



# BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28th FEBRUARY

1959

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*Issued by Order of the Court of Directors, 25th June, 1959.*

## COURT OF DIRECTORS

FOR THE YEAR ENDED 28TH FEBRUARY, 1959.

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The term of office of The Rt. Hon. C. F. Cobbold as Governor and Mr. H. C. B. Mynors as Deputy Governor expired on the 28th February, 1959, and they were reappointed for a period of five years.

The term of office of Sir Charles Hambro, Mr. L. J. Cadbury, Lord Kindersley and Mr. W. J. Keswick expired on the 28th February, 1959, and they were reappointed for a period of four years.



# BANK OF ENGLAND

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## Report for the year ended 28th February, 1959

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In the early part of the year under review monetary policy was mainly directed towards consolidating confidence in sterling, both at home and abroad, which had been steadily growing since September, 1957. From the early spring onwards it was felt possible, without departing from this main objective, gradually to move away from the high Bank Rate ruling at the beginning of the year, and in this and other ways to create easier credit conditions in order to help in meeting the slackening tendencies in the economy. As the year went on, this process was continued and intensified; Bank Rate was reduced in stages from 7% to 4%, the "ceiling" on bank advances was removed, and parallel changes were made in the fields of capital issues control and hire-purchase finance. The year as a whole saw the removal of many restrictions and a considerable switch to easier money conditions: it proved possible however to make these changes without prejudice to the steadily improving confidence, domestic and overseas, in the currency.

The most striking domestic developments in the monetary field were in the sources from which the needs of the Exchequer were financed and in the growth of bank advances. This year, in contrast to last year, holders other than the London Clearing Banks and overseas official bodies acquired government securities to a total more than double the amount of new government borrowing. The change was at first concentrated upon Treasury Bills and Tax Reserve Certificates, then upon gilt-edged stocks and in the closing months upon National Savings securities.

Earlier in the year this process was in all probability assisted by the inflow of non-official funds from abroad: later it was accompanied by an easing of credit which may have reduced the need, directly or indirectly, to liquidate government securities. Other contributory factors were the continuing high level of personal savings and a reduction in the finance required to build up stocks and work in progress. But the overriding condition was a maintenance of the confidence in fixed-interest securities which was returning at the close of the previous year, and it was a cardinal aim of monetary policy throughout the year to contribute to this end.

The growth of bank advances, referred to in more detail below, was a result of the relaxation of restrictive measures which the anti-inflationary policy of the Government had required and which the banks had accepted. As such it was welcome, although there can be no relaxation of the watch for any new development of inflationary tendencies. It was also welcome as indicating a revival of vigorous and healthy competition in the provision of banking services.



Meanwhile, on the external side, the reserves benefited from a continuance of confidence in sterling, as well as from an exceptionally favourable balance of payments position, and a further concerted step in the freeing of world trade and payments was possible at the end of 1958. The year provided further striking evidence of the close connection between domestic and external affairs, which must be borne in mind as the pace of economic expansion is resumed.

Monetary developments in 1958 have been described in more detail in supplementary evidence submitted by the Bank to the Radcliffe Committee. This extends the survey of recent years already submitted, which (as stated in the Bank's last Annual Report) should form a basis, subject to the recommendations of the Committee, for a more detailed annual review of the monetary situation in future Reports.

## The Credit Situation<sup>(a)</sup>

Between the 19th February, 1958, and the 18th February, 1959, the net deposit liabilities of the Clearing Banks rose by £207 million or 3·4%. Though this percentage was the same as in the previous year, the composition of the increase was very different. Last year substantially more than the entire increase in total deposits was due to the rise in deposit and other accounts; current accounts fell. This year, when short-term interest rates were falling, current accounts rose; they grew slightly faster than deposit and other accounts so that the ratio of current accounts to total deposits increased from 57·5% to 57·7% over the year.

LONDON CLEARING BANKS : DEPOSITS										
£ millions					1955	1956	1957	1958	1959	Change 1959 on 1958
	February									
Current Accounts	...	...	...		4,112	3,941	3,845	3,680	3,830	+ 150
Deposit and Other Accounts	...				2,413	2,223	2,345	2,721	2,802	+ 81
Total Deposits <sup>(b)</sup>					6,525	6,164	6,190	6,400	6,632	+ 232
Balances with Other Banks etc. and reported Items in Transit	...				281	277	273	282	306	+ 24
Net Deposits					6,244	5,887	5,917	6,118	6,325	+ 207
Change on previous year in Net Deposits					+4·1%	-5·7%	+0·5%	+3·4%	+3·4%	

The main change in the Clearing Banks' assets during the year under review was in their advances to customers and other accounts. These rose by £453 million (24%) to £2,333 million, the highest total that had then been recorded. Their investments continued to rise until September but then fell sharply and by February were £122 million lower, at £1,962 million, than a year before; and their liquid assets fell from a total of £2,254 million to a total of £2,141 million. The ratio of their liquid assets to total deposits—the Liquidity Ratio—was 32·3% in February, 1959, the lowest figure for February since 1955. The cash ratio remained at 8%, the total of cash in hand and at the Bank of England rising by £18 million in line with the rise in deposits.

(a) The additional information contained since October, 1958, in the Monthly Statements published by the Committee of London Clearing Bankers is not available for the whole of the year under review and is therefore not used in this section.

(b) Any differences between the sums of individual items and the totals, here and subsequently throughout the Report, are due to rounding.



LONDON CLEARING BANKS: PRINCIPAL ASSETS

*Percentages of Total Deposits are shown in italics*

<i>£ millions</i>	February	1955	1956	1957	1958	1959	Change 1959 on 1958
Cash in hand and at Bank of England ...		525 <i>8.0</i>	506 <i>8.2</i>	499 <i>8.1</i>	515 <i>8.0</i>	533 <i>8.0</i>	+ 18 —
Money at Call and Short Notice ...		445 <i>6.8</i>	433 <i>7.0</i>	414 <i>6.7</i>	414 <i>6.5</i>	470 <i>7.1</i>	+ 56 + 6
Bills Discounted							
Treasury Bills ... ..		951 <i>14.6</i>	1,038 <i>16.8</i>	1,017 <i>16.4</i>	1,207 <i>18.9</i>	1,005 <i>15.2</i>	—202 — 3.7
Other Bills ... ..		122 <i>1.9</i>	134 <i>2.2</i>	147 <i>2.4</i>	117 <i>1.8</i>	133 <i>2.0</i>	+ 16 + 2
Total of Liquid Assets ...		2,042 <i>31.3</i>	2,111 <i>34.3</i>	2,077 <i>33.6</i>	2,254 <i>35.2</i>	2,141 <i>32.3</i>	—113 — 2.9
Investments ... ..		2,298 <i>35.2</i>	2,007 <i>32.6</i>	2,011 <i>32.5</i>	2,084 <i>32.6</i>	1,962 <i>29.6</i>	—122 — 3.0
Advances to Customers and Other Accounts ... ..		2,000 <i>30.6</i>	1,865 <i>30.3</i>	1,923 <i>31.1</i>	1,880 <i>29.4</i>	2,333 <i>35.2</i>	+453 + 5.8

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

In order to describe changes in the credit situation the year may conveniently be divided into three periods; the four months ending the 30th June, 1958, the three months ending the 17th September, 1958, and the five months ending the 18th February, 1959.

During the first period there were three reductions in Bank Rate, from 7% to 6% on the 20th March, to 5½% on the 22nd May, and to 5% on the 19th June. The Treasury Bill rate fell from just over 6% at the beginning of the period to 4¼% at the end. The rate of interest charged on advances also fell, but the policy of the banks in respect of their advances continued to be in accordance with the Chancellor's request of September, 1957, that the average level of advances during the year ending September, 1958, should, subject to special considerations, be held at that of the preceding twelve months. Thus, while the Clearing Banks' advances to customers and other accounts rose by £149 million during the period, the total outstanding in each month was lower than it had been in the corresponding month a year earlier. The Clearing Banks' Liquidity Ratio, at 35.2%, was unusually high on the 19th February, 1958. The rate of return on liquid assets was falling relatively to that obtainable on gilt-edged securities, and the outlook in the gilt-edged market had greatly improved since the previous autumn. In these circumstances the Clearing Banks continued to add to their investments, which rose by £97 million from the 19th February to the 30th June. Net deposits with the Clearing Banks rose, in part seasonally, by £187 million during this period, but the underlying rate of growth slackened somewhat. The rise in investments and in advances was accompanied by a fall of £95 million in the Clearing Banks' holdings of Treasury Bills and of £64 million in the total of their liquid assets; the increase in government debt held by the Clearing Banks was thus negligible. The Liquidity Ratio fell to 32.8%.



The Exchequer was in deficit over this first period and, in addition, had to borrow a substantial sum in order to finance the continuing growth in the reserves of gold and foreign exchange. Receipts on account of the rise in the Fiduciary Issue and from National Savings were not unusually large for the time of year nor was a reduction in overseas official holdings of gilt-edged securities more than partly offset by a rise in other holdings outside the Clearing Banks and in overseas official holdings of Treasury Bills. But there were heavy purchases of Tax Reserve Certificates and in addition to the rise in Treasury Bills held on overseas official account there was a substantial increase in the amount of Treasury Bills held outside the Clearing Banks, concurrent with an inflow of non-official funds from abroad.

With substantial purchases by the Clearing Banks, conditions in the gilt-edged market remained generally favourable throughout this period, despite sales on overseas official account: but the fall in yields on medium and longer-dated stocks, which had been pronounced through the winter, slowed down. In June, 1958, £676 million 4% Conversion Stock, 1957-58, fell due for redemption; £652 million of this Stock was converted into two new Stocks, 4½% Conversion Stock, 1963, and 5½% Conversion Stock, 1974.

Early in the second of the three periods, the three months ending the 17th September, an important change was announced in official policy with respect to the availability of bank advances and the raising of capital. This alteration was made in response to the change in economic conditions, including the outlook for the stability of the currency, that had been occurring since September, 1957. Early in July the banks were informed that they would not be asked to restrict the total of their advances to any particular level after the end of the month. At the same time, by Order under the Borrowing (Control & Guarantees) Act, the limit of exemption from capital issues control was raised from £10,000 per annum to £50,000 per annum; and the Capital Issues Committee were given new guidance whereby they might adopt a generally much less restrictive attitude towards applications. The Committee were also informed that they might give favourable consideration to applications where the proposal was likely to contribute to the stability of the hire-purchase financial system.

At the same time it was announced that a provisional scheme had been prepared pending the Report of the Radcliffe Committee whereby the liquidity of the banking system could be controlled, should the need arise, by a call by the Bank of England for Special Deposits to be made with them by the banks. The Clearing Banks and the Scottish Banks agreed, after detailed discussions with the Bank, to give this scheme their necessary co-operation. Application of the scheme to other banks was deferred until proved to be justified by experience. No calls for Special Deposits were made during the year under review.

Following these changes in official policy, there occurred three new developments in banking practice. Several banks began to offer unsecured fixed-term "personal loans", repayable by instalments, to credit-worthy customers. One Clearing Bank introduced a "personal cheques" scheme which offered customers a limited banking service at low cost. Nearly all the Clearing and Scottish Banks acquired a substantial interest in hire-purchase finance companies.

Bank Rate was reduced to 4½% on the 14th August, and by the second half of September the Treasury Bill rate had fallen to just over 3½%.

The full effect of the changed availability of bank advances was naturally not seen until later; the Clearing Banks' advances to customers and other accounts were no higher in September



than in June, although the beginning of the subsequent upward movement can be discerned in the rise of £34 million in the last month of this period. Their investments continued to rise, in part through the acquisition of shares in hire-purchase finance houses, though at a considerably reduced rate. Net deposits rose by £57 million, the upward trend steepening somewhat; holdings of Treasury Bills rose, by £71 million, in line with the total of Treasury Bills outside the Departments. Government debt held by the Clearing Banks, almost unchanged in the previous period, therefore increased during these three months. The Liquidity Ratio rose slightly, to 33·4%.

The deficit of the Exchequer over these three months was little changed from that in the preceding four but, owing to the slower growth in the external reserves, the total that the Government required to borrow was markedly reduced. Although the rise in holdings of Treasury Bills outside the Clearing Banks was not maintained, receipts from National Savings began to grow and sales of gilt-edged stock on overseas official account were smaller and were now more than offset by a rise in purchases on the part of the general public. The rise in government debt held by the Clearing Banks was therefore modest and, over the whole seven months ending September, rather less than might normally have been expected.

So far during the year under review—seasonal factors apart—there had been a continued moderate rise in bank deposits which was associated with a rise in private indebtedness to the Clearing Banks and a negligible change in their holdings of government debt. This process was to alter radically during the third period, the five months to the 18th February, 1959.

Control over hire-purchase terms was relaxed in September and suspended altogether in October and by the 18th February, 1959, the Clearing Banks' advances to customers and other accounts had risen by no less than £306 million, bringing the increase for the whole year to £453 million. The rapid rise in advances during these five months, though it can partly be attributed to factors normally to be expected in January and February, was associated with a sharp increase in consumer purchases of durable goods and probably also with changes in trade credit and with diminishing recourse to sources of finance alternative to bank accommodation. The rise in advances substantially exceeded the concurrent underlying rise in deposits, and the total of government debt held by the Clearing Banks fell by more than would be explained by the seasonal nature of Exchequer receipts. Considerations of liquidity arising from the reduction in their aggregate of Treasury Bills and call money led them to reduce their investments and over the five months ending the 18th February, 1959, these fell by £241 million. Their holdings of Treasury Bills fell by £178 million but the total of their liquid assets fell by only £81 million. Their Liquidity Ratio fell to 32·3% from 33·4% and the ratio of advances to customers and other accounts to total deposits, for many years 31% or lower, rose to 35·2%. Net deposits, influenced by seasonal factors, fell by £37 million.

This change in the composition of the Clearing Banks' assets was closely associated with a marked change in Exchequer financing. Four factors contributed to this change. Firstly, over the five months as a whole there was, for seasonal reasons, a surplus; and as there was only a modest rise in the external reserves, this surplus could be almost wholly applied to the repayment of debt held outside the Departments. Secondly, there occurred a spectacular rise in receipts from National Savings, notably on account of net sales of National Savings Certificates and Defence



Bonds. A new series of 5% Defence Bonds had been available since the 1st May and, with effect from the same date, the maximum permissible holding of the current issue of National Savings Certificates had been raised from 750 to 1,000 units. Thirdly, over these five months taken as a whole, net surrenders of Tax Reserve Certificates were unusually low and the demand for Treasury Bills on overseas official account was substantial. Fourthly, a continuing fall in overseas official holdings of gilt-edged securities was more than offset by a rise in the holdings of the general public, notwithstanding the maturity in January of 2% Conversion Stock, 1958-59. All these factors taken together represent the other side to the story of the Clearing Banks, whose direct holdings of government debt declined by more than £400 million during the period.

The steep fall in the investments of the Clearing Banks was only partly offset by the net rise in other holdings of gilt-edged stock outside the Departments. Over the period there occurred quite substantial net official purchases of stock (including redemptions) in the gilt-edged market. During November the market was unsettled both by the appearance of selling by banks and by some fears that the cumulative relaxations in official credit policy might herald an early return of inflationary pressure. These fears were not shared by the authorities. Bank Rate was reduced from  $4\frac{1}{2}\%$  to 4% on the 20th November and by the end of February the Treasury Bill rate had fallen to nearly  $3\frac{1}{4}\%$ . Holders of £592 million 2% Conversion Stock, 1958-59, maturing on the 15th January, 1959, were offered in exchange for acceptance by the 12th December, 1958, a new issue of  $4\frac{1}{2}\%$  Conversion Stock, 1964, limited to £250 million. Conditions in the gilt-edged market improved in the New Year and, notwithstanding further sales by the Clearing Banks, the tendency for yields to fall slowly was resumed, official policy continuing to be adjusted to this end.

Capital issues control over domestic borrowing was discontinued in February. As in the case of hire-purchase terms control, powers were retained by which control could be reimposed if the need were to arise.

As shown in the Table of short-term money rates on page 9, the reductions in Bank Rate during the year were accompanied by reductions in call money rates and in the rate of interest allowed by the Clearing Banks on deposit accounts. The average rate charged for advances also fell.

The total of advances made by members of the British Bankers' Association through offices in Great Britain increased by £525.8 million over the year ending February, 1959, after decreasing by £59.4 million over the previous year. As shown in the analysis set out below, advances to transport and communications, and public utilities (other than transport)—the two groups which include all the nationalised industries except coal—rose by £26.8 million, while advances to other borrowers increased by £499.0 million. Of this increase, £359.4 million occurred between August, 1958, and February, 1959. Among the industrial categories there were substantial increases over the year in engineering, etc., shipping and shipbuilding, agriculture and fishing, food, drink and tobacco, and builders and contractors; increases in these categories accounted for 37% of the total increase of £499.0 million. In the textile, leather and rubber, chemicals, and building materials groups, advances did not show the same rapid growth. Among the non-industrial categories there was a substantial rise in advances to retail trade, hire-purchase finance companies, and personal and professional borrowers, amounting to 43% of the total increase.



## BRITISH BANKERS' ASSOCIATION: ANALYSIS OF ADVANCES

<i>£ millions</i>									
	February	1956	1957	1958	1959	Change 1959 on 1958	1959 % of Total		
Coal Mining ... ..		0.9	0.9	1.2	1.2	—	—		
Quarrying, etc. ... ..		4.2	4.1	8.5	9.9	+ 1.4	.4		
Iron & Steel & Allied Trades ... ..		38.9	60.2	49.3	60.5	+ 11.2	2.5		
Non-ferrous Metals ... ..		8.3	11.0	7.5	9.4	+ 1.9	.4		
Engineering, etc. ... ..		180.1	229.9	228.7	272.3	+ 43.6	11.0		
Shipping & Shipbuilding ... ..		26.5	31.3	43.9	66.7	+ 22.8	2.7		
Transport & Communications ... ..		21.1	22.0	22.7	27.5	+ 4.8	1.1		
Cotton ... ..		18.2	24.1	26.4	22.9	— 3.5	.9		
Wool ... ..		30.1	38.1	40.0	35.8	— 4.2	1.5		
Other Textiles ... ..		42.3	43.7	46.0	49.2	+ 3.2	2.0		
Leather & Rubber ... ..		16.8	16.3	18.5	18.2	— .3	.7		
Chemicals ... ..		30.1	33.2	33.2	32.4	— .8	1.3		
Agriculture & Fishing ... ..		229.1	223.7	211.9	259.0	+ 47.1	10.5		
Food, Drink & Tobacco ... ..		163.1	151.9	128.8	176.9	+ 48.1	7.2		
Retail Trade ... ..		185.7	163.8	167.1	235.3	+ 68.2	9.5		
Entertainment ... ..		20.6	19.6	21.1	25.4	+ 4.3	1.0		
Builders & Contractors ... ..		70.6	64.8	61.6	83.8	+ 22.2	3.4		
Building Materials ... ..		22.4	20.8	21.5	23.0	+ 1.5	.9		
Unclassifiable Industry & Trade ... ..		134.9	124.9	133.1	158.4	+ 25.3	6.4		
Local Government Authorities ... ..		86.4	81.3	74.5	95.0	+ 20.5	3.9		
Public Utilities (other than Transport)... ..		58.2	65.5	53.5	75.5	+ 22.0	3.1		
Churches, Charities, Hospitals, etc. ... ..		13.0	12.4	12.4	15.2	+ 2.8	.6		
Stockbrokers ... ..		9.0	14.2	7.9	14.1	+ 6.2	.6		
Hire Purchase Finance Companies ... ..		35.4	28.3	30.1	59.0	+ 28.9	2.4		
Other Financial ... ..		167.4	190.2	171.6	203.7	+ 32.1	8.3		
Personal & Professional ... ..		347.9	324.1	319.7	436.5	+ 116.8	17.7		
		<u>1,961.1</u>	<u>2,000.3</u>	<u>1,940.9</u>	<u>2,466.7</u>	<u>+ 525.8</u>	<u>100.0</u>		
of which: Clearing Banks ... ..		1,697.8	1,728.9	1,687.6	2,148.7	+ 461.1			
Other banks ... ..		263.3	271.4	253.2	318.0	+ 64.8			

The rise in advances to non-industrial borrowers, upon whom the impact of credit restrictions in preceding years had been particularly severe, was especially marked between August, 1958, and February, 1959. Thus advances to retail trade, hire-purchase finance companies, and personal and professional borrowers accounted for 53% of the total increase in advances in this period (other than to transport and communications, and public utilities); in the preceding six months they had accounted for only 16% of the total increase.



## Banking Department

The state of the Banking Department at the beginning and end of the year was as follows:—

*£ thousands*

End of February				1958	1959	Change
<b>Liabilities</b>						
Capital	...	...	...	14,553	14,553	—
Rest	...	...	...	3,914	3,916	+ 2
<b>Deposits</b>						
Public Deposits	...	...	10,947	17,094	+ 6,147	
Bankers' Deposits	...	232,161		229,074	— 3,087	
Other Accounts	...	74,189		70,585	— 3,604	
				317,297	316,753	— 544
				335,764	335,222	— 542
<b>Assets</b>						
Government Securities	...			253,930	265,530	+ 11,600
<b>Other Securities</b>						
Discounts & Advances	...	23,215		10,326	— 12,889	
Securities	...	21,532		22,038	+ 506	
				44,747	32,364	— 12,383
Notes	...	...	...	34,741	36,530	+ 1,789
Coin	...	...	...	2,346	798	— 1,548
				335,764	335,222	— 542

Half-yearly payments of £873,180 were made to H.M. Treasury on the 5th April and the 6th October, 1958, in pursuance of Section 1 (4) of the Bank of England Act, 1946.

Bank Rate, which had stood at 7% since the 19th September, 1957, was reduced on five occasions, to the level of 4%, as follows:—

20th March, 1958	reduced to 6%
22nd May, 1958	„ „ 5½%
19th June, 1958	„ „ 5%
14th August, 1958	„ „ 4½%
20th November, 1958	„ „ 4%



## Short-Term Money Rates

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

End of month	1957	1958						1959
	February	February	March	May	June	August	November	February
Bank Rate	5	7	6	5½	5	4½	4	4
Treasury Bills Average rate of Discount on Allotment (91 day Bills)	£4:2:11.49	£6:-:3.28	£5:10:5.54	£4:16:3.84	£4:5:10.67	£3:14:11.48	£3:6:1.20	£3:5:6.22
CLEARING BANKS								
Deposit Accounts (at 7 days' Notice)	3	5	4	3½	3	2½	2	2
Call Money, i.e., Loans to the Discount Market against Treasury Bills. Minimum rate	3¼	5¼	4¼	3¾	3¼	2¾	2¾	2¾
DISCOUNT MARKET								
Buying Rates								
Bank Bills (3 months)	4¼—4½	6¼—6½	5½—5¾	4½—5	4¾—4¾	3¾—3½	3¾—3½	3¾—3½
Fine Trade Bills (3 months)	5½—6	7—8	6¼—7	6—6½	5—5½	4½—5¼	4½—5	4½—5

Although the pattern of short-term interest rates showed a steady fall throughout the year, the Discount Market frequently experienced a shortage of funds and, to the extent that the Bank did not relieve shortages by buying Treasury Bills, resorted to borrowing from the Bank. During the year the Bank made market advances, that is loans against securities to the Discount Market at not less than Bank Rate for a minimum of seven days, on 91 days. Such advances were outstanding on 336 days. The Bank also discounted Treasury Bills for the Discount Market on two occasions.

In addition to 91-day Treasury Bills, 63-day Bills were offered in amounts of £50 million, on the 31st October, 1958, and £60 million, £50 million or £30 million in seven consecutive weeks from the 14th November to the 24th December, 1958. The average rate of discount at which the 63-day Bills were allotted varied between £3:12:10.07% and £3:3:2.51%.

## Note Circulation and Issue Department

The state of the circulation in recent years is shown in the following tables:—

### NOTES ISSUED, PAID AND IN CIRCULATION

£ millions						1955	1956	1957	1958	1959
Year to end of February										
Issued	...	...	...	...	...	1,231	1,354	1,451	1,660	1,672
Paid	...	...	...	...	...	1,116	1,231	1,365	1,568	1,624
In circulation at the end of year	...	...	...	...	...	1,665	1,788	1,874	1,966	2,014
Increases as % of previous year's total							+7.4%	+4.8%	+4.9%	+2.4%



# NOTES IN CIRCULATION BY DENOMINATIONS

£ thousands

End of February	1955	1956	1957	1958	1959
10s. ...	93,556	95,351	96,236	98,219	98,639
£1 ...	1,264,574	1,357,248	1,404,611	1,337,894	1,265,124
£5 ...	217,797	242,097	271,170	421,424	537,910
£10 ...	694	652	603	573	540
£20 ...	315	299	282	257	241
£50 ...	629	592	556	517	481
£100 ...	1,134	1,054	979	916	858
£200 ...	7	7	7	7	7
£500 ...	128	120	94	83	79
£1,000 ...	134	122	114	108	100
Over £1,000 (a) ...	86,530	90,340	99,420	105,620	109,850
	<u>1,665,498</u>	<u>1,787,882</u>	<u>1,874,072</u>	<u>1,965,618</u>	<u>2,013,829</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.

## DENOMINATIONS OF NOTES AS PERCENTAGE OF TOTAL CIRCULATION

End of February	1957	1958	1959
10s. ...	5.1	5.0	4.9
£1 ...	75.0	68.1	62.8
£5 ...	14.5	21.4	26.7
£10—£1,000	0.1	0.1	0.1
Over £1,000	5.3	5.4	5.5
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

The popularity of the new £5 notes introduced in February, 1957, is illustrated by the further increase in the percentage of £5 notes in the total circulation.

The note circulation reached £2,173 million on the 24th December, 1958, an increase of £44 million on the previous highest figure of £2,129 million on the 30th July, 1958, and £45 million higher than the figure for Christmas, 1957. The increase in the note circulation this year was, however, the smallest since 1950.

The Fiduciary Issue rose on balance by £50 million to £2,050 million:—

			FIDUCIARY ISSUE
			£ millions
1958	March	1st	2,000
	March	26th	+ 50
	June	30th	+ 50
	July	21st	+ 50
	August	13th	— 50
	September	3rd	— 50
	November	26th	+ 50
	December	5th	+ 50
	December	12th	+ 50
1959	January	1st	— 50
	January	8th	— 50
	January	15th	— 50
			2,050



Maintenance of the Fiduciary Issue at levels above £1,575 million for two years having been authorised by Order under the Currency and Bank Notes Act, 1954, dated 28th February, 1958, no further Order relating to the amount of the Issue was made during the year under review.

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

*£ thousands*

End of February	1958	1959	Change
<b>Liabilities</b>			
Notes in Circulation ... ..	1,965,618	2,013,829	+ 48,211
Notes in Banking Department ...	34,741	36,530	+ 1,789
Notes issued ... ..	<u>2,000,359</u>	<u>2,050,359</u>	<u>+ 50,000</u>
<b>Assets</b>			
Government Debt ... ..	11,015	11,015	—
Other Government Securities ...	1,985,214	2,035,527	+ 50,313
Other Securities ... ..	756	697	— 59
Coin other than Gold Coin ...	<u>3,015</u>	<u>2,761</u>	<u>— 254</u>
Fiduciary Issue ... ..	2,000,000	2,050,000	+ 50,000
Gold Coin and Bullion ... ..	359	359	—
	<u>2,000,359</u>	<u>2,050,359</u>	<u>+ 50,000</u>

## Floating Debt

The outstanding total of the Floating Debt, as given in the Exchequer Returns for the last week in February, showed an increase during the year of £470 million, but the increase in Floating Debt held by Public Departments exceeded this figure.

### FLOATING DEBT OUTSTANDING

*(including Floating Debt held by Public Departments)*

<i>£ millions</i>							<b>Change</b>
	<b>Last Saturday in February</b>	<b>1955</b>	<b>1956</b>	<b>1957</b>	<b>1958</b>	<b>1959</b>	<b>1959 on 1958</b>
Treasury Bills ... ..		4,842	5,107	4,198	4,544	5,000	+ 456
Ways and Means Advances:							
Public Departments ... ..		268	246	194	183	197	+ 14
Bank of England ... ..		—	2	—	—	—	—
		<u>5,110</u>	<u>5,355</u>	<u>4,392</u>	<u>4,727</u>	<u>5,197</u>	<u>+ 470</u>



An analysis of this increase by main type of transaction is given in the table below. Government debt transactions with overseas governments and institutions, together with the provision of additional sterling capital for the Exchange Equalisation Account, are treated as external transactions.

<i>£ millions</i>	EFFECT ON FLOATING DEBT	
<b>Budget</b>		
Surplus excluding advances to nationalised industries ... ..	-378	
Advances to nationalised industries (net) ... ..	+544	
		+166
Civil Contingencies Fund, repayment of temporary capital ... ..		-10
<b>Stock redemptions</b>		
4% Conversion Stock, 1957-58 ... ..	+24	
2% Conversion Stock, 1958-59 ... ..	+342	
		+366
<b>Internal transactions</b>		
Terminable Annuities paid off ... ..	+50	
Tax Reserve Certificates, net subscription ... ..	-61	
National Savings Certificates, Defence Bonds and Premium Savings Bonds, net subscription ... ..	-282	
		-293
<b>External transactions</b>		
Canadian and United States Government Loans, repayments of principal ... ..	+40	
International Monetary Fund and International Bank for Reconstruction and Development:		
Net repayment of Interest-Free Notes ... ..	+24	
Exchange Equalisation Account, provision of sterling capital ...	+150	
Government of India: Pensions Annuity payments ... ..	+26	
Other ... ..	+1	
		+241
Net increase in Floating Debt ... ..		+470

## 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 decrease during the year of £386 million. The total number of transfers registered was 724,000, an increase of 5.5% 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	1956	1957	1958	1959
British Government Securities:				
Stock ... ..	14,487	15,136	15,086	14,738
Bearer Bonds ... ..	98	94	90	15*
Total ... ..	14,585	15,230	15,176	14,753
Other Securities:				
Treasury Guaranteed ... ..	3,329	3,327	3,325	3,317
Dominion, etc. ... ..	191	195	202	228
Local Authorities ... ..	158	178	195	204
Public Boards, etc. ... ..	58	62	61	71
Miscellaneous ... ..	15	15	15	15
Total ... ..	3,751	3,777	3,798	3,835
Grand Total	18,336	19,007	18,974	18,588

\* The sharp drop in the total of Bearer Bonds was due to the need for holders of 4% Victory Bonds in bearer form to register their Bonds upon the exhaustion of coupon sheets in March, 1958. The issue of fresh coupon sheets would have been contrary to Exchange Control regulations.

Operations undertaken during the year included:—

## REPAYMENTS

At par

		£ millions
Liverpool Corporation 3% Stock, 1955-58 ... ..	15th June, 1958	3.0
4% Conversion Stock, 1957-58 ... ..	15th June, 1958	23.6
2% Conversion Stock, 1958-59 ... ..	15th January, 1959	341.6

## ISSUES

For cash

Hull Corporation 5½% Redeemable Stock, 1976-78 @ £98 %	2nd April, 1958	3
Swansea Corporation 5½% Redeemable Stock, 1976-78 ... .. @ £98 %	2nd April, 1958	3
New Zealand Government 6% Stock, 1976-80 ... @ £99 %	24th April, 1958	20
Liverpool Corporation 5½% Redeemable Stock, 1974-76 ... .. @ £97:10s. %	26th June, 1958	6
The Agricultural Mortgage Corporation Limited 5½% Debenture Stock, 1980-85 ... .. @ £98 %	14th August, 1958	5
Metropolitan Water 5½% Stock, 1976-80 ... .. @ £99 %	18th September, 1958	5
Government of the Federation of Rhodesia & Nyasaland 6% Stock, 1978-81 ... .. @ £99 %	19th February, 1959	10

In exchange, at par

4½% Conversion Stock, 1963, for 4% Conversion Stock, 1957-58 ...	15th June, 1958	348.5
5½% Conversion Stock, 1974, for 4% Conversion Stock, 1957-58, with a cash payment of £2:10s. % ... ..	15th June, 1958	298.3
4½% Conversion Stock, 1964, for 2% Conversion Stock, 1958-59 ...	15th January, 1959	248.8



## Gold and Foreign Exchange Markets—Movements in Reserves

In contrast to the conditions of the previous year, the foreign exchange markets were free from major disturbances during the twelve months ending in February, 1959. Despite the recurrence of unsettling events in international affairs, sterling remained firm. The rate against the U.S. dollar generally ruled above parity throughout the year\* and Registered sterling, American Account sterling and Transferable Account sterling were unified into a single External sterling at the end of December. This formed part of an orderly and concerted move of European currencies towards greater exchange freedom and took place without any major disturbance in the exchange markets.

The year may conveniently be divided into two parts; the first three months, March to May, 1958, during which the reserves of gold and convertible currencies rose by £178 million, and the last nine, ending in February, 1959, during which the reserves rose more slowly, the net increase being £42 million.

During the first period the balance of payments surplus of the United Kingdom on current account was swollen by an exceptionally large favourable balance of visible trade. This was due in the main to the sharp decline in import prices which began in the previous year and to the fact that the level of exports was fairly well maintained. At the same time confidence in sterling had been restored; those overseas holdings of sterling which had been sharply run down during the summer and early autumn of 1957 were being rebuilt. The relative strength of the pound was also in part attributable to the change in the balance of payments of the U.S.A. Meanwhile the balance of payments of the outer sterling area with non-sterling countries was probably improving; this was partly due to a larger flow of capital from non-sterling sources.

During the second period, the nine months ending in February, 1959, overseas confidence in sterling remained strong; sterling held outside the sterling area continued to rise, though a little less rapidly and consistently than before. The improvement in the balance of payments of the outer sterling area seems to have been maintained. The slackening of the rise in the reserves was due in part to seasonal factors and to the payment in December, 1958, of the annual service, amounting to £65 million, on the U.S. and Canadian lines of credit and the Lend-Lease Settlement Loan; it will be recalled that the annual service due for payment in December, 1957, was deferred until the year 2001. A more important factor, however, was a marked change in the United Kingdom's visible balance of trade. Import prices no longer fell and the volume of imports began to rise, while there was a continuing tendency for exports to decline slowly; the substantial surplus on visible trade therefore came to an end.

The strength of sterling during the year was clearly illustrated by the course of forward sterling against the dollar. The rate for forward transactions at three months, after allowing for the difference in interest rates calculated on the yield on Treasury Bills in London and New York, generally showed a margin in favour of investment in London. At the height of the pressure against sterling in September, 1957, an unfavourable margin of more than 4% per annum had ruled on this comparison.

The "stand-by" credit for \$739 million, arranged with the International Monetary Fund, was extended for a further year to the 21st December, 1959; but in view of the improved condition of sterling it was decided not to seek any further extension, beyond the end of February, 1959, of the right to draw the balance of the Export-Import Bank credit arranged in February, 1957, of which part had been drawn in October of that year. In addition, it was announced that \$200 million of the \$561 million drawn from the International Monetary Fund in December, 1956, would be repaid by the 30th April, 1959.

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\* See Annex 1.



At the end of 1958 the United Kingdom, together with the other members of the Organisation for European Economic Co-operation, moved from the system of payments under the European Payments Union, which had ruled since 1950, to the arrangements made under the European Monetary Agreement which had been settled in advance in 1955. This change established a new régime in the exchange markets. Prior to the change, there had been two arbitrage circuits. One consisted of the dollar currencies and those sums held in other national currencies on accounts which could be freely converted into dollars; for example, sterling on American Accounts and "free" Swiss francs. Under the European Payments Union, arrangements had been made for funds in the major European currencies held on accounts not convertible through the official markets into gold or dollars to be arbitrated between banks in member countries. This formed the second circuit. There had previously been no direct link between the two in markets where official rates applied, but a market of growing importance existed for "non-convertible" currencies against dollars at rates determined by supply and demand in free markets such as Zurich and New York. The principal currency so traded was transferable sterling and the importance of these operations was such that intervention in the transferable sterling market by the Exchange Equalisation Account had been authorised since February, 1955. The new exchange arrangements brought the two circuits together and the market in transferable sterling came to an end. In consequence, much business in exchange which had been diverted to markets abroad, notably to Zurich and New York, was brought back to London. The transition took place smoothly on the 29th December, 1958.

Transferable sterling was already strong before the change, operations taking place up to \$2.797 $\frac{7}{8}$ \*. After the change the market for sterling against U.S. dollars opened around \$2.80 $\frac{1}{4}$  and subsequently moved higher.

While the European Payments Union was in force, the main European currencies were quoted by the Bank of England at margins  $\frac{3}{4}$ % above and below parity. As, under the European Monetary Agreement, other member countries as well as the United Kingdom declared buying and selling rates for their currencies in terms of U.S. dollars for the purpose of settlements, the limit rates quoted in various centres, including London, for currencies other than the U.S. dollar, are now the product of the relevant U.S. dollar rates.

Rates abroad for security sterling and the London premium on U.S. dollar securities reflected confidence in the pound. At the beginning of March, 1958, the rate for security sterling had reached its highest level since 1954; it then moved with, although at a margin below, the rate for transferable sterling until that rate disappeared in December, 1958, with the new exchange arrangements. Since then security sterling has been generally not far below the official rate. During the same period the London premium on U.S. dollar securities fell steadily except for short periods in May and July; by the end of 1958 the premium had disappeared and prices in London for dollar securities were on a par with those ruling in New York.

## Gold Market

The predominant feature of the gold market was the demand for gold that arose from the change in the payments position of the U.S.A. During most of the year the price of gold in the London market was above the equivalent of that at which Central Banks could buy gold from the United States Assay Office, namely, \$35.08 $\frac{3}{4}$  per fine ounce, and the amount of gold held by the U.S. Treasury fell by \$2,216 million over the twelve months ending February, 1959.

Judging from estimated world production in 1958 and identifiable changes in official gold holdings throughout the world, it would appear that there was increased interest in the holding

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\* See Annex 1.



of gold by private persons and institutions. Also, published statistics show that some monetary authorities increased the proportion of gold in the total of their reserves.

Towards the close of 1958 the outflow of gold from the U.S. Treasury slackened. The international price of gold eased to around \$35.06½ at the end of February, 1959.

## European Payments Arrangements

The European Payments Union was renewed for a further year from the 1st July, 1958, without alteration of its rules. All members had however agreed in 1955 that the provisions of the European Monetary Agreement could be brought into operation at any time, and the Payments Union accordingly terminated, provided that members together representing at least 50% of the quotas in the Union and of the contributions to the European Fund so decided. In accordance with this agreed procedure the Union was ended on the 27th December, 1958, by concerted action on the part of the necessary majority of its members and the Monetary Agreement became effective.

During the period from the 1st March to the 27th December, 1958, the United Kingdom incurred a net deficit of £128 million with the Union. This entailed the payment to the Union of £96 million in gold and U.S. dollars and the receipt from the Union of £32 million credit; but £17 million credit was repaid under the bilateral amortisation agreements concluded in 1954 and extended in 1956 and 1957. At the date of termination the United Kingdom had received from the Union, net, £135 million credit\*.

Under the terms of Annex B to the Agreement for the Establishment of a European Payments Union this £135 million credit owed by the United Kingdom to the Union was converted into a series of bilateral debts to, and claims on, all other members of the Union. The total of debts thus arising was £166 million and the total of claims £31 million. Provision for the repayment of £136 million of those debts was already contained in the bilateral amortisation agreements concluded during the lifetime of the Union; terms for the repayment of the remaining debts and of all the claims have since been negotiated. The annual sums of the repayment instalments for the United Kingdom debts and claims are set out in Annex 4.

The European Monetary Agreement, signed on the 5th August, 1955, provides a framework within which monetary co-operation between O.E.E.C. countries can continue now that the European Payments Union has been brought to an end. The Agreement establishes a European Fund through which short-term credit may be made available to assist member countries in meeting temporary balance of payments difficulties. The United Kingdom will be required to pay £3 million of their contribution of £31 million to the capital of the European Fund in respect of short-term credits already authorised to other member countries. The Agreement also establishes a multilateral system of settlements, enabling member countries, if they so wish, to settle monthly on pre-arranged terms any balances not cleared through the foreign exchange markets. It also requires them to make available limited amounts of interim finance which, if not repaid before the end of the month, must be brought into the settlements. The United Kingdom have not yet used the system of settlements.

## Exchange Control

The major changes in Exchange Control administration during the year are set out in Annex 6.

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\* See Annex 3.



## Commodity Markets

The value of commodities sold under the various Commodity Market Schemes to countries outside the Scheduled Territories dropped sharply from the high level reached in 1957:—

					£ millions
1954	...	...	...	...	299
1955	...	...	...	...	393
1956	...	...	...	...	424
1957	...	...	...	...	519
1958	...	...	...	...	445

The decrease was principally due to the decline, by nearly a half, in sales of raw and refined sugar; lower prices were responsible for the greater part of this decline. For the rest, increases in sales of rubber, cocoa and grain were almost wholly offset by decreases in sales of all the other Scheme commodities, decreases that reflected the generally lower level of prices and of consumer demand.

The "futures" markets, in most cases, again had a satisfactory year but activity on the Liverpool Cotton and Wheat markets continued to be restricted by special outside influences. The London Coffee Terminal Market was opened in July with a contract based on Robusta coffees and was well supported both by United Kingdom and foreign traders. Trading interest in the sugar and maize markets broadened and the market for barley continued active. Turnover in the markets for cocoa and copper increased sharply while the London Wool Terminal Market consolidated its position as the leading international centre for "futures" dealings in Merino wool tops; the cross-bred contract, introduced in November, 1957, has not yet attracted much business.

With the unification of non-resident sterling at the end of December, 1958, the permitted methods of settlement in respect of international trading with non-residents by United Kingdom merchants became the same for all Scheme commodities.

The close relations now long established with the representative organisations of the various markets have been fully maintained.

## 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 1957, in continuation of those for the years 1938 to 1956 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. The estimates show the total nominal value of U.K. overseas investments covered by the survey as £2,102 million at the end of 1957; this compares with a revised figure of £2,106 million at the end of 1956 and £2,144 million at the end of 1955. The total of interest and dividends from these investments for the year 1957 was £218·8 million, against a revised figure of £223·0 million in 1956 and £207·8 million in 1955. In addition to nominal values the estimates also show the net amount of cash paid or received by the United Kingdom on account of transactions in the securities composing these investments\*.

\* A limited number of copies of a paper showing the detailed figures for 1957 are available from the Secretary, Bank of England.



# BANK OF ENGLAND

28TH FEBRUARY, 1959

## ISSUE DEPARTMENT

	£		£
Notes Issued		Government Debt ... ..	11,015,100
In Circulation ... ..	2,013,829,307	Other Government	
In Banking Department...	36,529,674	Securities ... ..	2,035,527,154
		Other Securities ... ..	697,146
		Coin other than Gold Coin	2,760,600
		Amount of	
		Fiduciary Issue ... ..	£2,050,000,000
		Gold Coin and Bullion ...	358,981
		( @ 249s. 6d. per oz. fine)	
	<u>£2,050,358,981</u>		<u>£2,050,358,981</u>

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

## BANKING DEPARTMENT

	£		£
Capital ... ..	14,553,000	Government Securities ...	265,529,550
Rest ... ..	3,915,742	Other Securities	
Public Deposits		Discounts and Advances	
(including Exchequer, Savings		£10,326,152	
Banks, Commissioners of National		Securities	
Debt, and Dividend Accounts)		£22,037,832	32,363,984
	17,093,834	Notes ... ..	36,529,674
Other Deposits		Coin ... ..	798,833
Bankers			
£229,074,529			
Other Accounts			
£70,584,936	299,659,465		
	<u>£335,222,041</u>		<u>£335,222,041</u>

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



EXCHANGE RATES  
(a)  
Monthly range of quotations

	U.S. dollars	Transferable sterling (b)	Security sterling (c)	London premium on U.S.\$ securities (d)	Canadian dollars
	(1)	(2)	(3)	(4)	(5)
Parity ...	2.80				—
<b>1958</b>				%	
March ...	2.81 $\frac{1}{4}$ — 81 $\frac{1}{16}$	2.7922 — 7970	2.77 $\frac{3}{4}$ — 79 $\frac{3}{8}$	4 $\frac{1}{2}$ — 6 $\frac{3}{8}$	2.74 $\frac{5}{16}$ — 75 $\frac{7}{8}$
April ...	2.81 $\frac{3}{8}$ — 81 $\frac{1}{2}$	2.7915 — 7965	2.76 $\frac{1}{4}$ — 79 $\frac{1}{4}$	3 $\frac{1}{4}$ — 5	2.72 $\frac{1}{2}$ — 74 $\frac{7}{8}$
May ...	2.81 — 81 $\frac{3}{16}$	2.79075 — 79675	2.78 $\frac{1}{2}$ — 79 $\frac{1}{4}$	3 $\frac{3}{8}$ — 6 $\frac{1}{2}$	2.71 $\frac{5}{16}$ — 73 $\frac{1}{8}$
June ...	2.79 $\frac{3}{16}$ — 81 $\frac{1}{4}$	2.7795 — 7945	2.77 $\frac{3}{8}$ — 79	1 $\frac{1}{4}$ — 3 $\frac{3}{8}$	2.68 $\frac{5}{16}$ — 71 $\frac{5}{8}$
July ...	2.79 $\frac{7}{8}$ — 80 $\frac{1}{16}$	2.7670 — 7863	2.76 $\frac{1}{4}$ — 78 $\frac{5}{8}$	$\frac{3}{4}$ — 3 $\frac{1}{4}$	2.68 $\frac{1}{8}$ — 69 $\frac{1}{16}$
August ...	2.80 $\frac{1}{16}$ — 80 $\frac{1}{16}$	2.7790 — 7880	2.77 — 78 $\frac{1}{4}$	1 $\frac{3}{8}$ — 3	2.69 $\frac{3}{8}$ — 72 $\frac{5}{8}$
September ...	2.79 $\frac{3}{4}$ — 80 $\frac{1}{4}$	2.7785 — 7916	2.76 $\frac{3}{4}$ — 78	$\frac{3}{8}$ — 2 $\frac{1}{8}$	2.72 $\frac{3}{8}$ — 75 $\frac{7}{8}$
October ...	2.80 $\frac{1}{2}$ — 80 $\frac{1}{16}$	2.7885 — 7944	2.77 — 78 $\frac{7}{8}$	Par. — $\frac{1}{16}$	2.71 $\frac{1}{2}$ — 74 $\frac{1}{16}$
November ...	2.80 $\frac{5}{16}$ — 80 $\frac{3}{4}$	2.7917 — 7961	2.78 $\frac{1}{4}$ — 79 $\frac{1}{2}$	$\frac{1}{16}$ — $\frac{9}{16}$	2.70 $\frac{3}{16}$ — 72 $\frac{5}{16}$
December ...	2.80 $\frac{1}{16}$ — 80 $\frac{3}{8}$	2.7922 — 79875	2.78 $\frac{3}{4}$ — 80 $\frac{3}{8}$	$\frac{3}{16}$ dis. — $\frac{1}{4}$ pre.	2.69 $\frac{1}{16}$ — 71 $\frac{1}{8}$
<b>1959</b>					
January ...	2.80 $\frac{3}{16}$ — 81 $\frac{1}{16}$	—	2.79 $\frac{7}{8}$ — 80 $\frac{7}{8}$	$\frac{7}{16}$ dis. — Par.	2.70 $\frac{1}{8}$ — 72 $\frac{1}{16}$
February ...	2.80 $\frac{3}{4}$ — 81 $\frac{1}{8}$	—	2.80 — 80 $\frac{1}{4}$	$\frac{7}{16}$ dis. — $\frac{3}{16}$ dis.	2.72 $\frac{3}{16}$ — 75 $\frac{3}{8}$

(a) As reported to the Bank of England: columns 1, 4 and 5 by the London market; columns 2 and 3 from Zurich and New York.

(b) No quotation on and after 29th December.

(c) Sterling held by residents outside the Scheduled Territories, available only for the purchase of sterling securities with not less than five years to maturity.

(d) Premium/discount on the foreign price (converted on the basis of \$2.80 to the £) at which U.S.\$ securities are dealt in for sterling between U.K. residents (premium unless otherwise stated).



**EXCHANGE RATES** (Continued.)  
(a)  
Monthly range of quotations

	Deutschemark	Swiss francs	French francs	Dutch florins	Swedish kronor
Parity	11.76	12.2439	1,176—13.82 (b)	10.64	14.485
<b>1958</b>					
March ...	11.73½—77½	12.25¼—28½	1,179¼—83½	10.61½—63½	14.51¼—53½
April ...	11.71½—75½	12.23¼—26½	1,175¼—83¼	10.59½—64¼	14.50 —52½
May ...	11.69¼—72¼	12.21¼—25	1,178 —80¼	10.57½—60½	14.46¼—51½
June ...	11.67½—70½	12.21 —23½	1,173¼—79¼	10.57 —59½	14.45¼—47½
July ...	11.67½—68½	12.16½—21½	1,172 —75½	10.56½—57½	14.39¼—46½
August ...	11.67½—70½	12.19¼—22	1,171 —75¼	10.56 —57¼	14.41½—44½
September...	11.67½—70½	12.19½—21½	1,172 —76½	10.56½—57½	14.43½—48½
October ...	11.68¼—69½	12.20¼—22½	1,175 —77½	10.56½—57½	14.47½—49½
November...	11.69½—70½	12.22 —24½	1,176½—79¼	10.56½—59½	14.46½—49½
December ...	11.67½—71½	12.04 —24	(b) 1,176 —80½ 13.70 —76	10.56½—59½	14.45½—50
<b>1959</b>					
January ...	11.70½—73½	12.06½—13	13.74 —78	10.57¼—59¼	14.49¼—53½
February ...	11.73¼—74¼	12.10½—14½	13.76½—78½	10.58¼—61¼	14.52½—54½

(a) As reported to the Bank of England by the London market.

(b) No quotations on 27th December. The franc was devalued and quotations were resumed on 29th December. At the same time it was announced that the existing franc will be replaced during 1959 by a new currency unit (= 100 existing francs). From 29th December exchange quotations were for units of one hundred francs. The rates shown are for periods on either side of the devaluation.



## EXCHANGE EQUALISATION ACCOUNT

## Holdings of Gold and Convertible Currencies

END OF MONTH				<i>£ millions</i>
<b>1958</b>	January	...	...	859
	February	...	...	907
	March	...	...	989
	April	...	...	1,041
	May	...	...	1,085
	June	...	...	1,099
	July	...	...	1,101
	August	...	...	1,103
	September	...	...	1,114
	October	...	...	1,134
	November	...	...	1,148
	December	...	...	1,096
<b>1959</b>	January	...	...	1,111
	February	...	...	1,127



# UNITED KINGDOM POSITION IN THE EUROPEAN PAYMENTS UNION <sup>(a)</sup>

(From the beginning of the Union in 1950 to the termination on 27th December, 1958)

£ millions

	Net Surplus (+) Deficit (-) (b)	Settlements with E.P.U.		Credit Repaid Bilaterally (f)	Credit Extended (+) Received (-) at end of Period
		Gold/U.S. \$ Received (+) Paid (-) (d)	Credit (e)		
<b>Year ending June</b>					
1951 ... ..	+217.0(c)	+ 28.6	+104.3	—	+104.3
1952 ... ..	-538.8(c)	-210.0	-331.4	—	-227.1
1953 ... ..	+135.8	+ 98.1	+ 37.8	—	-189.4
1954 ... ..	+ 32.1	+ 16.0	+ 16.0	—	-173.4
1955 ... ..	+ 44.9	+ 22.4	+ 22.4	+ 52.4	- 98.5
1956 ... ..	-120.3	- 83.9	- 36.4	+ 19.4	-115.6
1957 ... ..	- 84.2	- 63.1	- 21.0	+ 20.8	-115.8
1958 ... ..	-117.2	- 87.9	- 29.3	+ 20.9	-124.2
1st July to 27th December, 1958 ...	- 97.4	- 73.1	- 24.4	+ 13.3	-135.3
Cumulative 1st July, 1950 to 27th De- cember, 1958 ...	-528.2(c)	-352.9	-262.1	+126.8	-135.3

(a) Settlements with E.P.U. and repayments of credit are shown against the period to which they relate; they normally took place about two weeks after the end of that period.

(b) Including interest on credit paid and received.

(c) The figures shown under "Settlements with E.P.U." do not add up to the "Net Surplus/Deficit". The reason is that (i) the U.K. made a grant to the Union by agreeing to start with an "initial debit balance" of £53.6 million and (ii) the U.K. and other countries made use of accrued currency balances known as "existing resources".

(d) Up to 30th June, 1954, the gold/credit ratio for settlements varied with a country's cumulative position. From 1st July, 1954, to 31st July, 1955, the ratio was 50% gold/50% credit and after 1st August, 1955, it was 75% gold/25% credit.

(e) Increase in claim, decrease in debt (+); decrease in claim, increase in debt (-).

(f) By payments to creditor countries in gold, dollars and sterling. Including initial payments of £35.3 million on 1st July, 1954.



**SCHEDULE OF REPAYMENT INSTALMENTS FOR UNITED KINGDOM DEBTS AND CLAIMS  
ARISING OUT OF THE LIQUIDATION OF THE EUROPEAN PAYMENTS UNION**

		Years ending 31st December									£ millions
		1959	1960	1961	1962	1963	1964	1965	1966	1967/71	Total Debts/ Claims
<b>A. Debts :</b>											
Austria	...	1.3(a)	1.4								2.7
Belgium	...	6.1	8.7	8.8							23.6
Denmark	...	0.4(b)									0.4
Germany	...	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	35.7(d)	95.7
Greece	...	0.4									0.4
Italy	...	2.4	2.4	2.4							7.2
Netherlands	...	17.7(c)	1.6	1.6							20.9
Sweden	...	2.2	3.2	3.2							8.5
Switzerland	...	2.4	4.7								7.1
Total Payments	...	<u>40.3</u>	<u>29.5</u>	<u>23.4</u>	<u>7.5</u>	<u>7.5</u>	<u>7.5</u>	<u>7.5</u>	<u>7.5</u>	<u>35.7(d)</u>	<u>166.5</u>
<b>B. Claims :</b>											
France	...	—	—	—	6.8	6.8	6.8	6.8			27.2
Iceland	...	—	0.02	0.02	0.02	0.02	0.02	0.02	0.02		0.2
Norway	...	—	0.2	0.2	0.2	0.2	0.2	0.2	0.2		1.4
Portugal	...	1.0									1.0
Turkey	...	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.02		1.5
Total Receipts	...	<u>1.2</u>	<u>0.4</u>	<u>0.4</u>	<u>7.2</u>	<u>7.2</u>	<u>7.2</u>	<u>7.2</u>	<u>0.2</u>		<u>31.3</u>
Total Net	...	<u>39.1</u>	<u>29.1</u>	<u>23.0</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>7.3</u>	<u>35.7(d)</u>	<u>135.2(e)</u>

(a) Including £0.5 million offset against United Kingdom claims on account of post-war debt.

(b) Offset against United Kingdom claims on account of "existing resources".

(c) Including £16.1 million offset against United Kingdom claims on account of war-time debt.

(d) From 1st August, 1967, United Kingdom payments will be directly offset against claims on Germany on account of post-war debt at a rate of £7.5 million per annum.

(e) The difference between this amount and the £135.3 million shown at the foot of the last column of the table in Annex 3 represents the United Kingdom's share in the excess of interest received by the Union over interest and administrative expenses paid by the Union.



## OVERSEAS STERLING HOLDINGS

1958

*£ millions*

End of month					March	June	September	December
Sterling Area Countries								
U.K. Colonies	...	...	...	...	891	887	876	880
Other sterling area countries	...				1,738	1,736	1,703	1,737
					<u>2,629</u>	<u>2,623</u>	<u>2,579</u>	<u>2,617</u>
Non-sterling countries								
Dollar area	...	...	...	...	42	44	39	53
Other western hemisphere countries					28	23	28	24
O.E.E.C. countries	...	...	...		279	306	350	372
Other non-sterling countries	...	...			264	274	269	283
					<u>613</u>	<u>647</u>	<u>686</u>	<u>732</u>
All countries	...	...	...	...	<u>3,242</u>	<u>3,270</u>	<u>3,265</u>	<u>3,349</u>
Non-territorial organisations	...	...			650	631	636	623
Total	...	...	...	...	<u>3,892</u>	<u>3,901</u>	<u>3,901</u>	<u>3,972</u>

## ACCEPTANCES OUTSTANDING

1958

*£ millions*

End of month					March	June	September	December
Sterling Area Countries								
	...	...	...	...	10	11	11	11
Non-sterling countries								
	...	...	...	...	130	112	103	119
Total	...	...	...	...	<u>140</u>	<u>123</u>	<u>114</u>	<u>130</u>



## Changes in Exchange Control Regulations

The following were the major changes made in Exchange Control administration during the year:—

### Inward Investment

*30th July, 1958.*

It was announced that permission under the Exchange Control Act would in future be given for the establishment of any new enterprise in the United Kingdom by non-residents.

### Dealing in Options: Contangos

*7th October, 1958.*

Authorised Depositaries were given permission:—

- (a) to deal in Options on their own behalf, or on behalf of their customers, subject to the rules which would apply to dealings in the security concerned, and,
- (b) to arrange Contangos, subject to certain provisions, in respect of securities dealt in on a United Kingdom Stock Exchange on behalf of persons resident outside the Scheduled Territories.

### Cash Gifts Scheme

*10th November, 1958.*

Banks were advised that residents of the United Kingdom would be permitted to make small cash gifts to individuals and organisations resident in any country outside the Scheduled Territories. Each individual was allowed to make cash gifts not exceeding £10 in total during the year ended the 31st December, 1958; a similar allowance was to be permitted for each succeeding calendar year.

### Unification of Non-Resident Sterling

*29th December, 1958.*

It was announced that American, Canadian, Transferable and Registered Accounts of non-residents were to be unified and described as External Accounts. In consequence, sterling held on External Accounts may pass freely between non-residents and non-residents may exchange their holdings of sterling on such accounts for any foreign currency. Consequential changes were made in the methods of payment for transactions with non-residents.

### Export of Sterling Notes

*15th January, 1959.*

Supervision by the Bank of England of the export of sterling notes in bulk by Authorised Banks to correspondents abroad was withdrawn and the export of notes to any non-resident against payment in sterling from an External Account or any foreign currency was permitted.



## **Legacies etc.**

*17th February, 1959.*

The remittance of legacies etc. from the Estates of deceased residents of the United Kingdom was allowed in full to beneficiaries resident in any country outside the Scheduled Territories, thus removing the restrictions hitherto imposed on the transfer of such legacies to beneficiaries in Canada or countries formerly in the American Account Area.

## **Emigrants**

*17th February, 1959.*

The settling-in allowance granted to emigrants to Canada or any of the countries formerly in the American Account Area was increased to £5,000 per family unit, the amount allowed generally for emigrants to other countries outside the Scheduled Territories.

## **Credit Facilities**

*19th February, 1959.*

The restrictions imposed on the 20th September, 1957, on the provision for payment by usance drafts under sterling credits in respect of the purchase of goods by one non-resident from another were withdrawn.

## **Foreign Currency Notes**

*23rd February, 1959.*

Following the measures introduced on the 29th December, 1958, Authorised Banks were permitted to buy from and sell to non-residents foreign currency notes and coin against sterling or any other foreign currency, either in notes or any other form.

## **Foreign Nationals**

*25th February, 1959.*

It was announced that foreign nationals who leave the United Kingdom to take up permanent residence in their country of nationality would in addition to the settling-in allowance of £5,000 per family unit be permitted to transfer funds from their remaining declared assets at the rate of £3,600 per annum, per family unit, commencing one year after departure.

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



PRINTED AND PUBLISHED BY HENRY LOVERIDGE CHADDER, AT THE BANK OF ENGLAND PRINTING WORKS,  
DEBDEN, LOUGHTON, ESSEX.