



BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28TH FEBRUARY

1954

Issued by Order of the Court of Directors, 15th July, 1954.

COURT OF DIRECTORS

FOR THE YEAR ENDED 28TH FEBRUARY, 1954.

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BANK OF ENGLAND.

Report for the year ended 28th February, 1954.

Note Circulation and Issue Department.

The totals of Notes Issued and Paid in recent years are shown in the following table:—

<i>£ millions.</i>		NOTES ISSUED, PAID AND IN CIRCULATION.				
YEAR TO END OF FEBRUARY.		1950.	1951.	1952.	1953.	1954.
Issued during the year	... ..	815	916	1,095	1,136	1,144
Paid during the year	... ..	797	877	1,015	1,035	1,064
In circulation at end of the year	... ..	1,250	1,289	1,369	1,470	1,550

The following tables show the changes in recent years in the various denominations in circulation:—

<i>£ thousands.</i>		NOTES IN CIRCULATION BY DENOMINATIONS.				
END OF FEBRUARY.		1950.	1951.	1952.	1953.	1954.
10s.	... ..	86,164	86,362	87,334	89,108	90,490
£1	... ..	975,762	998,771	1,054,927	1,123,696	1,179,960
£5	... ..	120,618	135,161	152,185	172,957	191,556
£10	... ..	1,139	1,005	906	815	763
£20	... ..	510	455	408	363	343
£50	... ..	1,069	952	832	738	695
£100	... ..	2,113	1,809	1,569	1,347	1,254
£200	... ..	8	8	8	8	8
£500	... ..	304	290	275	165	162
£1,000	... ..	386	298	217	168	151
Over £1,000 (a)	... ..	61,950	63,870	69,930	80,750	84,680
		<u>1,250,023</u>	<u>1,288,981</u>	<u>1,368,591</u>	<u>1,470,115</u>	<u>1,550,062</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., to represent transfers made by banks of issue in Scotland and Northern Ireland as cover for their excess note issues.

PERCENTAGE OF TOTAL CIRCULATION REPRESENTED BY VARIOUS DENOMINATIONS.

END OF FEBRUARY.					1950.	1953.	1954.
10s.	...	...	...	...	6.9	6.1	5.8
£1	...	...	...	...	78.1	76.4	76.1
£5	...	...	...	...	9.6	11.8	12.4
£10—£1,000	...	...	...	...	0.4	0.2	0.2
Over £1,000	...	...	...	...	5.0	5.5	5.5
					<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Seasonal variations in the note circulation are illustrated by the following figures for the total of notes in circulation on the last Wednesday in each month during the period under review:—

£ millions.

25th Feb., 1953	1,465	30th Sept., 1953	1,533
25th Mar., 1953	1,489	28th Oct., 1953	1,532
29th Apr., 1953	1,514	25th Nov., 1953	1,550
27th May, 1953	1,532	30th Dec., 1953	1,620
24th June, 1953	1,540	27th Jan., 1954	1,535
29th July, 1953	1,599	24th Feb., 1954	1,548
26th Aug., 1953	1,546		

In 1953 the increase in the note circulation during the summer months started somewhat earlier than is usual owing to the demand for notes about the time of the Coronation. The note circulation at Christmas was higher than ever before, the Bank Return of the 23rd December, 1953, showing a figure of £1,640 million, an increase of £90 million on the figure for the previous year.

Changes in the Fiduciary Issue during the year were as follows:—

£ millions.

DATE	CHANGE	TOTAL FIDUCIARY ISSUE
24th March, 1953	+ 50	1,550
1st June, 1953	+ 50	1,600
27th July, 1953	+ 25	1,625
25th August, 1953	— 50	1,575
2nd December, 1953	+ 50	1,625
14th December, 1953	+ 50	1,675
4th January, 1954	— 50	1,625
12th January, 1954	— 25	1,600
26th January, 1954	— 25	1,575

In November, 1953, proposals were laid before Parliament in the Currency and Bank Notes Bill, to amend the law relating to the Fiduciary Issue. Under the Currency and Bank Notes Act, 1928, as amended by the Currency and Bank Notes Act, 1939, the Fiduciary Issue was £300 million and although this figure might, with Treasury authority, be exceeded, the Fiduciary Issue might not be continuously maintained above £300 million for longer than two years without Parliamentary approval; later, under the provisions of the Defence (Finance) Regulations, 1939, the period of two years was indefinitely extended. The new measure, which received Royal Assent on the 10th February, 1954, and came into operation on the 22nd February, 1954, as the Currency and Bank Notes Act, 1954, provides for a Fiduciary Issue of £1,575 million and retains the power for the Treasury (after representations by the Bank) to vary the new limit. No continuous increase above £1,575 million is permitted for longer than two years except by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

The Act amends and consolidates various provisions relating to the issue and recall of Bank of England notes. The effect of the main amendment is that henceforward the Bank of England may issue Bank notes of such denominations as the Treasury may approve without specific statutory provision.

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

ISSUE DEPARTMENT.						
<i>£ thousands.</i>						
END OF FEBRUARY.				1953.	1954.	Change.
Notes in Circulation	...	...	...	1,470,115	1,550,062	+ 79,947
Notes in Banking Department	...	...	...	30,242	25,295	- 4,947
Notes Issued	...	...	...	<u>1,500,357</u>	<u>1,575,357</u>	<u>+ 75,000</u>
Government Debt	...	...	...	11,015	11,015	—
Other Government Securities	...	...	...	1,485,764	1,560,774	+ 75,010
Other Securities	...	...	...	707	700	- 7
Coin other than Gold Coin	...	...	...	2,514	2,511	- 3
Fiduciary Issue	...	...	...	1,500,000	1,575,000	+ 75,000
Gold Coin and Bullion	...	...	...	357	357	—
				<u>1,500,357</u>	<u>1,575,357</u>	<u>+ 75,000</u>

Banking Department.

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

<i>£ thousands.</i>						
END OF FEBRUARY.				1953.	1954.	Change.
Capital	...	...	...	14,553	14,553	—
Rest	...	...	...	3,907	3,908	+ 1
Public Deposits	...	11,347	...	18,905	+ 7,558	
H.M. Treasury						
Special Account	...	44,559	...	4,705	- 39,854	
Bankers' Deposits	...	280,235	...	278,237	- 1,998	
Other Accounts	...	<u>71,353</u>	...	<u>67,058</u>	<u>- 4,295</u>	
Total Deposits				407,494	368,905	- 38,589
				<u>425,954</u>	<u>387,366</u>	<u>- 38,588</u>
Government Securities	...		...	366,164	324,504	- 41,660
Discounts & Advances	...	6,087	...	10,208	+ 4,121	
Securities	...	<u>21,758</u>	...	<u>24,948</u>	<u>+ 3,190</u>	
Other Securities				27,845	35,156	+ 7,311
Notes	...		...	30,242	25,295	- 4,947
Coin	...		...	<u>1,703</u>	<u>2,411</u>	<u>+ 708</u>
				<u>425,954</u>	<u>387,366</u>	<u>- 38,588</u>

The balance on H.M. Treasury Special Account at the end of February, 1954, represented monies available as a result of the Mutual Security Acts, 1952 and 1953, of the United States of America, and not yet disbursed.

Half-yearly payments of £873,180 were made to H.M. Treasury on the 7th April and the 5th October, 1953, in pursuance of Section 1 (4) of the Bank of England Act, 1946.

The Bank Rate was lowered on the 17th September, 1953, from 4%, the rate that had ruled since the 12th March, 1952, to $3\frac{1}{2}\%$. The rate at which the Discount Market may seek advances from the Bank for short periods against Treasury Bills remained unchanged at $3\frac{1}{2}\%$ minimum, and the special rate for such transactions which had been introduced in November, 1951, was thus unified with Bank Rate.

Short-Term Money Rates.

The following table illustrates the trend in short-term money rates per cent. per annum during recent years:—

	END OF FEBRUARY			
	1951.	1952.	1953.	1954.
Bank Rate	2	$2\frac{1}{2}$	4	$3\frac{1}{2}$
Advances by Bank of England to the Discount Market against Treasury Bills (a)	—	2	$3\frac{1}{2}$	—
Treasury Bills:				
Average rate of Discount on Allotment	10s. 3.04d.	£1:0s. 6.78d.	£2:8s. 0.25d.	£2:1s. 3.37d.
CLEARING BANKS.				
Deposit Accounts	$\frac{1}{2}(b)$	$\frac{3}{4}(b)$	2(c)	$1\frac{3}{4}(c)$
Call Money, i.e., Loans to the Discount Market:				
against Treasury Bills	$\frac{1}{2}$	$\frac{3}{4}$	2	$1\frac{3}{4}$
against Prime Bank Bills	$\frac{1}{2}$	$1\frac{1}{4}$	$2\frac{1}{2}$	2
against Bonds	$\frac{3}{4}$	$1\frac{1}{8}$	$2\frac{1}{2}$	$2\frac{1}{8}$
DISCOUNT MARKET.				
Buying Rates:				
Prime Bank Bills (3 months)	$\frac{11}{16}$	$1\frac{1}{2}$	3	$2\frac{1}{8}$
Trade Bills (3 months)	$1\frac{1}{2}-2$	$2\frac{3}{4}-3\frac{3}{4}$	4-5	$3\frac{1}{2}-4\frac{1}{2}$

(a) Special arrangement announced 7th November, 1951, lapsed 17th September, 1953, since when advances to the Discount Market have been made at Bank Rate.

(b) At 14 days' notice.

(c) At 21 days' notice.

Floating Debt.

The outstanding total of the Floating Debt, as given in the Exchequer Returns for the dates nearest to the end of February in each year, showed an increase during the period of £87 million, made up as follows:—

£ millions.

Treasury Bills	...	...	...	...	...	...	...	...	...	+ 65
Ways & Means Advances	...	...	...	...	...	...	...	...	...	+ 22
										<u>+ 87</u>

FLOATING DEBT OUTSTANDING.

£ millions.

	25th Feb. 1950.	3rd Mar. 1951.	1st Mar. 1952.	28th Feb 1953.	27th Feb. 1954.
Treasury Bills	4,860	4,904	4,185	4,306	4,371
Ways & Means Advances:					
by Public Departments	403	421	322	257	279
by Bank of England	2	—	—	—	—
Treasury Deposit Receipts	494	339	—	—	—
	<u>5,759</u>	<u>5,664</u>	<u>4,507</u>	<u>4,563</u>	<u>4,650</u>

The major factors contributing to the overall change in the Floating Debt may be analysed briefly as follows:—

£ millions.

	INCREASE IN FLOATING DEBT.	DECREASE IN FLOATING DEBT.
Overall Exchequer Deficit (less net issue of Tax Reserve Certificates 54)	253	—
Issues: 3% Exchequer Stock, 1960 and 3% Exchequer Stock, 1962-63	—	539
Redemptions: 1½% Serial Funding Stock, 1953 and 2½% National War Bonds, 1951-53	173	—
U.S. and Canadian Lines of Credit:		
U.S. Lend/Lease Settlement Loan:		
Canadian Interest Free Loan:		
Repayments of principal	43	—
H.M. Treasury Special Account:		
Net repayment of Interest Free Notes	40	—
Net repayment of National Savings Certificates and Defence Bonds	20	—
Terminable Annuities Paid Off	44	—
International Monetary Fund and International Bank for Reconstruction and Development:		
Net repayment of Interest Free Notes	57	—
Miscellaneous (net)	—	4
	<u>630</u>	<u>543</u>
Net Increase of Floating Debt	<u>87</u>	

The weekly allotment of Treasury Bills by tender amounted to £230 million at the beginning and to £250 million at the end of the period. The lowest allotments of

Treasury Bills were those for £210 million on the 24th April, 1953, the 1st May, 1953, and the 15th and 22nd January, 1954; the highest, for £300 million, were made at the tenders on the 4th and 11th September, 1953.

The average rate of discount at which Treasury Bills were allotted at the first tender of the period under review was £2: 8s. 0.25d.%. Until the reduction in Bank Rate on the 17th September, 1953, the rate fluctuated between £2: 8s. 4.20d.% (on the 10th April, 1953), and £2: 6s. 8.25d.% (on the 28th August, 1953); the average rate of discount dropped to £2: 3s. 0.06d.% on the 18th September, 1953, and at the end of the period under review it was £2: 1s. 3.37d.%.

On the 26th February, 1954, the total Treasury Bill tender exceeded £400 million for the first time.

London Clearing Banks.

The Committee of London Clearing Bankers, and other representative financial institutions, rendered much assistance to the Bank by their continued co-operation.

Between the 18th February, 1953, and the 17th February, 1954, the net deposit liabilities of the Clearing Banks increased by £190 million, an increase largely associated with Exchequer financing. The increase in net deposit liabilities was larger by £66 million than in the preceding year, when the effect of Exchequer requirements upon the growth of net deposit liabilities had been considerably offset by a decrease in Advances to Customers and Other Accounts and by a reduction in Other Bills Discounted, together amounting to £279 million. This year the net decrease in these two items was £21 million only. Current Accounts rose by £117 million; the proportion of Current Accounts to Total Deposits was virtually unchanged at 63.4%.

LONDON CLEARING BANKS: DEPOSITS.

£ millions.

	FEBRUARY.	1950.	1951.	1952.	1953.	1954.
Current Accounts	3,844	3,994	3,923	3,837	3,954
Deposit and Other Accounts	1,997	2,047	1,970	2,192	2,283
Total Deposits	5,841	6,041	5,893	6,029	6,237
Balances with Other Banks, etc.	195	206	197	209	227
Net Deposits	<u>5,646</u>	<u>5,835</u>	<u>5,696</u>	<u>5,820</u>	<u>6,010</u>
Rate of increase on previous year in Net Deposits	0.3%	3.3%	-2.4%	2.2%	3.3%

The Clearing Banks' holding of Treasury Bills rose from 15.5% of Total Deposits in April, its lowest ratio during the year, to 20.9% in September. In October, following upon the issue of 3% Exchequer Stock, 1962-63, the ratio fell slightly but it was not until February, 1954, that it fell sharply, to 16.6%. Other Bills Discounted rose during the last quarter of the year. The ratio to Total Deposits of Cash, Money at Call and Short Notice, and Bills Discounted rose slightly over the year as a whole, from 33% to 33.2%.

LONDON CLEARING BANKS: PRINCIPAL ASSETS.

£ millions.

Percentage of Total Deposits is shown in italics.

	FEBRUARY.	1950.	1951.	1952.	1953.	1954.
Cash in hand and at Bank of England		476 8.2	496 8.2	492 8.4	491 8.1	504 8.1
Money at Call and Short Notice		539 9.2	531 8.8	526 8.9	456 7.6	454 7.3
Bills Discounted:						
Treasury Bills		1,169	1,343	669	978	1,034
Other Bills		20.0	22.2	11.3 187 3.2	16.2 68 1.1	16.6 79 1.3
Total of above items		2,184 37.4	2,370 39.2	1,874 31.8	1,992 33.0	2,071 33.2
Treasury Deposit Receipts		471 8.1	291 4.8	15 0.2	—	—
Total of above items		2,655 45.5	2,661 44.0	1,889 32.0	1,992 33.0	2,071 33.2
Investments		1,503 25.7	1,544 25.6	1,944 33.0	2,130 35.3	2,275 36.5
Advances and Other Accounts		1,564 26.8	1,703 28.2	1,933 32.8	1,773 29.4	1,741 27.9

The Investments of the Clearing Banks increased over the year as a whole by £145 million, from 35.3% to 36.5% of Total Deposits. This increase, continuing the movement shown in the second half of the preceding year, was in part attributable to the successive issues of Exchequer Stocks, to which reference is made below.

The total of Advances to Customers and Other Accounts rose by £41 million in the first two months, but fell by £160 million between April and October when, as in the same period in 1952, repayments of advances by public utilities were an important factor. In the last four months the total rose by £87 million, so that the net decline over the year was £32 million, as compared with a decline of £160 million in the previous year. The ratio to Total Deposits fell from 29.4% to 27.9%.

The quarterly analysis of advances made within Great Britain by members of the British Bankers' Association, set out below for the last four years, shows that the decline in bank accommodation during the year was most marked in Government-guaranteed advances to Public Utilities (other than Transport), which decreased by £98.7 million during the first three quarters of the year, and in advances to Engineering, etc., which decreased by £32.2 million during the same period. In both instances, however, advances to these groups rose in the final quarter, by £45.2 million to Public Utilities (other than Transport) and by £5 million to Engineering, etc. The main increases over the year were to Other Financial which rose by £17.2 million; to Agriculture and Fishing; and to Local Government Authorities. Personal and Professional advances, while they fell over the year as a whole, rose by £7 million in the last quarter, the first rise in this group since August, 1951.

The Banks continued to be guided in their policy regarding the making of loans and the granting of overdraft facilities by the requests made to them, in association with memoranda of guidance to the Capital Issues Committee, by the Chancellor of the Exchequer.

In December, 1953, in answer to a question in Parliament, the Chancellor stated that as a general rule the Capital Issues Committee would, from that time, consider only the purpose of a bank advance referred to them, the period and repayment of such borrowing now being left to be settled between banks and their customers. The Chancellor, in a special reference to shipbuilding, expressed the belief that it would be consistent with principles of sound finance for the banks to use their discretion in granting credit facilities on terms which had regard to the special needs of that industry.

BRITISH BANKERS' ASSOCIATION: ANALYSIS OF ADVANCES.

<i>£ millions.</i>										1954 % of Total.
	FEBRUARY.		1951.	1952.	1953.	1954.				
Coal Mining			5.2	3.2	1.6	1.9				0.1
Quarrying, etc.			4.9	5.0	4.8	4.7				0.2
Iron & Steel and Allied Trades			21.1	23.8	49.7	50.4				2.7
Non-ferrous Metals			7.6	5.8	4.3	5.9				0.3
Engineering, etc.			98.8	142.3	169.3	142.2				7.7
Shipping & Shipbuilding			17.3	12.3	13.8	18.4				1.0
Transport & Communications			17.4	19.0	16.0	23.4				1.3
Cotton			10.1	19.0	13.4	13.4				0.7
Wool			38.6	25.5	20.5	27.4				1.5
Other Textiles			45.2	67.4	44.6	46.7				2.5
Leather & Rubber			17.6	23.4	14.2	16.6				0.9
Chemicals			19.2	42.2	27.2	25.8				1.4
Agriculture & Fishing			177.9	198.6	195.1	208.1				11.3
Food, Drink & Tobacco			127.7	166.6	132.2	132.7				7.2
Retail Trade			191.8	205.3	170.7	170.7				9.3
Entertainment			29.6	26.7	22.8	21.4				1.2
Builders & Contractors			66.6	69.1	62.5	60.0				3.3
Building Materials			15.3	22.5	17.5	17.2				0.9
Unclassifiable Industry & Trade			106.5	138.6	109.6	104.7				5.7
Local Government Authorities			90.4	77.7	77.1	86.2				4.7
Public Utilities (other than Transport)			55.9	135.3	140.5	86.9				4.7
Churches, Charities, Hospitals, etc....			11.7	12.7	12.7	12.4				0.7
Stockbrokers			5.6	6.5	5.9	8.2				0.4
Other Financial			194.2	178.2	172.2	189.4				10.3
Personal & Professional			430.7	429.1	370.5	367.9				20.0
			<u>1,806.8</u>	<u>2,055.8</u>	<u>1,868.8</u>	<u>1,842.6</u>				<u>100.0</u>

The average rate of interest charged on Bank Advances decreased slightly, following the reduction in Bank Rate in September, 1953. The rate of interest allowed by banks on deposit accounts was reduced from 2% to 1¾% immediately after the change in Bank Rate, as shown in the table of Short-Term Money Rates.

Stocks and Bonds 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 £674 million. The total number of transfers registered during the year was 769,000, a decrease of 3% on the previous year.

The following table shows the changes in recent years in the nominal totals of 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.	1951.	1952.	1953.	1954.
British Government:					
Stock	5,107	12,507	13,527	13,759	14,367
Bearer Bonds	1,002	119	114	109	106
Total	<u>6,109</u>	<u>12,626</u>	<u>13,641</u>	<u>13,868</u>	<u>14,473</u>
Other Securities:					
Treasury Guaranteed	140	2,401	2,539	2,788	2,844
Dominion & Colonial	454	136	143	152	161
Local Authorities	197	153	149	149	154
Public Boards, etc.	202	52	55	60	59
Miscellaneous	19	16	16	16	16
Total	<u>1,012</u>	<u>2,758</u>	<u>2,902</u>	<u>3,165</u>	<u>3,234</u>
Grand Total	<u>7,121</u>	<u>15,384</u>	<u>16,543</u>	<u>17,033</u>	<u>17,707</u>

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

REDEMPTIONS.

2½% National War Bonds, 1951-53:

1st March, 1953. For cash *£146.2 million

1¾% Serial Funding Stock, 1953:

14th November, 1953. For cash £ 25 ..

* This figure excludes the amount standing on the Register of the Bank of Ireland, Belfast.

ISSUES.

3% Exchequer Stock, 1960:

3rd March, 1953. For cash at £99:10s.%	...	...	...	...	...	...	£100	million
18th June, 1953. For cash at par	...	...	...	...	...	...	£100	"

North of Scotland Electricity 4% Guaranteed Stock, 1973-78:

26th March, 1953. For cash at £96%	£ 20	"
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British Transport 3% Guaranteed Stock, 1968-73:

April, 1953, and subsequently. As compensation in respect of various Transport Undertakings	£ 6.3	"
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British Electricity 4½% Guaranteed Stock, 1974-79:

23rd April, 1953. For cash at par	£125	"
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Liverpool Corporation 4% Redeemable Stock, 1969-73:

7th May, 1953. For cash at £96:10s.%	£ 5	"
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3½% Treasury Stock, 1977-80:

As compensation in respect of certain interests transferred to the National Coal Board under the Coal Industry Nationalisation Act, 1946.

15th June, 1953	...	...	...	...	...	...	£ 11.5	"
15th December, 1953	£ 35.9	"

British Gas 4% Guaranteed Stock, 1969-72:

7th August, 1953. For cash at £99%	£ 80	"
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2½% National War Bonds, 1954-56:

1st September, 1953. Issued at par in exchange for 2½% National War Bonds, 1952-54	*£397.6	"
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3% Exchequer Stock, 1962-63:

5th October, 1953. For cash at £99:10s.%	£341.3	"
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2¼% Serial Funding Stock, 1957:

14th November, 1953. Issued at par with a cash payment of 15s.% in exchange for 1¾% Serial Funding Stock, 1953	£502.9	"
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1¾% Serial Funding Stock, 1954:

14th November, 1953. Issued at par with a cash payment of 7s.% in exchange for 1¾% Serial Funding Stock, 1953	£ 49.3	"
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New Zealand Government 4% Stock, 1976-78:

10th December, 1953. For cash at £98:10s.%	£ 10	"
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British Transport 4% Guaranteed Stock, 1972-77:

18th February, 1954. For cash at £101%	£ 80	"
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On the 13th July, 1953, British Iron and Steel 3½% Guaranteed Stock, 1979-81 was renamed 3½% Treasury Stock, 1979-81 under the provisions of the Iron and Steel Act, 1953.

* This figure includes amounts standing on the Registers of the Bank of Ireland, Belfast, the Post Office Savings Department and the Trustee Savings Banks.

Foreign Exchange Market.

When the Foreign Exchange Market was reopened in December, 1951, arbitrage in foreign currencies was restricted to operations between the U.S. and Canadian dollars since the conditions for the resumption of arbitrage in other currencies did not then exist in most of the other markets concerned. As a result of the progressive rehabilitation of foreign exchange markets in Western Europe it was possible during the year to arrange for arbitrage to be resumed between the markets of nine European countries in their respective currencies. Arbitrage between these nine currencies on the one hand and the U.S. and Canadian dollars on the other could not be introduced in the existing state of exchange restrictions. Those participating in the European arbitrage arrangements, viz., the United Kingdom, Belgium, Denmark, France, Western Germany, the Netherlands, Sweden, Switzerland and Norway, are all members of the European Payments Union. The arbitrage scheme, which rests upon an agreement between Central Banks, was brought into operation for spot transactions, except for Norway, on the 18th May, 1953. The arrangements then made proved satisfactory in operation and the scheme was consequently extended on the 5th October, 1953, to include forward operations normally for periods not exceeding three months. Norway joined in the arrangements later; for spot transactions on the 14th December, 1953, and for forward operations on the 20th January, 1954. The London Foreign Exchange Market was quick to make use of the increased opportunities afforded by the introduction of European arbitrage.

Transferability of Sterling.

No changes were made during the year in the list of countries constituting the Transferable Account Area. In May, 1953, however, under the arrangements for the resumption of foreign currency arbitrage between certain countries in the European Payments Union, sterling became freely transferable between the accounts of authorised banks in those countries. In consequence, there was a significant increase in the total of sterling transferred between countries outside the Sterling Area.

Transfers, excluding those to and from American Account countries and between countries in the same monetary areas, amounted to:—

YEAR ENDED 31ST DECEMBER.	£ millions.
1950	298
1951	463
1952	379
1953	802

Transfers of sterling between non-Sterling Area countries participating in the arbitrage scheme amounted to £481 million in 1953, a figure including both arbitrage transactions and transfers under the existing automatic and administrative facilities, against £45 million between the same countries in 1952.

Transfers to and from countries participating in the Organisation for European Economic Co-operation were:—

£ millions.	YEAR ENDED 31ST DECEMBER.	1950.	1951.	1952.	1953.
	Between O.E.E.C. countries	78	112	78	503
	By O.E.E.C. countries to other countries outside the Sterling Area	59	82	63	56
	By other countries outside the Sterling Area to O.E.E.C. countries	99	179	168	132

United Kingdom merchanting transactions between non-Sterling Area countries on a sterling basis, including those allowed under Commodity Market Schemes, amounted in 1953 to a total of £142 million compared with revised figures of £150 million in 1952, £124 million in 1951 and £71 million in 1950. The 1952 figure included payments in sterling to American Account as a result of United Kingdom merchants being permitted for a short time in August, 1952, to purchase, within an overall programme, certain commodities from the dollar area for re-sale for sterling to countries in the European Payments Union. Under the Coffee Scheme, sterling transactions between non-Sterling Area countries totalled £12 million against £17 million in 1952. Under the other Commodity Market Schemes, total sterling transactions between non-Sterling Area countries increased from £10 million in 1952 to £23 million in 1953.

Commodity Market Schemes.

Before the war, the commodity markets in the United Kingdom formed an essential part of the sterling system. Although their direct contribution to the external income of the Sterling Area was by no means negligible, their chief significance was that they offered to holders of sterling in any part of the world a comprehensive range of basic products and that, together with the other main constituents of the system (the banks, shipping lines and the markets for money, freight, insurance, etc.), they provided the necessary services for the finance and movement of such products. Thus, these markets assisted in making sterling a currency for which its holders found constant and ready use.

Under special exchange control arrangements, known as Commodity Market Schemes, to which reference has been made in previous Reports, very considerable progress has been made in re-establishing these commodity markets, which were closed in 1939 or later. Such progress has assisted in revivifying sterling as an increasingly acceptable currency for the settlement of international trade and has enabled the markets to regain much of the ground lost during the time that they were inactive.

At the beginning of the period under review, Commodity Market Schemes had been introduced for cocoa, coffee, lead, raw sugar, rubber, tin and zinc. During the year, further schemes were inaugurated to cover dealings in copper, grain and, for Terminal Market transactions, wool. Trading in wool itself was resumed under the traditional Auction system immediately after the war and is subject to normal exchange control procedure.

These arrangements permit United Kingdom merchants freely to transact with sterling and in sterling terms, business in copper, lead, rubber, tin and zinc and, accordingly, these commodities may be bought freely, on the London markets, by a holder of sterling in any part of the world. Similar arrangements were made in the schemes for cocoa, coffee, grain and raw sugar, with the proviso that such commodities, when of dollar area origin or of dollar cost, could normally only be dealt in on a dollar for dollar basis. Special facilities existed, however, to permit the sale of cocoa and coffee grown in the American Account Area to the countries of the European Payments Union for sterling.

The Schemes also enable non-residents of the Sterling Area to transact, without restriction, "futures" business on the United Kingdom Terminal Markets for barley, cocoa, copper, lead, maize, rubber, tin, wheat, wool and zinc; United Kingdom merchants participating in all the Schemes are allowed to deal freely in the appropriate Terminal Markets outside the Sterling Area.

The Market Schemes require for their success the close co-operation with the Bank of the markets concerned, a co-operation always accorded in full.

Financial, Monetary and Sterling Payments Agreements.

A summary of the Financial Agreements and agreements dealing with the international use of sterling which were concluded during the year ended 28th February, 1954, is appended to this Report.

Mutual Security Programme and European Payments Union.

The Mutual Security Programme was extended for a further year in July, 1953. The United States Congress appropriated for the fiscal year 1953-54, U.S.\$4,531 million (as compared with U.S.\$6,002 million for 1952-53) and authorised the carrying over of U.S.\$2,121 million from previous years' appropriations. The Mutual Security Act stipulated that part of the funds appropriated must be used for financing the purchase of agricultural commodities which were surplus in the United States: under this arrangement the United Kingdom was to receive some U.S.\$120 million in the form of commodities, most of the sterling proceeds being applied (in agreement with the United States Administration) to the relief of the United Kingdom Defence Budget. Apart from military aid, the total amount of aid allocated to the United Kingdom for the year ending 30th June, 1954, was of the order of U.S.\$200 million, most of it, in one way or another, in relief of the Defence Budget.

The European Payments Union continued to operate during the year under review. Although the net deficits or surpluses of many of the individual countries tended to be smaller than in previous years, the problem of extreme positions of member countries became more acute and it was necessary to provide for the settlement of substantial post-quota surpluses. Post-quota deficits were settled entirely in gold. The volume of bilateral debts between member countries which remained to be settled through the Union each month was greatly reduced as a result of the introduction of the currency arbitrage scheme in May, 1953.

The United Kingdom continued to earn monthly surpluses in the Union until the middle of 1953 but between July and December deficits were incurred. For the twelve months ended February, 1954, the United Kingdom was in net surplus and was enabled to repay £8 million credit to the Union and to regain from the Union U.S.\$24 million previously paid. The United Kingdom's cumulative accounting deficit at the end of February, 1954, was £287.6 million (76% of the United Kingdom quota) of which £196.8 million was covered by credit received from the Union.

United States and Canadian Credits, etc.

Payments in respect of interest and principal were made during the year in U.S. dollars equivalent to £52.3 million to the United States Government and in Canadian dollars equivalent to £31.7 million (inclusive of the £13.9 million mentioned below) to the Canadian Government, making a total payment of £84 million.

A new agreement relating to the terms and conditions of the Canadian interest-free Loan of 1942 was concluded with the Canadian Government in August, 1953, and provided, *inter alia*, for an immediate payment in Canadian dollars equivalent to £13.9 million to reduce the balance of the loan to Canadian \$150 million and for the repayment of the latter sum in 20 equal quarterly instalments beginning on the 1st March, 1954, the interest-free provision continuing unchanged. The agreement also terminated the arrangements whereby the net proceeds of the sale and redemption of Canadian securities owned by residents of the United Kingdom were applied to the repayment of the loan thus enabling permission to be given for the reinvestment of such proceeds.

Iron and Steel Holding and Realisation Agency.

During the period under review, the Bank of England acted as receiving banker for the public offers for sale by the Iron and Steel Holding and Realisation Agency which was established under the provisions of the Iron and Steel Act, 1953, to arrange for the return to private ownership of the nationalised iron and steel undertakings. The following securities were offered:—

October, 1953.	The United Steel Companies Ltd.	14,000,000 Ordinary Shares of £1 each at 25s. per Share.
January, 1954.	The Lancashire Steel Corporation Ltd.	4,500,000 5¾% Redeemable Cumulative Preference Shares of £1 each at 21s. per Share.
"	"	4,500,000 Ordinary Shares of £1 each at 22s. per Share.

A feature of the first Offer was that a wide range of British Government Stocks could be tendered, in lieu of cash, with applications for Shares; for the other Shares offered one such Stock, viz., 3½% Treasury Stock, 1979-81 (formerly British Iron and Steel 3½% Guaranteed Stock, 1979-81) could be tendered in lieu of cash.

Commonwealth Development Finance Company Limited.

On the 24th March, 1953, there was incorporated the Commonwealth Development Finance Company Limited, with the main objects of providing or procuring financial facilities for the development of the natural and other resources of any part of the Commonwealth. The Company has a share capital of £15 million, divided into 8,250,000 "A" Ordinary Shares of £1 each, subscribed by 91 companies and firms in the United Kingdom, and 6,750,000 "B" Ordinary Shares of £1 each, subscribed by the Bank of England. At the end of February, 1954, 2s. per share had been paid up on both "A" and "B" Shares.

Overseas Investments.

Estimates covering a large part of the overseas investments of the United Kingdom, tabulated by types of investment and by countries, have been prepared for the year 1952, in continuation of those for the years 1938 to 1951 previously published by the Bank. They show the total nominal value of U.K. overseas investments at the end of 1952 as £1,985 million; this compares with a revised figure of £1,983 million at the end of 1951 and with £2,019 million at the end of 1950. The total of interest and dividends for the year 1952 was £153.8 million, against £159.4 million in 1951 and £143.8 million in 1950*.

Court of Directors.

Mr. C. F. Cobbold, whose term of office as Governor expired on the 28th February, 1954, was re-appointed for a further five years.

Sir Dallas Bernard, who had served as a Director since 1936 and as Deputy Governor since 1949, retired on the 28th February, 1954. He was succeeded as Deputy Governor for a term of five years by Mr. H. C. B. Mynors, a Director since 1949.

The term of office of three other Directors expired on the 28th February, 1954. Of these, Mr. Siepmann retired after serving as a Director since 1945, and Lord Piercy and Mr. Eley were re-appointed for four years.

The two vacancies that thus arose were filled by the appointment of the Hon. Randal Hugh Vivian Smith and Mr. Frank Cyril Hawker, each for four years from the 1st March, 1954.

Copies of this Report may be obtained from the Secretary.

* A limited number of copies of a paper showing the detailed figures for 1952 are available from the Secretary, Bank of England.

SUMMARY OF FINANCIAL, MONETARY AND PAYMENTS AGREEMENTS NEGOTIATED DURING THE
YEAR ENDED 28TH FEBRUARY, 1954.

Sterling Area.

Country.	Date of Agreement.	Command Paper.	Provisions of Agreement.
INDIA	20th July 1953	8953	Consolidates and replaces Financial Agreement of 14th August, 1947, as modified and extended.
LIBYA	29th July 1953	8914	Provides for financial assistance for Libya for twenty years. A payment of £3.75 million will be made in each of the five financial years from the 1st April, 1953, to the 31st March, 1958. Subsequent assistance will be subject to consultation.

Non-Sterling Area.

Country.	Date of Agreement.	Command Paper.	Provisions of Agreement.
AUSTRIA	27th November/ 28th December 1953	9111	Amends the termination clause of the Sterling Payments Agreement of 31st January, 1951.
BRAZIL	31st March 1953	8827	Extends for twelve months to 31st March, 1954, certain of the provisions relating to accumulated sterling balances embodied in the Trade and Payments Agreement of 21st May, 1948.
CANADA	13th August 1953	9121	Amends the terms and conditions of the Canadian Interest-Free Loan of 1942.
DENMARK	3rd/5th September 1953	8974	Amends the termination clause of the Monetary Agreement of 19th October, 1950.
FINLAND	7th April 1953	8826	Extends the Sterling Payments Agreement of 7th July, 1950, for one month after 7th April, 1953.
	17th June 1953	8905	Extends the Sterling Payments Agreement of 7th July, 1950, to 31st March, 1954.
FRANCE	9th February 1954	9109	Amends the termination clause of the Monetary Agreement of 20th August, 1951.
GERMANY	22nd May 1953	8863	Monetary Agreement abrogating and replacing Sterling Payments Agreement of 9th December, 1950.
ITALY	19th September 1953	8995	Amends the termination clause of the Sterling Payments Agreement of 21st December, 1950.
JAPAN	23rd December 1953	9047	Extends Sterling Payments Agreement of 31st August, 1951, for one month to 31st January, 1954.
	29th January 1954	9073	Sterling Payments Agreement for the period 1st February, 1954, to 31st December, 1954.

Non-Sterling Area—*continued.*

Country.	Date of Agreement.	Command Paper.	Provisions of Agreement.
NORWAY	30th June/ 25th July 1953	8973	Amends the termination clause of the Monetary Agreement of 6th November, 1950.
PARAGUAY	26th May/ 1st July 1953	8952	Extends the Trade and Payments Agreement of 3rd April, 1950, for twelve months to 30th June, 1954.
POLAND	6th/7th March 1953	8805	Extends Sterling Payments Agreement of 2nd March, 1948, for a further three months after 9th March, 1953.
	8th/9th June 1953	8936	Extends Sterling Payments Agreement of 2nd March, 1948, for a further three months after 9th June, 1953.
	2nd/8th September 1953	8961	Extends Sterling Payments Agreement of 2nd March, 1948, for a further three months after 9th September, 1953.
	7th/9th December 1953	9074	Extends Sterling Payments Agreement of 2nd March, 1948, for a further three months after 9th December, 1953.
SPAIN	12th December 1953	9035	Extends Sterling Payments Agreement of 20th December, 1951, for two years from 15th December, 1953.
SWEDEN	16th November 1953	9056	Amends the termination clause of the Monetary Agreement of 10th November, 1950.
SWITZERLAND	24th June 1953	8916	Amends the termination clause of the Monetary Agreement of 12th March, 1946.

BANK OF ENGLAND.

27TH FEBRUARY, 1954.

ISSUE DEPARTMENT.

£	£
Notes Issued:	Government Debt ... 11,015,100
In Circulation ... 1,550,061,595	Other Government Securities ... 1,560,773,599
In Banking Department ... 25,295,228	Other Securities ... 700,527
	Coin other than Gold
	Coin ... 2,510,774
	Amount of
	Fiduciary Issue ... £1,575,000,000
	Gold Coin & Bullion ... 356,823
	(@ 248s. 0d. per oz. fine)
<u>£1,575,356,823</u>	<u>£1,575,356,823</u>

P. S. BEALE, *Chief Cashier.*

BANKING DEPARTMENT.

£	£
Capital ... 14,553,000	Government Securities ... 324,504,439
Rest ... 3,908,410	Other Securities:
Public Deposits—	Discounts & Advances.
Public Accounts	£10,207,730
(including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts):	Securities.
£18,904,895	£24,948,404 35,156,134
H.M. Treasury	Notes ... 25,295,228
Special Account.	Coin ... 2,410,693
£4,705,095 23,609,990	
Other Deposits:	
Bankers.	
£278,237,140	
Other Accounts.	
£67,057,954 345,295,094	
<u>£387,366,494</u>	<u>£387,366,494</u>

P. S. BEALE, *Chief Cashier.*

