



# BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28th FEBRUARY

1957

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*Issued by Order of the Court of Directors, 25th July, 1957.*

## COURT OF DIRECTORS

FOR THE YEAR ENDED 28TH FEBRUARY, 1957.

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# BANK OF ENGLAND

## Report for the year ended 28th February, 1957

### 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					1953	1954	1955	1956	1957
Issued during the year	...	...	...	...	1,136	1,144	1,231	1,354	1,451
Paid during the year	...	...	...	...	1,035	1,064	1,116	1,231	1,365
In circulation at the end of the year	...	...	...	...	1,470	1,550	1,665	1,788	1,874

In February, a £5 note of a new design was introduced. The new note, which is slightly larger than the £1 note, is in colour; the paper is of the same quality as that used for the £1 and 10s. notes and incorporates a metallic thread. The issue of the old type of £5 note by the Bank of England has ceased but the status of those in circulation is unaffected.

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					1953	1954	1955	1956	1957
10s.	...	...	...	...	89,108	90,490	93,556	95,351	96,236
£1	...	...	...	...	1,123,696	1,179,960	1,264,574	1,357,248	1,404,611
£5	...	...	...	...	172,957	191,556	217,797	242,097	271,170
£10	...	...	...	...	815	763	694	652	603
£20	...	...	...	...	363	343	315	299	282
£50	...	...	...	...	738	695	629	592	556
£100	...	...	...	...	1,347	1,254	1,134	1,054	979
£200	...	...	...	...	8	8	7	7	7
£500	...	...	...	...	165	162	128	120	94
£1,000	...	...	...	...	168	151	134	122	114
Over £1,000 (a)	...	...	...	...	80,750	84,680	86,530	90,340	99,420
					<u>1,470,115</u>	<u>1,550,062</u>	<u>1,665,498</u>	<u>1,787,882</u>	<u>1,874,072</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					1955	1956	1957
10s.	...	...	...	...	5.6	5.3	5.1
£1	...	...	...	...	75.9	75.9	75.0
£5	...	...	...	...	13.1	13.5	14.5
£10-£1,000	...	...	...	...	0.2	0.2	0.1
Over £1,000	...	...	...	...	5.2	5.1	5.3
					<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

The note circulation at Christmas, 1956, was higher than ever before, the Bank Return dated the 27th December, 1956, showing a figure of £1,998 million, an increase of £108 million on the corresponding peak figure for 1955.

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

<i>£ millions</i>								TOTAL
DATE								FIDUCIARY ISSUE
17th January, 1956	...	...	...	...	...	...	...	1,825
19th March, 1956	...	...	...	...	...	...	+50	1,875
17th May, 1956	...	...	...	...	...	...	+25	1,900
27th June, 1956	...	...	...	...	...	...	+50	1,950
17th July, 1956	...	...	...	...	...	...	+50	2,000
20th August, 1956	...	...	...	...	...	...	—50	1,950
3rd September, 1956	...	...	...	...	...	...	—25	1,925
3rd December, 1956	...	...	...	...	...	...	+50	1,975
11th December, 1956	...	...	...	...	...	...	+50	2,025
3rd January, 1957	...	...	...	...	...	...	—50	1,975
11th January, 1957	...	...	...	...	...	...	—50	1,925

The Currency and Bank Notes Act, 1954, provides for a Fiduciary Issue of £1,575 million and empowers H.M. Treasury, after representations by the Bank, to vary this amount; but, except under the authority of a Statutory Instrument (subject to annulment in pursuance of a resolution of either House of Parliament), the total may not remain above the figure of £1,575 million for longer than two years. The amount of the Fiduciary Issue having continuously exceeded that figure since the 15th March, 1954, an order was made authorising the maintenance of a level higher than £1,575 million for a further two years from the 14th March, 1956.



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

*£ thousands*

END OF FEBRUARY	1956	1957	Change
Notes in Circulation ... ..	1,787,882	1,874,072	+ 86,190
Notes in Banking Department ... ..	37,476	51,286	+ 13,810
Notes Issued ... ..	1,825,358	1,925,358	+ 100,000
Government Debt ... ..	11,015	11,015	—
Other Government Securities ... ..	1,810,275	1,910,188	+ 99,913
Other Securities ... ..	699	784	+ 85
Coin other than Gold Coin ... ..	3,011	3,013	+ 2
Fiduciary Issue ... ..	1,825,000	1,925,000	+ 100,000
Gold Coin and Bullion ... ..	358	358	—
	1,825,358	1,925,358	+ 100,000

## Banking Department

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

*£ thousands*

END OF FEBRUARY	1956	1957	Change
Capital ... ..	14,553	14,553	—
Rest ... ..	3,911	3,913	+ 2
Public Deposits† ... .. 13,694	12,600	— 1,094	
Bankers' Deposits ... .. 258,100	229,574	— 28,526	
Other Accounts ... .. 70,914	74,882	+ 3,968	
Total Deposits	342,708	317,056	— 25,652
	361,172	335,522	— 25,650
Government Securities ... ..	283,832	238,187	— 45,645
Discounts & Advances ... .. 20,592	24,482	+ 3,890	
Securities ... .. 16,988	19,544	+ 2,556	
Other Securities	37,580	44,026	+ 6,446
Notes ... ..	37,476	51,286	+ 13,810
Coin ... ..	2,284	2,023	— 261
	361,172	335,522	— 25,650

† Includes H.M. Treasury Special Account.

H.M. Treasury Special Account, the balance on which represents moneys available as a result of the Mutual Security Acts, 1952, 1953 and 1954, of the United States of America and not yet disbursed, ceased to be shown separately in the Bank Return from the 1st August, 1956, the small residue being included in Public Deposits.



Half-yearly payments of £873,180 were made to H.M. Treasury on the 5th April and the 5th October, 1956, in pursuance of Section 1 (4) of the Bank of England Act, 1946.

Bank Rate was reduced on the 7th February, 1957, from  $5\frac{1}{2}\%$  to  $5\%$ . It had stood at  $5\frac{1}{2}\%$  since the 16th February, 1956.

During the year the Bank made Market Advances, that is, loans against security to the Discount Market, on 61 days. Such Advances were outstanding on 272 days.

## Short-Term Money Rates

The following table illustrates recent trends in short-term money rates per cent. per annum:—

	End of December, 1954	End of January, 1955	End of February, 1955	End of December, 1955	End of February, 1956	End of December, 1956	End of February, 1957
Bank Rate (& date of previous change)	3 (13th May, 1954)	$3\frac{1}{2}$ (27th Jan., 1955)	$4\frac{1}{2}$ (24th Feb., 1955)	$4\frac{1}{2}$ (24th Feb., 1955)	$5\frac{1}{2}$ (16th Feb., 1956)	$5\frac{1}{2}$ (16th Feb., 1956)	5 (7th Feb., 1957)
Treasury Bills: Average rate of Discount on Allotment	£1:17:3.82	£2:6:7.33	£3:15:5.32	£4:1:5.40	£5:4:4.31	£4:17:1.81	£4:2:11.49
CLEARING BANKS							
Deposit Accounts	$1\frac{1}{4}$ (a)	$1\frac{1}{2}$ (b)	$2\frac{1}{2}$ (b)	$2\frac{1}{2}$ (b)	$3\frac{1}{2}$ (b)	$3\frac{1}{2}$ (b)	3 (b)
Call Money <i>i.e.</i> , Loans to the Discount Market:							
against Treasury Bills	$1\frac{1}{4}$	$1\frac{1}{4}$ (minimum)	$2\frac{1}{4}$ (minimum)	$2\frac{1}{4}$ (minimum)	$3\frac{1}{4}$ (minimum)	$3\frac{1}{4}$ (minimum)	$3\frac{1}{4}$ (minimum)
against Prime Bank Bills	$1\frac{1}{2}$						
against Bonds	$1\frac{5}{8}$						
DISCOUNT MARKET							
Buying Rates:							
Prime Bank Bills (3 months)	$1\frac{7}{8}$	$2\frac{3}{8}$	$3\frac{1}{8}$	$4\frac{5}{16} - 4\frac{1}{4}$	$5\frac{1}{12} - 5\frac{1}{8}$	$4\frac{1}{16} - 5$	$4\frac{1}{4} - 4\frac{5}{16}$
Trade Bills (3 months)	$2\frac{1}{2} - 3$	$3 - 3\frac{1}{2}$	$4\frac{1}{4} - 4\frac{1}{2}$	$5 - 5\frac{1}{4}$	$6 - 6\frac{1}{2}$	$6 - 6\frac{1}{2}$	$5\frac{1}{2} - 6$

(a) at 21 days' notice.

(b) at 7 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 a decrease during 1956-57 of £958 million, made up as follows:—

£ millions

Treasury Bills	...	...	...	...	...	...	...	—	925
Ways and Means Advances	...	...	...	...	...	...	...	—	33
								—	958

### FLOATING DEBT OUTSTANDING

£ millions	28th Feb. 1953	27th Feb. 1954	26th Feb. 1955	3rd Mar. 1956	2nd Mar. 1957
Treasury Bills	4,306	4,371	4,842	5,119	4,194
Ways and Means Advances:					
by Public Departments	257	279	268	243	210
by Bank of England	—	—	—	—	—
	<u>4,563</u>	<u>4,650</u>	<u>5,110</u>	<u>5,362</u>	<u>4,404</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 (including Advances to Nationalised Industries 275), less net issue of Tax Reserve Certificates 35	262	
Issues:		
5% Exchequer Stock, 1957		300
3½% Treasury Stock, 1979-81		203
3½% Funding Stock, 1999-2004		240
Redemption: 2½% National War Bonds, 1954-56	166	
Repayments by Exchange Equalisation Account		450
International Monetary Fund:		
Interest-Free Notes Taken Up		202
Canadian and U.S. Lines of Credit, Canadian Interest-Free Loan and U.S. Lend/Lease Settlement Loan:		
Repayments of Principal	38	
Net subscription to National Savings Certificates and Defence Bonds		28
Net subscription to Premium Savings Bonds		61
Terminable Annuities Paid Off	48	
European Payments Union:		
Net payments	1	
Miscellaneous (net)	11	
	<u>526</u>	<u>1,484</u>
Net decrease in Floating Debt		<u>958</u>

The weekly allotment of Treasury Bills by tender amounted to £240 million at the beginning and to £200 million at the end of the period. The lowest allotment was that for £170 million on the 15th February, 1957. The highest allotments, for £290 million, were made at the three tenders between the 31st August and the 14th September, 1956, when 91 day Bills only were offered, and at the tender of the 23rd November, 1956, when both 91 day Bills and 63 day Bills were offered.



The average rate of discount per cent. at which 91 day Bills were allotted fell, with some fluctuations, from £5:4:0.86 at the beginning of the period to £5:-:10.28 on the 7th December, 1956. The rate then fell more sharply to £4:10:10.07 at the tender immediately before the reduction of Bank Rate to 5% on the 7th February, 1957. At the following tender the rate was £4:4:8.29, and dropped to £4:2:11.49 at the end of the period.

63 day Treasury Bills were offered in amounts varying from £60 million to £90 million in eight consecutive weeks from the 26th October to the 14th December, 1956; the average rate of discount at which the Bills were allotted varied between £5:1:4.37 and £4:18:11.65.

## The Credit Situation

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

Between the 15th February, 1956, and the 20th February, 1957, the net deposit liabilities of the London Clearing Banks rose by £30 million, or 0.5%, compared with a fall of 5.7% in the preceding year. During the first ten months of the year under review net deposit liabilities rose by £406 million compared with £4 million in the corresponding months of the preceding year. In that year, during these months, the influence upon the growth of net deposits of a seasonal expansion in Exchequer borrowing by means of Treasury Bills had been offset by decreases in Advances to Customers and Other Accounts and in Investments, together amounting to £431 million. This year these two items showed a net increase of £21 million. In the last two months of the period under review, the fall in net deposit liabilities was £376 million, a decrease of the same order as in the last two months of the preceding year, when net deposit liabilities fell by £362 million. During the year as a whole, Current Accounts decreased by £96 million, their ratio to Total Deposits falling from 63.9% to 62.1%, while Deposit and Other Accounts rose by £122 million.

### LONDON CLEARING BANKS: DEPOSITS

<i>£ millions</i>	<b>February</b>	<b>1953</b>	<b>1954</b>	<b>1955</b>	<b>1956</b>	<b>1957</b>
Current Accounts ... ..	...	3,837	3,954	4,112	3,941	3,845
Deposit and Other Accounts ... ..	...	<u>2,192</u>	<u>2,283</u>	<u>2,413</u>	<u>2,223</u>	<u>2,345</u>
Total Deposits ... ..	...	6,029	6,237	6,525	6,164	6,190
Balances with Other Banks, etc. ... ..	...	<u>209</u>	<u>227</u>	<u>268</u>	<u>265</u>	<u>261</u>
Net Deposits ... ..	...	<u>5,820</u>	<u>6,010</u>	<u>6,257</u>	<u>5,899</u>	<u>5,929</u>
Change on previous year in Net Deposits ...		+2.2%	+3.3%	+4.1%	-5.7%	+0.5%

During the first half of the year under review Advances to Customers and Other Accounts rose by £65 million, compared with a rise of £105 million between February and August, 1955. The increase was due primarily to an extension of advances to nationalised industries pending the introduction of new arrangements for their finance, which are described below. Investments fell by £89 million. The level to which they were reduced by August was the lowest throughout the whole of this year and reflected partly an uncertainty as to the prospective adequacy of the Clearing Banks' liquid assets and partly the maturity of 2½% National War Bonds, 1954-56, which coincided with the date of the Clearing Banks' August statement. The total of Treasury Bills



Discounted and of Money at Call and Short Notice rose steadily after March, showing a net increase of £155 million during these six months. At this time, the seasonal needs of the Exchequer were increased by requirements to finance an increase in the exchange reserves, a net repayment of small savings and the redemption of '2½% National War Bonds, 1954-56, preparations for which had begun early in the year. A considerable amount of these requirements was met from sales of stock. After the rise in Bank Rate on the 16th February, 1956, and the statement by the Chancellor on the following day of measures taken by the Government to deal with the economic situation, activity in the gilt-edged market had greatly increased. This activity continued until the early summer. An issue, at par, of £300 million 5% Exchequer Stock, 1957, was made in March, 1956, and an issue, at £81%, of £250 million 3½% Treasury Stock, 1979-81, was made in April, 1956.

Under the Finance Act, 1956, the nationalised industries (apart from coal), which had previously borrowed from the banks in advance of issues of stock in the market, were enabled to obtain finance for their capital expenditure directly from the Exchequer. This system was established for two years. Their outstanding bank borrowing for capital expenditure was gradually to be repaid from Exchequer advances, after which the industries were to look to the banks only for their normal requirements of working capital. The total of Advances taken by the nationalised industries from the London Clearing Banks at the 15th August, 1956, immediately before the first of the new Exchequer advances was made, was £112 million: these Advances were reduced to £58 million by the 20th February, 1957.

On the 24th July, 1956, the Chancellor of the Exchequer met representatives of the banking associations, including associations of overseas banks in London, to discuss the economic situation. The Chancellor stated that the Government recognised the valuable part already played by the banking system in maintaining credit restrictions in the face of considerable difficulties, and asked that the contraction of credit should be resolutely pursued and that there should be no relaxation in the critical attitude towards applications for bank finance.

Between July and September Advances to Customers and Other Accounts of the Clearing Banks, excluding Advances to the nationalised industries, fell by £54 million. They remained close to the level then reached, apart from a temporary rise towards the close of 1956, until January, 1957. Thereafter they began again to rise, leading to a net increase over the second half of the year under review of £47 million, or 2½%.

The downward trend of Investments, which had continued since late in 1954, was reversed after August. Investments rose each month during the second half of this year, in total by £93 million.

In the same period, Treasury Bills Discounted and Money at Call and Short Notice fell by £194 million, compared with a rise of £37 million in the second half of the preceding year. The need of the Exchequer to borrow by means of Treasury Bills was reduced not only by the seasonal inflow of revenue, but also by the large sterling receipts which accrued to the Exchequer from the fall in the external reserves and by receipts from small savings. In addition there were substantial receipts from departmental net sales of stock. The condition of the gilt-edged market varied greatly during the autumn months, but towards the close of the year a small rise in the prices of gilt-edged stock and an expectation of a further rise made possible vigorous departmental net sales, which continued into February, 1957. The reduction of Bank Rate by ½% on the 7th February, 1957, was not followed by a further rise in the prices of medium- and long-dated gilt-edged stock. An issue, at £80%, of £300 million 3½% Funding Stock, 1999-2004, was made on the 14th February: the terms of issue were in line with rates



ruling in the market at the time. The reduction in Exchequer borrowing, other than from departments, by means of Treasury Bills was not fully matched by the fall in the Clearing Banks' Treasury Bills Discounted and Money at Call and Short Notice. From the autumn, market holdings of Treasury Bills other than by the Clearing Banks and Discount Market began to be reduced (a fall that probably reflected, among other factors, purchases of gilt-edged stock and movements associated with the exchange situation). In December an expectation of a decline in Bill rates and in short-term rates helped to lead to a more vigorous demand for Treasury Bills by the banks and for short bonds by the Discount Market.

Over the year as a whole, the Clearing Banks' Advances to Customers and Other Accounts rose by £58 million. Investments rose by £4 million. The total of Cash, Money at Call and Short Notice and Bills Discounted fell by £34 million and the ratio of this total to Total Deposits—the liquidity ratio—fell slightly from 34.3% in February, 1956, to 33.6% in February, 1957.

The principal assets of the London Clearing Banks at the end of the year under review are shown in the following table:—

#### LONDON CLEARING BANKS: PRINCIPAL ASSETS

Percentages of Total Deposits are shown in italics

<i>£ millions</i>	February	1953	1954	1955	1956	1957
Cash in hand and at Bank of England ... ..		491	504	525	506	499
		<i>8.1</i>	<i>8.1</i>	<i>8.0</i>	<i>8.2</i>	<i>8.1</i>
Money at Call and Short Notice ... ..		456	454	445	433	414
		<i>7.6</i>	<i>7.3</i>	<i>6.8</i>	<i>7.0</i>	<i>6.7</i>
Bills Discounted:						
Treasury Bills ... ..		978	1,034	951	1,038	1,017
		<i>16.2</i>	<i>16.6</i>	<i>14.6</i>	<i>16.8</i>	<i>16.4</i>
Other Bills ... ..		68	79	122	134	147
		<i>1.1</i>	<i>1.3</i>	<i>1.9</i>	<i>2.2</i>	<i>2.4</i>
Total of liquid assets ... ..		1,992	2,071	2,042	2,111	2,077
		<i>33.0</i>	<i>33.2</i>	<i>31.3</i>	<i>34.3</i>	<i>33.6</i>
Investments ... ..		2,130	2,275	2,298	2,007	2,011
		<i>35.3</i>	<i>36.5</i>	<i>35.2</i>	<i>32.6</i>	<i>32.5</i>
Advances to Customers and Other Accounts ...		1,773	1,741	2,000	1,865	1,923
		<i>29.4</i>	<i>27.9</i>	<i>30.6</i>	<i>30.3</i>	<i>31.1</i>

The quarterly analysis of advances made within Great Britain by members of the British Bankers' Association, which is set out below for the month of February in the last four years, showed contrasting movements as the year progressed. Total advances rose by £40.9 million between February and August, 1956, fell by £71.5 million between August and November, and increased again by £69.8 million between November, 1956, and February, 1957, a net rise of £39.2 million during the year. Advances to "Public Utilities (other than Transport)"—a category that corresponds closely but not exactly to nationalised industries (other than coal)—rose by £71.5 million in the first half of the year but fell by £64.2 million in the second half, following the payments by the Exchequer to the nationalised industries referred to above. Advances to other borrowers, which had already been reduced by £105.3 million in the latter half of the preceding year, fell by a further £73.1 million between February and November, 1956, to the



lowest level for two years, but rose by £105.0 million between November, 1956, and February, 1957, a net increase during the year of £31.9 million.

Increases were confined mainly to Engineering, etc., which rose by £49.8 million; Other Financial, which increased by £22.8 million; Iron and Steel and Allied Trades, which rose £21.3 million, almost wholly in the final quarter of the year; and Cotton, Wool and Other Textiles, which after falling by £3.4 million in the first three quarters of the year rose by £18.6 million in the last quarter, a net increase of £15.2 million.

There were large decreases over the year of £23.8 million in the group "Personal and Professional"; of £21.9 million in Retail Trade; and of £11.2 million in Food, Drink and Tobacco.

# BRITISH BANKERS' ASSOCIATION: ANALYSIS OF ADVANCES

<i>£ millions</i>	February	1954	1955	1956	1957	1957 % of Total
Coal Mining ... ..	...	1.9	1.3	0.9	0.9	—
Quarrying, etc. ... ..	...	4.7	5.3	4.2	4.1	0.2
Iron & Steel and Allied Trades ... ..	...	50.4	32.8	38.9	60.2	3.0
Non-ferrous Metals ... ..	...	5.9	7.8	8.3	11.0	0.5
Engineering, etc. ... ..	...	142.2	149.3	180.1	229.9	11.5
Shipping and Shipbuilding ... ..	...	18.4	19.1	26.5	31.3	1.6
Transport & Communications ... ..	...	23.4	20.4	21.1	22.0	1.1
Cotton ... ..	...	13.4	20.3	18.2	24.1	1.2
Wool ... ..	...	27.4	31.6	30.1	38.1	1.9
Other Textiles ... ..	...	46.7	47.4	42.3	43.7	2.2
Leather & Rubber ... ..	...	16.6	17.8	16.8	16.3	0.8
Chemicals ... ..	...	25.8	30.8	30.1	33.2	1.7
Agriculture & Fishing ... ..	...	208.1	224.8	229.1	223.7	11.2
Food, Drink & Tobacco ... ..	...	132.7	154.4	163.1	151.9	7.6
Retail Trade ... ..	...	170.7	195.5	185.7	163.8	8.2
Entertainment ... ..	...	21.4	21.2	20.6	19.6	1.0
Builders & Contractors ... ..	...	60.0	68.5	70.6	64.8	3.2
Building Materials ... ..	...	17.2	21.0	22.4	20.8	1.0
Unclassifiable Industry & Trade ... ..	...	104.7	126.0	134.9	124.9	6.3
Local Government Authorities ... ..	...	86.2	102.8	86.4	81.3	4.1
Public Utilities (other than Transport) ... ..	...	86.9	162.1	58.2	65.5	3.3
Churches, Charities, Hospitals, etc. ... ..	...	12.4	13.0	13.0	12.4	0.6
Stockbrokers ... ..	...	11.0	16.1	9.0	14.2	0.7
Hire Purchase Finance Companies ... ..	...	11.2	30.5	35.4	28.3	1.4
Other Financial ... ..	...	178.2	181.8	167.4	190.2	9.5
Personal & Professional ... ..	...	367.9	393.4	347.9	324.1	16.2
		<u>1,845.4</u>	<u>2,095.0</u>	<u>1,961.1</u>	<u>2,000.3</u>	<u>100.0</u>
of which: Clearing Banks ... ..	...			1,697.8	1,728.9	
Other banks ... ..	...			263.3	271.4	



In February, 1957, following the reduction of  $\frac{1}{2}\%$  in Bank Rate, the rate of interest allowed by the banks on Deposit Accounts was reduced by  $\frac{1}{2}\%$ , to 3%, as shown in the Table of Short-Term Money Rates on page 4. At the same time the minimum rate of interest charged for Call Money was reduced from  $3\frac{3}{4}\%$  to  $3\frac{1}{4}\%$ ; the average rate of interest charged on Bank Advances also decreased.

## 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, the Post Office Savings Department and the Trustee Savings Banks, showed a net increase during the year of £671 million. The total number of transfers registered was 703,000, a decrease of 9.1% 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									
<i>£ millions</i>									
END OF FEBRUARY					1939	1954	1955	1956	1957
British Government:									
Stock	...	...	...	...	5,107	14,367	14,355	14,487	15,136
Bearer Bonds	...	...	...	...	1,002	106	102	98	94
Total	...	...	...	...	6,109	14,473	14,457	14,585	15,230
Other Securities:									
Treasury Guaranteed	...	...	...	...	140	2,844	2,984	3,329	3,327
Dominion & Colonial	...	...	...	...	454	161	185	191	195
Local Authorities	...	...	...	...	197	154	154	158	178
Public Boards, etc.	...	...	...	...	202	59	58	58	62
Miscellaneous	...	...	...	...	19	16	16	15	15
Total	...	...	...	...	1,012	3,234	3,397	3,751	3,777
Grand Total	...	...	...	...	7,121	17,707	17,854	18,336	19,007

Operations undertaken during the year include:—

### REDEMPTIONS

2½% National War Bonds, 1954-56:

15th August, 1956. For cash ... .. £164.6 million



## ISSUES

5% Exchequer Stock, 1957:									
7th March, 1956.	For cash at par	...	...	...	...	...	...	£300	million
3½% Treasury Stock, 1979-81:									
25th April, 1956.	For cash at £81%	...	...	...	...	...	...	£250	„
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, 1956	...	...	...	...	...	...	...	£ 2.2	„
15th December, 1956	...	...	...	...	...	...	...	£ 0.4	„
The Agricultural Mortgage Corporation Limited 5% Debenture Stock, 1979-83:									
27th July, 1956.	For cash at £97%	...	...	...	...	...	...	£ 5	„
4½% Conversion Stock, 1962:									
15th August, 1956. Issued at par with a cash payment of £1:10s.% in exchange for 2½% National War Bonds, 1954-56									
	...	...	...	...	...	...	...	£657.3	„
New Zealand Government 5½% Stock, 1978-82:									
6th September, 1956.	For cash at £96:10s.%	...	...	...	...	...	...	£ 5	„
London County 5½% Stock, 1977-81:									
12th October, 1956.	For cash at £99:10s.%	...	...	...	...	...	...	£ 15	„
Corporation of London 5½% Stock, 1976-79:									
20th December, 1956.	For cash at £97%	...	...	...	...	...	...	£ 5	„
3½% Funding Stock, 1999-2004:									
14th February, 1957.	For cash at £80%	...	...	...	...	...	...	£300	„

## Gold and Foreign Exchange Markets—Movements in Reserves

Activity in the London gold market increased further during the year. Factors contributing to the increase in turnover were a demand by European central banks for gold in connection with the settlement of deficits in the European Payments Union—a demand which is present when, as during most of this year, the price of gold in dollar terms is below the U.S. parity of \$35 per fine ounce—and demand from the Middle and Far East.

In the foreign exchange market there was a steady expansion of business, in part due to extension of the facilities offered. The principal changes in facilities were:—

- (i) access to the London market was given to all persons (i.e. banks, concerns, and individuals) resident outside the Scheduled Territories for transactions in spot and forward exchange admissible under exchange control regulations in this country and abroad;
- (ii) the scope of the forward market was extended to include forward transactions up to periods of six months in certain of the currencies included in the European arbitrage scheme; and
- (iii) following the abandonment by Argentina of some of their bilateral trade and payments arrangements with European countries, an agreement was concluded whereby Argentine banks may deal with banks in London and a number of other European exchange markets in the currencies of most of the countries belonging to the European Payments Union.



The turnover in dollars showed little change, but arbitrage between London and the Continent increased substantially and reached a new post-war record.

On the 2nd January, 1957, Austria joined the European Arbitrage Scheme for spot and forward transactions and the Austrian schilling was officially quoted by the Bank.

The strength of sterling in the market was affected by divergent forces during the year. There was a very substantial improvement in the United Kingdom's balance of payments on current account, but confidence factors were frequently adverse and there was a rise in the net outflow of long-term capital. The measures introduced in the Budget of 1956 and the improvement in the figures of external trade at that time had a favourable influence on confidence factors. In April the U.S. dollar rate rose above \$2.81 to the £1, the highest level reached since August, 1954. The rate remained above parity until June, when normal seasonal movements in trade and payments exerted some pressure; the rate declined to just below parity but stayed steady at that level until the nationalisation of the Suez Canal at the end of July. This action weakened confidence generally and the rate fell rapidly to 2.78 1/4, where it remained until the early days of October. Some recovery then began, but a renewed weakening followed the crisis in the Middle East at the end of October. Exchange losses were accelerated and the forward discount for sterling widened.

The gold and dollar reserves increased in each month up to July, and in September, but fell heavily in August and from October to December. In December the reserves were substantially reinforced by the special measures described below. Early in 1957 the dollar rate recovered to around parity and remained at that level, despite heavy additional dollar expenditure in respect of oil purchases. In January the loss of reserves continued, but on a very much reduced scale. In February the reserves increased.

Against European currencies sterling followed a normal pattern until the early autumn. It was firm early in the period under review and weakened in the summer months in response to the seasonal fall in sterling commodity earnings and to tourist expenditure. The decline of confidence which followed events in the Middle East was reflected in the rates during the latter half of the year; it was not until January, 1957, that sterling recovered against European currencies.

In view of the fall in the reserves described above, the following special measures were taken to reinforce the reserves and to make further reinforcement available at call:—

### **International Monetary Fund**

In December, 1956, the United Kingdom made drawings from the International Monetary Fund totalling U.S. \$561 million and entered into a standby arrangement under which further drawings of up to U.S. \$739 million could be made at any time until 21st December, 1957.

### **Export-Import Bank**

Negotiations were opened at the same time and completed in February, 1957, for a line of credit of U.S. \$500 million from the Export-Import Bank of Washington, available if needed to meet the United Kingdom's requirements of American goods and services, including petroleum. Any drawings which may be made will be secured by the deposit of U.S. dollar securities owned by Her Majesty's Government. The line of credit is available



until February, 1958. Repayments, which will begin three years after each drawing, will be made in half-yearly instalments over  $4\frac{1}{2}$  years, and interest on the amounts drawn will be at  $4\frac{1}{2}\%$ .

## Canadian and United States Government Loans and Credits

Steps were also taken to claim a waiver of the interest due in December, 1956, under the terms of the Financial Agreements of March, 1946 and December, 1945, between Her Majesty's Government and the Governments of Canada and the United States respectively. Subsequently, however, agreement was reached with the Canadian and United States Governments, subject to the necessary legislative approval, which provided for amendment of these Agreements. The new arrangements give the United Kingdom the right to claim deferment of the annual instalment of capital and interest in any year in which they find the need, subject to a maximum of seven such deferments. The agreements also provide for the interest in respect of the year 1956 to be deferred. Interest will be payable annually at 2% on the amounts deferred which will themselves be repayable after repayments under the existing schedule have otherwise been completed.

During the year payments were made in respect of interest and principal as follows:—

	<i>£ millions</i>
(a) To Canada:	
Principal on 1942 and 1946 Loans—in Canadian dollars equivalent to ...	16.6
(b) To the United States of America:	
Principal on 1945 Loan and Lend/Lease Settlement and interest and principal on other commitments—in U.S. dollars equivalent to ...	23.6
<i>Note:</i> On 31st December, 1956, Canadian dollars equivalent to £8.1 million and U.S. dollars equivalent to £29.1 million in respect of interest on the 1946 and 1945 Loans were credited to suspense accounts, pending amendment of the Financial Agreements referred to above.	

## Transferability of Sterling

Membership of the Transferable Account Area remained unchanged throughout the year, apart from the exclusion of Egypt in July, 1956.

During the period, the facilities for the automatic transfer of sterling held on Transferable Accounts continued to be extensively used.

United Kingdom merchanting transactions between non-Sterling Area countries on a sterling basis amounted in 1956 to £205 million, compared with a revised figure of £178 million in 1955, and with £163 million in 1954, £142 million in 1953 and £150 million in 1952. These figures include those transactions allowed under Commodity Market Schemes which took place in sterling.

## Commodity Market Schemes

During the year under review no new Commodity Market Schemes were introduced but the volume of business transacted continued to expand. The total value of commodities sold to countries outside the Sterling Area under Scheme arrangements during 1956 for payment



in sterling or foreign currency was approximately £424 million, as compared with £393 million in 1955. There was, in particular, a marked increase in turnover for raw sugar and copra purchased from the American Account Area and resold to countries in the Transferable Account Area for sterling. Sales of grain also were exceptionally high, owing to the poor harvests on the Continent of Europe. Larger receipts for rubber, copper and tin almost offset reductions in coffee, cocoa, zinc, lead and cotton.

The Terminal Market for dealing in raw sugar "futures" re-opened in London on the 2nd January, 1957, and the Sugar Scheme was extended to permit differences due to non-residents in respect of operations on the London Market to be remitted freely in sterling to an appropriate type of account. Three new contracts were introduced on existing Terminal Markets in this country with the object of widening the facilities they provide: a crossbred contract became available on the London Wool Terminal Market on the 1st November whilst on the Liverpool Cotton Exchange trading commenced on the 19th March in Sudanese long-staple cotton and on the 16th July in a "mixed growths" contract based on American cotton but permitting the tender of other growths.

The successful conduct of the Commodity Schemes continued to be due in no small measure to the close liaison maintained with the Bank by the Markets concerned.

## European Payments Union

The European Payments Union was renewed for a further year until 30th June, 1957, without change in the rules under which it had been operating. In connection with the renewal, arrangements concluded in 1954 for the settlement by debtors directly with creditors of part of the outstanding obligations in the Union were extended to cover additional amounts. These additional arrangements covered an amount of U.S. \$60 million affecting the United Kingdom and gave rise in the period under review to payments in gold and dollars by the United Kingdom totalling U.S. \$15 million.

During the twelve months ended February, 1957, the United Kingdom incurred a net deficit of £68 million. This entailed the payment to the Union of £51 million in gold and U.S. dollars and the receipt from the Union of £17 million credit, but £22 million credit was repaid under the bilateral amortisation agreements concluded in 1954 and extended in 1956. By the end of February, 1957, the United Kingdom had received from the Union £119 million credit (50% of the total available under the present arrangements).

## Overseas Investments

Estimates covering part of the overseas investments of the United Kingdom, tabulated by types of investment and by countries, have been prepared for the year 1955, in continuation of those for the years 1938 to 1954 previously published by the Bank. They give the total nominal value of the U.K. overseas investments covered by the survey. Nominal value provides little indication of the realisable value, but it is a convenient basis for observing changes in the ownership of investments. These estimates show the total nominal value of U.K. overseas investments covered by the survey as £2,137 million at the end of 1955; this compares with a revised figure of £2,127 million at the end of 1954 and with £2,017 million at the end of 1953. The total of interest and dividends from these investments for the year 1955 was £207.3 million, against a revised figure of £186.5 million in 1954 and £161.7 million in 1953\*.

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\* A limited number of copies of a paper showing the detailed figures for 1955 are available from the Secretary, Bank of England.



## Court of Directors

The term of office of Mr. Basil Sanderson and Mr. M. J. Babington Smith expired on the 28th February, 1957, and they were re-appointed for a period of four years.

Sir Kenneth Peppiatt and Sir Andrew Naesmith both retired on the 28th February, 1957, on expiration of their term of office. The vacancies were filled by the appointment of Mr. Maurice Henry Parsons and Mr. John Melior Stevens, D.S.O., O.B.E., each for four years from the 1st March, 1957.

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*Copies of this Report may be obtained from the Secretary.*



# BANK OF ENGLAND

28TH FEBRUARY, 1957

## ISSUE DEPARTMENT

	£		£
Notes Issued:		Government Debt ...	11,015,100
In Circulation ...	1,874,071,835	Other Government Securities ...	1,910,187,811
In Banking Department...	51,286,786	Other Securities ...	784,440
		Coin other than Gold Coin	3,012,649
		Amount of Fiduciary Issue ...	£1,925,000,000
		Gold Coin and Bullion ...	358,621
		(@ 249s. 3d. per oz. fine)	
	<u>£1,925,358,621</u>		<u>£1,925,358,621</u>

L. K. O'BRIEN, *Chief Cashier.*

## BANKING DEPARTMENT

	£		£
Capital ...	14,553,000	Government Securities ...	238,186,629
Rest ...	3,912,890	Other Securities:	
Public Deposits:		Discounts and Advances	£24,481,761
(including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts)		Securities	£19,544,545
	12,600,238		44,026,306
Other Deposits:		Notes ...	51,286,786
Bankers		Coin ...	2,022,737
£229,573,846			
Other Accounts			
£74,882,484	304,456,330		
	<u>£335,522,458</u>		<u>£335,522,458</u>

L. K. O'BRIEN, *Chief Cashier.*



