

CHAPTER VIII

CENTRAL BANKING AND CENTRAL BANKS

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"Notwithstanding that the Bank of England is a
"Subject that has had no small Share in the late Politicks
"of the Town, yet there are several amongst us who seem to
"look no farther than the Counting Tables in Grocer's Hall,
"and so judge of the Bank as they do of a Banker's Shop, to
"be of no other Use or Influence but to receive and pay
"Money."

(First sentence of "Remarks upon the Bank of England" by a
Merchant of London, 1705. [Tract No.40])

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Although books have been written to explain the functions of individual Central Banks, there seems to have been a rather curious absence of enquiry as to what principles are already held by Central Banks in common and whether there are further principles which should be of universal application, either now, or given certain conditions not yet realised.

The special problems of Central Banking are not all of them new, and as one of the oldest Central Banks the Bank of England may claim to have already provided a satisfactory solution to many. But the enlarged scope as regards international affairs afforded to the Bank of England during and after the War, and in particular the entirely new departure of their alliance with the Federal Reserve Bank, made inevitable sooner or later a consideration by them of the whole subject. The most important aspects of the question were the relationship of Central Banks to one another,* the advisability of founding further Central Banks, the new duties which Central Banks might have to assume, and the degree of autonomy attainable.

It was the proposed foundation of two new Central Banks, the Imperial Bank of India and the South African Reserve Bank, that focussed the Bank's attention on the subject in 1920.

*As early as 1912 a Congress held at Brussels by the International Economic Union urged that "European Banks of Issue" should hold conferences so that co-operation might be furnished, especially in connection with the organisation of International credit and methods of payment.

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About the same time Mr. J. F. Darling, a Director of the London Joint City & Midland Bank Ltd., proposed the formation of an Empire Bank*, and suggested that the Bank of England might be transformed into such an Institution. Mr. Darling called on the Governor in July 1920 to explain his scheme. In common with most other Bankers, the Bank of England considered it unsound and impracticable in certain vital respects. An analysis of some of its defects may be found in Sir Henry Strakosch's article on "the Principles of Central Banking"⁺ to which further reference is made below.

In this connection the Governor (writing to the Governor of the South African Reserve Bank in February 1921) expressed the opinion that "the only "sound lines for dealing with.....Imperial Banking is "by the establishment of a separate Central Bank within "each economic unit of the Empire for the transaction "of Central Banking business within that unit, along "with mutual and exclusive co-operation between all "these Central Banks". He added that co-operation within the Empire was by itself insufficient.

Meanwhile the discussion of Mr. Darling's scheme in the Press served to emphasise the existing absence of co-ordination between Empire Banks: and it

*A single international Bank of greater or less scope had been the ideal of many, among others of Lord Cunliffe (vide letter 22/6/17, C.C.P. 71^D fo. 12).

⁺"Times" 21/5/21, vide C.C. Pamphlets 141 J.

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was considered that the recent establishment and constitution of the South African Reserve Bank, though admittedly satisfactory in itself, only threw into relief the lack of any such Bank in Canada and the shortcomings of the Government - controlled Commonwealth Bank of Australia. It was pointed out that although co-operation between different parts of the Empire and London was, under post-war conditions, essential, the relationship of the Bank of England to the Federal Reserve System was of a more intimate nature than any obtaining within the Empire. (In connection with the reference to Canada it may be noted that Mr. E. R. Peacock, a strong advocate for the establishment of a Central Bank in the Dominion,* was appointed a Director of the Bank of England in April 1921).

Early in 1921 the Governor formulated some general principles of Central Banking (purposely of a somewhat negative character) and invited certain authorities to discuss their validity. They were as follows -

1. A Central Bank should not compete with other Banks for general business.
2. A Central Bank should not take monies at interest on its own account nor accept Bills of Exchange.
3. A Central Bank should have no Branch outside its own country.

*An opportunity was offered in 1923, in which year the Charters of the 16 Chartered Banks fell due for revision or renewal; but the Banks opposed the formation of a Central Bank and secured renewal of their privileges for another 10 years.

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4. A Central Bank should not engage in a general Exchange business on its own account with any other country.
5. A Central Bank should be independent but should do all its own Government's business - directly or indirectly - including Gold and Currency.
6. A Central Bank should be the Bankers of all other Banks in its own country and should assist them to develop its business and economic resources.
7. A Central Bank should protect its own Traders from the rapacity of other Banks in its own country.
8. A Central Bank may have an Agency in another country.
9. That Agency (if not itself a Central Bank) should do all its banking and all kindred business with the Central Bank of the other country.
10. And should receive the most favoured treatment and information from the Central Bank of the other country.
11. And should do the Banking and kindred business of its Principal's Government in the other country.

To these three more of particular importance in the Federal

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Reserve System were added at the suggestion of Mr Strong, the Governor of the Federal Reserve Bank of New York -

12. A Central Bank should act as the settling Agent for Clearing House balances arising between the Banks of its own country, and to the widest extent practicable.
13. A Central Bank should handle domestic collections for its members and so regulate the domestic exchanges.
14. A Central Bank should have power to examine Banks which come to the Central Bank for credit and assistance.

The Bank of England approved of these additions with the qualification that the last two at any rate did not affect a small country such as this.

In April Sir Henry Strakosch, who had been one of those consulted by the Governor on the subject, prepared the article already mentioned; this embodied several of the foregoing principles.

It is interesting to note, however, that with regard to one point, clause (4), Sir Henry's views might be interpreted as the opposite of those put forward by

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the Bank. Mr. Strong, however, accepted No. 4 without question and it was endorsed by Mr. Clegg, the Governor of the South African Reserve Bank.

With regard to No. 3 Sir Henry had already indicated to the Governor a difficulty which might make this rule incapable of application to Central Banks within the Empire: this was the probability that Dominion legislatures would have a tendency to fear the subjugation of their country's interests to those of Great Britain if the Bank of England were appointed the Agents of their Banks, instead of separate Branches of such Banks being set up in London. Sir Henry, however, (with the South African Reserve Bank in mind) considered that the establishment of Branches would nevertheless enable a close and intimate connection with the Bank of England to exist, while the appearance of a loss of independence would be avoided.

On the subject of the relative merits of Agencies and Branches the Governor wrote (in a letter already quoted and in connection with the new Imperial

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Bank of India) "the difference between a Branch and "an Agency may strike you as unreal or as too subtle, "but the essential distinction between the two will "not escape you. I suggest that an Agency (e.g. in "London) should have no business with the Public. It "would have only two local clients (the Government of "India and the Bank of England)".*

Mr.Clegg's views[†] were that Clause (1) was of primary importance. A corollary to it was that a Central Bank should keep its resources exceptionally liquid and that it could not do if it disregarded rule (2). On the subject of Branches he wrote: "The "object of a Central Bank being to afford stability "in its own country, that object would tend to be "defeated in so far as it incurred liabilities, or "looked up its assets, in another country. In fact "proposition (1) operates to forbid a Central Bank

*On the subject of "Central Banks and Distant Branches" vide memorandum dated 1 Jan.1921 written by Mr.R.G. Hawtrey of the Treasury. (C.C.P.221)

[†] L.12/4/21.

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"from embarking on commercial adventures in another country even more strongly than in its own. The only plea a Central Bank might put forward for having a branch in another country would be that the exchanges might thereby be stabilized But it appears to me that the exchanges can be in a healthy condition only when they express the state of trade between the two countries without artificial interference, and that, unless for some special reason and in extraordinary circumstances a Central Bank should not intervene in the exchanges". He also stated reasons for supposing that a Central Bank which was bound by statute to keep a fixed proportion of gold to deposits and cannot hold more than a certain percentage of such gold outside its own country might find it unworkable in existing circumstances to have a Branch in London or any country in which there was not a free gold market.

With regard to Agencies, Mr.Clegg was in favour of this function being invariably performed for a Central Bank by the Central Bank of the country in which the Agency was to be established.

Mr.Strong assented to all the principles drawn up by the Governor with qualifications to (7) and (10).

Respecting the former he considered that protection to Traders against the other Banks could only be secured either by Central Banks doing more commercial

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business than was done by e.g. the Federal Reserve Banks (which deal only with their Member Banks) or by supervision in detail of the other Banks by the Central Bank. The meaning attached by the Bank of England to this Clause, however, was brought out fully by the Governor in answer to some comments by Mr. Clegg. It was explained that where there is no Central Bank the rates for short money and discounts may rise to fantastic figures. Traders in New York had, for example, been frequently forced to pay 25% or 30% for accommodation before the foundation of the Federal Reserve System. "The mere fact that a Central Bank is willing at a rate to undertake all business of certain classes that comes to it is in itself a means of protecting the Traders from the rapacity of other Banks".

On the "most favoured treatment" section (No. 10) Mr. Strong mentioned that occasions must unavoidably arise when different and to some extent conflicting rate policies would have to be adopted. Agencies however (when not themselves Central Banks) should conform to the policies of the Central Bank of the country in which the Agency was situated.

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By June 1921 the condition of Austria and the difficulties surrounding German Reparation payments seemed to indicate that unless action were to a greater extent entrusted to Central Banks and a new degree of co-operation concerted between them, the prospect of a satisfactory settlement to either problem was rather remote.

In this belief the Governor and Sir Charles Addis paid a visit to America in August. Their objects were covered by the following general headings -

- (1) To further relationship with the Federal Reserve Board and Banks.
- (2) To promote common action between the Federal Reserve Banks and other Central Banks.
- (3) To interest America in the financial needs of Eastern Europe.

So far as American Bankers were concerned, the Bank of England's aims were cordially shared, but the restricted views of the Public and the active prejudices existing in the South and West of America were felt to be obstacles that could only be removed gradually.

The limits of the History do not permit of this summary being carried further, but it may perhaps be

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mentioned that on his return from America the Governor and Mr. Jay (the Federal Reserve Agent, and Chairman, of the New York Reserve Bank), who was then visiting Europe, made a first step towards putting the new policy into operation by journeying to Amsterdam to see Dr. Vissering, the President of the Netherlands Bank, with whom the following were discussed -

- (1) An understanding as to the general financial policy of Central Banks.
- (2) Co-operation on international and economic lines among Central Banks.
- (3) An eventual consortium of Central Banks (under lead of the Federal Reserve Bank) for the rehabilitation of Austria and Eastern Europe on purely economic lines.

The special prominence given to the subject of Central Banking in the last of the War years under review may justify some account being given of the relationship of the Bank of England to various Central Banks during the period.

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Apart from the question as to what a Central Bank should and should not be, the problem of what actually is and what is not to be regarded as a Central Bank presents difficulties; but it is thought that the following list will be considered sufficiently comprehensive.* Sections on these Banks follow in the order named:

Federal Reserve Bank of New York
South African Reserve Bank
Bank of France
National Bank of Belgium
Netherlands Bank
National Bank of Roumania
Bank of Spain
Bank of Portugal
National Bank of Greece
Imperial Bank of India
National Bank of Egypt
Commonwealth Bank of Australia
Bank of Italy
Bank of Japan
National Bank of Switzerland
National Bank of Serbia
Norges Bank

*The Reichsbank accounts were not opened until 17/11/21

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Of these 17 Banks eleven opened their accounts after the outbreak of War.

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The Federal Reserve Act was passed 23rd December 1913 and on 16th November 1914 the Federal Reserve Banks opened their doors.

Section 14 of the Act gave the Reserve Banks power to establish Agencies in foreign countries and the first steps towards the appointment of the Bank of England to act in this capacity to the Federal Reserve Bank of New York took the form of interviews in London between the Governors, the late Lord Cunliffe and Mr. Cokayne (afterwards Lord Cullen) and Governor Strong in March 1916. A memorandum of a tentative arrangement was then drawn up, to be put into force after the War, or earlier should it become desirable.

On Mr. Strong's return to America shortly afterwards an exchange of letters on the subject took place, and on 7th September 1916 amendments were passed in Section 14 of the Federal Reserve Act to permit of the Federal Reserve Banks dealing through their foreign Agents in bills of 93 days' currency instead of 90 days as hitherto provided, a concession to the English system of days of grace, and to allow the foreign Agencies to open Banking accounts with their American principals, previously only possible by the expedient of earmarking gold or investing all balances in bills, etc.

On 25th December 1916 the Federal Reserve Board (without first consulting the parties concerned) published

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their authority for the New York Bank (and any other Federal Reserve Bank) to make arrangements with the Bank of England. The British Foreign Office thereupon enquired through the Treasury (2/1/17) what advantages might be expected to accrue to the British Government. The Commonwealth Bank took occasion to express the hope that it might be selected as Agent in Australia.

On 18th January 1917 the Federal Reserve Bank forwarded a fresh draft of the 1916 Memorandum concerning which there had been intermittent correspondence, especially as to the terms on which gold was to be provided by each institution. On the 5th April the United States entered the War, and it became desirable to conclude the Agreement as soon as practicable. As finally amended by both parties it was approved by the Bank of England Court on 3rd May 1917.

A statement of the relationship (drawn up by the Federal Reserve Bank) was communicated to the English and American Press. (This may be found on p. 52 of "British Finance 1914/21")

A copy of the Agreement is to be found in the Chief Cashier's private file 166 folio 48. (Another copy was sent to the Treasury on 11th October 1919)

The Agreement provides chiefly for the purchase of Bills of Exchange and prescribes the terms on which earmarking and shipment, etc. of gold will be effected. These two provisions were perhaps intended primarily for

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use in normal times when a free gold market had been re-established here. By the end of August 1921, the only clause which had been carried out, at any rate in the manner contemplated, was No. 11 dealing with the exchange of information.

The Bank of England were the first to avail themselves of the new connection. They asked the Federal Reserve Bank to provide dollars to meet the \$50,000,000 Loan payable by the London Bankers in New York on the 20th June 1917. The London Bankers deposited with the Bank of England the equivalent amount in sovereigns, which were "set aside" for the Federal Reserve Bank. Later in 1917 the Bank of England suggested that they should take over a part of these sovereigns against the release of gold in India, where the United States of America desired Rupee credits, but nothing came of this proposal as the Americans preferred to ship silver. The gold "set aside" was ultimately released (in seven instalments) between June 1918 and March 1919, the greater part being exchanged for bar gold from Ottawa and most of the rest being held at the disposal of the Bank of France.

In May 1917 Governor Strong suggested that the Federal Reserve Bank should offer to receive for payment and cancel coupons on British Securities. This course was proposed to avoid the cost of insurance, at the time very heavy, and to popularise British Securities in the United States. The arrangement was not completed

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until July 1918. Since that date to the end of 1920 coupons to the following number and amount were dealt with -

	<u>Number</u>	<u>Gross Amount</u>
1918	about 730	value about £1,400
1919	" 950	" " £1,600
1920	" 650	" " £1,200

In December 1918 the system was extended to include the exchange of Stock Certificates the coupons on which had been exhausted, and the payment of Treasury Bills, War Expenditure Certificates, etc. But very few people availed themselves of these facilities.*

The Drawing Account of the Federal Reserve Bank was opened at the time when the Bankers' gold was "set aside", viz., on 20th June 1917.

On the 19th July the Court gave their sanction to cheques being drawn on the account by the Federal Reserve Bank (a course not contemplated by the original Agreement) though it was understood that this facility would not frequently be taken advantage of.

It was not until April 1919 that the account carried any balance beyond the small sums paid in against the encashment of Government coupons in New York. £100,000 was then credited in order that the current account might be considered as coming within the terms

*The arrangement was cancelled on the 30th June 1922 by which time the need for it no longer existed.

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of the Agreement. In Governor Strong's words the credit might be "considered simply as a peg to remind you that some day we are going to hang something on it".

A further £100,000 was paid in by the Equitable Trust Company of New York on 31st May 1919. The figures of the account from its commencement to the end of 1920 are as follows -

<u>Year</u>	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1917	1	Nil	Nil
1918	6	170	Nil
1919	3	143,139	981
1920	26	161,503	159,827

The reduction in the balance from a maximum of over £200,000 was partly due to the gold transaction charges incurred by the Bank of England. Some cheques were drawn after the end of 1919 for the advantage of the United States Government who had various small payments to make in England.

Cables.

The first suggestion as to a weekly exchange of code cables on the state of the money markets etc. was made by Mr. Strong in a letter dated the 23rd July 1917.

Bank of France.

The conclusion of a triangular understanding with the Bank of France, to include a gold settlement fund.

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had been considered ever since Governor Strong's visit to France in the Spring of 1916 but only a tentative arrangement between the Federal Reserve Bank and the Bank of France, based on the opening of accounts, had been reached by August 1918. Governor Strong was still in hopes that a time might come when the three institutions would adopt a concerted policy particularly on questions of international exchange, and the Bank of England were asked to send Paris a copy of their Agreement with the Federal Reserve Bank. This was done in September; but it was understood that by the end of August 1921 the Federal Reserve Banks had made no further progress towards the completion of a formal Agreement. Relations with several other foreign Banks have been entered into by the Federal Reserve Bank of New York.

Earmarking of gold.

The probability of the early conclusion of peace led the Bank of England, in March 1919, to advise the Federal Reserve Bank, under Clause X of the Agreement, that any large earmarking or export of gold would not then be convenient. The Federal Reserve Bank replied that at that time such transactions were "the last thing they would consider" unless desired here.

German Gold.

In July 1919 Governor Strong visited Europe

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with full powers to arrange for the purchase from the United States Grain Corporation by the Federal Reserve Bank of New York, acting for all the Federal Reserve Banks, of about 730,000,000 German gold marks. This gold was in payment for foodstuffs, etc., supplied to Germany under the Peace Treaty.

Mr. Strong arranged for the deposit of the gold with the National Bank of Belgium in Brussels and the Netherlands Bank in Amsterdam, and it was thence conveyed to London, to the Bank of England in 26 consignments. Representatives of the Bank of England accompanied all shipments, which were made from Antwerp and the Hook of Holland during September and October. An exchange of gold with the Continental Banks avoided the necessity of perhaps one further shipment.

The gold consisted of Marks, Austrian Crowns, Roubles, Sovereigns and bars, and a part of it was believed to consist of gold received from France by Germany in 1872. When melted, the exact out-turn was found to be 8,385,751·913 fine ounces (say £35,563,212 at ^s ^d 77/9 per ounce standard). Part of this gold, about 2,363,000 fine ounces, was shipped to India in the Autumn of 1919 and the beginning of 1920, being released to the Bank of Montreal in payment, it was understood, for Rupees sold in New York for the account of the Indian Government. On each occasion the Bank of Montreal transferred the gold to the India Office who carried out

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the shipments to India. Further amounts were delivered to the Chartered Bank, the Yokohama Specie Bank, etc., and the greater part of it probably found its way to the same destination. The balance, consisting of some 5,391,000 fine ounces, was shipped to New York in the late Autumn of 1920.

Reparation Commission

At the end of 1919 Mr. Strong's health broke down and he went away for a year's rest: a part of this time was spent in visiting Japan, India, Ceylon, etc.; by the end of 1920 he was again in London on his way home. While he was here the Federal Reserve Bank undertook a fresh service for the Bank of England, it being arranged that certain funds received by the Reparation Commission should be invested in New York, half in the name of the Bank of England, and half in the name of the Bank of France, the Federal Reserve Bank acting for both. The operation involved the opening of an account for the first time by the Bank of England with the Reserve Bank and very large sums were soon dealt with and were invested in Treasury Certificates of Indebtedness and Bankers' Acceptances.

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Apart from two or three proposals which proved abortive,* the matters mentioned above comprise the chief incidents that had occurred up to August 1921 in the relationship of the two institutions, other than the constant interchange of views which was maintained, not only by telegram and letter, but also by personal visits. This intercourse was of the fullest and freest nature, covered the greatest variety of subjects, and led to that increasingly concerted policy to which reference has been made above and in Chapter I.

The Chief Cashier's private file No.166 contains the record of nearly everything that was put in writing, and no further resumé of the material will be attempted here. Special mention may however be made of an essay by Mr. Pierre Jay on the controversy as to the relative merits of different Note issue systems and Sir Charles Addis's comments thereon. These papers will be found in Pamphlets 141 J.

*The most important of these was a suggestion made in March 1921 by Governor Strong that the Bank of England should receive and hold for the Reserve Bank the gold which would otherwise be shipped from England to New York, where the steady increase of gold Reserves was causing concern, as likely to produce inflation and other evils.

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SOUTH AFRICAN RESERVE BANK

The establishment of the South African Reserve Bank was a result of the increasingly unsatisfactory condition of South Africa's currency and exchange problems, and owes its inception and constitution largely to Mr. (afterwards Sir Henry) Strakosch. He was also active in the preliminary negotiations.

In November 1920 Mr. W.H. Clegg, the Chief Accountant of the Bank of England, was appointed Governor of the new Central Bank, an appointment which of course at once brought the two Institutions into close touch.* The South African Bank formally came into existence on the 17th December 1920 by a Proclamation which gave effect to the South African Currency and Bank Act of 1920.†

The provisions of this Act need not be summarised or discussed here. Suffice it to say that with the necessary modifications the constitution of the Bank in its main lines, as had been suggested by Mr. Strakosch, followed the

*Wednesday, the 17th November 1920. The Governor informed the Committee of Treasury:-

That the proposed establishment of a Central Bank in South Africa seemed to him a matter of supreme importance to the Empire, to this country and to the Bank of England. That the policy and methods of the new Bank should from the outset accord with those of the Bank of England was of almost equal importance and the difficulties now arising from the methods of the Commonwealth Bank of Australia were an instance of such difficulties as might otherwise arise in connection with South Africa and as may yet arise in connection with Canada. It was therefore to our interest from every point of view to assist the new Bank, even to the extent of making a considerable sacrifice.

† An account of the situation in South Africa previous to the passing of this Act will be found in a Pamphlet written by Sir Henry Strakosch - "The South African Currency & Exchange Problem" (Feb. 1920) and in the same author's article on Central Banking (21/5/21) referred to above. (Pamphlets 141 G and 141 J, respectively.)

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American Federal Reserve system fairly closely, and in particular by its adoption of a Note issue based as to a fixed proportion (40%) on gold and as to the balance on Bills of Exchange. The Gold Reserve requirements were capable of suspension in certain conditions by payment of a graduated tax. Again, as provided for the member Banks of the Federal Reserve system, the other (South African) Banks were obliged to keep a fixed proportion of their liabilities in reserve with the Central Bank.*

From the time of the decision to found the South African Bank, the Bank of England were called upon for assistance in various matters, chiefly in regard to the designs and paper for the Gold Certificates, which were to be issued as legal tender by the Union Treasury in exchange for gold coin and bullion, and for the Bank Notes, the sole issue of which was reserved to the South African Reserve Bank for 25 years. Both the Gold Certificates and the Notes were printed by the Bank of England. Safes for accommodating gold and the Notes were also ordered through the Bank of England.

The arrangements for the design of the Gold Certificates were entrusted to the High Commissioner in London and Mr. Strakosch acting in conjunction with the Bank of England, and were settled in August 1920. The Certificates were of a very plain character: the printing was on both sides and the paper contained as a watermark the "wave-line" pattern surrounding the words "Union of South Africa". Neither scope nor time was given to the Bank for anything more elaborate.

*In two respects however the English model was adopted. The Reserve Bank was to be the sole Bank of issue, and it was not to be solely a Bankers' Bank.

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The preparation of a suitable Note presented considerable difficulty owing to the necessity for compliance with certain definite requirements, to the disquieting nature of the Bank of England's latest experiences of forgery, and also to the conditions to which the Notes would be subjected in circulation, conditions more severe than is the case in Europe, in particular because of the fact that the Notes would be handled by natives. The use of protective colour was considered essential. The Bank prepared a design which they regarded as safe rather than beautiful. The watermark consisted of a Springbok; the face of the Note bore a coloured overprint and on one side was a representation of a South African animal, a different animal being chosen for each denomination. The latter provision was for the purpose of assisting identification by the natives.

The Notes had been practically approved when towards the end of January 1921 Mr. Clegg cabled proposing to submit an entirely new design. This was adopted, its chief feature being a picture of the ship of Van Riebeck approaching Table Bay (where he had landed and founded the first European Colony at the Cape). But a large number of other subjects peculiar to South Africa were also introduced. Van Riebeck's head was utilised as a watermark with the "wave-line" pattern as a border. The Notes were plate printed on both sides in English and Dutch, each side being overprinted with two colours, one being produced in multicolour, by a very difficult and expensive process. There were four denominations, £1, £5, £20 and £100. On the whole, the Note

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produced gave satisfaction, though the design presented a rather crowded composition.

The new Bank began at once to be of service to the Bank of England as a source of reliable information concerning South African affairs and as an additional means whereby any misunderstandings that might arise with the gold producers might be removed, etc.

"It cannot be doubted", (wrote Sir Henry Strakosch) "that it will be the policy of the South African Reserve Bank to establish contact with those institutions (the Bank of England and the Federal Reserve Banks) and to conform closely to their policy. This would seem the most appropriate manner in which the re-establishment of equilibrium in monetary affairs can be fostered and the way prepared for the resumption of an effective gold standard".

The Governors' confidential correspondence with Mr. Clegg is to be found in C.C.P. 87.

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On the 12th August 1914 a telegram was received from the Governor of the Bank of France, M. Pallain, asking the Bank of England whether they would open an account.

An Order of Court was made on the 13th and the account was opened on the 17th, the first credit, being the proceeds of a cheque for Fcs. 2,500,000 drawn by the Paymaster-in-Chief of the British Expeditionary Force, going to account on the 24th August.

In 1916 three other accounts were opened, and from August 1914 until the time of the Armistice large numbers of transactions of a routine nature took place.

The first intimation that the Bank of France had removed their Head Office from Paris to Bordeaux was received here by telegram on the 11th September 1914.

The Bank of France removed their gold reserve of £160,000,000, their Customers' Securities, and most of their Bank Notes; and made arrangements to destroy by melinite the Note printing machinery if Paris were captured. The return to Paris from Bordeaux was made on or about the 8th December 1914.

In October the Bank of England agreed to pay drafts against delivery of documents, no responsibility regarding the latter being accepted.

In June 1915 an acceptance credit for £5,000,000 was opened for one year on behalf of the Bank of France by Messrs. Samuel Montagu & Co. with 24 English Banks and

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Bankers, through M. Louis Hirsch of Paris. The funds realised were to be paid to the Bank of France account here and an undertaking was given not to draw gold against these moneys.

In addition to transfers from various Bankers, the account was fed by the collection of coupons on English Government Stocks and by the remittance of Bank of England and Currency Notes (usually £600,000 at a time).

In October 1915 the Bank of England were in communication with the Bank of France on the subject of advances to Bankers in connection with War Loans and advice was given based on the experience derived from the ~~3½%~~ War Loan.

It was arranged in May 1916 to credit the Bank of France with the full value of Australian Government Notes, it being understood that Australian soldiers in France would receive the proceeds of such Notes without deduction.

At the end of 1916 M. Pallain was asked to give his support to the Board of Trade's efforts to discourage the insurance of gold shipments made from Neutral Countries.

M. Pallain remained Governor of the Bank of France until the 25th August 1920, when he was succeeded by M. Robineau.

There is little else worthy of mention in

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connection with the General Account. The correspondence was reduced in 1919 and after that year became of very small dimensions.

The figures of all four accounts will be found at the end of this Section.

Before dealing with the sale of Securities undertaken here for the Bank of France, it will be convenient to refer briefly to one or two other matters.

Bullion Transactions.

Apart from the transactions effected under the Agreement mentioned in the Chapter on "Allied Borrowings", the only occasions on which there were bullion dealings between the Bank of France and the Bank of England were in 1914 and in the early part of 1915.

In the late Autumn of 1914 some bar gold and American eagles were purchased by Messrs. Lazard Brothers & Company and set aside at their request in Ottawa for the Bank of France. A part of the eagles was subsequently purchased by the Bank of England at $77\frac{3}{4}$ per ounce, a figure higher than the price at which the Bank had sold them but lower than could have been realised in the open market in Ottawa at that time. The remainder of the eagles and the bar gold were delivered in April 1915 to Messrs. Lazard Brothers' New York House.

On the 15th January 1915 80,000 sovereigns were received for the Bank of France from the London

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Joint Stock Bank, acting as Agents of Messrs. de Neuflize & Co. These were credited to the account of the Bank of France in the April following.

Supply of Fcs. 5 pieces for use in West Africa.

By 1916 a considerable business had grown up at Coomassie with cattle dealers who came from French territory. To retain this trade either French Fcs. 5 pieces or British sovereigns were required. In order to economise the latter, the Bank of France were asked whether they would supply French silver to the Bank of British West Africa, and they agreed that coins to the value of £300,000 should be placed at that Bank's disposal. At first the Bank of France maintained that the exchange at which the sterling should be calculated and credited to them in their account at the Bank of England should be the gold par of 25·22 because in countries of the Latin Union Fcs. 5 pieces were received at their face value. The legal tender value of the coins at the seaport of Bathurst, Gambia, however, was 25·80. Eventually an exchange value of 26 was agreed upon. Some Fcs. 7,300,000 appear to have been shipped to Bathurst between October and December 1916. Applications were made for further supplies in August and October 1917 and again in September 1919. but on these occasions the Bank of France were unable to comply with the request owing to their Government's demands for the French Colonies and for coining money of smaller denominations.

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Lord Cunliffe had expressed to M. Pallain his admiration of the watermark and finish of the small denomination French Notes, and Lord Cullen, while Governor, arranged with the Bank of France for a supply of matrices of the head of Britannia for use should the Currency Note issue be entrusted to the Bank of England. These designs were duly received in September 1919.

In connection with the same possibility, the Bank of France were good enough to communicate, in February 1921, particulars of their Bank Note register system.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.General Account.Opened 17th August 1914.

<u>BANK OF FRANCE.</u>	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1914	279	£1,749,252	£170,000
1915	5,656	£8,175,108	£172,285
1916	4,655	£5,081,196	£1,660,000
1917	1,217	£2,549,602	£1,103,000
1918	2,472	£4,353,766	£1,364,479
1919	1,500	£1,884,235	£38,535 overdrawn
1920	2,320	£752,331	£613,761

Special Account.Opened 18th March 1916.

(For the sale of Securities)

	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1916	4,213	£271,129	£14,652
1917	5,443	£96,960	£36,828
1918	2,882	£66,175	£32,940
1919	5,793	£221,750	£49,056
1920	1,743	£127,926	£58,805

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<u>BANK OF FRANCE.</u>	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>	
1916	1,697	£1,632,941	£1,238,130	overdrawn
1917	523	£275,783	£57,599	
1918	3	£429,796	£57,599	
1919	62	£97,896	£2,449	
1920	-	£2,450	£2,449	

This account was acted upon on more than one occasion by M. Avenol, Financial Representative in London of the French Government.

No. 4 Account.*Opened 26th September 1916.+

	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1916	1,269	£2,918,228	£135,000
1917	6,065	£1,700,785	Nil
1918	2,674	£595,321	"
1919	267	£2,000,000	"
1920	-	-	-

This account appears to have been used for the "regulation of the needs of French Commerce in Sterling effected for the account of the French Treasury", and was partly fed from the French Government's account at the Bank of England, up to March 1919, and was practically managed by M. Avenol.

*These accounts were in part fed by transfers from the General Account, under general Authorities dated 26/5/17, (No. 3 a/c.) 14/10/16 (No. 4 a/c.).

+Closed 16th January 1922.

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In accordance with the terms of an Agreement dated February 5th 1916 between the French and British Governments, Mr. McKenna (then Chancellor of the Exchequer), undertook to arrange facilities, so long as the French exchange remained above Fcs.25.50, for the sale on the London Stock Exchange of Securities in French ownership, provided such Securities were placed on the Market by the Bank of France through the Bank of England, and the former Bank guaranteed that the Securities in question had been in French ownership since the outbreak of War. The French Minister, M. Ribot, also undertook that the proceeds of such sales should be solely employed in the purchase of British produce.

Every Security forwarded by the Bank of France to the Bank of England for sale was accompanied by a special Form of Declaration as to ownership signed by the Bank of France and, in spite of considerable opposition on the part of French holders who wished to sell their Securities through their own London Brokers, it was arranged that all Securities should be sold through the Bank of England's Brokers, Messrs. Mullens, Marshall & Co. Any other course was considered to be both impracticable and undesirable. (Vide Governor's letters of 27th July and 7th August 1916 and 3rd August 1917 in C.C.P.71)

Full commission on all sales was charged by the Brokers and was not divisible with the Bank of England.

The arrangement made applied to French subjects

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only: it excluded English subjects domiciled in France and English subjects with Securities held in France who could not effect their sale on the London Market.

The first parcel of Securities was received from the Bank of France by the Bank of England on the 1st March 1916, but as there was some delay before an arrangement was arrived at between the Treasury and the Committee of the Stock Exchange by which the latter agreed to allow the issue of Certificates guaranteeing that the Security mentioned thereon had been expressly passed by the Committee as a good delivery, no sales were effected until the 21st March 1916.

The imposition of "limits" caused a number of orders to be left unexecuted and in March 1919 the Brokers asked the Bank of England to call attention to this, requesting also that they might be relieved of responsibility should they fail, when prices were fluctuating rapidly, to secure a bargain at the desired figure.

The London Market having been re-opened for dealings in the Spring of 1920 the Bank of England suggested that, in fairness to the Stock Exchange and other Banks, French and British, the time had come to revert to ordinary channels for the conduct of this business. The Bank of France accordingly fixed a date for its termination, viz.. 1st June 1920, and on that day the balance of Securities held by the Bank of England was handed to Messrs. Panmure, Gordon & Company.

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The following Table gives the nominal value of Securities received and the amount realised by their sale, together with other particulars.

From	To	No. of Parcels	Nominal Amount	No. of Contracts	Amount realised	Brokers' Commission
29 Mar. '16	28 Mar. '17	15,027	£7,039,664	14,412	£4,833,384	£14,661
29 " '17	28 " '18	7,236	2,386,854	5,899	1,895,669	8,535
29 " '18	28 " '19	4,962	1,456,694	5,624	1,394,564	7,025
29 " '19	28 " '20	13,216	4,400,797	13,772	3,909,893	17,412
29 " '20	31 May '20	1,220	310,153	1,173	251,091	1,165
Totals		41,661	£15,594,162	40,880	£12,284,601	£48,798

Brokers' Commission:- In addition to the sum of £48,798 the Brokers earned a further amount of about £5,000 for commission on Mobilised Securities sold to the Treasury.

Dividends, Coupons, &c.:- Coupons cashed and Dividends collected by the Securities Office amounted approximately to £50,950.

The Bank of England made no charge for their services, although apart from any question of rent, cost of stationery, etc., some £1,500 a year was absorbed in the salaries of the staff engaged on the work: and as mentioned above the whole of the Commission was taken by the Brokers.

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All transactions in connection with the sale of Securities were passed through an account designated "Bank of France, Special Account".

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It may be of interest to note that on the 8th of August 1914 the Bank of England telegraphed to the National Bank of Belgium to enquire whether they could furnish currency for the British Army, against a credit to be opened here in their favour. The proposal was cancelled two days later by the Treasury, who then found that the War Office, with less optimism, had made their arrangements with the French Government. A little later, the Germans demanded the same service from the National Bank of Belgium, but the latter's protest on this occasion seems to have been, at least technically, successful.

Deposit of Boxes &c.

On the 8th August also the National Bank of Belgium wrote to the Bank of England to ask whether they would receive for custody an amount in sovereigns, various boxes, etc. Between the 30th August and the end of the year, but mostly in the first 10 days of September, no less than some 4,000 boxes, bags and baskets were so lodged. The deposit consisted of the metallic reserve of the Head Office in Brussels and of certain Branches, in the form of gold and silver (coin and bars) all of which had been transferred to the Antwerp Branch on 3rd August: of Belgian Bank Notes ready for issue, of Securities of the State, of the Caisse d'Epargne et de Retraite, and of other

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NATIONAL BANK OF BELGIUM. parties, of plates and other apparatus for printing Notes, etc.*

On the 10th October, the date of the fall of Antwerp, the National Bank of Belgium, writing from Ostend, asked that their delegates might withdraw 10,000,000 gold francs and a similar amount of Bank Notes required for the needs of the Belgian Government. Before these instructions could be carried out they were countermanded. About the 17th October it was decided that a temporary Office of the Bank should be opened at Havre, and on the 19th 10,000,000 francs in Notes were permitted to be taken out of deposit here and were shipped thither.†

In mid-October the German Authorities in Belgium threatened to close the Bank altogether unless the latter succeeded in obtaining the redelivery of the valuables in the Bank of England. Fearing that a refusal would only mean the establishment of a German Bank in Belgium, the National Bank consented to send representatives to London; these arrived at the end of October but, after reference to the Belgian Government, their application was refused by the Bank of England. This failure to finance Germany produced various unpleasant results to the National Bank

*The Treasurer of the City of Antwerp also deposited 7 baskets here on the 5th September 1914. These were withdrawn in January 1919.

†The Belgian Government was in Brussels until the 17th August 1914. Representatives of the National Bank of Belgium were at Antwerp by the 25th August and until the 10th September. On the 11th September and thenceforward till the end of the War the Administrators of the Bank were at the Belgian Legation, London.

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NATIONAL of Belgium which may be studied in their Report to the
BANK OF King of Belgium of the years 1914-1918, a copy of which
BELGIUM was sent to the Bank of England after the War.

In the middle of January 1915 the Bank of England were instructed not to recognise any delivery orders unless signed by the Director at Havre. This veto was followed on the 25th by one in the name of the Conseil de l'Administration of the National Bank of Belgium, issued with the object of establishing similar restraint in favour of themselves. The last named letter was assumed to have been written under instructions from the German Authorities and was ignored. In March, however, an authority similarly signed and covering certain deposits was confirmed by the signature of the Director at Havre. In these circumstances the Bank referred the matter to the Treasury, and as a result wrote that they were debarred from complying with the request by the provisions of the "Trading with the Enemy Act, 1914".

1,000,000 one franc pieces were shipped from here to the Congo in January 1915 for the Banque du Congo Belge, and further access was had to the deposits on several occasions during the War for the purpose of withdrawing a part of the contents. On one occasion silver bars were removed and subsequently returned in the form of coin*; on the 14th February 1916 13,823 Bills of Exchange were taken out to be presented for payment when

*Arranged by S. Montagu & Co.

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the Belgium Moratorium should expire on 1st March; and apparatus for printing Notes of the Banque du Congo Belge was released to that Bank in October 1916, on their giving an undertaking not to part with it without the authority of Sir A. Thring, the Parliamentary Counsel.

As the Bank of England took no official cognisance of the contents of the boxes, the various specific withdrawals caused them a little embarrassment.

The remaining deposits, with the exception of £680,000 in gold received in August and September 1914 from the London County & Westminster Bank and Barings, were removed in February and March 1919. They numbered 3,517 and weighed 150 tons.

The gold referred to was taken over by the Bank of England in September 1919 in exchange for a similar amount held by the Netherlands Bank, Amsterdam. (Vide Federal Reserve Bank of New York supra.)

Drawing Account.

The account was opened on the 25th August 1914 and the Bank of England consented to discount "without recourse" the pre-Moratorium Bills which M. Carlier* brought over from Antwerp. These aggregated £261,397:19:4. Effects totalling over £2,570,000 were also lodged for collection, and when the Germans reached the Head Office in Brussels on the 21st August they found neither Cash Reserves nor other effects of value.

The account was debited daily with the amount

*Monsieur F. Carlier was a Director of the National Bank.

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NATIONAL BANK OF BELGIUM. of Notes cashed for refugees (see below) and the routine correspondence arising out of this and the collection of drafts during the War was considerable.

All operations on the General Account were carried out through the Havre Branch exclusively until December 1918, when the National Bank returned to Brussels.

The Havre Branch was closed on the 13th March 1919. In this month the National Bank wrote a letter to the Governor warmly expressing their gratitude for the services rendered them by the Bank of England and enclosing 1,000 guineas for distribution among the Staff. This gift was handed to the Bank Provident Society.

In addition to the General Account certain subsidiary accounts were opened, of which the most important were the "A.G.Account" (January 1919), the "Gouvernement Belge" (September 1920) and the "Belgian Government Reparations" (August 1921) Accounts. The first named was understood to dispose of funds belonging to the Belgian Government derived from the British Treasury.

A further account in the name of the "Belgian Government Reconstruction Account A" was opened on the 8th January 1919 and this was mainly operated upon by the National Bank. It was closed on the 1st September 1921.

The figures of the accounts follow; it will be noticed that by 1921 the business transacted through the Bank of England had been reduced to very small proportions.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.General Account.

NATIONAL BANK OF BELGIUM.	No. of <u>Debits</u>	Average <u>Balance</u>	Minimum <u>Balance</u>	
1914	1,705	£1,301,715	£280,000	
1915	875	£1,372,220	£284,087	
1916	1,348	£206,524	£10,495	overdrawn
1917	1,971	£193,341	£57,974	
1918	2,105	£112,390	£25,294	
1919	126	£50,927	£7,160	
1920	276	£10,300	£738	
1921	6	£8,282	£7,497	

A.G. Account. *

(Opened 7th January 1919)

1919	487	£62,727	£95,184	overdrawn
1920	87	£2,747	£76	
1921	1	£849	£849	

Belgian Government Account.

(Opened 13th September 1920)

1920	283	£50,594	£3,209	
1921	269	£10,437	£4	

*Closed 9th November 1921 (transferred to General Account).

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.Belgian Government Reparations Account.

(Opened 8th August 1921)

NATIONAL BANK OF BELGIUM.	No. of <u>Debits</u>	Average <u>Balance</u>	Minimum <u>Balance</u>
1921	19	£23,459	£900

Belgian Government - Reconstruction 'A' Account.

(Opened 8th January 1919)

1919	946	£71,598	£170,082 overdrawn
1920	366	£449,298	£58,446
1921	99	£392,911	£52,462

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Encashment of Notes[†]

(Vide C.C.O. Correspondence files 213 & 493/18)

The National Bank of Belgium desired both to help refugees from Belgium and to prevent the occurrence of a depreciation in the Bank's Notes, which would occur if speculators were allowed to take advantage of the refugees' distress. They accordingly made arrangements, not only in England but also in Holland, France and Switzerland, to cash their Notes for bona fide refugees at a favourable rate. In England this rate was at first fixed at 25.40 and remained unchanged until the 27th April 1915. Office accommodation and the assistance of a few Clerks was provided free* by the Bank of England and on the 3rd September 1914 the work of payment began in the Issue Office, but was almost at once transferred to the Rotunda. (Dividend Pay Office)

The Staff of the National Bank employed on the work consisted originally of one Clerk only. Others were supplied after a day or two by the Belgian Consulate and, after a few weeks, by the National Bank. The number of Clerks lent by the Bank of England varied from about two to seven; the Staff of the National Bank reached a maximum of five.

The conduct of the business in French or Flemish, the calculation of the sums payable in sterling, the examination and marking of passports or identity cards, and

*Stationery supplied was charged to the National Bank of Belgium.

[†]See also Branohes Section, Chapter IX.

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NATIONAL BANK OF BELGIUM. the necessity which soon arose of restricting each applicant to the encashment of a limited amount of Notes per fortnight, made payment a lengthy process and the Staff for a time was quite inadequate to cope with the growing numbers of refugees. After the first two days, payment was made as far as possible in gold, and Notes were not again used until late in 1915.

The crowd of Belgian refugees was greatest between Monday, the 12th October, and Saturday, the 24th October 1914. Thus, on Monday, the 19th October, no less than 1,023 persons were paid over the counter. Including dependants, it is probable that 5,000 Belgians passed through the Bank on that day. About this time the crowd sometimes stretched from the Rotunda down the central passages to the Princes Street entrance and round past the Guard Room into the Garden. Chairs were provided by the Bank of England in the corridors and trays of refreshments were carried round the waiting queue. On some evenings applicants in the Bank at 4 o'clock, the then closing time, were not paid and out of the building until 7 or 8 o'clock.

Previous to the establishment of the Comité Centrale d'Échange (referred to below), refugees were permitted to encash small amounts of Belgian Notes with the South Eastern & Chatham Railway. These Notes were periodically presented by the Company and paid here at the rate current at the time for the exchange of refugees'

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Notes.

When the refugees had settled down all over the Country, the encashment of their Notes by post and by the making of remittances to other Bankers was also undertaken. At first Bank Notes, Currency Notes and Postal Orders had to be sent by registered post; later it was possible in most cases to transmit the proceeds by cheque. The cancelled Belgian Notes and the Belgian Silver Coin which had been exchanged were sent from time to time to the Havre Branch.

The National Bank also undertook to receive cash in London and to issue circular credits payable in the uninvaded parts of Belgium (especially Ypres and Poperinghe). Both this work and the encashment of Notes continued through the War.

The payment of Belgian Bank Notes gave rise to many difficulties. Almost at once it became necessary to introduce the Regulation that no more than Fcs. 1,000 should be cashed by any one person in a fortnight. Considerable trouble, however, was experienced in ensuring the observance of this rule since, although applicants were required to produce identity cards and afterwards passports, which were marked with each payment, it became evident after a few months that it was possible to obtain further passports in Belgium without surrendering the old ones. A fresh series of identity cards was next issued, but duplicates of these also were

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

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BELGIUM. forthcoming, until responsibility was vested exclusively in the Comité Centrale.

The privilege of cashing Notes had been originally intended solely for genuine refugees, and this gave rise to complaints on the part of English subjects and other bona fide holders. Suitable concessions however were made from time to time to these applicants.

About December 1914 suspicion began to be aroused that some Belgians were acting on behalf of Germans and were taking the gold with which they were paid out of the Country. There was at this time no restriction on the removal of gold from England by alien Allies: alien Enemies, however, on whom, earlier, considerable quantities of gold had been found, were restricted to £1 apiece. Several London and foreign Banks and also many English Brokers and Moneychangers were alleged to be dealing in the Notes.

In these circumstances, the Treasury issued a warning, on the 5th February 1915, that the considerable quantities of Belgian Notes which were being offered for sale in London probably come from Enemy sources and that their purchase either at face value or at a discount should be avoided.

As before stated, the amount of Notes cashable for each refugee was at first Fcs.1,000 per fortnight. By the end of March 1915 this had been reduced to Fcs.300. In March the Bank noticed that certain refugees, after cashing

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

NATIONAL BANK OF BELGIUM. their maximum here, proceeded to the West End Office of the Société Générale,[†] who accepted further Notes at a less favourable rate of exchange. When the attention of the Société Générale was called to the Treasury announcement, they stated that they had not regarded it as prohibitive, and they alleged that other dealers had taken the same view. The practice of the Société Générale was however discontinued by them at the express request of the Treasury.

In April a Belgian Company informed the Bank of England that they had large sterling balances in London which they desired to exchange for florin credits in Holland, using the latter to purchase Belgian Notes at a depreciated value and retaining the Notes until they could be remitted to Belgium at a profit. The Bank held that such transactions were not permissible, since the immediate result would be an advantage to occupants of Enemy Territory, to whose efforts to exchange Belgian Notes in Holland for Dutch currency was attributable that very state of the exchange to which alone was due the possibility of future profit.

The National Bank had been forbidden by Germany to issue or re-issue Notes after the 22nd December 1914, and exclusive power of Note issue was conferred on the Société Générale de Belgique.*

*The National Bank's privilege was withdrawn ostensibly on account of certain advances which had been made to the Government on the outbreak of War in contravention of its statutes.

[†]Société Générale pour favoriser le Développement du Commerce et de l'Industrie en France.

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The National Bank's arrangements for paying their Notes in England, France, Holland and Switzerland at a high rate of exchange undoubtedly made it profitable for Germany to send the Notes abroad for realisation. The greatest amount of Notes cashed on any one day was some Fcs.900,000 and the daily average was about Fcs.120,000. It was contended that these figures were not excessive for Belgians who had to subsist on their own resources. The total number of refugees from Belgium was said to be 200,000 and it was estimated that perhaps 170,000 of these were at first living on charity or had to obtain work. But there was little doubt that the facilities were in fact abused and that dealings took place for Enemy benefit. By April 1915 the Governor felt that further steps should be taken to put "every possible obstacle in the way of the speculators, seeing that their operations without doubt constitute one of the channels through which the Germans are enabled to add to some extent to their stock of gold. So long as Belgian Notes are cashed here, it is well-nigh impossible to prevent speculation without at the same time giving cause for grievance to persons whose transactions, though quite bona fide, may for some reason or other fall under suspicion." (L.21/4/15 from Lord Cunliffe to Mr.Brand of the Cornhill Committee.)

Over £1,500,000 had now been paid away and the Governor suggested that Notes should no longer be cashed at anything but the current rate of exchange.

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NATIONAL BANK OF BELGIUM The alteration was made on the 27th April, from which date the higher rate of the cheque quotation on Paris, transmitted day by day through the Havre Office, became the exchange rate at which Notes were paid.

Conferences also took place at this time between the Governor, Sir John Bradbury, the Attorney General, the Parliamentary Counsel and M. Carlier of the National Bank of Belgium, to consider whether the further import of Notes should not be closely regulated or even prohibited altogether. As a result, a Proclamation was issued, on the 5th May, forbidding the entry into the United Kingdom of any Belgian Bank Notes.

These two changes were not brought about without protest by the Director at Havre, who considered that they would reflect discredit on the National Bank; but the Bank of England did their best to persuade him that his opinion was not well grounded.

The Proclamation though formally imposing an absolute prohibition was not intended to deprive refugees of all their Notes, but to enable such imports to be treated as exceptional and thus to limit them in amount. By the 9th June it had been arranged that individuals might bring in Notes for 250 francs, and families 500 francs. Any excess was to be returned to Holland or France, or handed over to a new Committee entitled the Comité Centrale d'Exchange (4, Bishopsgate, E.C.) for the credit of any person to whom there had been issued by

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them a card of identification. The Committee were to see that the Notes were used solely for personal expenses in this Country. Belgian Notes remitted by post were to be sent in insured letters, with the insured value endorsed on the cover. All other Notes were liable to confiscation or detention until the end of the War.

A period of some inconvenience both to the Bank and to the refugees ensued, as the Committee did not begin to discharge its functions until July, and, in the meantime, Notes confiscated by the Customs accumulated at the Bank of England. (Such Notes were returnable to France or Holland on surrender of the receipt given by the Customs Authorities)

The Committee consisted of M. Hector Carlier* and five or six other Belgians, and its chief duties were to issue identity cards to Belgian Subjects and decide upon the amount that might be drawn by them. The maximum permitted was Fcs.500 each fortnight. Subjects of Great Britain and her other Allies were dealt with by the Bank of England.

On the 1st January 1917 the Committee issued an Order compelling holders to deposit Belgian Notes if they wished to retain the opportunity of being able to exchange them later. This procedure had the effect of fixing the amount of the outstanding total of Notes which were exchangeable.

The total of Belgian Notes cashed amounted to

*A brother of Monsieur F.Carlier.

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NATIONAL BANK OF BELGIUM. Fcs. 60,336,951.47, an equivalent of £2,326,016:18: 6, (which represents an average exchange rate of 25.94).

In January and February 1919 the refugees began to return to their own Country and the reverse process of changing their savings in English money into Notes of their own currency was begun, this course being rendered possible by a relaxation after the Armistice of the Regulations which governed Belgian Bank Notes; and on the 15th March 1919 the National Bank ceased their operations within the Bank of England.

A few Notes (some Fcs. 5,000) remained unclaimed at the Bank of England until July 1920, when the National Bank offered to relieve the Bank of England of the trouble of settling with their owners (about 20 in number). The Notes were accordingly sent to Brussels; and thus terminated an arrangement aspects of which were likely to make it long remembered in the Bank.

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NETHERLANDS BANK. *

This Account was opened under an Order of Court dated the 12th November 1914; but although all conditions for operating upon it were then duly laid down, no transactions had taken place by the end of August 1921 so far as the current account was concerned.

On the 7th October 1914, however, the Netherlands Bank purchased at $78\frac{1}{16}$ per ounce bar gold amounting, at this price, to £201,391:15: -. This gold was left in the custody of the Bank of England, who made a quarterly charge at the rate of $\frac{1}{16}$ per cent. per annum, the rate being increased to $\frac{3}{8}$ per cent. as from the 9th August 1915.

In March 1918 a request was received from the Netherlands Bank which was interpreted as a desire that further gold should be earmarked for them. The Bank replied intimating their regret that "by general agreement" it had been found "necessary to discontinue" this practice. It appeared, however, that it was a fresh deposit that was contemplated, and on the 6th May a number of boxes were lodged by Messrs. Blydenstein & Co., which were said to contain gold bars valued at £487,854 ($77\frac{1}{9}$ per oz. std.). Upon this sum accordingly commission was also claimed and paid.

In June 1919 the Netherlands Bank made the proposal that this last-named gold deposit should be utilized to take up English Bankers' acceptances; but they stipulated that the investment should at any time be again

*See also Chapter on Gold and Silver: Gold shipments to Holland.

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NETHER-
LANDS
BANK.

convertible into gold. They also suggested that both Institutions should keep a deposit of gold free of charge whereby the settlement of indebtedness between Great Britain and Holland might be effected and the expenses of shipping specie avoided. Both of these proposals the Bank declined.

The whole of the gold held here for the Netherlands Bank was exchanged on the 20th October 1919 against gold held by them in Amsterdam at that date for the Federal Reserve Bank of New York. (Vide supra.)

Although the Drawing Account here was not operated upon funds amounting to £1,125,000 were received from the Netherlands Bank in August 1918 for the credit of a joint account then opened in the name of Sir W.G. Armstrong Whitworth & Co., Ltd., and Colonel J.C.C. Tonnet. Colonel Tonnet was a Representative of the Munitions Bureau and the Dutch Government, and the account consisted of moneys due in respect of a munition contract made between the Dutch Government and the armaments firm in question. The Netherlands Bank was advised of all transactions on this account.

In the first instance it was provided that the account should only be debited upon presentation of Bills of Lading or other certified documents, which were to be sent on to the Netherlands Bank, and the latter's gold deposit with the Bank of England was to be regarded as security in case of a payment made in anticipation of the

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

NETHER- receipt of funds. But both these provisions were dropped
LANDS almost at once.
BANK.

The correspondence connected with this account was carried on through the War Office until March 1919, and the balance of the account was employed in Treasury Bills as from September of that year. The interest thus earned was paid to the credit of the Netherlands Bank at the London Joint City & Midland Bank, the Bank of England finding themselves unable to accede to the alternative of keeping a separate account for the Netherlands Bank for the receipt of such interest and its reinvestment in Treasury Bills. The joint account remained open at the end of August 1921.

In September 1919 the Netherlands Bank made enquiries as to the Bank of England's method of cancelling and destroying paid Bank Notes. They stated that they were thinking of changing their own system. The particulars were furnished by the Bank and appear to have been of assistance.

The President of the Netherlands Bank throughout the period covered was Dr. Vissering, to whom reference has been made elsewhere.

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NATIONAL BANK OF ROUMANIA.

Gold set aside.

Between the 3rd April and 25th November 1915 £1,250,000 was received through Messrs. Baring Bros. & Co. Ltd., and at the request of the Roumanian Minister in London was "set aside" in the form of sovereigns for the National Bank of Roumania, by whom this gold was included as a part of their metallic reserve. The National Bank agreed to pay the usual custody charge of $\frac{3}{4}\%$, the fee being at first received through the London County & Westminster Bank, but subsequently, from July 1916, being debited to the Grain Purchases Account which was the only Drawing Account opened. (One letter, dated 27th March 1918, authorising a debit of this description did not reach the Bank until January 1919)

The amount of gold held was unchanged on the 31st August 1921.

Roumanian Notes.

In 1917 the Bank of England lent their assistance in forwarding to the National Bank at Jassy a number of cases of the latter's Bank Notes, which were transmitted here by the Bank of France and which, painted with the Roumanian national colours and accompanied by a Roumanian Representative, were shipped to their destination via Archangel. The last of these consignments was safely received in Roumania on the 22nd November 1917.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.Grain Purchases Account.NATIONAL
BANK OF
ROUMANIA.

At the beginning of 1916 the Government made an arrangement for the purchase of Roumanian grain, agreeing to provide £10,000,000 in London in the first six months of the year, against an equivalent amount of lei to be provided in Bucharest, the rate of exchange for the conversion of the gold referred to below and of such sums as the National Bank of Roumania should draw to be 26·22 until such time as Peace should be declared, when 25·22 was to be the rate for conversion of the balance then remaining. Of the £10,000,000 in question 33% was to be set aside in gold for the National Bank of Roumania, the remaining 67% being placed to that Bank's credit on current account: the whole sum to be paid in five equal instalments within the period named and through the Bank of England.

In order that the credit should not be used for the advantage of the Enemy, the Agreement, (which was dated 2nd February 1916), stipulated that the Bank of England should honour "in conformity with its rules" the drafts drawn by the National Bank of Roumania; this phrase was inserted by the National Bank as affording to the Bank of England, in a manner which would not arouse criticism in Bucharest, means of preventing funds going, at least directly, to enemy destinations: the National Bank were unable to give a specific guarantee as to the use of the money other than an oral undertaking of their Acting Governor. To meet the difficulty the Bank proposed that

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

NATIONAL BANK OF ROUMANIA. all instructions for payment given by the National Bank should be communicated through the Foreign Office by H. B. M. Minister at Bucharest (Sir George Barclay). This stipulation was not part of the Agreement itself and the National Bank of Roumania did not accede to it without a preliminary protest against its obligatory application on all occasions.

Payments out of the account were made on Treasury authority qualified by a proviso that the transferees should guarantee that the payment would not accrue to the benefit of the Enemy. Difficulty arose on several occasions owing to the London County & Westminster Bank being unable to give such an undertaking: instead of this, the guarantee of the Roumanian Minister was accepted by the Treasury for two or three transfers.

Since the British Government had practically made themselves responsible for it, the Grain Purchases Account was opened, on the 21st February 1916, as a Public Account. The first instalment of £2,000,000 was thereupon received and the account was debited £660,000 for gold set aside (and held on a "No. 2 Account"). The Gold consisted of sovereigns; the Agreement speaking of "souverains ou effectifs".

Four instalments of £2,000,000 were received, the last being on 21st June; after which, on 4th July (but to be regarded as taking place on the 21st June) a return of £1,000,000 was made to the British Government.

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CENTRAL BANKING AND CENTRAL BANKS.

NATIONAL BANK OF ROUMANIA. The balance of the credit of £10,000,000, viz., £3,000,000 was never paid. Gold, however, to the extent of 33% of £8,000,000 was set aside, viz., £2,640,000, and this was still held on 31st August 1921. In October 1916 £520,934:10:7, being the equivalent (exchange rate unknown) of the balance of lei at this Country's disposal in Bucharest, was paid to the Treasury from the current account here.

On the 27th November 1916 the National Bank of Roumania transferred its Head Office to Jassy; Bucharest was captured by the German army early in December. Considerable amounts of the wheat which the British Government had bought fell into the hands of the Enemy on the railway north-west of the Capital.

A Clause in the Agreement provided that interest at 5% on the balance of the current account should be allowed "jusqu'au jour de la conclusion de la paix generale". The charge was to be met by the British Government. Accordingly the account was credited for the years ended 31st March 1917 and 1918 £144,771:7:6 and £118,731:10:10 respectively; but although the interest was computed for subsequent years the Treasury made no further payments, on the ground that the Agreement was terminated by the Treaty of Peace with Germany, which was signed in March 1918.* This view of the matter

*Preliminary Treaty. The Treaty of Bucharest between Roumania and the Central Powers was concluded on the 7th May 1918.

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NATIONAL was disputed by the National Bank of Roumania, and no
BANK OF
ROUMANIA solution had been found by 31st August 1921.*

*In March 1922, on further representations being made, the Treasury authorised payment of interest, less certain deductions, up to and inclusive of 10th January 1920, the date of the coming into force of the Versailles Treaty and this settlement was accepted. The additional interest amounted to £225,109:15: - or, after certain deductions, £165,292:18: 2.

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CENTRAL BANKING AND CENTRAL BANKS.

BANK OF SPAIN.

Upon the outbreak of War the account of the Bank of Spain (opened 30th January 1913) became active, and up to the end of 1914 considerable payments were made against telegraphic advices, principally to the Banco Espanol del Rio de la Plata.

In October a proposal was made to the Bank of Spain through the Bank of England whereby the former were to make Peseta payments in Spain for H.M. Treasury to the extent, for the first month, of some £100,000 at the exchange of 25'50, against bar gold to be set aside here at the Bank's selling price of 78/1. ^{s d} But this proposal proved abortive.

The Bank of England, however, consented to sell bar gold to the Bank of Spain, and between the end of October 1914 and June 1916 1,003,557,329 ounces standard ^{s d} (@ 78/1 = £3,918,055: 1: 8) were so disposed of, sales being usually about £200,000 monthly; the greater part was gradually shipped to the Bank of Spain's Branches, first to Vigo, then to Coruña, in consignments of £100,000 or £200,000.* In addition to this, the Bank sold (1914/15) to the London Joint Stock Bank Ltd., for the Bank of Spain, a further 154,430'655 ounces standard ^{s d} (@ 78/1 = £602,923: -: 3).

*Up to June 1916 the Royal Mail Steam Packet Company were exclusively employed: afterwards the Nelson Lines shared the shipments. Insurance rates varied from 10/-% in January 1915 to 23/6 (with practically no discount) in May 1916. In the same period freight rose from $\frac{5}{16}$ to $\frac{5}{16}$ %.

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SPAIN.

The Bank of Spain took advantage of the fact that their country was becoming a creditor nation to increase its stock of gold, and in addition to the bar gold, no less than 11,122,000 sovereigns were taken from the Bank of England for export to the Peninsula in the years 1915 and 1916. The figures given at the end of this section show that between the 5th August 1914 and the 10th March 1917 the legal reserve of gold required against the Bank of Spain's Notes was, on a minimum computation, 22·8%. At the end of 1914, 1915 and 1916 the actual gold holdings were 36·5, 46·1 and 56·3% of the circulation respectively.⁺

A part of the gold increase was drawn from the United States of America as well as from Great Britain, though the strain indirectly fell on the Bank of England.*

In August and October 1915 the Bank expressed their regret at being unable to supply any more bar gold for the time being. The reply of the Bank of Spain referred to the increase in their Note circulation through

* "In view of Spain's abnormally large exports of manufactured goods, her reduced import of coal, etc., and the large sums earned in freight by her shipping, the balance of trade would appear to be largely in her favour and failing additional imports or investments abroad must presumably be adjusted by imports of gold." Foreign Office L. 10/8/16.

The Bank of England agreed in this view but tried to restrain such imports, since shipments came either from London or from the United States of America the latter having to be replaced by further shipment from the United Kingdom to the United States of America. (Gov. L. 14/8/16)

The efforts at control by the Bank and Foreign Office were not however very successful. (Vide L. 6/3/17 in C.C.O. correspondence folder 490)

⁺The large exports of gold to Spain caused remark in the House of Commons, and it was alleged in 1915 that gold drawn from Spain (and indirectly from Portugal) was finding its way to Germany. (Vide C.C.P.137.)

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BANK OF SPAIN. the previous months which, they alleged, made it necessary for them to acquire gold. They asked that in default of bars sovereigns might be shipped and they assured the Bank that the metal would not leave their strong rooms since it was required only as a reserve. They also expressed their desire to retain in England some £300,000 of gold which then remained unshipped. (Gold held in London, Paris or Berlin was permitted to form part of their Gold Reserve)

By the end of March 1916, however, the Bank of England felt themselves obliged to offer more bar gold in view of the fact that large withdrawals of sovereigns by French Banks for export to Spain continued constantly to take place, over £2,000,000 having been thus withdrawn in the first quarter of the year. These withdrawals did not cease until July. The offer of bars was accepted and the Bank of Spain expressed a hope that they would be able to do without the sovereigns, but pleaded the urgency of their Note issue once more.

At the end of June, however, the Bank of England delayed a shipment on the ground that they were unable to effect insurance, and on the 8th August wrote to say that they found themselves "quite unable to comply with your request that a further amount of bar gold may be sold to you and retained here on your behalf, since, in view of the difficulties which are being experienced on all sides in arranging the insurance incident upon consigning such

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BANK OF SPAIN "purchases to the owners, the Bank are receiving numerous "requests to store gold, to which it is impossible for "them to accede." The Bank still held £706,523: 5:11 gold awaiting shipment.

This balance of gold remained unaltered until May 1919, between when and August it was shipped to Vigo and Bilbao, the total number of consignments during the War being 22.

At the end of July 1919 the Bank of Spain, hearing that the export of gold from this country was "perhaps to be allowed", asked for a further release of bars. The Bank replied that they were not offering any of their own gold but that a regular supply would be available in the market from mid-September. It was decided later that the Bank should not undertake the office of Agents for the purchase of such gold on behalf of the Bank of Spain.

A further unsuccessful application for gold was made by the Bank of Spain in January 1920. The figures of the Drawing Account for the period are appended, from which it will be seen that the account was practically dormant from 1916.

	<u>Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1914	57	£668,968	£10,000
1915	53	£513,610	£391
1916	35	£199,689	£63,300
1917	1	£37,228	£33,061
1918	-	£33,061	£33,061
1919	9	£51,976	£29,417
1920	1	£51,918	£29,417

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BANK OF
SPAIN.

ACTUAL METAL RESERVE

	Gold	Silver	Total	Proportion	
				Gold	Silver
31 Dec. 1913	<u>Pesetas</u> 674,127,189	<u>Pesetas</u> 716,291,082	<u>Pesetas</u> 1,390,418,901	48·4	51·6
1914	720,331,495	708,856,910	1,429,188,404	50·4	49·6
1915	970,421,062	752,905,046	1,723,326,108	56·3	43·7
1916	1,341,065,909	741,041,508	2,082,107,417	64·4	35·6
1917	2,055,901,970	709,206,293	2,764,108,263	74·3	25·7
1918	2,228,344,423	641,394,611	2,869,739,034	77·6	22·4
1919	2,506,312,819	629,887,809	3,136,200,628	79·8	20·2
1920	2,539,676,273	573,567,210	3,113,243,483	81·5	18·5
1920 compared with 1913	+ 1,865,549,084 or + 276·7%	- 142,723,872 or - 19·9%	+ 1,722,824,582 + 123·9%	+33·1	- 33·1

NOTES IN CIRCULATION

	Notes	Proportion of Gold held	Proportion of Silver held	Proportion of Gold and Silver combined
31 Dec. 1913	<u>Pesetas</u> 1,931,283,500	34·9%	37·0%	72%
1914	1,973,639,925	36·5%	35·6%	72%
1915	2,100,173,900	46·1%	35·8%	82%
1916	2,360,083,500	56·3%	31·4%	88%
1917	2,798,641,700	73·4%	25·3%	99%
1918	3,334,288,425	66·8%	19·2%	86%
1919	3,866,919,750	64·9%	16·3%	81%
1920	4,326,249,350	58·6%	13·2%	72%

N. B. Figures taken from Anuario Financiero y de Sociedades Anonimas de Espana, Madrid 1921.

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SPAIN

LEGAL REQUIREMENTS AS TO METALLIC COVER*

Date of legal alteration	Maximum circulation (in millions of pesetas)	To be covered as to	by a total Metallic Reserve of	of which Gold	and Silver
13 May 1902	2,000	1,200	400	200	200
		1,200 - 1,500	180	120	60
		1,500 - 2,000	350	250	100
5 Aug. 1914	2,500	2,000 - 2,500	500	Gold or Silver	
10 Mch. 1917	3,000	2,500 - 3,000	500	500	
6 Aug. 1918	3,500	3,000 - 3,500	500	500	
2 Jan. 1919	4,000	3,500 - 4,000	500	500	
27 Dec. 1919	4,500	4,000 - 4,500	500	500	
			3,430		
7 Oct. 1920	5,000	up to 2,000	930	570	360
		2,000 - 5,000	2,100	1,800	300
			3,030	2,370	660

LEGAL REQUIREMENTS EXPRESSED AS PROPORTIONS

OF MAXIMUM CIRCULATION

	Metallic Reserve	of which Gold	of which Silver
5 Aug. 1914	57.2	22.8 (minimum)	34.4 (maximum)
10 Mch. 1917	64.3	35.6 "	28.6 "
27 Dec. 1919	76.2	57.1 "	19.1 "
7 Oct. 1920	60.6	47.4	13.2

*Table compiled from an article "La Duracion y el Privilegio del Banco de Espana" by S. Laborda in "Nuestro Tiempo" August 1920 and the "Anuario Financiero y de Sociedades Anonimas de Espana" 1921.

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BANK OF PORTUGAL.

The Bank of England were first approached by the Bank of Portugal on the 3rd March 1916 on the subject of a difficulty likely to arise in connection with the latter's Bank Note issue. The printing of their Notes was done by an English firm, but the paper was manufactured by a French company. The Bank of Portugal were afraid that they might not succeed in getting a licence for their paper to be imported into England and they enquired whether, in the event of its being found necessary to manufacture the paper in England, the Bank of England would be prepared to assume control of the manufacture and under what conditions.

The Bank replied that, while at all times happy to render any assistance in their power, pressure of work made it impossible at that time to undertake such a service. No more was heard of this matter.

On the 23rd September 1916 the Bank of Portugal asked if they might open an account here; the balance would be considered as forming part of their Gold Reserves.

The account was sanctioned by the Court on the 5th October and was opened on the 23rd November with a credit of £100,000.

The figures for the account are as follows:-

	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1917	-	£168,750	£100,000
1918	-	£250,000	£250,000

This balance remained unchanged at the end of August 1921.

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NATIONAL BANK OF GREECE.

This account was opened in 1899 in connection with a Greek Loan, but carried little or no balance and was almost dormant until August 1914.

During the War the account was used largely as a medium for making payments to the United States, chiefly, it was believed, for grain purchases. With this object in view the National Bank of Greece asked the Bank in August 1914 to open a credit for the National Bank of Commerce, New York, but the proposal was refused on the ground that it was contrary to the Bank's practice to give their acceptance.

In January 1916 the Vice Governor of the National Bank of Greece was in London and an agreement was made in the following March whereby the Bank of England undertook to allow interest, at the London Clearing Bankers' Rate, on the balance of the account in excess of £25,000 provided the total balance "did not very greatly exceed £1,000,000". This deposit of £1,000,000 was understood to be a basis against which an issue of Notes could be made.

In January the National Bank of Greece also proposed that their account should be credited upon the receipt here of the single halves of Bank Notes. They stated that at this time they held about £100,000 of such Notes, which they had received directly or indirectly from the British Expeditionary Force, and that, in default of some such arrangement, they would be unable to take the Notes except

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BANK OF
GREECE.

at a very considerable discount, because of the difficulty and high cost of insurance. The suggestion was accepted, but appears never to have been put into practice.

As mentioned above, the Bank of England had from time to time transferred sums to New York at the exchange of the day for the National Bank of Greece, in particular to the National City Bank, and in March 1916 the Bank were asked to open a sight account in dollars in the name of the National Bank of Greece. This account it was said might "run up to some \$5/6,000,000". The National Bank held dollars in New York and desired to open the account for payments to be effected with their New York Correspondents, under instructions sent to the Bank of England. The proposal however was declined.

In June the National Bank asked if they might increase their deposit to £2,000,000. This was agreed to, subject to 7 days' notice of withdrawal of the first £1,000,000 and 14 days' notice as regards the balance.

In December 1916 a naval blockade of Greece was instituted by the Allies.

Instructions for transferring funds to New York were suspended as from the 22nd November, when an embargo was placed upon such remittances at the informal request of the Foreign Office, who wished "obstacles put in the way". (The Foreign Office had begun making enquiries as early as April 1916 regarding the alleged transfer of Greek Government balances from Paris to London) The total

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NATIONAL BANK OF GREECE. amount spent upon the purchase of exchange on New York from the beginning of January to the middle of October in this year reached £2,750,000, and as the Bank had large unexecuted orders for further purchases, they protested, in December, against the informality of this restraint. Thereafter and for some time to come all transactions on the account were submitted to the censorship of the Ministry of Blockade.

Weekly Statements of Account which had been sent since October 1914 failed to reach their destination in November 1916 and were soon afterwards discontinued until 20th June 1917, when the restrictions upon financial intercourse between Great Britain and Greece were modified. The Bank then wrote to say that the account could be operated upon, subject to the condition that 75% of the balance as on the 2nd June must be left untouched. The amount involved in this percentage was some £804,000, which was temporarily transferred to a Special Account. On the 31st July all restrictions were withdrawn by the Ministry of Blockade, and the Special Account was closed, the balance being retransferred to the General Account.

In November 1917 the National Bank of Greece repeated a request, made more than once before, that a higher rate of interest might be allowed to them. On this occasion the Bank, for the first time, offered an increase, from 4% to 4½% if the deposit were fixed for

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NATIONAL BANK OF GREECE. three months. This was met by the counter-suggestion of 4½% without conditions, a proposal which was refused.

In December 1917 and during the first half of 1918 the Bank were asked to sell exchange on America and large amounts of sterling were realised in this manner.

In May the National Bank of Greece claimed that as from January 1918 they should obtain the advantage of the Special Foreign Money Rate, to which the Bank agreed, and a few months later the account was in all respects put on the Foreign Money basis. Upon the withdrawal of the Special Rate in October 1919, the three months' Treasury Bill rate, less the Bank of England's commission for undertaking to refund money at call, was substituted.

There do not appear to be any further matters in connection with the account that call for notice here, with the exception of an interest which the National Bank of Greece developed in the internal administration of the Bank of England. Their enquiries covered subjects such as the Bank Note Register; treatment of paid and of mutilated Notes; correspondence system; allowances for increased cost of living; selection, payment, promotion and pensions of the Staff. On several points information was furnished, but one letter, in September 1916, was of so comprehensive a nature as to be left unanswered.

The figures of the account are appended:-

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NATIONAL BANK OF GREECE.	No. of <u>Debits</u>	Average <u>Balance</u>	Minimum <u>Balance</u>
1913	3	£434	Nil
1914	7	£109,956	Nil
1915	26	£66,417	Nil
1916	73	£806,077	£7,368
1917	21	£945,107	£198,325
1918	51	£793,078	£20,664
1919	31	£27,971	£26,224
1920	30	£128,559	£13,894

The account then became dormant.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.IMPERIAL BANK OF INDIA.

The Imperial Bank of India was formed out of the three Presidency Banks, the Bank of Bengal, the Bank of Bombay and the Bank of Madras, and the Act constituting it received the assent of the Governor General on the 19th September 1920.

Two of the Presidency Banks, those of Bengal and Madras, had accounts at the Bank of England, and these accounts were still open at the end of the period covered by the present history.

In January 1921 the Governor saw Mr. Montagu, the Secretary of State for India, and took occasion to mention his hope that the new Bank's London Office (the establishment of which was provided for by the Act of 1920) would establish intimate relations with the Bank of England and keep them informed of the trend of financial developments in India. Mr. Montagu communicated these views to Sir Bernard Hunter, late Secretary of the Bank of Madras, who was to be in charge of the London Office of the Imperial Bank, and stated that Sir Bernard Hunter was in entire sympathy with the Governor's aims.

On the 4th February the Governor wrote a letter to Mr. Montagu from which the following may be quoted:-

"My particular anxiety is lest the benefits which India has every right to expect from the establishment of a Central Bank be imperilled sooner or later by reason of

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INDIA.

"that Bank through its London Office entering into
"external Banking and Exchange business. The danger
"of such a course has been well illustrated in the case
"of Australia which should serve as a standing warning.
"We are I think agreed that the new Bank if it is to
"perform the functions of a bona fide Central Bank and
"to secure for its own particular economic sphere (India)
"the full advantages obtainable from a Central Bank
"system should, whilst keeping in close touch with the
"Central Banks of other Countries, confine its actual
"business activities to its own sphere."

This contention was also put before Sir Bernard
Hunter by the Governor at subsequent interviews.

At the end of February the Governor expressed
himself on the subject of the London Office in a letter
to Mr. Clegg in which, after setting forth his objections
to overseas general banking or exchange business being
undertaken by the Imperial Bank, he added:

"At the same time I feel that the establishment of an
"Agency here would be justified provided it confined it-
"self strictly on the lines I have stated; and, if such
"an Agency were founded on sound lines, it would be
"reasonable that it should do some of the Government of
"India work now entrusted to the Bank."

Matters had not, however, progressed further
by the end of August 1921. though it may be noted that
Sir Bernard Hunter accepted in theory the principles

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INDIA

which should govern Central Banks as enunciated by the Governor, but thought they might require "modification in some respects in Countries such as India, where banking is so undeveloped."

Mr. Strong's additions to the epitome, he considered "interesting, and I approve generally".

In conclusion, the following remarks of Mr. Strong in a letter written to the Governor not long after his visit to India in the Autumn of 1920 may be given. He stated that he "was struck by the absence of a well-organized method of dealing with the domestic exchanges, collections, etc. The Imperial Bank with its system of branches and with its expert knowledge of native credits, and of the inland bill, should be in a position to deal with domestic collections and exchanges better than any others. Such a scheme could be made to synchronise with currency and redemption operations and, I should think, would very much stabilise banking operations. I was told that large denomination Rupee Notes are sometimes sold at a premium....because of their convenience in effecting interior settlements. Possibly the Imperial Bank might take a leaf out of our book in this matter, but the important thing is....to conduct their operations in London with you, in harmony with your policy, and so as to avoid such a situation as has developed in Australia."

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NATIONAL BANK OF EGYPT.

This Bank did not open an account until March 1915, but since October 1906 it had been in constant relationship with the Bank of England owing to the fact that certain of the securities held against its Note issue were deposited here in a special safe under the dual control of the National Bank and of the Bank of England as representing the Egyptian Government.

The Note issue in question was guaranteed by securities and gold in equal moieties, and soon after the beginning of the War, upon the expansion of the circulation (from £2,200,000 to £3,250,000, 31st December) the National Bank began to set aside gold at the Bank of England. The first deposit of sovereigns (£150,000) was made on the 25th November, after which further deposits were made in the safe referred to above until £1,075,000 was so held, when it was found to be inconvenient to use the safe for the purpose and the gold was, from February 1915, set aside in the Bank's Vaults.

Frequent deposits and releases occurred, the net result being a reduction of the total to nothing at the end of July 1915 and an increase to its maximum figure of £4,445,000 towards the end of January 1916.

On the 26th July 1916 the sovereigns set aside amounted to £3,285,000 and no further change took place during the period dealt with.

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In August 1916 the Bank of England informed the National Bank that they could no longer continue the practice of setting aside gold unless by the request of the British Government. The National Bank were somewhat chagrined by this refusal and the Representative of the Egyptian Government Commissioners on the National Bank, M. Roussin, called to protest against this decision. The Governor, however, took up the position that, as the National Bank Notes had been made unconvertible, there was no occasion for the maintenance of the gold backing, still less for a gold reserve which was then actually 10 per cent. greater than required by law before the War.

In these circumstances the Egyptian Government decided that gold might be replaced to a considerable extent by British Government Treasury Bills.

The subjoined table shows briefly the fluctuation of the National Bank's Note issue and the changes in the nature of the cover held against it.

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EGYPT.

000's omitted and amounts given to nearest £1,000

Date	Notes £E	Gold		Securities*
		Total	Of which at Bank of England	
31 Dec. 1914	£E8,250	£E4,332	Sterling £650	£E3,918
" 1915	11,550	7,134	£3,245	4,416
" 1916	21,200	Gold 5,931 Brit. Tsy. + Bills 4,669	£3,285	
		10,600		10,600
" 1917	30,800	Gold 3,859 Brit. Tsy. Bills 11,541	£3,285	
		15,400		15,400
" 1918	46,000	Gold 3,309 Brit. Tsy. Bills 19,691	£3,285	
		23,000		23,000

*Egyptian Government or Guaranteed Securities, British Treasury Bills, National War Bonds, Exchequer Bonds, etc., etc.

+Journal Officiel 30/10/16.

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NATIONAL
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EGYPT

000's omitted and amounts given to nearest £1,000

Date	Notes £E	Gold		Securities*
		Total	Of which at Bank of England	
31 Dec. 1919	£E67,300 ^φ	Gold	£E3,333	Sterling £3,285
		Brit. Tsy. Bills	30,317	
			33,650	
" 1920	40,400 [Ⓢ]	Gold	3,333	£3,285 ^x
		Brit. Tsy. Bills	16,867	
			20,200	

*Egyptian Government or Guaranteed Securities, British Treasury Bills, National War Bonds, Exchequer Bonds, etc., etc.

⁺Journal Officiel 30/10/16.

^φ"The yearly increase in the amount of the Bank Notes in the hands of the public has been due to the Country's growing wealth realised from the export of produce (especially cotton which rose in price greatly in 1919) and the large sums of British money spent in Egypt during the War.... Our Bank Note issue.... is almost entirely guaranteed by British Treasury Bills at short usance, which, with the stabilization of the exchange, makes the currency practically equivalent to British currency."
Extract from Governor's speech (Sir F.T. Rowlatt, K.B.E.) 29/3/20.

^x£E : £Stg. :: 117 : 120 ∴ £Stg. 3,285 = about £E3,203.

[Ⓢ]Fall in cotton prices and exports exceeded by imports, the latter excess being partly paid for by contraction of Note issue and release of Treasury Bills. Vide Governor's speech 29/3/21.

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The issue of Notes in Egypt against the deposit of gold and Treasury Bills in London with the result of maintaining the exchange at par in sterling during the War was of great convenience to Egypt. After the War the depreciation of sterling made it indispensable to continue the policy, for any departure from it would have entailed heavy losses both in connection with the Note issue and otherwise, on account of the large sums which had been invested in London at par. The stability of the exchange had been proved to be an immense boon to commerce and banking. After the appearance of a premium on gold, however, the policy provoked considerable criticism in native circles, where it was regarded as a deliberate scheme on the part of Great Britain to favour trade with the United Kingdom, and it was urged that the country should revert to the gold standard. Incidentally, a grievance had arisen from the requisitioning by the British Government of the National Bank's Gold Reserve in Cairo, which began in 1916 and continued until that Reserve, which amounted to about £3,500,000, was exhausted. The Egyptian Government now asked that this gold should be replaced, also requesting that permission might be granted for the transfer to Egypt of the £3,285,000 gold held at the Bank of England. The British Government refused both requests in correspondence which was initiated in July 1921.

Drawing Account

A Current Account was opened on the 2nd March 1915.

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BANK OF
EGYPT.

In May 1917 it was arranged that £100,000 should be placed on deposit*and held for the Head Office in Cairo, a nominal balance only being kept on the account of the London Agency. In the Spring of 1917 and again in 1919 funds of the National Bank were included in the Bank of England's Borrowings.

The figures of the account are as follows:-

	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1915	50	£21,666	£5,000
1916	483	£34,025	£5,000
1917	599	£56,464	£1,450
1918	686	£24,618	£286,170 overdrawn
1919	882	£16,753	£1,345
1920	4,509	£14,225	£161

The great increase in the number of debits in 1920 will be noted. This tendency was even more marked in 1921 and appears to have been due to the fact that the National Bank were not then banking to any extent with their other London Bankers, Messrs. Glyn & Co.

*At the Bank of England, without interest.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

COMMONWEALTH BANK OF AUSTRALIA.

As regards this Bank's claim to be considered a "Central Bank", the views of the Bank of England are perhaps most succinctly expressed by Mr. Peacock, who wrote, in December 1920, that it was "nothing of the kind, but a Government Bank competing with the other Banks of the Country and using the advantages of its Government connection. Such a Bank is useless as a co-ordinating influence on the banking relations of Australia and London".*

The account of this Bank, which was opened at the beginning of 1913, assumed very much larger proportions after the outbreak of War.

On the 8th August 1914 the Commonwealth Bank enquired to what extent it might "draw on the Bank of England against its current account creditor balance of £190,000 and by way of loan if required." A statement of the Bank's assets and liabilities was furnished and the fact that it was "wholly owned by the Government of the Commonwealth of Australia by whom all its obligations are guaranteed" was adduced in support of the application. The Bank of England replied orally, in a negative sense.

*Letter 14/12/20 to Sir Thomas White, K. C. M. G. (Vide C. C. P. file 71^B 132B)

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COMMONWEALTH
BANK OF
AUSTRALIA.

On the 24th August 1915 a Meeting of Indian, Colonial and Foreign Bankers was called by the Governor, who impressed upon them the necessity of maintaining a 4½% rate for short loan money. This was agreed to, but the Commonwealth Bank three days afterwards lodged a complaint that the Discount Houses were differentiating against the Colonial Banks and refusing to borrow their funds, with the object, it was alleged, of breaking down the whole arrangement. Similar representations were made in other quarters. The Commonwealth Bank's difficulty was eventually solved by the granting of their application in November to be included in the Bank's Borrowings from Foreign and Colonial Bankers.

No further incident of note took place until October 1917, when, with the consent of H.M. Treasury, it was arranged that Currency and Bank of England Notes cashed by the Commonwealth Bank in Australia should be cancelled there, and the value credited in London upon presentation at the Bank of England of certified lists of the numbers of the Notes cancelled. An account of this arrangement will be found in the Chapter dealing with Bank Notes and Currency Notes and further reference to the matter here is therefore superfluous.

In connection with the Bank's Borrowings of "foreign money" at three days' notice or for a fixed period, it was found necessary to point out to the Commonwealth Bank in this month that their minimum

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balance of £50,000 did not entitle them to lend more than £1,000,000, a ratio fixed by the Governor some six months previously, whereas in point of fact they had lent nearly twice as much.

In November the Commonwealth Bank asked upon what terms the Bank of England would take deposits up to, say, £24,000,000 in connection with the financing of Australian products for 1917/18, the Commonwealth Treasury being ready to provide Australian Banks with currency against deposits in London. The Bank of England undertook to borrow from the Commonwealth Government through the Commonwealth Bank sums not exceeding the limit named at $4\frac{1}{2}\%$ for three months, at the expiration of which period further renewals were made, no permanent arrangement being concluded. The greatest total amount lent at any one time by the Commonwealth Bank subsequent to November 1917 was £8,500,000.

The question of how much the Bank of England would take on loan was brought up again in the summer of 1918, when the Governor informally stated that the Bank might borrow up to £5,000,000 against a minimum balance ad hoc of £250,000 or £10,000,000 against a balance of £750,000. These balances were regarded as excessive by the Commonwealth Bank and no conclusion was arrived at, somewhat to the Bank of England's satisfaction.*

*Memorandum 25/9/18 in C.C. file 647.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKSCOMMONWEALTH
BANK OF
AUSTRALIA

In October 1920 the Bank of England were asked whether they would advance in London to Australian Banks through the medium of the Commonwealth Bank against sovereigns to be earmarked with the Commonwealth Bank in Sydney, some £10,000,000 being required for about six months pending the sale of wheat and wool. The Governor replied that such a course would be contrary to Public Policy in this country, which involved the curtailment of credit. He added that he would be more disposed to make advances against gold lodged for shipment. No more was heard of this proposal.

The figures of the account are as follows:-

	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1913	295	£5,995	Nil
1914	694	£112,643	£4,758
1915	2,393	£270,550	£4,979
1916	3,005	£153,072	£6,505
1917	3,999	£508,109	£10,659
1918	3,250	£282,426	£50,784
1919	3,344	£430,386	£32,815
1920	2,486	£206,499	£18,509

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

BANK OF ITALY.

A telegraphic request to open an account in the name of this Bank was received on the 17th August 1914; an Order of Court was passed on the 20th, and on the 2nd September the account was opened.

The Bank of Italy then made a suggestion that they should be credited in London against sovereigns set aside in Italy with a third party, a course which they thought might be convenient to the Bank of England as facilitating gold shipments to Egypt. This proposal, however, was refused.

In November credits began to be received for the account from various Banks and in the following month some Treasury Bills, both British and foreign, were lodged. Considerable sums passed through the account in 1915, 1916 and 1917, transactions being mostly the disposal of funds received from the Italian Treasury as the outcome of the discount of Italian Treasury Bills by the British Government.

In August 1916 an arrangement was made whereby the Bank of Italy's Branches at Genoa, Milan and Turin could draw on the account here up to £50,000 per Branch per day.

The account became nearly dormant after 1917, as will be seen from the subjoined figures:-

	No. of <u>Debits.</u>	Average <u>Balance</u>	Minimum <u>Balance</u>
1914	-	£106,666	£50,000
1915	147	£407,850	£50,000
1916	1,532	£201,179	£4,628
1917	962	£128,034	£10,313
1918	1	£13,806	£13,722
1919	4	£8,529	£670
1920	-	£670	£670

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

BANK OF JAPAN.

The account of the Bank of Japan was opened in 1896 and subsidiary accounts, viz., the Special Account and the "A" Account, had been opened in 1903 and 1905 respectively.

The outbreak of War caused but little change in the nature of the relationship, the special services which the Bank of England were called upon to perform being practically limited to the investment of funds in Treasury Bills, the borrowing of surplus balances to be re-lent to the Government and (subsequently to this) the employment of funds in Treasury Bills under guarantee. In the first few months of the War, however, the Bank undertook to remit various sums to France for the service of Japanese Coupons maturing for payment there, the account of the Bank of France here being utilised for this purpose.

The amount of Treasury Bills held for the various accounts of the Bank of Japan and the sums borrowed as part of the "foreign money" deposit were very large, running into many millions.

The figures of the Drawing Accounts are given below.

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BANK OF JAPAN.	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1914	108	£116,979	£8,942
1915	309	£171,176	£9,268
1916	514	£255,410	£6,806
1917	458	£252,296	£12,931
1918	245	£191,095	£58,739
1919	358	£241,712	£43,383
1920	259	£248,688	£58,734

"A" Account.

	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1914	575	£8,370	£1,839 overdrawn
1915	781	£43,048	£54
1916	756	£5,432	£335
1917	661	£792	£118
1918	471	£34,748	£214
1919	517	£41,934	£214
1920	1,300	£9,754	£179

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.Special Account.

BANK OF JAPAN.	No. of <u>Debits</u>	<u>Average</u> <u>Balance</u>	<u>Minimum</u> <u>Balance</u>
1914	27	£417,704	£74,744
1915	19	£349,641	£43,582
1916	26	£279,747	£9,965
1917	72	£63,319	£8,804
1918	62	£75,956	£2,205
1919	56	£909,247	£51,128
1920	4	£1,908,333	£1,200,000

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

NATIONAL BANK OF SWITZERLAND.

Relations with the National Bank of Switzerland were opened on the 7th August 1914, the Swiss Bankverein then asking the Bank to set aside £5,000 in sovereigns for the National Bank. The money was stated to be for the benefit of British subjects returning from Switzerland. Between this date and the end of October many further amounts were set aside, the Bank of England having acceded to the National Bank's request that such transactions should be permitted to an extent not exceeding £60,000 a week, a deposit intended as a backing for Note issues. At the end of 1914 the total amount of gold held was £503,620; but the maximum for this year, and for the whole period of deposit was £703,620.

By the end of March 1915 the gold had been reduced to £3,620, various releases to the Bank having taken place against sterling credits in favour of the London City & Midland Bank Ltd., Swiss Bankverein, etc. In the Autumn of 1915 further deposits were received from the two Banks mentioned, raising the total to £403,620 by the 1st January 1916. At the end of that year the deposit had sunk once more to £3,620 and no further change took place until November 1919, when the gold account was closed. In November 1917, however, the Bank had refused a request to increase the gold earmarked, the policy of setting aside gold for neutrals having then been discontinued. A charge of $\frac{1}{16}\%$ was made by the Bank until the

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NATIONAL
BANK OF
SWITZERLAND.

9th August 1915, when an increase to $\frac{3}{8}\%$ was made.

The Drawing Account was not opened until the 17th September 1914 and was chiefly used for the receipt of various sums, mostly small, paid in for the benefit of firms and private individuals in Switzerland. There were, however, transactions in Securities, Consols Certificates and various War Loan Bonds, etc., being deposited as from September 1915 in the name of the National Bank, but for the benefit of three Insurance Companies: the National Life Insurance Company, the General Life Assurance Society and the Norwich Union Life Assurance Society, by whom the relative coupons or their proceeds were received. The Bank of England charged $\frac{1}{8}\%$ per cent. for the custody of these Securities and undertook such conversions into current War Loans as were desired.

In March 1916 the Bank consulted the National Bank regarding the losses alleged to have been suffered by the Swiss Bankverein and were reassured as to the latter's position.

As will be seen from the figures, the balance on the Current Account was never considerable.

	<u>No. of Debits</u>	<u>Average Balance</u>	<u>Minimum Balance</u>
1914	6	£4,264	Nil
1915	14	£1,491	£172
1916	9	£658	£270
1917	11	£439	£394
1918	5	£428	£381
1919	9	£353	£281
1920	5	£257	£209

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.

NATIONAL BANK OF SERBIA.

The account of this Bank was opened on the 26th September 1914 to receive the moiety of an advance of £800,000 made by the British to the Serbian Government, a further account in the name of the latter being opened on the same day.

No further receipts were forthcoming and only nine transactions on the debit side passed through the account. £285,000 was transferred to the Bank of France in 1915, after which the account became dormant until December 1919, when the balance was withdrawn. The account still remained open however at the end of August 1921. *

*Closed March 1922.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.NORGES BANK.

An account was opened on the 23rd September 1914 in connection with advances to pay for imports of food and coal made against 9,400,000 Kronen (value £511,000) held in Christiania, it being impossible on account of war risks to ship gold to England. The total advances made amounted to £435,113. All advances were repaid, together with interest, on the 13th April 1915 leaving a merely nominal balance on the account, which remained dormant thereafter.

Gold "Set Aside".

Between the 27th April and the 6th May 1916 £620,000 in gold coin was earmarked for the Norges Bank, payment being received from and made to C.J.Hambro & Sons. The reasons for this transaction are given in the section on the London Exchange Committee - Scandinavian Exchanges, where it will be seen that the Board of Trade's Committee on Norwegian Fish and Oil were responsible for the arrangement. The Bank of England disapproved of it and proposed penal rates for the custody of the gold after the first six days. The gold, however, was released in nine days and no charge was made.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.THREE OTHER BANKS.

Accounts in the name of the Imperial Ottoman Bank and the Bank of New Zealand were opened in 1858 and 1877 respectively, but neither of these Institutions is perhaps entitled to be regarded as a Central Bank.

Bank of New Zealand.

With regard to the Bank of New Zealand there is in any case nothing of interest to record, though the number of transactions passing through the account during the War until the end of 1920 was much increased. Subsequently the account became less active than in pre-War times.

Imperial Ottoman Bank.

The Imperial Ottoman Bank on the 1st August 1914 secured an advance of £600,000 for 7 days @ 10½% against Bills of Exchange. On the 14th October in the same year the sum of £400,000 was received on deposit here for their Constantinople Office. This deposit was held by the Bank at the disposal of an Official Supervisor of the Imperial Ottoman Bank* as from the 29th December 1916, about which date the Bank were advised that proceedings in respect of a small claim were about to be taken as regards this £400,000 in the Chancery Division of the High Court for a

*Sir William Plender advised the Bank of his appointment in this capacity on the 11th November 1914, but he delegated his duties to another and at no time did the Acting Supervisor sign on the account.

CHAPTER VIIICENTRAL BANKING AND CENTRAL BANKS.**THREE
OTHER
BANKS.**

Vesting Order under Section 4 of the Trading with the Enemy Act 1914. Similar notification was received from another quarter in October 1917. No more was heard of the matter and the whole deposit was withdrawn early in 1921.

On the 18th January 1917 the Bank were informed that, subject to the regulations of the Ministry of Blockade, the Imperial Ottoman Bank had been permitted to resume trading relations with their Branch at Salonica and various other places.

Reserve Bank of Peru.

It may also be mentioned here that in the Spring of 1921 the Governor was approached by the Peruvian Legation with the request that he would assist the Government of Peru to select an English financial advisor, to arrange for the organisation of a Central Bank for that Country, of which Bank the advisor would become the head. The Governor eventually recommended Colonel H.A. Erskine, C.B., C.M.G., C.B.E., an ex-Agent of the Newcastle Branch, but the appointment was never made and it was understood that the Peruvian Government eventually appointed an American to this or some similar position.