgage lending diminished over the course of the third quarter. There has been a sizable downturn in building societies' new lending commitments (which provide a rough indicator of gross lending two to three months ahead) in the last few months, and this is beginning to feed through to actual lending.

In flow terms, therefore, the personal sector moved from being a net depositor with banks in the first half of the year to being a net borrower in the third quarter, with most of the turnround coming in the form of slower growth of liquid assets. In large part, this reflects the behaviour of the household savings ratio which probably rose in the first half of the year, with consumer spending responding slowly to a sharper rise in real personal disposable incomes as inflation fell further. By the third quarter, consumer spending had adjusted somewhat to the rise in real incomes, and the household savings ratio probably fell back.

Finally, ICCs' bank deposits grew rapidly during the first three quarters. Although recorded growth was similar in each of the three quarters, it is probable that the third quarter figure is overstated owing to the treatment of transit items and that there was actually a slowdown in growth during the third quarter. Sterling lending to ICCs moderated in the second and third quarters following the large first quarter increase. The pattern is similar to last year, and supports the hypothesis that, as last year, companies brought forward investment expenditure to the first quarter of the year to forestall the reduction of capital allowances. Companies have, however, been raising finance in other markets. Equity issues rose in the first half of the year and over £0.7 billion was raised in eurosterling issues. The high value of capital issues was partly the result of takeover and merger activity, which was at its highest level since the early 1970s.

Table D
Deposits and lending

£ millions; *seasonally adjusted*

	1986						
	Quarters(a)			Calendar months(b)			
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Sterling deposits							
Other financial institutions	2,100	-190	1,690	..	..	..	..
Industrial and commercial companies	2,630	2,870	2,890	..	..	..	..
Persons	3,150	3,500	1,350	..	..	..	..
Total	**7,880**	**6,180**	**5,930**	**1,200**	**30**	**4,740**	**- 90**
of which, transit items allocated to ICCs	*-400*	*160*	*1,070*	..	..	..	*-1,180*
Sterling lending							
Other financial institutions	2,020	2,070	3,020	..	..	..	..
Industrial and commercial companies(c)	2,310	1,150	960	..	..	..	..
Persons	1,930	3,390	2,820	..	..	..	..
Total	**6,260**	**6,610**	**6,800**	**3,300**	**2,740**	**870**	**3,450**
of which, transit items allocated to ICCs	*+270*	*-100*	*-720*	..	..	..	*+ 790*

.. not available.

(a) Seasonal adjustments constrained over the calendar year.

(b) Seasonal adjustments constrained over the financial year.

(c) Includes Issue Department take-up of commercial bills.

Reclassification of securities dealers

Until end-September this year, banks in their quarterly sectoral accounts have treated securities dealers and broker-dealers as industrial and commercial companies or, in some cases, as part of the personal sector. From September, banks have been asked to classify them as 'other' financial institutions, indicating the amounts reclassified at end-September.

Reported as outstanding at 30 September[a]

£ billions

	Total	Would formerly have been reported as: ICCs	Personal sector
Sterling			
Deposits			
Sight	0.2	—	0.2
Time	0.9	0.7	0.2
Total	**1.2**	**0.7**	**0.4**
Advances	**1.5**	**1.0**	**0.6**
Foreign currency			
Deposits			
Sight	—	—	—
Time	2.5	2.5	—
Total	**2.6**	**2.5**	—
Advances	**7.9**	**6.8**	**1.1**

(a) Components may not sum to totals because of rounding.

In a special exercise conducted in November 1985 (see the March 1986 *Bulletin*, page 30), banks reported some £0.5 billion of outstanding sterling lending to securities dealers, etc, and some £3.6 billion of lending in foreign currency. Such sterling lending thus increased three-fold in the ensuing 10½ months, while foreign currency lending more than doubled.

Henceforth banks will report lending to securities dealers, etc separately; amounts will be published in statistical annex Table 5.1. The March *Bulletin* noted that, in anticipation of this change of sector, securities dealers' transactions in overseas securities (which are reported for the balance of payments) and the residual unidentified UK take-up of government FRNs were being allocated to the OFI sector, together with an equivalent amount of foreign currency lending reported by banks as made to ICCs.

Securities dealers do not at present themselves make regular returns of their financial transactions; it is hoped that they will soon begin to do so.

Official operations in financial markets

This section covers the period from mid-August to the end of calendar October. The figures are not seasonally adjusted unless otherwise stated.

In the two-and-a-half months covered, the central government borrowing requirement was not wholly offset by debt sales or other financing so that the need for official assistance to the money markets fell by £0.5 billion.

The central government borrowing requirement totalled £2.6 billion during the period under review. Virtually all of this

Table E
Financing of the public sector
£ billions

Calendar months	Seasonally adjusted Apr. 86– June 86	July 86– Sept. 86	Unadjusted Oct. 86	12 months to Oct. 86
Central government borrowing on own account	+2.5	+2.9	-0.3	+5.5
Other public sector borrowing(a)	-0.4	-0.4	+0.3	+0.8
PSBR	**+2.1**	**+2.4**	**—**	**+6.3**
Net sales of central government debt to the non-bank private sector	-2.2	-1.6	-1.2	-6.3
of which:				
Gilt-edged stocks	*-0.9*	*-0.9*	*-1.1*	*-3.8*
National savings	*-0.5*	*-0.9*	*-0.3*	*-2.4*
CTDs	*-0.4*	*—*	*+0.2*	*-0.3*
Net sales of local authorities' and public corporations' debt to the non-bank private sector	+1.8	+0.2	-0.1	+2.3
External and foreign currency finance of the public sector	-0.3	-0.9	-0.5	-1.7
of which, gilt-edged stocks	*-0.7*	*-0.4*	*. .*	*-1.6*
Total financing of the government from the non-bank private and overseas sectors	**-0.7**	**-2.3**	**-1.9**	**-5.7**

. . not available.

(a) Includes on-lending from central government to local authorities and public corporations.

Table F
Official transactions in gilt-edged stocks
£ billions; *not seasonally adjusted*

Calendar months	Jan. 86– Mar. 86	Apr. 86– June 86	July 86– Sept. 86	mid-Aug. 86– Oct. 86
Gross official sales(a)	+2.0	+4.6	+3.0	+2.4
less				
Redemptions and net official purchases of stock within a year of maturity	-1.7	-2.7	-0.9	-0.9
Equals net official sales(b)	+0.3	+1.9	+2.0	+1.5
of which, net purchases by:				
Monetary sector(b)	*+0.1*	*+0.2*	*+0.7*	*+0.4*
Overseas sector	*—*	*+0.7*	*+0.4*	*—*
Non-bank private sector	*+0.1*	*+0.9*	*+0.9*	*+1.0*

Note: Sales are recorded on a payments basis, so that payments made on partly-paid stocks are entered according to when they are paid rather than according to the time of the commitment to make the payment.

(a) Gross official sales of gilt-edged stocks are defined as net official sales of stocks with over one year to maturity apart from transactions under purchase and resale agreements.

(b) Apart from transactions under purchase and resale agreements.

was accounted for by central government own-account transactions. As in recent months, on-lending to local authorities and public corporations was low (£0.3 billion).

Gross official sales of gilt-edged stocks totalled £2.4 billion during the period. With only one stock being redeemed, and low official purchases of near maturities, net official sales of gilts were £1.5 billion. The bulk of these (£1.0 billion) were taken up by the non-bank private sector, with a further £0.4 billion sold to the monetary sector.

National savings inflows totalled some £0.6 billion, but their contribution to central government financing was broadly offset by net surrenders of certificates of tax deposit—particularly by building societies in respect of their composite rate tax liabilities.

The net result of these various flows was that the need for money-market assistance declined by £0.5 billion during the period. This had its counterpart in a reduction in the Bank's holdings of commercial bills by £1.1 billion, while the stock of Treasury bills in market hands declined by £0.4 billion. By the end of October, the total stock outstanding of official assistance (other than that provided through dealings in Treasury bills) totalled £10.2 billion. This comprised holdings of eligible bills worth £10.1 billion and secured market advances of £0.1 billion.

In the first seven months of the current financial year (April-October), the public sector borrowing requirement was underfunded by £0.8 billion. The downward pressure which this exerted on the volume of money-market assistance was reinforced by the tendency for the central government borrowing requirement to exceed the PSBR, in turn the result of substantial on-lending to the rest of the public sector (especially local authorities) in the first quarter of the financial year and of overall surpluses for the public corporations and local authorities during the period as a whole. In consequence, therefore, the stock of official assistance (excluding Treasury bills) fell by £3.1 billion during the first seven months of the financial year.

Average daily shortages during the period from mid-August to the end of October were £500 million, rather below the average of recent months. This reflected both the impact of the money-market flows analysed above and also a lengthening in the portfolio of bills held by the Bank as discount houses became more willing to dispose of longer-dated bills in anticipation of higher interest rates.

The money market

The period under review began with market expectations of an early fall in base rates in conjunction with possible similar reductions in other major countries. Concerns about money and credit growth, however, together with a weakening of the exchange rate (largely oil-related), caused sentiment to reverse, until the market was discounting a rise in base rates. With markets becoming very nervous towards the end of September, the authorities sought to delay any movement in base rates until the market situation was calmer. The 1% rise in interest rates which the authorities concluded was justified came about on 14 October. After a period in which there was residual market pressure for a further rise, the markets began to settle, and by the

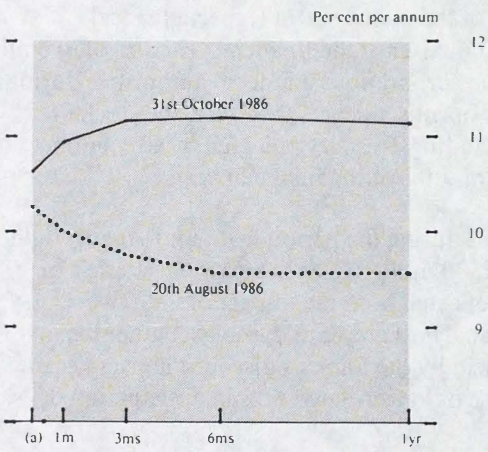
Table G
Influences on the cash position of the money market

£ billions; *not seasonally adjusted*
Increase in the market's cash +

Calendar months	Apr. 86– June 86	July 86– Sept. 86	Apr. 86– Oct. 86	mid–Aug 86 Oct. 86
Factors affecting the market's cash position				
CGBR (+)	+6.4	+4.0	+10.2	+2.6
of which, on-lending to local authorities and public corporations	*+3.3*	*+0.3*	*+ 3.8*	*+0.3*
Net sales (–) of central government debt(a)	–3.1	–3.1	– 7.8	–1.6
of which:				
Gilt-edged	*–1.9*	*–2.0*	*– 5.4*	*–1.5*
National savings	*–0.6*	*–0.9*	*– 1.8*	*–0.6*
CTDs	*–0.6*	*–0.2*	*– 0.6*	*+0.5*
Currency circulation (increase –)	+0.5	–0.1	– 0.1	–0.2
Other	+1.1	–0.7	+ 0.5	–0.2
Total (A)	**+4.9**	**+0.1**	**+ 2.8**	**+0.6**
Official offsetting operations				
Net increase (+) in Bank's holdings of commercial bills(b)	–2.0	–0.5	– 0.8	–1.1
Net increase (–) in Treasury bills in market	–0.2	+0.3	+ 0.4	+0.4
Securities(c) acquired (+) under purchase and resale agreements with banks	–2.3	—	– 2.3	—
Other	–0.3	+0.2	—	+0.2
Total (B)	**–4.8**	**—**	**– 2.7**	**–0.5**
Change in bankers' balances at the Bank (= A + B)	+0.1	+0.1	+ 0.1	+0.1

(a) Other than Treasury bills.
(b) By the Issue and Banking Departments of the Bank of England.
(c) Gilt-edged stocks and promissory notes related to guaranteed export credit and shipbuilding paper.

Sterling interbank rates



(a) For one week.

end of the period the new structure of interest rates was looking more firmly established, though with evidence remaining of considerable market nervousness only just below the surface.

The period opened (21 August) with a downward-sloping yield curve, the one-month rate being at $9\frac{15}{16}$%, the three-month rate at $9\frac{11}{16}$% and the twelve-month rate at $9\frac{1}{2}$%. Banks' base rates were 10%, and the ERI was 71.7 ($1.4985 and DM 3.0742). The market was in optimistic mood following the $\frac{1}{2}$% cut in the US discount rate announced on 20 August. The authorities, however, signalled their unwillingness to follow the United States by rejecting offers of paper by the discount houses the next day at rates below established intervention levels.

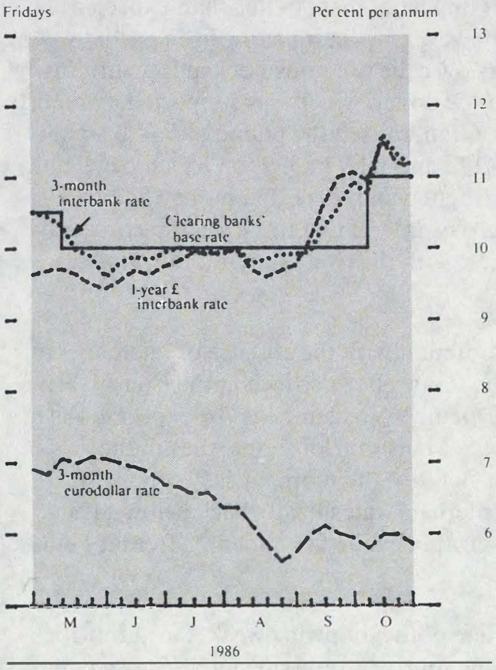
Market hopes were now focussed on the possibility of corresponding interest rate reductions in Germany. When no announcement emerged from the Bundesbank Council meeting on 28 August, interbank rates firmed up a shade, with the one-month rate at $10\frac{1}{16}$% (although, if anything, tending rather to emphasise the downward-sloping yield curve, with the three-month rate at $9\frac{7}{8}$% and the twelve-month rate at $9\frac{5}{8}$%). But the following day's announcement of an $18 billion US trade deficit in July raised hopes again, and money rates up to six months softened. However, these hopes were to prove short-lived, as strong German output and above-target money supply growth were confirmed, and the German authorities indicated their satisfaction with official growth projections for the second half-year. The change in sentiment was reinforced during the first part of September by statements from Japan ruling out an early discount rate cut and by the announcement on 9 September of the money supply figures for banking August, which were regarded as disappointing.

By 10 September, therefore, all market hopes of an imminent base rate reduction had evaporated, and the interbank yield curve had flattened, with a peak at one and three months of $9\frac{15}{16}$% and the one-year rate at $9\frac{7}{8}$%. Sharp falls in the US stock market, as indications of strengthening growth revived inflation fears, contributed to a further hardening in money-market rates, and by 12 September the three-months maturity was back at 10% and the twelve-month rate higher at $10\frac{1}{16}$%.

At this point attention began to focus specifically on UK factors. Sterling, which had weakened somewhat against the deutschemark since the beginning of the period but had otherwise been quite stable, began to slide. Having closed on 15 September at 71.1 on the ERI ($1.4826 and DM 3.0389), the pound fell below DM 3 on 17 September. This was not only a reaction to a fall in the oil price (which reached $14 per barrel in mid-September, having been at $15.40 on 5 September) and strengthening in the deutschemark, but also reflected market fears arising from high credit growth, the higher-than-expected August PSBR (announced on 16 September) and the local authority workers' pay settlement. The thought began to develop in the markets that higher base rates might be needed, except in the apparently unlikely event of there being cuts in German and Japanese interest rates.

The bearish mood spread on 18 September as the ERI fell below 70 (to 69.2) and the rate against the deutschemark lost a further 6 pfennigs (to DM 2.9268). Interbank rates rose to $9\frac{15}{16}$% at one month, $10\frac{7}{32}$% at three months and $10\frac{9}{16}$% at twelve months.

Short-term interest rates in London



Despite some resilience in sterling in the next few days (with a return to DM 2.9836 on 22 September), which may have owed something to the EEC Finance Ministers' agreement at Gleneagles on 22 September to seek an end to the decline in the dollar, the domestic markets remained nervous. Shorter rates, meanwhile, were relatively soft—the one-month rate was at 9$\frac{13}{16}$% on the same day—but this may in part have been due to technical factors, as the discount houses reduced and shortened their books in anticipation of a possible rise in the overall level of interest rates.

Money-market rates firmed on 24 September on publication of the record trade deficit in August, with the twelve-month rate reaching 10$\frac{3}{4}$%. Hopes that the Bundesbank would reduce the German discount rate at its meeting on 25 September, in the wake of the outcome of the Gleneagles meeting, were not fulfilled, and this contributed to further hardening in period rates, with the twelve-month rate reaching 11$\frac{1}{16}$% on 26 September. The attention of the market was now fixed on the weekend G5 Ministers' meeting in Washington in the belief that concerted interest rate reductions might be agreed, at least in Japan and Germany. In the event, however, these exaggerated expectations were disappointed. The exchange rate, which had resumed its decline on 24 September, moved down to 68.2 ($1.4325 and DM 2.9033) on 29 September. Recovery in the exchange rate immediately thereafter provided some respite, reflected in a drop in period interbank rates to below 11%, but the market mood remained nervous.

The markets continued in a febrile state in the first week of October. Together with the factors already identified, the OPEC meeting, which began on 5 October, contributed a further element of uncertainty; and domestic political factors were brought into focus by the party conference season.

Against this background, the authorities' response was designed to exert a stabilising influence in the feverish atmosphere that had developed, to seek to bring about a calmer market background before any interest rate move was made. As described above (page 475), the conclusion was reached that monetary conditions overall had eased and that a rise in interest rates was called for to compensate for the previous exchange rate decline. It was doubtful, however, whether a rise of 1%—which, given the already high level of interest rates, was considered to be sufficient on policy grounds—would be sufficient to enable the market to consolidate.

Accordingly, as a matter of market tactics, the authorities initially sought to calm the markets by resisting pressures that had developed for a large upward movement in interest rates. To this end, the Bank lent to the market at 2.30 on 1 October at a rate of 10% for eight days. Furthermore, on 3 October the rule restricting the eligibility of bills for rediscount by the Bank to those run down by seven days was relaxed, permitting the discount houses to dispose of their bills drawn up to and including 1 October. In addition, the Bank declined to allot any Treasury Bills at the tender on 3 October in order to avoid validating interest rates above those consistent with the 10% base rate structure. However, the continued slide in sterling—which fell to an ERI of 68.0 ($1.4370 and DM 2.8664) on 6 October—caused the market to remain extremely gloomy.

Attention began to turn to the September money figures due on 7 October. The market impact of these better-than-expected statistics was muted, however, by their having been partially anticipated in the press over the previous weekend. A shift in market attention from the dollar, which was supported by reports of central bank intervention, caused the pound to fall to a new low point of 67.1 ($1.4172 and DM 2.8329) on 8 October. Thus, on that day, despite the better-than-expected money figures published the previous day, interbank rates from three to twelve months increased by $\frac{3}{16}$%, with the twelve-month rate at $11\frac{1}{16}$%.

Initial market disappointment with the absence of references to financial markets in the Chancellor's speech at the Conservative Party Conference on 9 October was tempered by expectations of what might be said in the Mansion House speeches in the following week. On 10 October, therefore, uneasy calm was restored, with period interbank rates firmly back below 11%. Nonetheless, the Bank again declined to allot any Treasury bills at the tender that day.

In the calmer atmosphere of the following week, the authorities came to the view that the time was now ripe for a 1% rise in base rates. Accordingly, the discount houses were invited on 14 October to borrow from the Bank at 2.30 at a rate of 11% for seven days. This took the market by surprise, and, although rates for money and bills, and then base rates, rapidly came into line at the new level, interbank rates soon increased beyond 11%, and by 15 October were around $11\frac{3}{8}$%.

The market was set back further by initial disappointment with the Mansion House speeches on 16 October, and period rates rose on 17 October to $11\frac{7}{16}$% at the one-month maturity, $11\frac{9}{16}$% at three months and $11\frac{1}{2}$% at twelve months.

Thereafter, pressure in the markets gradually subsided as the exchange rate strengthened somewhat, partly as a by-product of a stronger dollar. This process was aided by the news from OPEC on 22 October that the production-sharing agreement was being continued for a further two months (although an initial rise in oil prices was soon reversed). Rates hardened a little and the exchange rate slipped on 23 October on news of the £0.9 billion trade deficit in September, but this proved to be a short-lived setback, and the pound recovered sharply against Continental currencies. The markets remained quiet until towards the end of the month. The $\frac{1}{2}$% cut in the Japanese discount rate announced on 31 October and the unexpected dismissal of the Saudi Arabian Oil Minister disturbed this relative calm, but tended to reinforce the growing market belief that the prospects for a further rise in base rates were now remote. The strengthening of the exchange rate, against the deutschemark in particular, on the last day of the month—to 68.4 ($1.4085 and DM 2.9029) at the close—helped to strengthen this conviction.

Over the period from 21 August to 31 October, interbank rates rose by $\frac{7}{8}$% to $10\frac{7}{8}$% at the one-month maturity, by $1\frac{7}{16}$% to $11\frac{3}{16}$% at three months, and by $1\frac{5}{8}$% to $11\frac{3}{16}$% at twelve months. Banks' base rates rose by 1% to 11%. In mid-October most building societies announced increases in mortgage rates of about $1\frac{1}{4}$% and in share and deposit rates of about $\frac{3}{4}$%, to take effect from 1 November, making the typical mortgage rate $12\frac{1}{4}$%.

Table H
Issues of gilt-edged stock

Stock	Amount issued (£ millions)	Date announced	Method of issue	Date issued	Price per £100 stock (£)	Payable per £100 stock: Initial payment(a) (£)	Payable per £100 stock: Further instalments (£)	Redemption yield (per cent)	Date exhausted
11% Exchequer 1990	200	22/8	Direct to Bank	22/8	$104\frac{15}{16}$			9.28	3/10
10% Conversion 1996	150	22/8	Direct to Bank	22/8	$103\frac{3}{8}$			9.50	27/8
$9\frac{3}{4}$% Treasury 2002	150	22/8	Direct to Bank	22/8	$103\frac{1}{8}$			9.36	18/9
11% Exchequer 1989	100	22/8	Direct to National Debt Commissioners	22/8	$104\frac{1}{8}$			9.34	—
$10\frac{1}{2}$% Exchequer 1997	100	22/8	Direct to National Debt Commissioners	22/8	$106\frac{1}{4}$			9.53	—
10% Treasury Convertible 1990	200	3/10	Direct to Bank	3/10	$95\frac{5}{8}$xd			11.38	7/10
9% Conversion 2000	200	3/10	Direct to Bank	3/10	$88\frac{3}{8}$			10.65	7/10
8% Treasury 2009	200	3/10	Direct to Bank	3/10	$80\frac{3}{8}$			10.24	7/10
10% Treasury Convertible 1990	100	3/10	Direct to National Debt Commissioners	3/10	$95\frac{5}{8}$xd			11.38	—
$9\frac{1}{2}$% Treasury Convertible 1989	50	10/10	Direct to Bank	10/10	$96\frac{3}{4}$			11.01	(b)
13% Treasury 1990	50	10/10	Direct to Bank	10/10	$105\frac{3}{8}$			10.95	(b)
$11\frac{3}{4}$% Treasury 1991	50	10/10	Direct to Bank	10/10	$102\frac{1}{4}$			11.04	(b)
$12\frac{3}{4}$% Treasury 1992	50	10/10	Direct to Bank	10/10	$107\frac{3}{16}$			10.90	(b)
10% Treasury 1992	50	10/10	Direct to Bank	10/10	$96\frac{9}{16}$			10.84	(b)
12% Treasury 1995	50	10/10	Direct to Bank	10/10	$105\frac{7}{16}$			10.96	(b)
$10\frac{1}{4}$% Exchequer 1995	50	10/10	Direct to Bank	10/10	$96\frac{5}{8}$			10.84	(b)
$9\frac{1}{2}$% Treasury 1999	50	10/10	Direct to Bank	10/10	93			10.52	(b)
$10\frac{1}{4}$% Conversion 1999	50	10/10	Direct to Bank	10/10	$97\frac{1}{8}$			10.65	(b)
13% Treasury 2000	50	10/10	Direct to Bank	10/10	$115\frac{3}{8}$			10.81	(b)
10% Treasury 2001	50	10/10	Direct to Bank	10/10	$96\frac{3}{8}$			10.48	(b)
$9\frac{3}{4}$% Conversion 2001	50	10/10	Direct to Bank	10/10	$94\frac{5}{8}$			10.46	(b)
12% Exchequer 1999–2002	50	10/10	Direct to Bank	10/10	$107\frac{3}{4}$			10.93	(b)
$9\frac{3}{4}$% Treasury 2002	50	10/10	Direct to Bank	10/10	$94\frac{5}{8}$			10.44	(b)
$9\frac{1}{2}$% Conversion 2005	50	10/10	Direct to Bank	10/10	$93\frac{1}{4}$			10.32	(b)
$11\frac{3}{4}$% Treasury 2003–07	50	10/10	Direct to Bank	10/10	$109\frac{7}{8}$			10.55	(b)
10% Treasury Convertible 1991(c)	1,000	24/10	Minimum price tender	29/10	$96\frac{1}{2}$(d)	40.00	56.50 (24/11)	10.99(e)	29/10
10% Conversion 1996	250	31/10	Direct to Bank	31/10	94			11.00	3/11
$9\frac{1}{2}$% Conversion 2004	50	31/10	Direct to Bank	31/10	$91\frac{5}{8}$			10.55	(b)
$8\frac{1}{2}$% Treasury 2007	50	31/10	Direct to Bank	31/10	$84\frac{1}{4}$			10.36	(b)
$2\frac{1}{2}$% Index-Linked Treasury 2009	50	31/10	Direct to Bank	31/10	$96\frac{5}{8}$			3.87(f)	(b)
11% Exchequer 1989	150	31/10	Direct to National Debt Commissioners	31/10	$99\frac{7}{16}$			11.22	—
$10\frac{1}{2}$% Exchequer 1997	150	31/10	Direct to National Debt Commissioners	31/10	$96\frac{5}{8}$			11.04	—

(a) If not fully paid at time of issue.

(b) Issued to assist the transition to the new gilt-edged market structure.

(c) The prospectus includes provision for exemption from UK taxation in favour of non-resident holders and for the loan to be available in bearer form.

(d) Price at which the stock was allotted at the tender.

(e) Yield to 1991. Holdings may at the option of the holder, be converted in whole or part into $9\frac{1}{2}$% Conversion 2001 or 9% Conversion 2011 or any combination thereof, as on the following dates:

Date of conversion	Nominal amount of $9\frac{1}{2}$% Conversion 2001 per £100 nominal of 10% Treasury Convertible 1991	Implied redemption yield (%) to 2001	Nominal amount of 9% Conversion 2011 per £100 nominal of 10% Treasury Convertible 1991	Implied redemption yield (%) to 2011
12 July 1987	102	10.25	105	9.92
12 January 1988	101	10.15	103	9.76
12 July 1988	100	10.06	101	9.62
12 January 1989	99	9.98	99	9.49
12 July 1989	98	9.91	97	9.37

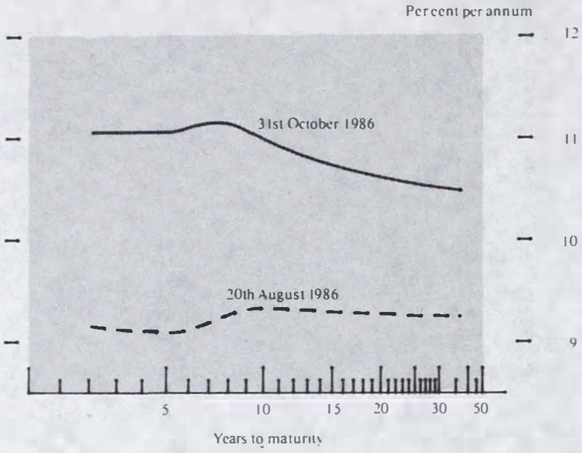
(f) Real yield, calculated on the basis of 5% annual rate of increase in the retail price index.

The gilt-edged market

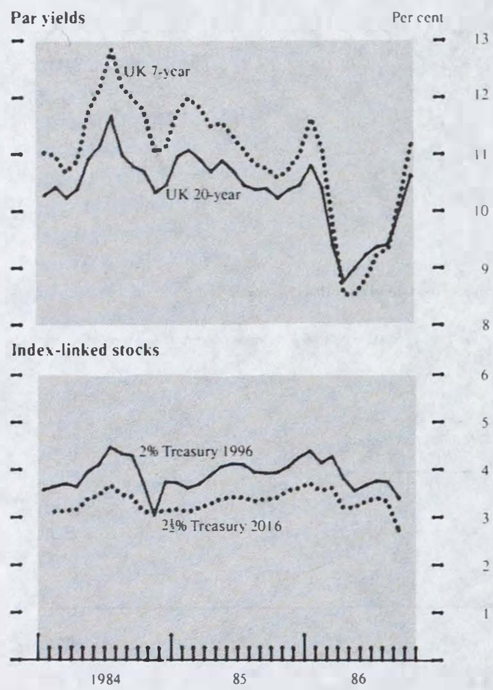
The objective of the authorities during the period under review remained that of fully funding the PSBR over the financial year as a whole through debt sales to the non-bank private sector and external and foreign currency finance of the public sector.

The gilt-edged market was in fairly optimistic mood at the start of the period under review. But as a result initially of the evaporation of hopes of early interest rate cuts at home or abroad by the end of August, the market declined sharply throughout September, yields returning to double-digit levels with rises of over 2% at the short end (to $11\frac{1}{2}$%–$11\frac{3}{4}$%) and by about $1\frac{1}{4}$% at the long end (to $10\frac{1}{2}$%–$10\frac{3}{4}$%). The weakness extended into October with the continuing uncertainty about short-term interest rates, but with yields by then discounting a worse outcome than in fact occurred. By the close of the period yields had moved down by $\frac{1}{4}$%–$\frac{1}{2}$% from their levels a month earlier.

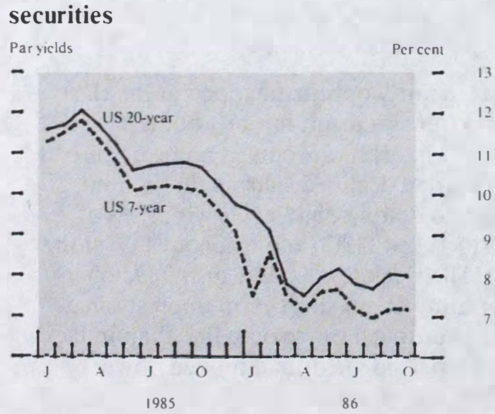
Time/yield curves of British government stocks



Gross redemption yields on UK government securities



Gross redemption yields on US government securities



The market was of course greatly occupied during this period with preparations for Big Bang, which occurred on 27 October. The transition to the new structure in the gilt-edged market, which was preceded by two 'dress rehearsals', was smooth. Phase 2 of the Central Gilts Office Service, which provides for assured payments for stock transferred between members, also began well.

The authorities began the period having secured £0.2 billion through earlier sales of 2½% Index-Linked Treasury 2016 'A'. Only one stock was due to be redeemed during the period—14% Exchequer 1986, of which £0.7 billion was in market hands at the start of the period. In addition, 2½% Exchequer 1986, with £0.6 billion in market hands, was due to mature three weeks after the end of the period. 3% Treasury 1991, issued on 29 May, was still available for sale from the Bank's portfolio.

The US discount rate was cut by ½% on 21 August, at the start of the period under review, but this had been largely discounted in the gilt-edged market and therefore did not give rise to significant gains. Nonetheless, the undertone of the market was sufficiently robust for the authorities to issue a small package of tranchettes on 22 August. This comprised £200 million of 11% Exchequer 1990, and £150 million each of 10% Conversion 1996 and 9¾% Treasury 2002.[1] A firm market in the middle of the following week, partly fuelled by overseas buying, led to the exhaustion of the 1996 tranchette on 27 August. However, indications from Japan and West Germany that a response to the US discount rate cut was not imminent caused the market to slip back at the end of August.

There followed a period, through September, of almost unremitting decline in the gilt-edged market. Prices of long-dated stocks fell by around twelve points over the month as a whole; par yields for the same maturities rose from about 9⅜% at the beginning of the month to about 10⅝% at its end. The weakening of the market originated in the United States and reflected the evaporation of hopes of a further round of interest rate cuts and an apparent resurgence of inflationary fears on sporadic signs of stronger underlying activity. These concerns were reflected in the performance of equity markets as well as bond markets in the early part of the month.

The general weakness of sterling contributed to the poor performance of the gilt-edged market. In addition, specific domestic developments which added to market gloom were the money figures for banking August, published on 9 September; the £1.8 billion PSBR for August, published on 16 September, which exceeded expectations; and the £1.5 billion trade deficit for August, published on 24 September. The market was further affected by the unwinding of positions built up by the new gilt-edged market makers during the spring and summer.

A brief rally on 18 September allowed the selling-out of the 2002 tranchette. Thereafter the market continued to fall, and it was not until the pick-up in the sterling exchange rate on the last day of the month that significant gains were seen. Further gains at the end of that week encouraged the authorities to replenish their

(1) In addition, two £100 million tranchettes of 11% Exchequer 1989 and 10½% Exchequer 1997 were issued direct to the National Debt Commissioners.

supplies of stock by issuing a package of tranchettes consisting of £200 million each of 10% Treasury Convertible 1990, 9% Conversion 2000 and 8% Treasury 2009.[1]

With further market gains early in the following week, the authorities were able to sell out all three tranchettes on 7 October, the 2009 stock being the last to go following publication of the banking September money supply figures. The market improved further during the rest of the week, reflecting the strengthening of the exchange rate. In these circumstances the authorities took the opportunity on 10 October to issue a package totalling £800 million of stock, comprising £50 million each of sixteen full-coupon stocks of various maturities. This was a technical operation intended to provide the Bank with a diversified portfolio so that it was in a position to assist both the existing jobbers and the new market makers in the management of their cross positions over the transition to the new gilt-edged market structure following Big Bang on 27 October.

The market drifted somewhat lower early the following week, and after a brief recovery on news of the base rate increase on 14 October, fell back further. A small recovery in the next two days led to profit-taking upon the announcement on 16 October of a £2.2 billion PSBR in September, rather better than expected, and there were renewed losses on 17 October in the wake of the Mansion House speeches.

The last week of the gilt-edged market in its single capacity form began well, with optimistic expectations (shortly to be fulfilled) of a production-sharing agreement being reached within OPEC and a consequently improving exchange rate. The buoyant tone received a setback, however, from the £0.9 billion September trade deficit announced on 23 October. The sharp rise in the exchange rate on 24 October, the last day of the single capacity gilt-edged market, turned the market round, and enabled the authorities to announce the issue of £1 billion of 10% Treasury Convertible 1991 for sale by tender on 29 October—£40 to be paid on tender with the balance in November. The stock was convertible into two stocks, 9½% Conversion 2001 and 9% Conversion 2011 (only the second such double-headed convertible).

The new market structure began well on 27 October, despite initial problems with the Stock Exchange TOPIC network (which several gilt-edged market makers and broker-dealers use for disseminating prices to their clients, but which is not fundamental to the dealing structure of the gilt-edged market). The 1991 convertible stock was comfortably over-subscribed at the tender on 29 October, and was allotted at a premium of one quarter point per cent over the minimum tender price, giving a yield of 10.99% to 1991, 10.25% to 2001 and 9.92% to 2011 (in the latter two cases assuming conversion at the first optional date).

The cut in the Japanese discount rate announced on 31 October buoyed sentiment, as did the call by the new Saudi Arabian Oil Minister for an OPEC conference. Against this background, the authorities announced the issue of tranchettes of £250 million of 10% Conversion 1996 and £50 million each of 9½% Conversion

(1) A further £100 million of the 1990 stock was issued direct to the National Debt Commissioners.

2004, $8\frac{1}{2}$% Treasury 2007 and $2\frac{1}{2}$% Index-Linked Treasury 2009.[1] The 1996 stock was exhausted early on 3 November following operation of the first mini-tender procedure described in the Bank's paper on official operations in the secondary market (see page 569).

Yields on index-linked stocks began to rise in early September, a little after the conventional market had begun to weaken. This rise in yields was to continue until the end of October although yields on conventional stocks began to stabilise earlier in that month. There was moderate interest in the index-linked sector during the period.

In the four weeks after Big Bang the average daily turnover of the market makers with outside investors and broker-dealers averaged about £$1\frac{3}{4}$ billion. This compares with an average day's turnover for the jobbers of £1–$1\frac{1}{4}$ billion in the old market. In addition, the market makers daily averaged approaching £2 billion of bargains between themselves through the inter-dealer-broker network.

Over the period from mid-August to the end of calendar October, yields on conventional 5-year stocks rose by $1\frac{7}{8}$% to $11\frac{3}{16}$%, those on 10-year stocks by $1\frac{9}{16}$% to 11%, and those on 20-year stocks by $1\frac{3}{16}$% to $10\frac{1}{2}$%. Real yields on index-linked also rose, that on the 1990 stock rising by $\frac{11}{16}$% to $3\frac{15}{16}$% and that on the 2020 stock by $\frac{5}{16}$% to $3\frac{9}{16}$% (both assuming 5% inflation).

Other capital markets

The *equity market* opened the period in buoyant mood, encouraged by hopes of an internationally co-ordinated reduction in interest rates. The FT-Actuaries all-share index, which stood at 794.89 on 21 August, rose to 830.45 on 5 September. Thereafter, however, the index went into decline, initially because of concerns about the August money supply figures but strongly reinforced by the record fall on Wall Street on 10 September. The decline continued throughout the rest of September as sterling weakened and uncertainty persisted about the outlook for interest rates, and the index reached a low point for the period of 762.47 on 29 September following the inconclusive outcome of the G5 meeting. Sentiment improved following the 1% rise in base rates on 15 October, and was further encouraged by news of the OPEC agreement on 21 October. The advance continued through Big Bang, despite initial problems with TOPIC, and the index closed the period at 807.27, up 1.6% overall. The all-share yield rose by 0.05% to 4.05% over the same period.

New equity issues again reached a record level during the period. New issues announced totalled some £3.4 billion over the two months to October. By far the largest issue during the period was the £1.36 billion partly paid offer for sale by the TSB. The offer was some eight times oversubscribed, and the 50p part-paid shares were actively traded in the range 80p–85p despite the general weakness of the market in early October. Offers for sale were also announced by Avis Europe (£180 million) and Mecca Leisure (£35 million).

There were a number of sizable issues to finance overseas acquisitions, including rights issues by Beazer (£183 million),

Table J
Amounts raised in the capital market

£ millions; *not seasonally adjusted*
Net cash raised +

Banking months	Dec. 85– Feb. 86	Mar. 86– May 86	June 86– Aug. 86	Sept. 86– end-Oct. 86
UK private sector				
Loan capital and preference shares	+218	+ 385	+ 429	+ 261
Equity capital(a)	+598	+ 675	+2,725	+2,658
Unit trusts(b)	+835	+1,200	+1,447	+ 859
Issues on the unlisted securities market	+ 45	+ 33	+ 83	+ 35
Local authorities				
Stocks	—	+ 3	− 7	—
Negotiable bonds	− 68	− 9	− 54	− 54
Overseas	+245	+ 189	+ 37	+ 134

(a) Net issues by listed UK public companies.
(b) Calendar months.

(1) In addition, two tranchettes, comprising £150 million each of 11% Exchequer 1989 and $10\frac{1}{2}$% Exchequer 1997, were issued direct to the National Debt Commissioners.

Table K
Debt issues announced on the London capital market, mid-August to end-October 1986[a]

Date of announcement	Issuer	Nominal amount (£ millions)	Coupon (per cent)	Maturity
2 September	Portsmouth Water Company	8	$10\frac{5}{8}$	1996
3 September	Scottish Metropolitan Property	30	$10\frac{1}{4}$	2016
7 October	Essex Water Company	8	$11\frac{3}{4}$	2002/4

(a) All issues were placed. Issues of convertible loan stock and issues of less than £5 million are excluded.

Bunzl (£197 million) and Redland (£181 million) and vendor placings by Siebe (£225 million) and Smith & Nephew (£127 million). In addition, Eurotunnel raised some £70 million in the United Kingdom as part of its initial equity-raising operation, and towards the end of the period Hillsdown raised £154 million by means of a placing with clawback.

There were three issues in the *domestic fixed-interest market* totalling £46 million.

In the *eurosterling market*, four borrowers (including three building societies) raised a total of £850 million by means of floating-rate notes. There were three issues totalling £145 million in the fixed-rate market, including two equity-linked issues by Elders IXL (£40 million) and BET (£65 million). In addition, Fisons issued a $50 million eurodollar bond issue convertible into sterling equity.

Sterling commercial paper

Since mid-August there has been a further expansion in the outstanding stock of paper. Gross issues of £763 million were made in the period to end-October, with the rate of issue gathering pace towards the end of the period; redemptions totalled £517 million; and the value of paper outstanding reached £528 million. By the end of November, 31 programmes had been notified to the Bank with an overall value, including the sterling components of multi-currency facilities, of more than £3 billion.