



BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

29TH FEBRUARY

1948

Issued by Order of the Court of Directors, 13th May, 1948.

COURT OF DIRECTORS

FOR THE YEAR ENDED 29TH FEBRUARY, 1948.

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ARTHUR GEORGE WANSBROUGH, ESQ.

BANK OF ENGLAND.

Report for the year ended 29th February, 1948.

The following Report summarises the operations of the Bank of England during the year ended 29th February, 1948, and certain relevant developments in internal and external finance.

Banking Department.

The assets and liabilities of the Banking Department at the beginning and end of the year were as follows:—

BANKING DEPARTMENT.

£ thousands.

END OF FEBRUARY.					1947.	1948.	Change.
Capital	...	...	...	...	14,553	14,553	—
Rest	...	...	...	...	3,901	3,901	—
Public Deposits	...	...	...	7,051		10,886	+ 3,834
Bankers' Deposits	...	...	...	298,322		292,711	— 5,611
Other Accounts	...	...	...	96,334		93,259	— 3,075
Total Deposits	...	...	...		401,707	396,855	— 4,852
					<u>420,161</u>	<u>415,309</u>	<u>— 4,852</u>
Government Securities	...	...	...		306,931	256,759	— 50,172
Discounts & Advances	...	...	...	12,281		10,158	— 2,123
Securities	...	...	...	26,840		31,279	+ 4,439
Other Securities	...	...	...		39,121	41,437	+ 2,316
Notes	...	...	...		73,228	116,866	+ 43,638
Coin	...	...	...		881	247	— 634
					<u>420,161</u>	<u>415,309</u>	<u>— 4,852</u>

Half-yearly payments of £873,180 were made to H.M. Treasury on 5th April and 5th October, 1947, in pursuance of Section 1 (4) of the Bank of England Act, 1946.

The Bank Rate remained unchanged at 2%. Movements in the Bank Rate during the last twenty years have been as follows:—

DATE.	PER CENT.	DATE.	PER CENT.
21st April, 1927	4½	30th July, 1931	4½
7th February, 1929	5½	21st September, 1931	6
26th September, 1929	6½	18th February, 1932	5
31st October, 1929	6	10th March, 1932	4
21st November, 1929	5½	17th March, 1932	3½
12th December, 1929	5	21st April, 1932	3
6th February, 1930	4½	12th May, 1932	2½
6th March, 1930	4	30th June, 1932	2
20th March, 1930	3½	24th August, 1939	4
1st May, 1930	3	28th September, 1939	3
14th May, 1931	2½	26th October, 1939	2
23rd July, 1931	3½		

Note Circulation and Issue Department.

The principal features of the year were the fall of 10.4% in Notes in Circulation, from £1,377 million to £1,233 million, and the reduction in the Fiduciary Issue from £1,450 million to £1,350 million. Notes in the Banking Department rose consequently by £44 million. The total of Notes Issued and Paid in recent years is shown in the following table:—

NOTES ISSUED, PAID AND IN CIRCULATION.

£ millions

YEAR ENDED FEBRUARY.	1939.	1945.	1946.	1947.	1948.
Issued during the year	969	857	935	927	961
Paid during year	968	726	830	872	1,105
In Circulation at end of year	478	1,217	1,322	1,377	1,233

Notes of £10 and upwards ceased to be legal tender on 1st May, 1945, and the old type of £5 note on 1st March, 1946, the new type having been first issued in October, 1945. Notes of all denominations that have ceased to be legal tender continue to be paid on presentation to the Bank of England. The table below shows that of the total fall of £144 million in Notes in Circulation, the £1 note accounted for £136 million; but it still makes up almost four-fifths of the total.

£ thousands.

NOTES IN CIRCULATION BY DENOMINATIONS.

END OF FEBRUARY.	1939.	1945.	1946.	1947.	1948.
10s.	53,338	99,971	102,290	98,996	91,171
£1	283,646	938,241	1,078,442	1,113,279	976,955
£5	38,283	90,470	61,461	83,962	97,000
£10	14,596	6,587	2,969	2,079	1,634
£20	4,436	2,303	1,423	985	755
£50	12,305	6,021	3,221	2,168	1,627
£100	26,518	13,276	7,428	4,810	3,414
£200	19	12	9	9	9
£500	3,654	1,408	812	493	393
£1,000	23,199	2,942	1,815	1,209	839
Over £1,000(a)	18,455	55,910	62,200	69,030	59,585
	<u>478,449</u>	<u>1,217,141</u>	<u>1,322,070</u>	<u>1,377,020</u>	<u>1,233,382</u>

The issue of £10, £20, £50, £100, £500 and £1,000 notes was discontinued in 1943, that of £200 notes in 1928.

(a) Used by the Bank of England for internal purposes, e.g., as excess cover for Scottish and Irish note issues.

The summer holiday demand was not as great as in 1946. The high point in August at £1,422 million was below the previous Christmas peak for the first time since 1938, and proved to be the highest point reached during the year. A heavy return flow after August and an unusually small Christmas demand enabled the Christmas high point to be passed with a Reserve of Notes of £78 million. The lowest circulation figure was £1,231½ million on 25th February.

As a result of the return of Notes from circulation it was found possible to reduce the Fiduciary Issue on 7th January, 1948, by £50 million and again on 4th February by a further £50 million to £1,350 million, at which figure it stood at the end of the period. The decrease in January was the first to be made since March, 1939, and the first to be accompanied by a reduction in the total of Notes Issued since January, 1938.

Changes in the Fiduciary Issue from the level of £260 million established in November, 1928, by Section 2(1) of the Currency and Bank Notes Act, 1928, have been as follows:—

£ millions.	DATE.	CHANGE.	TOTAL FIDUCIARY ISSUE.	DATE.	CHANGE.	TOTAL FIDUCIARY ISSUE.
1st August, 1931	+ 15	275	28th July, 1942 ...	+ 50	880
1st April, 1933	- 15	260	1st December, 1942 ...	+ 70	950
15th December, 1936	- 60	200	13th April, 1943 ...	+ 50	1,000
13th November, 1937	+ 20	220	5th October, 1943 ...	+ 50	1,050
13th January, 1938	- 20	200	7th December, 1943 ...	+ 50	1,100
6th December, 1938	+ 30	230	7th March, 1944 ...	+ 50	1,150
6th January, 1939	+170	400	1st August, 1944 ...	+ 50	1,200
1st March, 1939	-100	300(a)	4th December, 1944 ...	+ 50	1,250
6th September, 1939	+280	580	8th May, 1945 ...	+ 50	1,300
11th June, 1940	+ 50	630	3rd July, 1945 ...	+ 50	1,350
30th April, 1941	+ 50	680	10th December, 1945 ...	+ 50	1,400
30th August, 1941	+ 50	730	10th December, 1946 ...	+ 50	1,450
2nd December, 1941	+ 50	780	7th January, 1948 ...	- 50	1,400
21st April, 1942	+ 50	830	4th February, 1948 ...	- 50	1,350

(a) As fixed by Currency and Bank Notes Act, 1939.

ISSUE DEPARTMENT.

£ thousands.

END OF FEBRUARY.	1947.	1948.	Change.
Notes in Circulation	1,377,020	1,233,382	-143,638
Notes in Banking Department	73,228	116,866	+ 43,638
Notes Issued	<u>1,450,248</u>	<u>1,350,248</u>	<u>-100,000</u>
Government Debt	11,015	11,015	—
Other Government Securities	1,438,236	1,338,276	- 99,960
Other Securities	739	700	- 39
Coin other than Gold Coin	10	9	- 1
Fiduciary Issue	1,450,000	1,350,000	-100,000
Gold Coin and Bullion	248	248	—
	<u>1,450,248</u>	<u>1,350,248</u>	<u>-100,000</u>

Floating Debt.

The outstanding total of the Floating Debt, as given in the Exchequer Return for the date nearest to the end of February in each year showed a decrease of £560 million. The total of Treasury Bills fell by £238 million and that of Treasury Deposit Receipts by £272 million.

FLOATING DEBT OUTSTANDING.

£ millions.

	4th Mar. 1939.	24th Feb. 1945.	2nd Mar. 1946.	1st Mar. 1947.	28th Feb. 1948.
Treasury Bills	856	3,739	4,206	4,741	4,503
Ways & Means Advances:					
by Public Departments	40	543	446	530	493
by Bank of England	6	—	—	15	2
Treasury Deposit Receipts	—	1,801	1,566	1,473	1,201
	<u>902</u>	<u>6,083</u>	<u>6,218</u>	<u>6,759</u>	<u>6,199</u>

The weekly allotment of Treasury Bills by tender amounted to £170 million at both the beginning and the end of the year, and three-quarters of the allotments were at this figure; the highest allotment during the year was £190 million and the lowest £150 million.

WEEKLY ALLOTMENT OF TREASURY BILLS.

£ millions.

8 weeks ended	26th April, 1947	...	...	...	...	...	...	...	...	170
2 "	" 10th May	...	...	...	...	...	...	...	...	160
2 "	" 24th May	...	...	...	...	...	...	...	...	170
1 week	" 31st May	...	...	...	...	...	...	...	...	160
8 weeks	" 26th July	...	...	...	...	...	...	...	...	170
2 "	" 9th August	...	...	...	...	...	...	...	...	160
7 "	" 27th September	...	...	...	...	...	...	...	...	170
1 week	" 4th October	...	...	...	...	...	...	...	...	180
1 "	" 11th October	...	...	...	...	...	...	...	...	190
1 "	" 18th October	...	...	...	...	...	...	...	...	180
13 weeks	" 17th January, 1948	...	...	...	...	...	...	...	...	170
2 "	" 31st January	...	...	...	...	...	...	...	...	160
1 week	" 7th February	...	...	...	...	...	...	...	...	150
1 "	" 14th February	...	...	...	...	...	...	...	...	160
2 weeks	" 28th February	...	...	...	...	...	...	...	...	170

The average rate of discount at which the Bills were allotted remained stable at around 10s.%, the highest and lowest rates being 10/3.41d.% at the tender on 16th January, 1948, and 9/11.56d.% on 30th January, 1948. The rate of interest on 6 months Treasury Deposit Receipts remained unchanged at 5/8%.

Other Debt managed by the Bank.

The nominal total of stocks and bonds managed by the Bank, which does not include amounts on the registers of the Bank of Ireland in Dublin and Belfast, the Post Office Savings Department and the Trustee Savings Banks, showed a net increase during the year of £952 million. The following table shows the changes in recent years in the different groups of stocks. Tax Reserve Certificates and interest-free loans are not included in the figures.

DEBT MANAGED BY THE BANK.

£ millions.

END OF FEBRUARY.	1939.	1945.	1946.	1947.	1948.
British Government:					
Stock	5,107	11,133	12,367	12,567	12,565
Bearer Bonds	1,002	163	158	145	137
Total	<u>6,109</u>	<u>11,296</u>	<u>12,525</u>	<u>12,712</u>	<u>12,702</u>
Other Securities:					
Treasury Guaranteed	140	209	207	151	1,187
Dominion & Colonial	454	150	126	122	138
Local Authorities	197	188	173	166	166
Public Boards, etc.	202	202	202	201	111
Miscellaneous	19	16	16	16	16
Total	<u>1,012</u>	<u>765</u>	<u>724</u>	<u>656</u>	<u>1,618</u>
Grand Total	<u>7,121</u>	<u>12,061</u>	<u>13,249</u>	<u>13,368</u>	<u>14,320</u>

The principal operations during the year in Stocks managed by the Bank are set out below.

REDEMPTION.

New Zealand Government 4½% Inscribed Stock, 1947:

1st November, 1947. For cash £11.2 million

NEW ISSUES.

North of Scotland Electricity 2½% Guaranteed Stock, 1967-72:

21st July, 1947. For cash at par £5.0 million

Government of Southern Rhodesia 2½% Stock, 1965-70:

12th July, 1947. For cash at 99 £28.3 million

1st October, 1947. Exchange for The Rhodesia Railways Limited

4¼% Debenture Stock £3.7 " £32.0 "

Corporation of London 3% Stock, 2007:

1st October, 1947. Issued free of payment under the provisions of
The City of London (Tithes) Act, 1947 £1.0 "

British Transport 3% Guaranteed Stock, 1978-88:

1st January, 1948. Exchange for the Securities of various Transport
undertakings including the following Securities which were
managed by the Bank of England—

London Transport 4½% "A" Stock

" " 5% "A" "

" " 5% "B" "

" " "C" "

£1,032.8 "

British Transport 3% Guaranteed Stock, 1967-72:

1st January, 1948. Exchange for London Transport 3% Guaranteed
Stock, 1967-72

£12.9 "

As regards the British Transport 3% Guaranteed Stock, 1978-88, issued as compensation under the provisions of the Transport Act, 1947, accounts representing a sum of £297 million Stock were recorded in the Bank's register at the end of February. Accounts representing the balance of Stock were still recorded in the registers of the various bodies whose undertakings have been transferred to the British Transport Commission: the transfer of these accounts to the Bank's register is proceeding but the operation must of necessity be spread over a considerable period.

Market activity increased appreciably towards the end of the year under review and this was reflected in the number of transfers of all stocks registered at the Bank. In the ten months March to December, 1947, the monthly average number was 51,000: in January the number rose to 73,000 and in February to 110,000. The total number of transfers registered during the year (which includes transfers for nominal consideration) amounted to 694,000, an increase of 54,000 on the previous year.

London Clearing Banks.

As in previous years, the Committee of London Clearing Bankers, and other representative financial organisations, continued to work with the Bank of England in close and intimate co-operation.

The principal feature of the monthly statements of the Clearing Banks was a sharp check to the rate of growth in their deposit liabilities, the increase on the year being only £123 million. Of this £97 million was in Current Accounts and £26 million in Deposit and Other Accounts, so that the proportion of Current to Total Deposits was slightly increased.

LONDON CLEARING BANKS: DEPOSITS.

£ millions.

FEBRUARY.	1939.	1945.	1946.	1947.	1948.
Current Accounts	1,212	2,904	3,078	3,603	3,700
Deposit & Other Accounts	964	1,501	1,606	1,916	1,942
Total Deposits	2,176	4,405	4,684	5,519	5,642
Balances with Other Banks, etc	58	135	143	170	182
Net Deposits	2,118	4,270	4,541	5,349	5,460
Rate of Increase on previous year in Net Deposits		13.1%	6.3%	17.8%	2.1%

Among the principal categories of assets, Cash in Hand and at the Bank of England was virtually unchanged on the year, the ratio of Cash to Total Deposits falling from 8.4% to 8.2%. It will be remembered that in December, 1946, the Committee of London Clearing Bankers announced that from the end of that year the daily ratio of Cash to Total Deposits would be sustained on the basis of 8%; and that the monthly statements would be compiled on the third Wednesday in each month, except in June and December when they would relate to the last day of the month. Money at Call and Short Notice and Bills Discounted both rose again, but by a much smaller amount than during the previous two years. These three items amounted to 29.7% of Net Deposits in February, 1948, as compared with 28.0% in February, 1939. Changes in the principal assets are shown in the following table in which the percentage figures, including that for Cash, relate to Net Deposits.

LONDON CLEARING BANKS: PRINCIPAL ASSETS.

£ millions.

Percentage of Net Deposits is shown in italic.

FEBRUARY.	1939.	1945.	1946.	1947.	1948.
Cash in Hand and at Bank of England	243	455	483	463	465
	11.5	10.7	10.6	8.7	8.5
Money at Call and Short Notice	138	188	243	421	442
	6.5	4.4	5.4	7.9	8.1
Bills Discounted	212	140	340	659	713
	10.0	3.3	7.5	12.3	13.1
Total of above items	593	783	1,066	1,543	1,620
	28.0	18.4	23.5	28.9	29.7
Treasury Deposit Receipts	—	1,639	1,468	1,436	1,157
	—	38.4	32.3	26.8	21.2
Total of above items	593	2,422	2,534	2,979	2,777
	28.0	56.8	55.8	55.7	50.9
Investments	617	1,160	1,241	1,439	1,485
	29.1	27.2	27.3	26.9	27.2
Advances	977	759	837	1,005	1,273
	46.1	17.8	18.4	18.8	23.3

The Clearing Banks' holdings of Treasury Deposit Receipts fell to £1,147 million in October, 1947, and rose again to £1,288 million at the end of December: but in the last two months they fell by £131 million, and in February represented only 21.2% of Net Deposits. Notwithstanding this fall, the three principal categories of liquid assets plus Treasury

Deposit Receipts still totalled more than half of Net Deposits, as compared with 28.0% (Treasury Deposit Receipts were not then in issue) in February, 1939. Investments almost touched £1,500 million in October and November, 1947, but the rise on the year was only £46 million, leaving their proportion to Net Deposits still below the pre-war level.

In accordance with successive requests made during and since the war by the Chancellor of the Exchequer, the credit facilities provided by the Clearing Banks have conformed with the general policy of the Government. The latest of such requests was conveyed to the banks in December, 1947, on the occasion of the issue of a revised Memorandum of Guidance to the Capital Issues Committee (Cmd. 7281 and Hansard, 2nd December, 1947, col. 199). Within these qualitative limits, Advances rose again in every month, the rise being particularly marked in February, 1948: but at 23.3% of Net Deposits they are still at little more than half the proportion (46.1%) existing in February, 1939. Some indication of the direction in which Advances have risen is given by the quarterly classification of advances issued by the British Bankers' Association beginning in 1946. This relates to all members of the Association operating in Great Britain, all advances within Great Britain being included and classified (except for Personal & Professional) on the basis of the business of the borrower.

BRITISH BANKERS' ASSOCIATION: CLASSIFICATION OF ADVANCES.

FEBRUARY.	1946.	1947.	1948.	1946.	1947.	1948.
	£ millions			% of total		
Coal Mining	8.9	8.5	8.4	1.1	.8	.6
Quarrying, etc.	2.3	3.1	3.5	.3	.3	.3
Iron & Steel and Allied Trades ...	15.4	14.6	15.1	1.8	1.4	1.2
Non-ferrous metals	2.0	2.8	2.7	.2	.3	.2
Engineering, etc.	66.6	72.7	105.5	7.8	7.1	8.1
Shipping & Shipbuilding ...	10.3	10.7	18.5	1.2	1.0	1.4
Transport & Communications ...	9.6	13.0	13.2	1.1	1.3	1.0
Cotton	7.1	4.9	7.5	.8	.5	.6
Wool	4.3	9.6	13.3	.5	.9	1.0
Other Textiles	10.2	12.7	21.8	1.2	1.2	1.7
Leather & Rubber	4.9	6.6	9.0	.6	.6	.7
Chemicals	9.2	12.0	18.6	1.1	1.2	1.4
Agriculture & Fishing	66.5	80.1	101.7	7.8	7.8	7.7
Food, Drink & Tobacco	57.2	64.5	88.2	6.8	6.3	6.8
Retail Trade	62.2	88.0	131.1	7.3	8.6	10.0
Entertainment	26.7	24.5	28.8	3.2	2.4	2.2
Builders & Contractors	38.8	52.1	60.7	4.6	5.1	4.7
Building Materials	5.0	7.8	12.2	.6	.8	.9
Unclassifiable Industry & Trade	27.9	43.2	64.6	3.3	4.2	4.9
Local Government Authorities	78.7	78.9	86.6	9.3	7.7	6.6
Public Utilities (other than Transport)	7.3	13.5	13.9	.9	1.3	1.1
Churches, Charities, Hospitals, etc.	10.4	14.1	18.4	1.2	1.4	1.4
Stockbrokers	4.1	5.4	5.1	.5	.5	.4
Other Financial	73.2	88.5	103.2	8.6	8.6	7.9
Personal & Professional	239.5	295.2	355.4	28.2	28.7	27.2
Total	<u>848.3</u>	<u>1,027.0</u>	<u>1,307.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

External Finance.

During the year ended 29th February, 1948, the following countries were included in the Transferable Account Area:—

21st April, 1947	...	...	...	Italy (and the Vatican City).
2nd June, 1947	...	...	...	Brazil.
1st July, 1947	...	...	...	Norway, Spanish Monetary Area.
8th July, 1947	...	...	...	Czechoslovakia, Finland.
14th July, 1947	...	...	...	Egypt, Anglo-Egyptian Sudan.
15th July, 1947	...	...	...	Ethiopia, Iran, Sweden, Uruguay.
1st October, 1947	...	...	...	Siam.
15th January, 1948	...	...	...	U.S.S.R.

On 21st August, the right of transfer from Transferable Accounts to American Accounts was rescinded and Canada (and Newfoundland) was excluded from the Transferable Account Area. Subsequently Belgium was excluded from 10th September, Portugal from 12th December and Italy (and the Vatican City) from 2nd February, 1948. Notwithstanding the exclusion of these countries from the Transferable Account Area, within which transactions can be settled in sterling without prior reference to the Bank of England, a measure of transferability of sterling for current transactions continues, on an administrative basis, between the country concerned and such other countries outside the Scheduled Territories as may be agreed between Governments. There has also been a steady increase in the number of applications and enquiries in respect of international trade conducted outside the limits of the Transferable Account system. Continually changing conditions have made it impossible to give general guidance to merchants on this subject but a large number of transactions has been approved administratively. Increasing use has also been made of the administrative arrangements for merchanting trade on a sterling basis by non-resident intermediaries.

On 18th November, 1947, France, Belgium, Luxembourg, Holland and Italy signed the First Agreement on Multilateral Monetary Compensation in an attempt to restore credit margins under bilateral payments agreements by offsetting a country's surplus with one country against its debit balance with another. Though circumstances made it impossible for the United Kingdom to sign the agreement as a full permanent member, accepting certain compensations automatically, it has since adhered, together with Sweden, Norway, Denmark, Greece and the French Zone of Germany, as an occasional member, participating in the monthly operations on an optional basis.

The following paragraphs review briefly the principal changes in the monetary relations of the United Kingdom with particular countries, whether these are embodied in inter-governmental agreements or in arrangements made directly between the Bank of England and other Central Banks, up to 29th February, 1948.

Australia.

On 5th September, 1947, the Australian Government announced its decision to renew sales of Australian current gold production to the United Kingdom, with effect from July, 1947.

Canada.

As a result of discussions during November and December, 1947, between the Canadian Government and a British Mission it was agreed on 18th December, 1947, that the deficit of the Scheduled Territories with Canada for the first quarter of 1948, estimated at \$145 million, would be met as to \$45 million by drawings from the Canadian Credit and as to \$100 million in United States dollars.

India.

On 14th August, 1947, a Financial Agreement (Cmd. 7195) was signed between the United Kingdom Government and the Government of India, covering the period up to 31st December, 1947. The sterling assets of the Reserve Bank of India remaining at the date of the Agreement were transferred to a No. 2 Account which could only be operated upon for certain specified purposes. An immediate release was made to a No. 1 Account (sterling on which was available for making payments for current transactions in any currency area) of £30 million to provide a working balance. A further £35 million (less an adjustment), representing a general release for the remainder of 1947, was made available for transfer to No. 1 Account. It was agreed that the net movement on capital account between India and the rest of the Sterling Area should be compensated through No. 2 Account.

By an inter-governmental Exchange of Letters (Cmd. 7342) of 15th February, 1948, the principal Agreement, in so far as it applied to the Dominion of India, was extended for a period of six months from 1st January to 30th June, 1948. A further sum of £18 million was released from the No. 2 Account. The Government of India undertook to seek to cover part of their U.S. dollar requirements by purchases of dollars from the International Monetary Fund and to limit expenditure in certain specified currency areas during the six months' period, so as to ensure that such expenditure should not exceed by more than £10 million receipts from those same areas, together with any dollars purchased from the International Monetary Fund.

Pakistan.

The Financial Agreement of 14th August, 1947 (Cmd. 7195), between the United Kingdom Government and the Government of India became equally binding, under Article X(a), on the new Dominion of Pakistan upon partition. No separate releases were made from the No. 2 Account in respect of Pakistan, and the Reserve Bank of India, by agreement between India and Pakistan, operated a common pool of foreign exchange on behalf of both Dominions until 31st December, 1947.

An inter-governmental Exchange of Letters (Cmd. 7343) of 21st February, 1948, extended the principal Agreement from 1st January to 30th June, 1948, in so far as it applied to the Dominion of Pakistan. Amounts of £10 million as a working balance and £6 million as a general release were transferred from the No. 2 Account of the Reserve Bank to a Pakistan Account. Further sums were to be similarly transferred when established. The Government of Pakistan undertook so to limit expenditure in certain specified currency areas as to ensure that during the six months' period expenditure in those areas should not exceed receipts from them by more than £3.3 million.

South Africa.

A Financial Agreement (Cmd. 7230) was signed in London between the Government of the United Kingdom and the Government of the Union of South Africa on 9th October, 1947, and came into force on 14th February, 1948, on ratification by the Union Parliament. Under this Agreement the Government of the Union authorised the South African Reserve Bank to make on its behalf a loan of 9,275,000 ounces of fine gold to the Government of the United Kingdom to bear interest on the amount outstanding at $\frac{1}{2}\%$ per annum, payable in sterling at six-monthly intervals in arrear. The outstanding loan is to be repaid in gold on demand at the end of three years, or otherwise and at such times as may be agreed. It is subject to a United Kingdom option to repay in whole or in part at any time, and to a South African option to request earlier repayment of such part of the loan as might prove necessary to maintain the gold holding of the South African Reserve Bank at a figure of £SA100 million. It is further provided that the Union Government will arrange for the South African Reserve Bank to sell gold to the Bank of England against sterling for the equivalent of the net amount of payments made as from 1st January, 1948, by residents of the Union, through the United Kingdom, in favour of persons resident outside the Scheduled Territories. The Agreement also contained provisions regarding the control of capital movements and the import from the Union of certain specified commodities.

Argentina.

A comprehensive Trade and Payments Agreement (Cmd. 7346) was concluded on 19th February, 1948, by which provision was made for payments between Argentina and the Scheduled Territories to continue to be made in sterling: for the establishment of rates of exchange for sterling based on the Bank of England's middle rate for the U.S. dollar: and for the completion of the purchase by the Argentine Government of the British-owned railways for the sum of £150 million. To facilitate this purchase, H.M. Government agreed to pay in advance for purchases of foodstuffs amounting to £100 million. Balances on "B" Account and the accumulated balance on the "A" Account of the Central Bank of the Argentine Republic at the Bank of England were made available for payments in the Scheduled Territories.

Belgium.

The Anglo-Belgian Monetary Agreement (Cmd. 6557) of 5th October, 1944, and the Supplementary Agreement (Cmd. 7057) of 26th February, 1947, were replaced by a new Monetary Agreement (Cmd. 7264) dated 14th November,* and operative from 5th October, 1947. The main changes were increases from £5 million to £12 million and from B.Fcs. 883,125,000 to B.Fcs. 2,119,500,000 in the amounts of each other's currency which the National Bank of Belgium and the Bank of England respectively were prepared to hold. Gold is receivable in respect of the Bank of England's holding of Belgian francs in excess of the above limit: but in respect of the National Bank of Belgium's holding of sterling, gold is payable in excess of £12 million plus an "additional sum", related to the ascertained liabilities of the Belgian Government to H.M. Government and fixed provisionally at £15 million. As and when payment of such liabilities is made, the "additional sum" is to be reduced *pro tanto*. Belgian francs held by the Bank of England and sterling held by the National Bank of Belgium (other than the "additional sum") were covered by a reciprocal exchange guarantee on terms to be agreed between the two Central Banks.

* This Agreement was modified in March, 1948, to permit the repurchase in certain circumstances of gold sold to Belgium after 1st March, 1948 (*Hansard*, 16th March, 1948, cols. 1889-93).

By arrangement between the two Governments, Belgium ceased to be a member of the Transferable Account Area on 10th September, 1947: but under the new Agreement provision was made for administrative transferability by either party of the other's currency at its disposal, for making payment for current transactions in such countries outside the Belgian Monetary Area and the Scheduled Territories as might be agreed between the two Governments.

Bolivia.

On 15th July, 1947, Bolivia was included in the American Account Area. Previously payments between Bolivia and the Sterling Area has been made through "Special" accounts.

Brazil.

Following discussions in May, 1947, with a representative of the Brazilian Government, Brazil was included in the Transferable Account Area on 2nd June, 1947.

Chile.

On 15th July, 1947, Chile was included in the American Account Area. Previously payments between Chile and the Sterling Area had been made through "Special" accounts.

Czechoslovakia.

An Agreement (Cmd. 7174) supplementary to the Anglo-Czechoslovak Monetary Agreement (Cmd. 6694) of 1st November, 1945, was signed on 3rd July, 1947, which extended the availability of sterling at the disposal of the National Bank of Czechoslovakia for making payments for current transactions in any currency area. As from 8th July, 1947, Czechoslovakia was included in the Transferable Account Area.

Egypt.

On 30th June, 1947, a Financial Agreement (Cmd. 7163) between H.M. Government and the Government of Egypt was signed, operative from 14th July and terminating on 31st December, 1947. By this Agreement the sterling assets of banks in Egypt were transferred to separate No. 2 Accounts which could only be used for specified purposes. Provision was made for various releases from these accounts, including £12 million as a working balance and £8 million as a general release for the remainder of 1947. It was agreed that the net movement on capital account between the Sterling Area and Egypt, and also the net receipt or net disbursement by Egypt on account of the Anglo-Egyptian Sudan, should be compensated through No. 2 Accounts. Egypt was excluded from the Sterling Area and included in the Transferable Account Area on 14th July, 1947, sterling on Egyptian Transferable Accounts being made available for payments for current transactions in any currency area.

A further Financial Agreement (Cmd. 7305) was signed on 5th January, 1948, operative from 1st January for the calendar year. Subject to certain provisions, the principal Agreement was renewed until 31st December, 1948. Further releases were agreed of £11 million as an increase in the working balance and of £21 million as a general release for 1948. H.M. Government agreed to facilitate the transferability of sterling on Egyptian Transferable Accounts for payments for current transactions to Transferable Accounts of any other country. They also agreed to make available to the Government of Egypt, against payment in Egyptian transferable sterling, the equivalent in U.S. dollars of £6¼ million and gold to the value of approximately \$4 million, the latter arising out of the increase in the International Monetary Fund quota of Egypt and increased subscription to the International Bank.

Finland.

A Sterling Payments Agreement (Cmd. 7166), abrogating the Memorandum of Agreement (Cmd. 6664) of 2nd August, 1945, was signed in London on 1st July, 1947, and came into force on 8th July. As a result the Bank of Finland's "A" and "B" Accounts at the Bank of England, which under the 1945 Agreement had been credited in the proportion of 87½% and 12½% respectively for payments arising out of commercial transactions, were closed and a single new account was opened. The Agreement extended the availability of sterling at the disposal of the Bank of Finland for making payments for current transactions in any currency area. As from 8th July, 1947, Finland was included in the Transferable Account Area.

France.

An Exchange of Notes (Cmd. 7112) dated 11th April, 1947, modified the provisions of the Supplementary Agreement (Cmd. 6809) of 29th April, 1946. Article 4 of the latter Agreement provided that if deliveries of gold made by the French Government to H.M. Government between 1st March and 31st December, 1946, were less than one-third of the gross total of payments made from the French Franc Area to the Sterling Area during the ten months to 31st December, 1946, then the French Government would sell gold to H.M. Government to the extent of the deficiency. The Exchange of Notes fixed the deficiency at £15 million and provided for gold settlement in six equal monthly instalments starting on 31st March, 1947.

Germany.

An Agreement (Cmd. 7301) amending the Bizonal Fusion Agreement (Cmd. 7001) of 2nd December, 1946, was concluded by the United Kingdom and United States Governments on 17th December, 1947, and will remain in force until agreement has been reached to treat Germany as an economic unit, or 31st December, 1948, whichever is the earlier. The United States assumed liability for all Joint Zone dollar imports required to prevent disease and unrest from 1st November, 1947, to 31st December, 1948: and for the same period the United Kingdom is committed to a maximum sterling contribution of approximately £30 million. Trade between the Scheduled Territories and the Anglo/U.S. Joint Zones remains on a sterling basis with quarterly U.S. dollar settlement of balances above a margin of £1.5 million in either direction. The United Kingdom recognised a continuing liability to convert into U.S. dollars any sterling held by the Joint Foreign Exchange Agency.

Iraq.

On 13th August, 1947, a Financial Agreement (Cmd. 7201) was signed between H.M. Government and the Government of Iraq, operative from 15th July, 1947, and terminating on 14th July, 1952. By this Agreement, the sterling assets of the Government of Iraq, the Iraq Currency Board and banks in Iraq were transferred to separate No. 2 Accounts which could only be used for specified purposes. Provision was made for various releases from these accounts, including £2 million as a working balance, £5 million as a special provision and £15 million, in agreed instalments, as a general release for the period of the Agreement. It was agreed that the net movement on capital account between Iraq and the rest of the Sterling Area should be compensated through No. 2 Accounts.

On 17th November, 1947, a Financial Agreement (Cmd. 7269) was signed supplementary to the Agreement of 13th August and operative from 15th July, 1947, to 30th June, 1948. Under this Agreement the Government of Iraq undertook to limit expenditure for current transactions to the equivalent of £986,000 with the Belgian Monetary Area between 1st October, 1947, and 30th June, 1948; and of £4,327,000 with the American Account Area, Portuguese Monetary Area, Canada and Newfoundland, Switzerland, Argentina, Sweden and Japan during the period from 15th July, 1947, to 30th June, 1948.

Italy.

A series of Financial Agreements (Cmd. 7118) between H.M. Government and the Italian Government was signed on 17th April, 1947. A Sterling Payments Agreement provided that all payments between Italy and the Sterling Area should be made in sterling. The Italian Government and the Ufficio Italiano dei Cambi agreed to take steps to secure quotations for sterling and U.S. dollars on the foreign exchange market in Italy in line with the Bank of England's middle rate for the U.S. dollar. It was agreed that the Ufficio Italiano dei Cambi should open a No. 1 Account at the Bank of England on which a minimum balance of £10 million would be maintained, the excess over this figure being made available for payments for current transactions in any currency area. Italy was included in the Transferable Account Area from 21st April, 1947, to 2nd February, 1948. At the same time, a Post-Liberation Debts and Claims Agreement provided for the settlement of all claims outstanding between the two Governments arising out of the war: and a Property Agreement provided for the release of Italian property and the settlement of debts due to United Kingdom residents.

Norway.

An Agreement (Cmd. 7162) supplementary to the Anglo-Norwegian Monetary Agreement (Cmd. 6697) of 8th November, 1945, was signed on 27th June, 1947. The Agreement provided for reciprocal limits of £5 million and N.Kr. 100 million in the amounts of each other's currency which Norges Bank and the Bank of England respectively were prepared to hold, with gold settlement above these figures. The Norwegian Government agreed to maintain sterling balances of approximately £20 million during the year to 30th April, 1948. Sterling at the disposal of Norges Bank was made available for making payments for current transactions in any currency area. As from 1st July, 1947, Norway was included in the Transferable Account Area.

Peru.

On 15th July, 1947, Peru was included in the American Account Area. Previously payments between Peru and the Sterling Area had been made through "Special" accounts.

Portugal.

The Supplementary Monetary Agreement (Cmd. 7050) of 26th February, 1947, was abrogated by an Exchange of Notes (Cmd. 7302) of 9th January, 1948. By mutual agreement between the two Governments Portugal ceased to be a member of the Transferable Account Area on 12th December, 1947.

Spain.

A Monetary Agreement (Cmd. 7090) of 28th March, 1947, operative from 8th April, abrogated the Trade & Payments Agreement (Cmd. 6229) of 18th March, 1940, and the Financial Agreement of 2nd December, 1940. The new Agreement established the official rate of exchange at Pesetas 44 = £1 and provided that the Bank of England and the Instituto Español de Moneda Extranjera should hold each other's currency up to Pesetas 88 million and £2 million respectively. The latter figure was to be increased by an "additional sum" to be determined by the contracting Governments in the light of the estimated balance of payments between the Sterling Area and the Spanish Monetary Area. Any excess over these amounts was to be settled in gold. As a result, Special Account arrangements for Spain were cancelled and a Protocol to the Agreement made arrangements for the winding up of the Anglo-Spanish Clearing which had been established in accordance with the provisions of the Trade and Payments Agreement of 18th March, 1940.

On 26th June, 1947, an Agreement (Cmd. 7160) supplementary to the Monetary Agreement was signed under which sterling at the disposal of the Instituto was made available for making payments for current transactions in any currency area. From 1st July, 1947, Spain was included in the Transferable Account Area. The Principal Agreement is for two years but can be terminated at any time on three months' notice.

Sweden.

An Agreement (Cmd. 7170) supplementary to the Anglo-Swedish Monetary Agreement (Cmd. 6604) of 6th March, 1945, was signed on 14th July, 1947. The Agreement provided for the segregation of £25 million of Sveriges Riksbank's sterling holdings and for reciprocal limits of £5 million and S.Kr. 72,425,000 respectively in the amounts of each other's currency which Sveriges Riksbank and the Bank of England respectively were prepared to hold, with gold settlements above these figures. Sterling at the disposal of Sveriges Riksbank, in excess of the amounts segregated, was made available for current transactions in any currency area. From 15th July, 1947, Sweden was included in the Transferable Account Area.

On 24th November, 1947, an Agreement (Cmd. 7259) supplementary to the Monetary Agreement (Cmd. 6604) of 6th March, 1945, was signed which abrogated that of 14th July, 1947. The new Agreement provided for the suspension of the reciprocal limits until 30th April, 1948, after which date limits will operate at £8 million sterling and S.Kr. 115,880,000 with a subsequent reduction to £5 million and S.Kr. 72,425,000 after

30th December, 1949, or in certain circumstances on 31st December, 1948. Swedish kronor held by the Bank of England and sterling held by Sveriges Riksbank on their respective No. 1 Accounts were covered by a reciprocal exchange guarantee on terms to be agreed between the two Central Banks. Provision was made for administrative transferability by either party of the other's currency at its disposal, for making payment for current transactions in such countries outside Sweden and the Scheduled Territories as might be agreed between the two Governments.

Uruguay.

A Payments Agreement (Cmd. 7340) signed on 15th July, 1947, and ratified on 12th February, 1948, provided for payments between Uruguay and the Scheduled Territories to continue to be settled in sterling: for the quotation of rates of exchange for sterling and for U.S. dollars in line with the Bank of England's middle rate for the U.S. dollar: and for the future transferability of current accruals of sterling to Uruguay. The Agreement also provided for the segregation on a No. 2 Account of the accumulated balances of the Banco de la Republica Oriental del Uruguay, which were established at £17 million: and laid down the manner in which these balances could be utilised. Of these balances £1 million was released for current payments on ratification of the Agreement and a further sum of £700,000 was to be released a year later. Provision was also made for the expenditure, if Uruguay so desired, of other sums on the repatriation of British-owned transport and Utility undertakings. Any outstanding balance was to carry interest at the rate of $\frac{1}{2}\%$ per annum.

U.S.A.

The obligations assumed under Section 8(ii) of the Anglo-U.S. Financial Agreement (Cmd. 6968) had been fully carried out by 15th July, 1947, except in the case of certain countries in respect of which temporary extension had been agreed by the United States Government. In view of the excessive drain on their dollar resources H.M. Government notified the United States Government in an Exchange of Letters (Cmd. 7210) dated 20th August, 1947, that as an emergency and temporary measure they found it necessary to modify the system of Transferable Accounts.

U.S.S.R.

On 27th December, 1947, Trade and Payments Agreements (Cmd. 7297) between H.M. Government and the Government of the U.S.S.R. were signed in Moscow. Under the Trade Agreement it was provided that H.M. Government would advance 100% of the payments still to be made by the Government of the U.S.S.R. under the Supplies Agreement of 16th August, 1941 (as against 60% previously), and that these advances would be repaid over 15 years, beginning at the end of the fourth year. It was also agreed that the repayment of 50% of all outstanding advances (previously repayable over 7 years from the date of each advance) should be similarly spread over 15 years, beginning at the end of the fourth year. The remaining 50% continued to be repayable on the original terms. Interest on outstanding advances was reduced from 3% to $\frac{1}{2}\%$ per annum, and the same rate was to apply to new advances.

The Payments Agreement provided for payments between the U.S.S.R. and the Scheduled Territories to continue to be made in sterling, and for administrative transferability of sterling in settlement of current transactions with such countries outside the U.S.S.R. and the Scheduled Territories as might be agreed between the Bank of England and the State Bank of the U.S.S.R., acting as agents for their respective Governments.

As from 15th January, 1948, the U.S.S.R. was included in the Transferable Account Area.

International Monetary Institutions.

The second Annual Meeting of the Board of Governors of the International Monetary Fund was held in London between 11th and 17th September, 1947, jointly with that of the Board of Governors of the International Bank for Reconstruction and Development. The Chancellor of the Exchequer was Chairman of and presided over both meetings.

The International Monetary Fund formally began operations on 1st March, 1947; since then it has effected a number of exchange operations and it is playing an increasing part in international finance. Up to 29th February, 1948, H.M. Government had purchased \$240 million from the Fund against payment of the sterling equivalent to the Fund's account at the Bank of England.

The International Bank, which had begun operations in June, 1946, made a start with its lending operations for reconstruction purposes by making loans to France, Holland, Denmark and Luxembourg and by placing on the U.S. market \$250 million of its own bonds. A further 5% (£16,129,000) of H.M. Government's subscription to the capital of the Bank was paid on 24th May, 1947; the payment was made in sterling and most of it was immediately invested in non-interest-bearing sterling notes cashable on demand. This payment completed H.M. Government's contribution to the Bank, apart from the remaining 80% which may be called only when required to meet obligations of the Bank.

Court of Directors.

The term of office of four Directors expired at 29th February, 1948. Of these, Mr. B. G. Catterns, who had been a Director since 1934 and Deputy Governor from 1936 to 1945, and Mr. E. Holland-Martin, who had been a Director for 15 years, did not seek renomination: Mr. D. G. M. Bernard and Mr. J. C. Hanbury-Williams were re-appointed for four years from 1st March. The vacancies were filled by the appointment, for the same period, of Lord Braintree and Mr. G. L. F. Bolton.

Copies of this Report may be obtained from the Secretary, Bank of England.

BANK OF ENGLAND.

28TH FEBRUARY, 1948.

ISSUE DEPARTMENT.

	£		£
Notes Issued:		Government Debt...	11,015,100
In Circulation	1,233,382,129	Other Government	
In Banking		Securities	1,338,276,324
Department	116,865,704	Other Securities	699,386
		Coin other than Gold	
		Coin	9,190
		Amount of	
		Fiduciary Issue	1,350,000,000
		Gold Coin & Bullion ...	247,833
		(@ 172s. 3d. per oz. fine)	
	<u>£1,350,247,833</u>		<u>£1,350,247,833</u>

K. O. PEPPIATT, *Chief Cashier.*

BANKING DEPARTMENT.

	£		£
Capital	14,553,000	Government Securities ...	256,759,079
Rest	3,901,423	Other Securities:	
Public Deposits	10,885,055	Discounts & Advances.	
(including Exchequer, Savings		£10,158,392	
Banks, Commissioners of National		Securities.	
Debt, and Dividend Accounts)		£31,278,737	41,437,129
Other Deposits:		Notes	116,865,704
Bankers.		Coin	246,986
£292,710,719			
Other Accounts.			
£93,258,701	385,969,420		
	<u>£415,308,898</u>		<u>£415,308,898</u>

K. O. PEPPIATT, *Chief Cashier.*

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