# The U.K. banking sector 1952-67

During this period the banking sector consisted of three main groups:[1] the deposit banks; the discount houses; and the accepting houses, overseas banks and other banks. In the first part of this article the role and functions of these component parts of the sector are briefly described, with the intention of indicating which factors were of importance in shaping their development. There follows a chronological review of the evolution of the sector. The period under consideration is divided, for purposes of analysis, into three parts. The first, running from 1952 to 1957, is characterised by relatively slow institutional and financial development. The second, from 1958 to 1960, is a period which contains important structural changes associated with rapid growth. In the final period, from 1961 to 1967, the rapid development of the third group (the accepting houses, overseas banks and other banks) was the feature of greatest significance.

**The deposit banks**

The deposit banks consist of the London clearing banks, the Scottish banks, the Northern Ireland banks, the Bank of England, Banking Department, and a small number of others.[2] The London clearing banks dominate this group by size, with nearly 90% of total deposits. Because of the predominance of the clearing banks, the development of this group will be discussed in terms of the factors affecting the clearing banks alone.

The deposit banks may, in general terms, be distinguished from other financial institutions in that they play the main part in operating the payments system – the money transmission service – of the country, though they are not necessarily unique in this function.[3] Because of their role in providing this facility, in addition to the many other services which they perform for their customers, the deposit banks are able to raise a certain proportion of their funds interest free; but since these funds are subject to immediate withdrawal, it is necessary for these banks to maintain liquidity standards that will enable them not only to preserve the confidence of depositors, but also to supply cash on demand.

At any time bankers may be expected to have views on the distribution of their assets that will enable them to achieve the nicest balance between profit and risk. As banks become more liquid, they will, in general, seek to restore this balance by adding to their advances. Similarly, if the banks become short of liquid assets, they will become reluctant to expand advances any further. It is, therefore, in

1 Defined as for Table 8 of the annex. The National Giro, which now forms a fourth section, did not start operating until 18th October 1968.

2 Listed in the additional notes to Table 7 of the annex.

3 The inauguration of the Giro in 1968 has brought into being an institution designed to play an important part in facilitating money transfers. Even before this, other financial intermediaries, the building societies and trustee savings banks for example, had begun to establish money transmission facilities, although on a very much smaller scale.

principle possible to regulate the pace of the banks' expansion by controlling their liquidity. The specification of required minimum ratios merely gives the authorities a somewhat firmer fulcrum to work upon.

By convention, reinforced in this period by official prescription, the clearing banks have maintained certain minimum ratios of cash reserves[1] and liquid assets to gross deposits. The minimum cash ratio has, since the end of 1946, been fixed at 8%, and the banks generally succeed in working with a total of cash reserves very close to this. The required minimum ratio for liquid assets is now set at 28% (30% before the autumn of 1963). Besides cash, assets which are conventionally treated as liquid for the purpose of satisfying this required ratio include money lent out at call and short notice, largely to the discount market, Treasury bills and commercial bills.[2] The banks have not sought to hold their actual liquid assets at the minimum required level, but have allowed them to fluctuate above it by a margin depending on seasonal and other considerations. Beyond these requirements, funds are generally either invested in securities, mainly gilt-edged stocks (which represent a second line of liquidity, as they are readily marketable), or are lent in the form of advances.

During this period, however, neither the cash ratio, nor the liquid assets ratio, provided a really firm fulcrum for the authorities. In order to maintain an effective market for both Treasury bills and gilt-edged stocks, the authorities are always prepared to deal in these instruments – at a price. Any holder of such government debt can always switch between cash, bills and gilt-edged. Furthermore, the banks have largely insulated themselves against severe loss on any sale of gilts by holding mainly short-dated stocks. They are frequently in a position to exchange gilts for Treasury bills or cash simply by refusing to reinvest as their holdings mature. It is only after they have divested themselves of their shortest-dated investments that they face the possibility of a significant loss. And here, the authorities' policy of leaning against the wind to prevent excessive swings in the prices of government stock[3] over short periods has enabled the banks to transfer their holdings from one form of government debt to another in the short term without incurring too great a loss.

Thus liquidity pressures upon the clearing banks are evidenced not by variations in their cash ratios (such variations are now largely accidental), but by signs of unwillingness among the banks to reduce further their holdings of gilt-edged in order to restore their holdings of (conventionally) more liquid central government debt to that proportion of assets necessary to satisfy the prescribed ratio. This proportion has not remained constant over time. As noted earlier, the definition of liquid assets which may be held by the clearing banks to satisfy the required liquidity ratio includes certain liabilities of the private sector (for example, commercial bills). When short of Treasury bills, the banks have

1 Cash is defined as notes and coin (till money) and balances with the Bank of England.

2 See the additional notes to Table 9 of the annex.

3 This policy was described in the article "Official transactions in the gilt-edged market" in the June 1966 *Bulletin*.

naturally tended to try to replace them with liquid claims on the private sector. This switch has been made easier because commercial bill holdings were not subject to credit control at all until 1961 or to a formal ceiling until 1965. Furthermore, the development of the market in inter-bank loans and the establishment by the clearing banks of specialised subsidiaries and associates, which form part of the group of accepting houses, overseas banks and other banks, has recently provided the clearing banks with additional flexibility. In the short run, however, variations in the banks' holdings of government debt, relative to the total volume of their bank deposits, will still largely determine whether their portfolio is becoming more or less liquid; it is the total volume of such holdings, rather than the details of its division between cash,[1] Treasury bills and gilts, that is of importance in this respect.

To the extent that the domestic borrowing requirement of the Government is not met by a take-up of government debt by the public, it has to be met by borrowing from the banks. This process is essentially very simple. Any excess of government payments to the public over government receipts (including receipts from the public for the take-up of government debt), is either held by the public in the form of notes and coin, or is deposited by them with the banks. The banks then use these funds to buy gilts or Treasury bills or to hold in cash, according to the balance of these assets which they wish to maintain, and in so doing provide the Government with the residual finance required to meet their deficit.

The banks' role in this process of providing residual finance for the public sector is not entirely passive. If the banks can make bank deposits seem relatively more attractive they will secure some funds that would otherwise have been invested in government debt, directly or indirectly, through other intermediaries. To this extent the residual financing requirement, which the Government must raise from the banks, is increased, and bank assets and deposits will each increase.[2]

The provision of additional finance by the banks to the Government to meet the residual financing requirement adds directly to the banks' liquidity (their holdings of easily realisable debt). As their liquidity rises, so they will, in general, become even keener to increase their advances in order to restore the desired proportion of higher-earning assets to liquid ones. In practice, however, the ability of the banks to increase their total of advances at will is limited. The banks charge similar rates of interest (directly linked to Bank rate) to particular categories of borrowers. They do not, therefore, seek to attract additional borrowers by a competitive lowering of rates (indeed, it remains uncertain how far such competition would increase the total of borrowing from the banks as a whole). As a result,

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1 Notes are liabilities of the Issue Department of the Bank of England, which in this context is part of central government; balances held with the Bank of England, Banking Department, are invested in government debt.

2 If the banks attract funds that would otherwise have been invested, directly or indirectly, through other intermediaries in private sector debt, there will again be a tendency for bank deposits and assets to increase. The analysis in this case is, however, somewhat more complicated and deserves treatment at greater length than is possible here.

the volume of advances made by the banks must depend in large part on the strength of demand for funds from suitable borrowers, except to the extent that the banks can expand advances by the use of various marketing techniques such as personal loan schemes.

An even more important constraint on the banks' ability to expand advances has been the direct controls applied by the authorities. One of the difficulties that has confronted the authorities in their efforts to further national economic policy through control of the banking sector is that restraint of bank lending has often seemed appropriate at times when it has been difficult to sell large quantities of government debt to the private sector. The consequent reliance on the banking sector for residual borrowing generates the liquidity with which the banks could frustrate official objectives.[1] Particularly in some of the earlier years of this period the banks had such large holdings of liquid assets that, even when conditions allowed for large sales of debt to the public, it was hardly possible to put severe pressure on their liquidity position. Such excess liquidity can be sterilised by requesting the banks to place Special Deposits with the Bank of England, which are not counted as liquid assets for the purpose of meeting the required ratio. The same object – the restriction of bank lending to the private sector – can, however, be achieved with greater simplicity by the use of direct controls. Such direct controls can be used flexibly, for example to indicate priorities in lending to which it might be desirable for the banks to adhere. Direct controls, unlike calls for Special Deposits, leave the banks free to manage their holdings of government debt as they see fit. In the longer run, however, it is recognised that distortions of the structure and efficiency of the banking sector may result.

In reviewing the historical development of the clearing banks, and to a lesser extent of the banking sector as a whole, there are, therefore, three main factors to consider: the size of the Government's residual financing requirement which the banks were obliged to satisfy; the ease with which the banks could expand their advances; and the relative attraction of bank deposits as compared with other assets which their customers might hold.

**The discount market**

The discount market raises the greater part of its funds from within the banking sector. At the end of 1967 some 92% of its borrowed funds (88% of its total funds) were raised in this way. Consolidation of the banking sector figures, therefore, tends to mask the role of the discount houses. When a clearing bank places money at call with a discount house, instead of investing the funds itself, it transfers to the discount house the opportunity to invest in other assets. So money placed at call with the discount market by the banks, although important to them, especially to the clearing banks, for the purpose of meeting liquidity ratio

1 Alternatively, it may happen, as for example in 1963, that the banks are short of liquidity but encouragement of bank lending seems in order; in 1963 the problem was resolved by agreement on a reduction in the minimum liquid assets ratio.

requirements, represents an entirely intra-sectoral transaction.[1]

The role of the discount houses during this period was of importance mainly because they were able to provide the banks with a little extra flexibility. Not only did the existence of this market enable the banks to smooth out short-term, random fluctuations in cash flows quickly and efficiently, but the market, through adjustments of its own asset structure, was also able to cushion the effects on the banking sector as a whole of considerable changes in the number of Treasury bills available. As Treasury bills became scarcer towards the end of the period, so the discount market switched a larger proportion of its funds into holdings of commercial bills and short-dated gilts. In particular, the market played a notable role in the revival of commercial bill finance, a development which, in large part, allowed the clearing banks to avoid continuous pressure on their liquidity towards the end of the period, despite the marked reduction in Treasury bills.

**Accepting houses, overseas banks and other banks**

This group of banks has been growing very rapidly in recent years, much faster than the rest of the banking sector. It is not easy to describe the functions of the group shortly, since these banks undertake a wide and differing range of banking business. The growth and development of the overseas and foreign banks in London, which at the end of 1967 held some three quarters of the group's total deposits, has, however, been detailed in articles in the September 1961 and June 1968 issues of this *Bulletin.*

The role and behaviour of this group contrasts sharply with that of the deposit banks. As noted earlier, the latter are dominated by the London clearing banks who all undertake a similar type of business. The banks discussed in this section, however, are remarkable for the wide range of differing business which they undertake. While the deposit banks are distinctive in that they provide a money transmission facility and are ready to act as depositary for the funds of all comers, this other group do not, in the main, seek to facilitate the transmission of regular payments, and prefer only to deal in large sums of money; and while the clearing banks work to required cash and liquidity ratios, the other banks are not required (and in most cases do not need) to observe any such conventional ratios, and generally hold a much lower proportion of central government debt. Nevertheless, these other banks nowadays generally hold higher proportions of short-term liquid assets than the clearing and other deposit banks. The nature of their business varies so widely that it would not be possible to set common required ratios based on good banking practice. Prudence is observed generally, however, in that they relate the maturity structure of their assets to broadly the type of deposits that they attract.

1 Money at call with the discount houses is therefore included in Charts C, D and G, which show the asset structure of the clearing banks, but is not recorded in Chart B, which deals with the sector as a whole, nor in Tables A and B at the end of this article.

Whereas the funds in the deposit banks have been, very largely, placed there by U.K. residents, the most remarkable growth among the other banks has come in the form of foreign currency deposits – mainly euro-dollars and, since 1966, dollar negotiable certificates of deposit – mostly owned by non-residents. These dollars are, in turn, largely re-lent to non-residents, so that much of this business represents purely financial intermediation between foreigners, an entrepôt business that raises the United Kingdom's invisible earnings in the balance of payments, but otherwise has a negligible impact on domestic financial conditions.

These other banks, which in recent years have included a number of very active subsidiaries and associates of deposit banks, have also been able to attract a rapidly increasing total of sterling deposits, and with the addition of such foreign currency funds as they have switched into sterling, have been able to command a growing total of funds for investment in U.K. assets. These banks have played a major role in the rapid development of the parallel money markets in London, through which they both extend and take short-term liquid finance. Their sterling funds are largely employed in loans to other banks[1] and to local authorities, besides advances to private customers; the volume of such loans, particularly those to the local authorities, can be expanded or diminished very rapidly and flexibly by way of switching funds between foreign currency and sterling, and there will often be a considerable flow of funds in response to changes in the calculated profit and risk involved in such switches.

These banks depend for their development, much more than the clearing and other deposit banks, on their ability to persuade potential customers to deposit funds with them. In recent years they have been very successful in this respect. They pay interest on almost all their deposits, and since 1958 they have been prepared to vary the rates and terms offered to borrowers and to depositors in order to attract more business. Because of the increasing involvement of affiliates of the deposit banks in this market, the distinction between these other banks and the deposit banks is, in reality, beginning to be rather blurred.

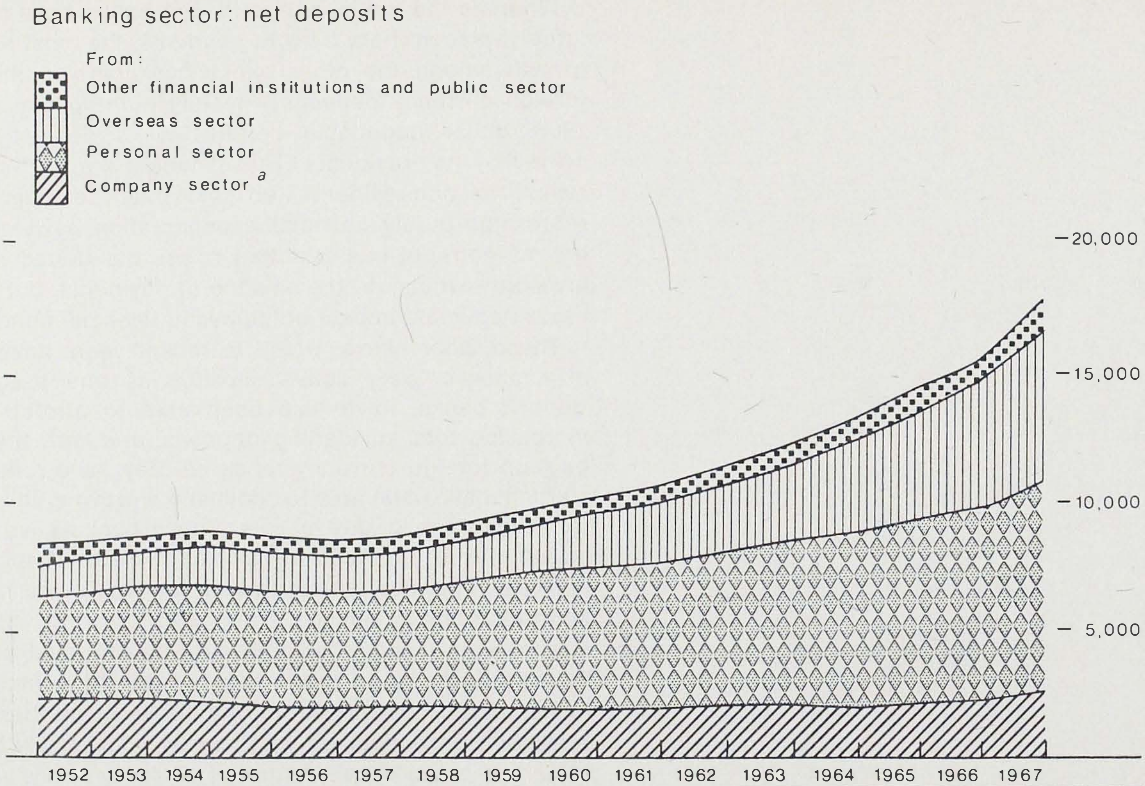
Thus, the main factors which have determined the growth of the sterling funds of these other banks have been their relative success in attracting new deposits (largely by offering competitive rates to depositors), the development of the parallel money markets, and the considerations which have governed switches between foreign currencies and sterling.

**Developments in the banking sector**

The broad trends in the banking sector's deposits and assets are illustrated in Charts A and B overleaf. Further details are provided in Table A. The figures are derived from "Sec-

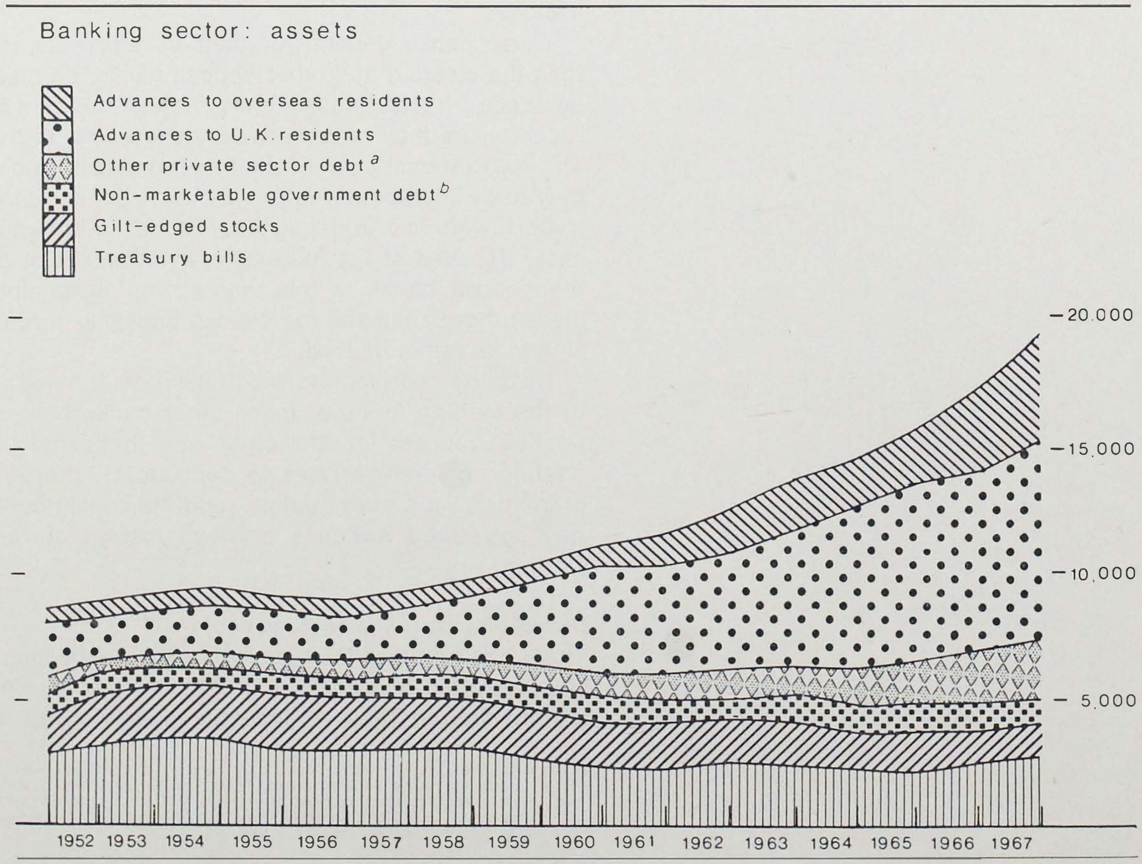
1 The inter-bank market, which these banks were instrumental in creating, provides both a use for and a source of readily available liquid funds. The development of this market has undoubtedly been important in the growth of these banks. The market is described in more detail in the article "Overseas and foreign banks in London" in the June 1968 *Bulletin*.

**Chart A** £ millions




*a* Industrial and commercial companies only.

**Chart B** £ millions




*a* Money at call (other than to the discount market), commercial bills and company and overseas securities.
*b* Notes and coin, tax reserve certificates, Treasury deposit receipts and net indebtedness to Bank of England, Banking Department.

tor financing accounts: 1952-66" in the December 1967 *Bulletin.*[1] Some of the statistics, particularly those for early years, are founded on incomplete data, and although the overall trends are likely to be correct, caution is needed in using individual figures.

During the 1939-45 War, it was necessary to place strict restraints on private expenditure. This objective was achieved partly by high taxation, but the private sector[2] was also given strong incentives to save. By the end of the War it had accumulated large quantities of government debt and had doubled its holdings of bank deposits. The clearing banks (which dominate the statistics for the banking sector until about 1958) had also accumulated an abnormally large proportion of government debt – Treasury deposit receipts[3] accounted for over 40% of their resources – whereas their advances ratio had fallen to a little over 15%, far below the point that would be consistent with maximisation of profits.

In the immediate post-war years, the banks went some way towards restoring a more normal pattern of assets. From 1947 to 1950 the authorities were able to repay some government debt. There was, in turn, a moderate rundown in the banks' holdings of such debt (and, as a counterpart, the increase in bank deposits was held back). At the same time the private sector, seeking finance for consumption and investment delayed by the War, borrowed some £150 million a year extra from the banks – rather more in 1951 when the cost of stockbuilding was boosted by the Korean War – and the total of advances more than doubled between 1945 and 1951. This occurred despite official requests for restraint, which remained in force after the War; though the requests were comparatively mild and were intended to avoid inflationary pressures, not to deny industry the credit needed for capital re-equipment.

The rise in advances between 1945 and 1951 may have owed something to the existence of very low interest rates (a 'cheap money' policy was being followed during this period) which no doubt encouraged the personal sector[4] to borrow rather than run down its liquid reserves built up during the War – although this also probably occurred to some extent. Companies' sources of finance were restricted by capital issues control and they too sought accommodation from the banks in preference to any major reduction in their liquid assets. As a result, at the beginning of the period with which this article deals, the private sector was still relatively liquid. In addition, the banks' holdings of government debt remained high by historical standards. Despite the rise in advances that had occurred, the advances ratio in December 1951 was still well below that ruling immediately before the War.

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1 Page 360: some figures have since been amended.

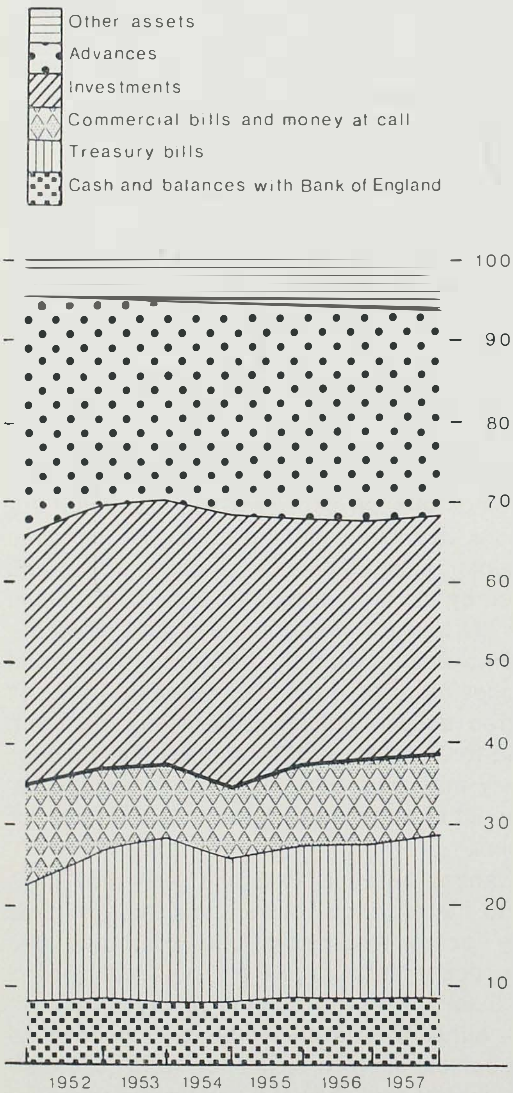
2 For the purposes of this article, the private sector refers to the non-bank private sector.

3 A form of non-marketable government debt in which the banks were obliged to invest during wartime.

4 The personal sector includes not only individuals, but also unincorporated businesses and non-profit-making bodies.

**Chart C** Per cent

London clearing banks: assets 1952-57




*1952-57*

The composition of the London clearing banks' assets over this period is shown in Chart C. No great changes in the asset structure took place during these years. Indeed, notwithstanding a degree of liquidity at the outset well above normal requirements, there was over the period as a whole some increase in the proportion of liquid assets held: in December 1951 the liquidity ratio stood at 34·8%; by December 1957 it had reached 38·4%. Advances on the other hand fell as a proportion of total assets – from 29·4% to 25·7%. The investments ratio was broadly unchanged (31·0% in December 1951 and 29·6% in December 1957).

Despite the clearing banks' natural inclination to increase their profitable lending to the private sector, their advances in December 1957 were in fact slightly less than in December 1951, whereas holdings of government debt had increased by £750 million.[1] For the banking sector as a whole, lending to the private sector was virtually unchanged, and government debt was higher by nearly £700 million (see Table A). The relative stability of advances must have been largely due to the banks' observance of official restrictions on bank lending, which were maintained throughout the period and were finally lifted in July 1958; but this is not necessarily an exclusive reason, for the restrictions, at least until 1955, were not any more severe than those during the immediate post-war years when, as described earlier, advances rose considerably. Another factor – though of less significance – was that a temporary boost had been given to advances in 1951 by the high cost of financing stockbuilding during the Korean War; in 1952 the banking sector's total advances to the private sector fell by about £250 million and its other lending to the private sector by a further £100 million. Moreover, it is probable that between 1952 and 1957 the somewhat higher, and generally rising, rates of interest induced some potential borrowers to draw instead upon their liquid assets for finance. Persons were able to draw on assets built up during the War, which had still not been absorbed by 1951.[2] Companies also relied partly on internal resources for capital requirements[3] – for example, they ran down bank deposits heavily between 1954 and 1957 – perhaps because they feared that excessive liquidity would expose them to the danger of take-over; and they were also able to raise considerable sums (particularly in 1955) within the capital issues control then prevailing.

It therefore seems that the apparent effectiveness of official requests in holding down advances during this period owed something to the ease with which expenditure could be financed from sources other than the banks. Customers do not seem to have exerted very much pressure on the banks to lend more and, even without official credit restraints, the banks might have had to widen the terms and scope of their lending in order to increase their advances significantly.

1 Cash in tills, Treasury bills, Treasury deposit receipts and British government stocks (see Table C at the end of the article).

2 Personal bank deposits grew very slowly between 1952 and 1957 (September 1966 *Bulletin*, chart on page 251).

3 See March 1967 *Bulletin*, page 31.

In 1952, the economy slowed down following the Government's measures to improve the balance of payments, but expansion was resumed in 1953 and 1954. In each of these three years, U.K. residents' deposits with the banking sector rose by roughly £150 million (see Table B). In 1952, the banking sector took up large quantities of government debt, particularly Treasury bills, but the rise in deposits was only moderate because of the decline in advances. Over the next two years, the Government's domestic borrowing requirement was much reduced and, with the private sector taking up roughly the same amount of government debt as in 1952, the banking sector's contribution to government finance fell. By 1955, the pressure of demand was becoming excessive: capital expenditure had been encouraged by the introduction of investment allowances in 1954, and consumption was stimulated by tax concessions in the 1955 Budget. Bank deposits were heavily drawn down, for confidence was high and the private sector's asset preference changed – away from cash and bank deposits and into gilts and other higher-yielding assets. The private sector thereby added £660 million of government debt to its holdings and, as a counterpart, the banks ran down their gilt-edged portfolios. In 1956 the pattern was somewhat similar, though movements were smaller: bank deposits remained unchanged. But in 1957 deposits rose, private sector purchases of debt dried up altogether, and the banking sector met the domestic borrowing requirement, mainly by taking up Treasury bills.

As far as can be deduced from the statistics, there was a particularly sharp fall within the private sector in the deposits of persons in 1955, presumably to finance the increase in consumers' expenditure. Companies' deposits apparently rose quite sharply in 1952 (as the cost of stockbuilding declined at the end of the Korean War) but by 1954 they were falling, and they continued to fall during the next three years – particularly in 1955, when capital expenditure was at a cyclical peak. Personal advances were very restrained throughout; they seem to have fallen in 1952, to have marked time in 1953 and to have picked up a little thereafter. Companies' advances followed the same pattern, but in a more pronounced way.

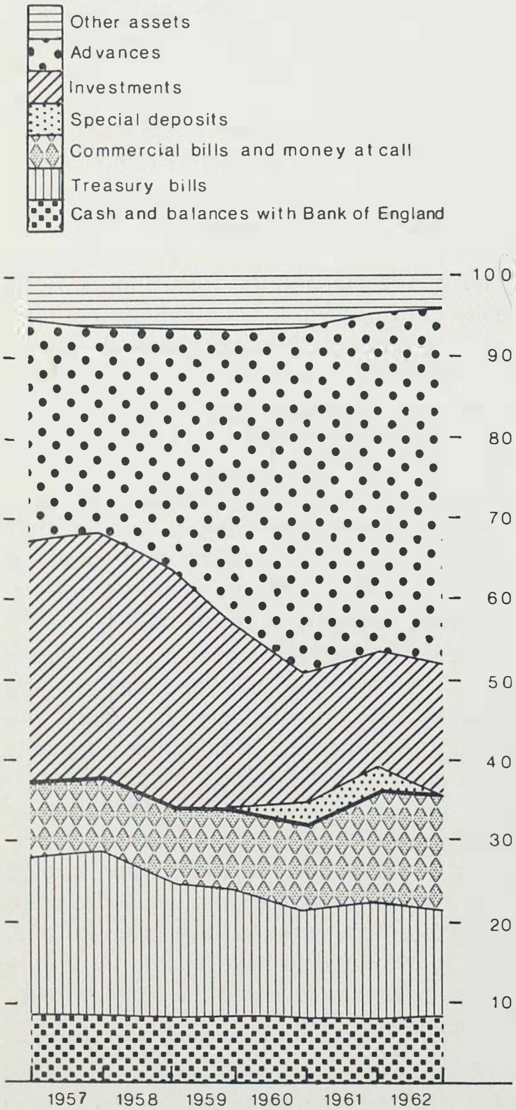
*1958-60*

During these three years there was a transformation in the assets structure of the clearing banks (see Chart D). Their investments ratio fell sharply and their liquid assets ratio also declined. Advances, on the other hand, expanded rapidly, rising by nearly £600 million (25%) in 1959 and by a further £500 million in 1960; by the second half of 1960 advances were absorbing nearly 45% of gross deposits, compared with just over 25% in December 1957.

The change in pattern was in part a cause, in part a result, of the expansion of the domestic economy. Fears of a recession, and an improvement in the external position in 1958 (which was partly brought about by a fall in commodity prices) led to the removal of restrictions on bank

**Chart D** Per cent

London clearing banks: assets 1957-62




lending in July 1958 and of hire purchase controls shortly afterwards. Economic activity increased in the middle of 1958 and accelerated in 1959: industrial production rose strongly, stimulating new fixed investment. The company sector no longer had large reserves of liquid assets and was also following a more liberal dividend policy, so that, despite increased capital issues, companies needed to borrow heavily from the banks to finance their capital expenditure. As consumers' expenditure was also buoyant, the demand for bank advances rose sharply. In the absence of credit restrictions, the banks were ready to accommodate borrowers.

The rise in bank advances alone would not have raised the clearing banks' advances ratio so sharply, but for strong private sector demand for government debt, which restricted the rise in bank deposits; the banking sector reduced its holdings of gilts and Treasury bills (see Table B). At the beginning of the period, expectations of a reduction in interest rates seem to have predominated, because demand was mainly for gilts; but, in 1959, with personal incomes increasing, a strong demand for national savings was also generated, part of it met by a new, higher-yielding defence bond. Investment in national savings was also high in 1960, when there were further large purchases of gilts. Although increased bank credit may have partially contributed, in its turn, to the rise in personal incomes (and thereby indirectly to the strong demand for government debt) other factors were more important in pushing up incomes and affecting the pattern of actual or expected interest rates.

The result of the strong private sector demand for government debt was that bank deposits did not rise as quickly as they might have done otherwise, and the banks had to run down their holdings of government debt. In 1958, they were able to reduce their Treasury bills, as their liquid assets ratio was comfortably above the minimum; and in 1959 they sold large quantities of gilts. They then had to decide whether to limit their advances or to sell still more gilts. In the event, the banks continued to sell gilts during 1960 (notwithstanding official warnings that the Government Broker would not necessarily support prices near those then ruling) thus indicating that they believed they held a sizable margin of liquidity.

By the end of 1960, however, the clearing banks, whose holdings of investments had fallen by nearly 40% between December 1957 and December 1960 (reducing their investments ratio from 30% to 16%), were clearly becoming reluctant to run them down any further. Moreover, early in 1960 the Government had taken steps to counter the excess demand that showed signs of appearing:[1] Bank rate was raised, hire purchase controls were reimposed and the scheme of Special Deposits was activated. The initial call for 1% of gross deposits was paid in June 1960 and was

[1] Labour was also becoming scarce and the balance of payments was again causing concern.

quickly followed by a call for a further 1%. At first the banks responded by selling more gilts, but on the second call the authorities made it clear that the impact was expected to fall mainly on advances; clearing bank advances declined during 1961.

The increase in advances between 1958 and 1960 seems to have been distributed fairly evenly between the personal and company sectors; however, the personal sector took slightly more than companies in 1958, when controls were abolished and the personal sector's financial surplus was still low; and companies took more in 1960, when their expenditures on fixed and on long-term financial assets were at a peak.[1] In addition, it appears that advances to other financial institutions, especially to the finance houses – which were growing fast, following the removal of hire purchase controls in 1958, the ending of restrictions on bank lending and the forging of links with the clearing banks – were beginning to increase significantly. There were apparently different trends in deposits: personal sector deposits increased strongly; but companies seemed content to run down their liquid assets, and over the three-year period a part of their capital requirements was financed by the decline in their bank deposits.

It was during this period that the transactions of the other banks became significant within the banking sector. The development of the euro-dollar market certainly contributed to the rise in deposits with these other banks[2] – over £1,000 million between 1957 and 1960. More than half the growth took place in 1960, by which time the pattern of intermediation of these banks was becoming evident. Most foreign currency deposits were re-lent to overseas banking offices and other overseas residents, while inflows of sterling, augmented at times by foreign currency deposits switched into sterling, were mainly lent to U.K. local authorities. Such loans had been negligible in the early fifties, but in 1955 local authorities had been denied free access to the Public Works Loan Board and had since become increasingly reliant on short-term borrowing in the market. As these loans provided the banks with a virtually risk-free, relatively high-yielding, short-term asset, they quickly became popular, and of the £155 million borrowed by local authorities from the banking sector in 1958, 1959 and 1960, more than £140 million was borrowed from the other banks.

By the end of 1960 the clearing banks' holdings of government debt no longer represented an unduly large proportion of their assets, and the future expansion of these banks was to some extent restricted by their ability to enlarge their liquid assets base. However, the other banks were not as constrained, for their liquidity requirements were less strict and they were able to attract new deposits by offering competitive rates of interest.

1 March 1967 *Bulletin*, page 40, Chart E.

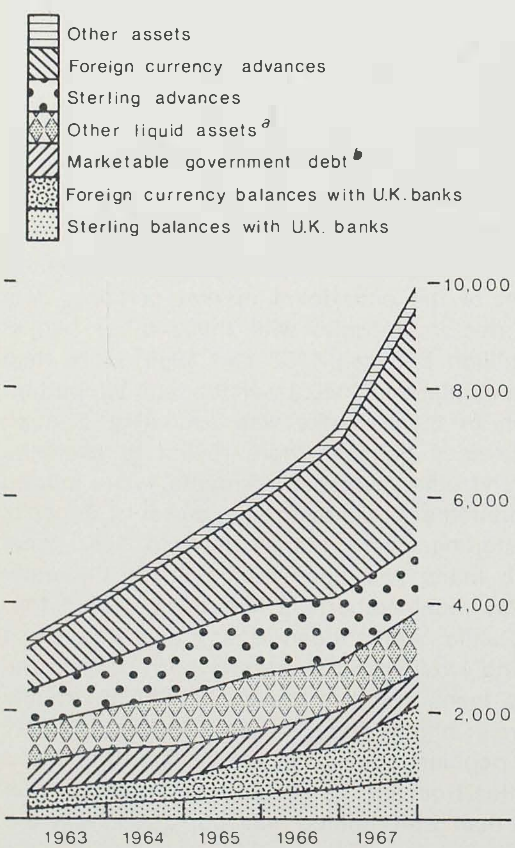
2 It is not possible to quantify the effect, for the banking statistics did not distinguish between sterling and foreign currency deposits before 1963.

*1961-67*[1]

During this period the accepting houses, overseas banks and other banks were growing much faster than the deposit banks. Because the asset structure of these other banks is not uniform and, in general, differs considerably from that of the deposit banks, patterns of behaviour after 1960 can no longer be inferred from changes in the assets of the banking sector as a whole. During much of this period, the ability of both classes of banks to expand their sterling assets was to some extent restricted by credit policy. The other banks could, however, expand their foreign currency business, which was not restricted, and their foreign currency advances grew rapidly (see Chart E). Furthermore, they were still keen to increase their sterling deposits, for even if their sterling lending to the private sector was restricted, their low overheads enabled them to make a profit on loans to local authorities. They therefore continued to offer much higher rates on sterling deposits than the clearing banks.

**Chart E** £ millions

Other banks: total reported assets




*a* Cash, commercial bills, money at call and loans to local authorities.
*b* Treasury bills and gilt-edged stocks.

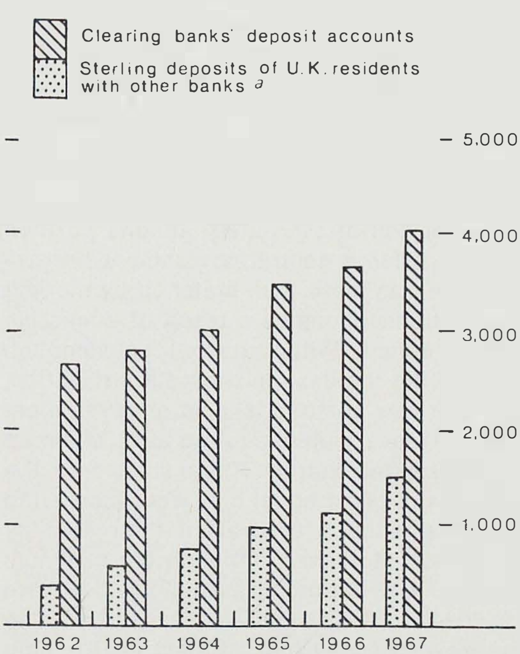
Between 1961 and 1967 the net deposits of the banking sector roughly doubled, to some £18,000 million. Over 40% of the increase was accounted for by euro-dollar deposits with the other banks. Though such funds could be switched into sterling[2] and made available to domestic borrowers, most of them were immediately re-lent to head offices abroad or to other overseas residents; they thus had only indirect domestic effects. Nevertheless, even after excluding this entrepôt business in euro-dollars,[3] the aggregate pattern of the banking sector's assets was changing as these other banks increased their share.

A comparison of the growth rates of the deposit banks and of the other banks strongly suggests that some sterling funds were switched to the latter as a result of the higher yields offered, for although the absolute increase was very much the same for both groups, the percentage increase for the other banks was much faster. (Chart F on the next page compares the growth of the clearing banks' deposit accounts with that of the sterling deposits of U.K. residents with the other banks.[4]) This trend, which seems to have been in evidence throughout the period 1952-67, but especially since 1960, is probably associated with greater financial sophistication, particularly among company treasurers, and with higher interest rates, which have made depositors more conscious of interest-rate differentials.

Sector analysis reveals that company deposits in particular have been switched. Whereas company deposits with the clearing banks remained virtually unchanged from December 1963 to December 1967,[5] those with the other banks rose from about £500 million to £1,050 million; if an

1 From 1963 onwards, the statistics are more comprehensive and available in greater detail.
2 When they must be covered in the forward market.
3 Advances in foreign currency to overseas residents increased by about £3,500 million between 1961 and 1967.
4 It is not possible to split current and deposit accounts with the other banks for the whole period, and in any case current accounts with these banks, as well as deposit accounts, often earn interest.
5 It is not possible to split company deposits as between current and deposit accounts.

**Chart F** £ millions




a Namely the accepting houses, overseas banks and other banks; the deposits of these banks have at times (especially in 1964 and 1967) been inflated by the addition of new banks to the series.

estimate of foreign currency deposits is excluded from the total,[1] the sterling deposits of companies with the other banks are seen to have risen from about £400 million to about £850 million. It should, however, be borne in mind that throughout the period, and especially in 1967, the clearing banks were actively participating in the growth of the other banks through subsidiaries. Furthermore, competition for sterling deposits between these two groups of banks does not extend over the whole range of domestic business: the other banks generally tend to deal only in relatively large sums, whereas the clearers – with their wide network of branches – are better placed to attract the small depositor. Also, some allowance should be made for the inclusion in the statistical tables of new contributors within the group of other banks, such as in 1964 and 1967.

Until credit restraint returned at the end of 1964, the clearing banks' advances ratio increased steadily (see Chart G on the following page), although to a smaller extent than between 1958 and 1960; but after mid-1965 the ratio declined slightly. Among the clearing banks' liquid assets, money at call was steadily built up from 8% at December 1960 to 13% at December 1967 and commercial bills from 2% to 5%,[2] offsetting a proportionate decline in Treasury bills. The other banks' holdings of conventional liquid assets were virtually unchanged but their loans to local authorities (mostly through the temporary market) quadrupled. The rapid growth of an inter-bank market in sterling also provided individual banks with a buffer against unexpected withdrawals of deposits, and improved the flexibility and efficiency of the system.

There were differing trends in the banks' transactions with the various sectors. Deposits of persons (which were nearly all with the deposit banks) continued to rise much faster than those of companies, whereas advances showed the opposite tendency. The transfer of funds from the personal to the company sector through the medium of the banks was in fact much more pronounced than before 1960. There was also throughout the period a flow of overseas funds into local authority debt, through the medium of the other banks. But none of these movements compares in degree with the large increase in the other banks' euro-dollar business.

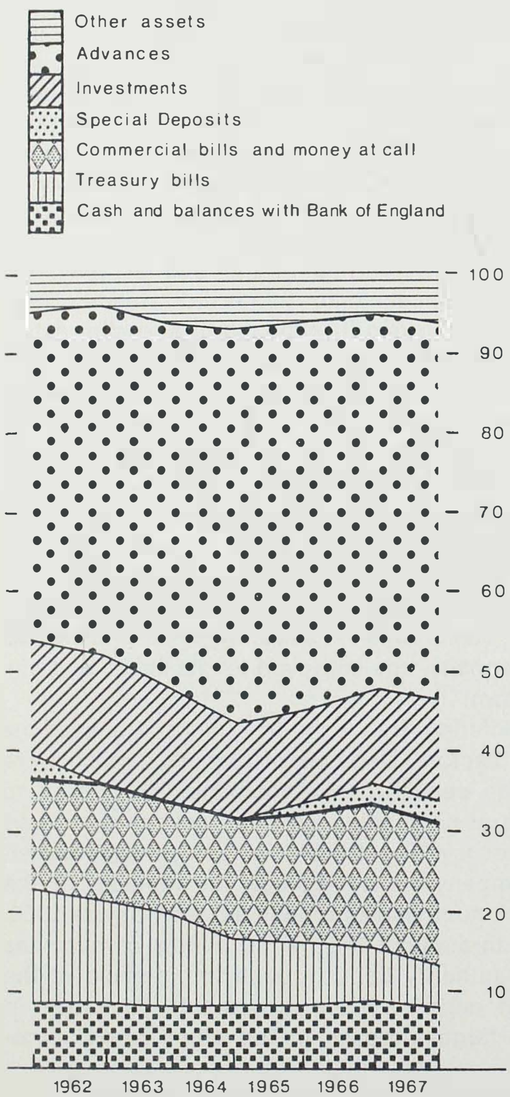
Economic expansion in the years between 1958 and 1960 had placed strains on the balance of payments and, after the imposition of fiscal and monetary restrictions in the first half of 1960, the rate of economic growth was moderated. Consequently, the clearing banks expanded their business more slowly from the second half of 1960 to the early part of 1962; but they became more active after the progressive lifting of restrictions during the course of 1962. The first two years (1962-63) of the period of economic expansion that ensued have some similarities with 1958-59, the early phase of the previous period of growth. On both occasions

1 The statistics do not differentiate between sterling and foreign currency in the deposits of the various sectors.

2 From February 1961 onwards, the clearing banks were allowed to report a certain proportion of their fixed rate advances for export as commercial bills.

**Chart G** Per cent

London clearing banks: assets 1962-67




the Government's borrowing requirement was largely met outside the banking sector (see Table B), and an expansion of deposits was matched by higher advances; the banks maintained their liquid assets ratio above the required level by lending more money at call and by acquiring more commercial bills. Company deposits also behaved as they had done in the similar circumstances of 1958-60, rising in 1963, the year before capital expenditure reached a peak, and falling in 1964.[1]

In 1960 (the third year of the previous period of growth) the banks had continued to run down their holdings of gilts, but in 1964 and the first half of 1965 their liquidity position was very much tighter. A large central government borrowing requirement in 1964 was more than matched by sterling receipts from external transactions as a result of a massive balance of payments deficit. With personal consumption rising fast, there was a big increase in the note circulation, which augmented the private sector's take-up of government debt; so the volume of Treasury bills required to be taken up by the banking sector dropped sharply. At the same time, the clearing banks' holdings of commercial bills were increasing quickly, though not fast enough to prevent their liquidity ratio falling progressively. Moreover, although the minimum ratio had been reduced in 1963 from 30% to 28%, they were finding difficulty in meeting it. The clearing banks had also come round to the view that they had, at least for the time being, sold enough gilts: their investments ratio fell to 11·4% in April 1965 – the lowest it has been since the 1939-45 War – and even this contained some 1·4% of private sector securities, which are in general regarded as far less liquid than gilts. When the Government decided to reduce the growth of economic activity and imposed direct controls on the banks in the first half of 1965, the rate of increase in advances was already beginning to slow down and it soon ceased.

Mainly as a result of the credit restrictions, the clearing banks' advances ratio fell from 50% (in December 1964) to 47% (in December 1967), the counterpart being a small increase in the investments ratio, in addition to 2% frozen in the form of Special Deposits.[2] Despite the restraints, however, the deposits of the banking sector as a whole continued their strong upward trend after 1965, reflected on the assets side partly in the clearing banks' take-up of central government debt, and partly in the other banks' loans to local authorities. Also, in both 1965 and 1967 (when restrictions on the clearing banks were relaxed for a time), the banking sector lent over £500 million to the private sector.

The sterling funds available to the other banks increased by over £1,200 million between 1963 and 1967. (See Table D.) The increase was particularly rapid in 1963-64, but slowed thereafter, and even fell in 1966 when the other banks switched heavily out of sterling. Funds were generally either placed with local authorities or lent to U.K. companies. After 1962, when the other banks bought gilts, their holdings of marketable government debt fluctuated, without any

1 March 1967 *Bulletin*, page 40 Chart F.
2 1% was called in May/June 1965 and 1% in July/August 1966.

clear trend, between £575 million and £700 million, while investment in call money and commercial bills declined. Sterling advances to overseas residents rose steadily until June 1965, when credit measures again had an impact, and they fell thereafter.

## Table A
## Banking sector[a]

£ millions

| Annual changes | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
|---|---|---|---|---|---|---|---|---|---|
| Deposits of overseas residents | — 20 | 41 | 111 | — 32 | — 83 | — 13 | 171 | 159 | 424 |
| Deposits of U.K. residents | 163 | 157 | 140 | —344 | 6 | 174 | 223 | 444 | 81 |
| **Net deposits** | **143** | **198** | **251** | **—376** | **— 77** | **161** | **394** | **603** | **505** |
| Notes and coin | 28 | — 23 | — 2 | 40 | 49 | 72 | — 9 | — 49 | 22 |
| Treasury bills | 512 | 75 | —111 | 99 | —138 | 217 | —190 | 31 | —253 |
| British government stocks | 220 | 260 | 109 | —403 | — 59 | — 32 | 144 | —418 | —365 |
| Net government indebtedness to Bank of England, Banking Department | — 18 | 10 | — 13 | — 60 | — 4 | — 27 | — 1 | 63 | 164 |
| Tax reserve certificates | — | — | — | — | — | — | — | — | — |
| Treasury deposit receipts | —119 | — | — | — | — | — | — | — | — |
| Total government debt | 623 | 322 | — 17 | —324 | —152 | 230 | — 56 | —373 | —432 |
| Claims on: | | | | | | | | | |
| Local authorities | — 2 | 9 | 24 | — 28 | 1 | — 1 | 58 | 25 | 72 |
| Rest of public sector | 21 | — 32 | 51 | —104 | 75 | — 41 | 12 | 15 | 6 |
| Total other public sector debt | 19 | — 23 | 75 | —132 | 76 | — 42 | 70 | 40 | 78 |
| Advances to overseas sector | — 78 | — 5 | 25 | 27 | 2 | 8 | 37 | 108 | 299 |
| Other claims on overseas sector | — 42 | — 1 | 33 | — 1 | 25 | 21 | — 17 | 4 | — 26 |
| Total claims on overseas sector | —120 | — 6 | 58 | 26 | 27 | 29 | 20 | 112 | 273 |
| Advances to private sector | —241 | — 38 | 155 | 87 | 22 | 2 | 395 | 807 | 647 |
| Other claims on private sector | —103 | 22 | 61 | 22 | 13 | 1 | 47 | 100 | 48 |
| Total claims on private sector | —344 | — 16 | 216 | 109 | 35 | 3 | 442 | 907 | 695 |
| **Total assets** | **178** | **277** | **332** | **—321** | **— 14** | **220** | **476** | **686** | **614** |
| Identified acquisition of financial assets | 35 | 79 | 81 | 55 | 63 | 59 | 82 | 83 | 109 |

a The figures for early years are derived from "Sector financing accounts: 1952-66" in the December 1967 *Bulletin*.

| 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|---|
| 66 | 397 | 378 | 532 | 416 | 759 | 732 |
| 165 | 345 | 625 | 388 | 720 | 470 | 1,184 |
| **231** | **742** | **1,003** | **920** | **1,136** | **1,229** | **1,916** |
| — | 76 | 82 | — 52 | — 2 | 82 | 27 |
| 43 | —110 | — 35 | —331 | 85 | —209 | — |
| —162 | 328 | — 12 | —215 | 73 | 119 | 233 |
| 91 | —253 | — 32 | 68 | 152 | 44 | — 19 |
| — | — | — | — | — | 85 | — 10 |
| — | — | — | — | — | — | — |
| — 28 | 41 | 3 | —530 | 308 | 121 | 231 |
| 25 | 72 | 65 | 152 | 116 | 81 | 346 |
| — 17 | 2 | 5 | —3 | 5 | 18 | — 6 |
| 8 | 74 | 70 | 149 | 121 | 99 | 340 |
| 106 | 209 | 274 | 385 | 310 | 969 | 787 |
| 54 | 4 | 57 | 54 | 48 | 54 | 34 |
| 160 | 213 | 331 | 439 | 358 | 1,023 | 821 |
| 127 | 377 | 582 | 851 | 359 | 32 | 509 |
| 131 | 136 | 91 | 99 | 131 | 79 | 59 |
| 258 | 513 | 673 | 950 | 490 | 111 | 568 |
| **398** | **841** | **1,077** | **1,008** | **1,277** | **1,354** | **1,960** |
| 167 | 99 | 74 | 88 | 141 | 125 | 44 |

## Table B

### Banking sector's contribution to central government finance[a]

£ millions

| Annual changes | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
|---|---|---|---|---|---|---|---|---|---|
| Central government net balance | 408 | 269 | 4 | 48 | 42 | 170 | 80 | 156 | 307 |
| External transactions | −462 | −351 | −230 | −287 | − 49 | − 70 | −382 | − 21 | −155 |
| Domestic borrowing requirement | 870 | 620 | 234 | 335 | 91 | 240 | 462 | 177 | 462 |
| Net acquisition of central government debt by private sector[b] | 247 | 298 | 251 | 659 | 243 | 10 | 518 | 550 | 894 |
| **Net acquisition of central government debt by banking sector[c]** | **623** | **322** | **− 17** | **−324** | **−152** | **230** | **− 56** | **−373** | **−432** |
| Banking sector's claims on rest of public sector | 19 | − 23 | 75 | −132 | 76 | − 42 | 70 | 40 | 78 |
| Banking sector's claims on private sector | −344 | − 16 | 216 | 109 | 35 | 3 | 442 | 907 | 695 |
| Banking sector's claims on, *less* liabilities to, overseas sector | −100 | − 47 | − 53 | 58 | 110 | 42 | −151 | − 47 | −151 |
| Residual | − 35 | − 79 | − 81 | − 55 | − 63 | − 59 | − 82 | − 83 | −109 |
| **Net deposits of U.K. residents** | **163** | **157** | **140** | **−344** | **6** | **174** | **223** | **444** | **81** |

*a* The figures for early years are derived from "Sector financing accounts: 1952-66" in the December 1967 *Bulletin*.
*b* Notes and coin, national savings, tax reserve certificates, Treasury bills and British government stocks.
*c* See Table A.

## CORRECTION

### Bank of England Quarterly Bulletin

Volume 9 Number 2 June 1969

Article: The U.K. banking sector 1952-67

**Table B** (pages 194-5)

The figures for the years 1952-62 in the first four lines of this table should be amended to read as follows:

| | *1952* | *1953* | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* | *1960* | *1961* | *1962* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Central government net balance* | 583 | 525 | 199 | 445 | 42 | 170 | 80 | 156 | 307 | 220 | — 79 |
| External transactions | —212 | —103 | —115 | 132 | — 10 | — 75 | —382 | — 23 | —159 | 64 | —381 |
| Domestic borrowing requirement | 795 | 628 | 314 | 313 | 52 | 245 | 462 | 179 | 466 | 156 | 302 |
| Net acquisition of central government debt by private sector[b] | 172 | 306 | 331 | 637 | 204 | 15 | 518 | 552 | 898 | 184 | 261 |

The remainder of the table is unchanged except that footnote *b* should be amended to read:

*b* Notes and coin, national savings, tax reserve certificates, Treasury bills and British government stocks. The figures also include purchases of British government stocks and Treasury bills by public corporations and local authorities.

and a new footnote, referring to "central government net balance", should be added as follows:

* The figures include net issues of government guaranteed stocks.

| 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|---|
| 220 | — 79 | 148 | 423 | 597 | 521 | 1,134 |
| 84 | —290 | 103 | 633 | 113 | 456 | 494 |
| 136 | 211 | 45 | —210 | 484 | 65 | 640 |
| 164 | 170 | 42 | 320 | 176 | — 56 | 409 |
| **— 28** | **41** | **3** | **—530** | **308** | **121** | **231** |
| 8 | 74 | 70 | 149 | 121 | 99 | 340 |
| 258 | 513 | 673 | 950 | 490 | 111 | 568 |
| 94 | —184 | — 47 | — 93 | — 58 | 264 | 89 |
| —167 | — 99 | — 74 | — 88 | —141 | —125 | — 44 |
| **165** | **345** | **625** | **388** | **720** | **470** | **1,184** |

## Table C
## Clearing banks' main items

£ millions

| End-December figures | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash: | | | | | | | | | | |
| In tills | 221 | 248 | 225 | 221 | 259 | 308 | 379 | 374 | . . | . . |
| With Bank of England | 310 | 302 | 317 | 350 | 306 | 263 | 221 | 213 | . . | . . |
| Total cash | 531 | 550 | 542 | 571 | 565 | 571 | 601 | 586 | 635 | 658 |
| Money at call: | | | | | | | | | | |
| With discount market | . . | . . | . . | . . | . . | . . | . . | . . | . . | . . |
| Other | . . | . . | . . | . . | . . | . . | . . | . . | . . | . . |
| Total money at call | 598 | 529 | 501 | 498 | 506 | 505 | 525 | 587 | 614 | 710 |
| Bills: | | | | | | | | | | |
| Treasury bills | 791 | 1,182 | 1,338 | 1,199 | 1,271 | 1,275 | 1,403 | 1,185 | 1,215 | 1,017 |
| Other bills, and refinanceable credits | 181 | 66 | 79 | 114 | 129 | 140 | 135 | 135 | 165 | 166 |
| Total bills | 972 | 1,248 | 1,417 | 1,313 | 1,400 | 1,415 | 1,538 | 1,320 | 1,380 | 1,183 |
| **Total liquid assets** | **2,100** | **2,327** | **2,460** | **2,382** | **2,471** | **2,492** | **2,664** | **2,493** | **2,628** | **2,551** |
| Treasury deposit receipts | 102 | | | | | | | | | |
| Special Deposits | | | | | | | | | | 144 |
| Investments: | | | | | | | | | | |
| British government stocks | 1,888 | 2,076 | 2,194 | 2,261 | 1,928 | 1,893 | 1,962 | 1,994 | 1,587 | 1,142 |
| Other | 77 | 72 | 81 | 92 | 88 | 88 | 87 | 108 | 123 | 129 |
| Total investments | 1,966 | 2,148 | 2,275 | 2,353 | 2,016 | 1,980 | 2,049 | 2,102 | 1,710 | 1,271 |
| Advances and other accounts | 1,931 | 1,749 | 1,707 | 1,897 | 1,851 | 1,913 | 1,881 | 2,245 | 2,818 | 3,323 |
| Other assets | 391 | 397 | 421 | 487 | 456 | 456 | 530 | 571 | 785 | 820 |
| **Total assets equal to total liabilities** | **6,490** | **6,621** | **6,863** | **7,119** | **6,794** | **6,841** | **7,124** | **7,411** | **7,941** | **8,109** |

. . not available.

| 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|---|
| 335 | 411 | 493 | 443 | 438 | 511 | 538 |
| 326 | 287 | 242 | 325 | 392 | 360 | 373 |
| 662 | 698 | 735 | 768 | 829 | 871 | 911 |
| 674 | 706 | 687 | 704 | 849 | 978 | 1,073 |
| 167 | 211 | 220 | 202 | 258 | 377 | 382 |
| 840 | 917 | 907 | 907 | 1,107 | 1,355 | 1,455 |
| 1,106 | 1,067 | 996 | 764 | 784 | 651 | 508 |
| 249 | 267 | 311 | 409 | 437 | 443 | 461 |
| 1,355 | 1,334 | 1,307 | 1,173 | 1,221 | 1,094 | 969 |
| **2,857** | **2,949** | **2,949** | **2,848** | **3,157** | **3,320** | **3,335** |
| 221 | | | | 91 | 188 | 203 |
| 1,008 | 1,210 | 1,169 | 1,038 | 1,048 | 1,061 | 1,246 |
| 99 | 99 | 106 | 107 | 123 | 123 | 143 |
| 1,107 | 1,310 | 1,274 | 1,145 | 1,171 | 1,184 | 1,389 |
| 3,298 | 3,578 | 4,012 | 4,509 | 4,647 | 4,676 | 5,086 |
| 792 | 814 | 1,058 | 1,231 | 1,355 | 1,123 | 1,260 |
| **8,275** | **8,651** | **9,293** | **9,733** | **10,421** | **10,491** | **11,273** |

## Table D
## Sterling outlets of the accepting houses, overseas banks and other banks

£ millions

| Annual changes | 1963 | 1964 | 1965 | 1966 | 1967[a] |
|---|---|---|---|---|---|
| Increase in deposits (including certificates of deposit) and credits in course of transmission | 737 | 962 | 895 | 1,287[b] | 2,504 |
| *less* balances with and advances to U.K. banks | −183 | −140 | −270 | − 295 | − 784 |
| *less* foreign currency assets | −216 | −447 | −415 | −1,048 | −1,484 |
| Excess of reported assets over reported liabilities | 25 | 23 | 43 | 35 | 48 |
| **Increase in sterling resources** | **363** | **398** | **253** | **− 21** | **284** |
| *of which switched out of foreign currencies* | *− 14* | *131* | *−106* | *− 156* | *23* |
| Treasury bills and British government stocks | 73 | − 34 | 20 | 26 | 13 |
| Loans to local authorities | 39 | 129 | 107 | − 38 | 204 |
| Sterling advances to U.K. residents | 129 | 236 | 108 | 22 | 48 |
| Sterling advances to overseas residents | 80 | 69 | − 20 | − 39[b] | − 29 |
| Other sterling assets[c] | 42 | − 2 | 38 | 8 | 48 |
| | **363** | **398** | **253** | **− 21** | **284** |

*a* Changes in foreign currency items not adjusted to allow for effect of devaluation.

*b* From March 1966, the overseas banks' balances on inter-branch accounts were reported net, whereas previously they had been mainly gross; the movements in sterling deposits and advances have thus been adjusted by £60 million to allow for the consequent reduction in reported balances.

*c* Cash, money at call, commercial bills and other sterling securities.

## Appendix

### Credit measures

**1951** *8th November* Bank rate increased from 2% to 2½%.

*6th December* Banks asked to restrict credit to essential requirements. Both purpose and terms of bank borrowing for the finance of capital expenditure henceforth to be sanctioned by Capital Issues Committee.

**1952** *11th March* Bank rate increased to 4%. Banks reminded of restrictions on advances.

**1953** *27th July* Ban on capital issues by investment and unit trusts lifted.

*17th September* Bank rate reduced to 3½%.

*18th December* Capital Issues Committee control on terms of bank borrowing to be withdrawn, but recommendations as to purpose to continue.

**1954** *13th May* Bank rate reduced to 3%.

*19th August* Restrictions on bank borrowing by hire purchase companies (imposed 1947) to be operated more flexibly.

**1955** *27th January* Bank rate increased to 3½%.

*24th February* Bank rate increased to 4½%. Restrictions tightened on bank lending to hire purchase companies, and Capital Issues Committee asked to examine more stringently applications for hire purchase finance.

*25th July* Chancellor asks banks to make a positive and significant reduction in their advances over the next few months (interpreted by the banks as a 10% reduction).

*26th October* and

**1956** *17th February* Capital Issues Committee urged by Chancellor to maintain critical attitude towards all applications.

*16th February* Bank rate increased to 5½%. Banks asked to scrutinise advances strictly.

*14th March* Limit of exemption from Capital Issues Committee control reduced from £50,000 to £10,000.

*24th July* Renewed request to banks concerning their advances.

**1957** *7th February* Bank rate reduced to 5%.

*19th September* Bank rate increased to 7%. Banks instructed to hold the level of advances for the following year at the average of the previous twelve months.

**1958** *20th March, 22nd May, 19th June, 14th August and 20th November* Bank rate reduced in stages to 4%.

*3rd July* Banks released from their undertakings on advances; importance of providing credit for export business stressed.

**1959** *5th February* Capital Issues Committee control suspended.

**1960** *21st January* Bank rate raised to 5%.

*28th April* First call for Special Deposits – 1% from clearing banks (½% from Scottish banks) by 15th June; other groups of banks officially informed of the call for Special Deposits and made aware of the authorities' desire to encourage restraint in bank lending.

*23rd June* Further call for Special Deposits – 1% from clearing banks (½% from Scottish banks); half by 20th July and half by 17th August. Bank rate raised to 6%.

*27th October* Bank rate reduced to 5½%.

*8th December* Bank rate reduced to 5%.

**1961** *25th July* Bank rate raised to 7%. Further call for Special Deposits – 1% from clearing banks (½% from Scottish banks); half by 16th August and half by 20th September. Banks asked to reduce considerably the rate of increase in advances by the end of the year; and recommended to restrict lending for domestic consumption where necessary in order to facilitate finance specifically linked with exports. Increases in commercial bill holdings as a means of offsetting reductions in advances discouraged.

*5th October* Bank rate reduced to 6½%.

*2nd November* Bank rate reduced to 6%.

**1962** *8th March, 22nd and 26th April* Bank rate reduced in stages to 4½%.

*31st May* 1% Special Deposits released to clearing banks (½% to Scottish banks); half on 12th June and half on 18th June. Slight relaxation in credit restrictions on domestic consumption, but export finance to continue to have primary consideration.

*27th September* Further release of Special Deposits – 1% to clearing banks (½% to Scottish banks); half on 8th October and half on 15th October.

*4th October* Governor's letter to banks and other financial institutions withdraws request for restraint in lending policies, but mentions the need for financial resources to continue to be deployed in the national interest.

*29th November* Release of remaining Special Deposits – 1% to clearing banks (½% to Scottish banks); half on 10th December and half on 17th December.

**1963** *3rd January* Bank rate reduced to 4%.

**1964** *27th February* Bank rate increased to 5%.

*23rd November* Bank rate increased to 7%.

*8th December* Banks etc. asked to reduce the rate of increase in lending and to give preference to finance for exports and productive investment.

**1965** *29th April* Call for Special Deposits – 1% from clearing banks (½% from Scottish banks); half by 19th May and half by 16th June.

*5th May* Governor's letter to clearing banks amplifying the guidance on direction of lending contained in letter of 8th December 1964. Request for advances to private sector to rise at an annual rate of not more than 5% in year ending mid-

March 1966; the same limit to apply to provision of acceptance facilities and purchases of commercial bills.

*7th May* Other banks and financial institutions asked to observe a comparable degree of restraint in lending.

*3rd June* Bank rate reduced to 6%.

*27th July* All banks reminded of the need for promotion of exports and restraint in financing imports.

**1966** *1st February* Banks requested that until further notice advances, commercial bills and acceptances should not rise above the levels set for March 1966.

*12th July* Announcement by Chancellor that 105% limit on bank lending was to remain until March 1967 and until further notice thereafter.

*14th July* Bank rate increased to 7%. Special Deposit requirements raised from 1% to 2% for clearing banks (½% to 1% for Scottish banks); half by 20th July and half by 17th August.

*9th August* Bank of England press announcement that clearing banks had been reminded of the need to accommodate priority borrowers within the overall limits imposed.

*1st November* Bank of England press announcement that, in view of the substantial fall since July in lending to the private sector, banks should have sufficient resources available within the 105% limit to meet all demands for advances which satisfied normal banking criteria. Priority should be given to exports, productive investment and temporary bridging finance for house purchase, in that order.

**1967** *26th January* Bank rate reduced to 6½%.

*16th March* Bank rate reduced to 6%.

*11th April* 105% ceiling on clearing banks' and Scottish banks' advances lifted. 105% maintained for other institutions under restriction.

*4th May* Bank rate reduced to 5½%.

*19th October* Bank rate increased to 6%.

*9th November* Bank rate increased to 6½%.

*18th November* Bank rate increased to 8%. All banks' sterling lending to private sector and overseas borrowers to be held at latest levels, except for fixed rate shipbuilding and export finance and other lending specifically identifiable with exports. Within the ceiling, priority to be given to productive investment connected with exports, and to import saving; the rise in lending to persons to be curtailed.