BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28th FEBRUARY

1961

Issued by Order of the Court of Directors, 29th June 1961.

COURT OF DIRECTORS

FOR THE YEAR ENDED 28TH FEBRUARY 1961.

THE RT. HON. LORD COBBOLD, P.C., GOVERNOR.

HUMPHREY CHARLES BASKERVILLE MYNORS, ESQ., DEPUTY GOVERNOR.

SIR GEORGE EDMOND BRACKENBURY ABELL, K.C.I.E., O.B.E.

THE RT. HON. LORD BICESTER.

SIR GEORGE LEWIS FRENCH BOLTON, K.C.M.G.

*LAURENCE JOHN CADBURY, ESQ., O.B.E.

†THE RT. HON. THE EARL OF CROMER, M.B.E.

GEOFFREY CECIL RYVES ELEY, ESQ., C.B.E.

SIR CHARLES JOCELYN HAMBRO, K.B.E., M.C.

SIR JOHN COLDBROOK HANBURY-WILLIAMS, C.V.O.

SIR FRANK CYRIL HAWKER.

WILLIAM JOHNSTON KESWICK, ESQ.

THE RT. HON. LORD KINDERSLEY, C.B.E., M.C.

MAURICE HENRY PARSONS, ESQ.

SIR WILLIAM HENRY PILKINGTON.

SIR ALFRED ROBERTS, C.B.E., J.P.

THE RT. HON. LORD SANDERSON OF AYOT, M.C.

MICHAEL JAMES BABINGTON SMITH, ESQ., C.B.E.

JOHN MELIOR STEVENS, ESQ., D.S.O., O.B.E.

* Resigned, 23rd January 1961. † Appointed, 23rd January 1961.

The term of office of Lord Sanderson of Ayot, Mr. M. J. Babington Smith, Mr. M. H. Parsons and Mr. J. M. Stevens expired on the 28th February 1961 and they were reappointed for a period of four years.

It was announced in November 1960 that Lord Cobbold would relinquish the office of Governor on the 30th June 1961 and would be succeeded by the Earl of Cromer.

BANK OF ENGLAND

Report for the year ended 28th February 1961.

A Commentary covering the period April 1960 to March 1961 has been included in the Quarterly Bulletins published by the Bank of England since the issue of the Bank's last Annual Report. A review of the year ended 28th February 1961 cannot avoid some duplication of what has already been published. To minimise this, comment in the present Report has been confined to the more important events of the year with, in addition, some discussion of changes that are more easily considered at longer than quarterly intervals.

The year 1960 began with the prospect that total demand in the United Kingdom would rise faster than could immediately be met by domestic production. Private capital expenditure and the rate of stock accumulation were rising; the trend of incomes and the range of consumer credit facilities then available made it appear that consumers' spending, which had already risen notably, would continue to increase. To limit the adverse effect of these developments upon the balance of payments on current account and upon the stability of domestic prices, and to encourage conditions in which an orderly growth of capital expenditure could be sustained, successive measures to reduce the pressure on resources were taken. The first, and early, step was an increase of Bank Rate, from 4% to 5%, in January 1960; other measures, fiscal and monetary, followed during the next half-year.

It was desirable that restrictive measures taken should fall most heavily on consumers' expenditure so that exports and home investment in manufacturing industry should not be held back by an avoidable shortage of resources, notably of labour. In addition it was desirable that the rise in imports of consumer goods should be reduced, that an unduly large increase in stocks of industrial materials should be avoided and that within the field of fixed investment the very rapid growth in house and commercial building, as opposed to industrial building, should be moderated. The net effect of the budget proposals announced in April was to increase tax revenues, beyond the expected increase at existing tax rates, by a small amount, though leaving the estimated overall budget deficit for 1960/61 little changed from that realised in the previous year. At the same time certain measures to encourage National Savings were introduced. The Chancellor of the Exchequer also stated that he thought it likely that—

> ". . . the time may soon arrive when it would be right that we should take other steps to restrain further expansion of private credit . . ."

Later in that month controls over hire purchase terms were reintroduced and the system of Special Deposits was brought into use for the first time. In June Bank Rate was increased from 5% to 6%, a further call was made for Special Deposits and the Chancellor announced that the Government had decided to hold capital expenditure in the public sector during 1961/62 at the level planned for the financial year 1960/61.

Moreover, there was a gradual rise in long and medium-term interest rates until August. Initially, the authorities were net purchasers of a considerable amount of gilt-edged stock but in the quarter ending in June the demand for gilt-edged greatly strengthened. The authorities became ready sellers and continued as such until early in 1961. Long-term interest rates decreased slightly during the autumn but, resuming their increase at the end of November, later more than reversed this fall. The gross yield on $2\frac{1}{2}\%$ Consols, for example, rose from $5\frac{9}{32}\%$ at the end of February 1960 to $5\frac{21}{32}\%$ at the end of July and to $5\frac{7}{8}\%$ at the end of February 1961. Though the authorities' purchases moderated the initial rise in interest rates, it was considered that a rise in long-term interest rates would help to reinforce the other restrictions on the credit system; and, in view of market conditions, the establishment of a somewhat lower level of gilt-edged prices was needed if official sales were to be resumed.

Prices of industrial ordinary shares tended, on balance, to rise until early in September 1960, the Actuaries' Investment Index rising from 186·0 at the end of February to 188·5 at the end of August. During this period, however, there were two declines, one after the Chancellor's warning, in his budget speech, of possible credit restrictions and the other in the second half of June when there were fears that further restrictions might be imposed. From September until early in December adverse news about the U.K. balance of payments, combined with the difficulties of industries affected by the hire purchase controls and the weakness of Wall Street, brought a fall in prices. Over the last three months of the period, however, more optimistic views on the future course of the economy predominated and, with a rise on Wall Street, prices rose steadily, the Actuaries' Investment Index moving from 179·7 at the end of November to 198·6 at the end of February 1961.

By the autumn the composition of the increase in demand was greatly changed; consumers' spending had flattened out but capital expenditure, particularly that of manufacturing industry, was still showing a welcome rise. Exports, after a sharp fall during the summer, were again beginning to rise. These developments were accompanied by a change in the pattern of bank lending away from the categories of borrowers most closely concerned with consumer credit and towards those most concerned with industry; the analysis of advances by members of the British Bankers' Association shows that during the year ended mid-February 1961 the largest increases were in the amounts lent to borrowers connected with engineering and heavy industry.

The redirection of output towards fixed capital formation, and towards exports, was not solely due to the monetary and consumer credit measures taken. Nevertheless, the hire purchase controls and the restraints on lending by the banks had a direct and discernible effect. In addition, there were signs by at least late autumn that not only imports of finished manufactures for the consumers' market but also imports of industrial materials for stock accumulation were levelling off. However, the growth in productive investment and in exports went only a little way towards the achievement of levels that could be considered adequate in view of the future needs of the economy.

During the calendar year 1960 manufacturers' stocks increased in volume by 10% compared with an increase of 1% during 1959, when the increase was low in relation to the growth of industrial production. The rise in stocks in 1960 was an important direct cause of the rise in imports. Total stocks continued to rise in the December quarter and this may suggest that the measures taken during the year failed to achieve one of their objectives. Nevertheless, an analysis of the available evidence shows that in the same quarter the rise in manufacturers' stocks of materials and fuel, allowing as far as one can for seasonal factors, was markedly lower than it had been during the previous quarters of the year. The continued growth in stocks seems to have reflected mainly an accumulation of finished goods and some increase in work in progress; both of these were partly involuntary rises resulting from the fall in home and export demand in certain industries. The changed composition of the increase in stocks was less expensive in terms of imports and suggested that a fall in total expenditure on stocks might be near at hand. Preliminary evidence shows that this may have begun in the early months of 1961.

During 1960 there was a small decrease in the number of houses started compared with 1959 though by early 1961 there were some signs that this trend might be reversed shortly. New orders for industrial building obtained by contractors rose substantially during the year.

Most of these were changes in the right direction, though their extent and indeed the degree to which they could be carried might reasonably be matters on which opinion differed. The measures taken during the year were less successful in maintaining the stability of domestic prices. Average weekly earnings rose at a greater rate than national productivity. This resulted in higher costs and prices; average prices of the final output of manufacturing industry rose by over 2% during the period under review and there was a similar increase in the retail price index.

In addition to the direct effects on the banking system of the calls for Special Deposits, the amounts raised for the Exchequer through sales of gilt-edged stocks and National Savings helped to keep the combined liquidity ratio of the clearing banks from being as high by the end of 1960 as might normally have been expected. The rise in the clearing banks' deposits was also less than seasonal, so that broadly speaking they had to finance the increase in their advances through sales of investments. On the 15th March 1961 the advances of the clearing banks amounted to some 47% of their gross deposits while the comparable percentage for their investments was 17%; these figures were then respectively the highest and lowest at mid-month make-up dates for nearly thirty years and must in themselves be a factor restricting further growth in the advances of the clearing banks.

The reduction in the clearing banks' investments (which consist mainly of gilt-edged stocks) was accompanied by a fall in their holdings of Treasury Bills so that their holdings of marketable government debt as a whole fell substantially. In the year ended the 15th March 1961 net purchases of gilt-edged stocks and Treasury Bills by " Other home and overseas non-official " holders,[a] together with their net lending to the discount market, which may broadly be regarded as indirect lending to the Government, totalled almost £400 million, compared with only some £200 million in the previous year. The increased inflow of capital from overseas, both recorded (as increases in non-official overseas sterling holdings) and unrecorded, was, however, probably sufficient to account for this difference of £200 million. " Other home " holders, therefore, probably took up no more marketable government debt in 1960/61 than in the previous year (even though the attractiveness of yields almost certainly caused such holders to acquire, particularly during the third quarter, more government debt than they otherwise would have done).

Some of the reasons for the apparent lack of any increase in the take-up of government debt by " other home " holders can be found in the evidence available for the calendar year 1960. It seems that the financial surplus[b] of the private sector as a whole was less in 1960 than in 1959. The surplus of ' non-financial ' companies was sharply reduced, owing to the very great increase in fixed investment and stockbuilding. It may be inferred that in spite of an increased flow of funds accruing from capital issues any increase which may have occurred in these companies' liquid assets (including their holdings of marketable government debt) must have been much smaller than in the previous year.

Also included among " other home " holders are financial institutions (other than the clearing banks, the Scottish banks and the discount market). Among these, the accepting houses and overseas banks in London received during 1960 a substantial increase in deposits, including foreign currency and other deposits from overseas. The bulk of the currency deposits was re-lent overseas but loans were also made to United Kingdom borrowers, notably local authorities; a relatively small proportion of the increased funds borrowed by this group of banks went into government debt. Insurance and pension funds continued to grow but part of these accruals was used to take up some of the growing volume of new industrial issues.

While the financial surplus of companies fell in 1960, that of persons[c] rose, a greater proportion of higher personal incomes being saved. The rate of saving through life insurance and pension funds continued its steady upward trend but less was invested in National Savings and in the shares and deposits of building societies. This higher rate of saving was associated with a sharp reduction in the rate of personal borrowing: the rate of borrowing from building societies increased a little but hire purchase debt and the level of personal bank advances rose much less than in 1959. On balance, persons probably had rather less

[a] All private holders other than the clearing banks, the Scottish banks and the discount market.

[b] Savings, less domestic investment in fixed assets and stocks.

[c] Including unincorporated businesses.

available for purchases of financial assets and it is unlikely that there was any great increase in their purchases of gilt-edged stocks.

From time to time in recent years a deterioration in the United Kingdom's balance of payments has coincided with an increase in demand at home, the virtually full employment of the economy and the building up of stocks of imported materials. Developments in 1960 were in part a repetition of this earlier experience. Throughout the year imports were much higher than in 1959; this was mainly a reflection of increased purchases of industrial materials and finished manufactures associated with the growth of industrial production which began in the spring of 1959 and the subsequent rapid rise in stocks. It is judged that further liberalisation played a relatively small part in the growth of imports. Exports rose much less than imports. Reduced economic activity in North America led to a fall in U.K. exports to that continent; partly because of strong competition from new American models the reduction was especially marked for cars. Later in 1960 and early in 1961 there were welcome signs of some resilience in exports. Nevertheless, the performance of exports was disappointing in relation to the growth of world markets and to the greater expansion of exports achieved by most other West European countries.

The emergence of a large balance of payments deficit in 1960 seems to have been due not only to these factors but also to adverse underlying trends which had been overlaid in the preceding two years by temporarily favourable factors. The upward trend in the volume of U.K. exports over the past few years appears to have been lower than that of U.K. imports; government net expenditure overseas on both current and capital accounts has been rising steeply; and the large surplus on other current invisible transactions, which was formerly an established feature of the U.K. balance of payments, has been much reduced. The need for faster growth of U.K. exports is clear.

This deterioration in the United Kingdom's balance of payments was accompanied by deteriorations in the positions of most overseas sterling countries, but the combined effect of these two factors on the reserves was masked by a substantial inflow of money to London, mainly from North America and Western Europe. Short-term rates in North America declined during the first half of 1960 whereas comparable rates in the United Kingdom rose. During the second half of 1960 the movement of funds from North America that was already taking place increased as a result of a growing concern about the stability of the U.S. dollar. There were unusually heavy purchases of gold on the London market in September and October as well as substantial movements of funds from the United States to Western Europe and, in particular, to the United Kingdom and Western Germany. Some of the money attracted to the United Kingdom was invested for long-term purposes.

During 1960 the surpluses of several West European countries resulted in a rise in their demand for gold. This had its effect either directly or indirectly on the gold reserves of the United States and was one factor leading to the expectation that there might be a rise in the value of gold in terms of the U.S. dollar and other currencies, which in turn led to an outburst of private buying in London. As has happened before in this market, rising prices, so far from deterring private buyers, attracted them further. In consequence, during October gold was dealt in at prices far in excess of any quoted in London since the reopening of the gold market in 1954. Announcements by U.S. spokesmen of the determination of the United States to maintain the existing gold parity of the U.S. dollar, combined with some substantial intervention by the Bank of England, gradually caused sentiment to change and the price of gold to fall. By the end of February 1961 fears that currencies would depreciate in terms of gold had greatly diminished and the price of gold in London had fallen back to within 1% of the gold parity of the U.S. dollar.

Continuing large movements of money to London were not in the interests either of this country or of the United States, from which the greater part of the funds were being drawn. Primarily for this reason, but also because by the end of 1960 there were signs of some easing in the pressures of home demand, Bank Rate was reduced on two occasions by ½%, falling from 6% to 5% during the last quarter of 1960.

As a result of the move to external convertibility by most West European countries at the end of 1958, borrowers obtained a greater freedom to choose in which centre they wished to raise funds. Furthermore large amounts of money became free to move from one centre to another in response to the pull of interest rates: but willingness to move money in this way has depended upon confidence in the exchange stability of currencies. The revaluation of the deutschemark and of the guilder in March 1961, however well the reasons may have been understood, constituted a serious shock to confidence: recovery from this will take time.

The reaction of a monetary authority to large movements of short-term funds will partly depend upon the state of its domestic economy and partly upon the extent to which it is able to offset the effects of these movements upon its monetary system. Monetary authorities may not necessarily be able to prevent an inflow taking place in one form or another, as the experience of Western Germany in 1960 showed. Generally movements of money can be welcomed if they take place in response to changes in interest rates, and the authorities of the countries concerned feel free to allow rates to respond in such a way as to increase or reduce the size of the flow. They tend to offset the effects on official reserves of changes that are taking place in the current account of the balance of payments, and they can provide time for steps to be taken to correct any underlying disequilibrium. This, however, is not the case if movements of funds are stimulated by hopes of exchange appreciation or fears of exchange depreciation. Nevertheless, the monetary authorities of the countries most likely to be affected by movements of this sort can supplement their reserves by use of the facilities available to members of the International Monetary Fund. Moreover, following the revaluation of the deutschemark and of the guilder in March 1961, the Governors of certain European central banks attending the monthly board meeting of the Bank for International Settlements announced that the central banks represented at the meeting were co-operating closely in the exchange markets.

In the past few months this co-operation has taken an active form, both in policy discussion and in practical arrangements between central banks for the partial off-setting of movements of money between one market and another. These arrangements mark a new phase in international monetary co-operation: together with the existing facilities offered by the I.M.F., they provide a strong bulwark for currency stability. Moreover, the wider development of the I.M.F., now under discussion, may give much further strength to that stability. The major currencies are now in a far stronger position than they were before to withstand the pressure of short-term money movements.

These arrangements do not, however, in any way change basic situations. They can help to maintain stability and confidence, and thus give time for longer-term policies to have effect. But it is essential that this time should be put to good use and that no effort should be spared to correct any underlying weakness in the balance of payments.

The United Kingdom is enjoying high levels of prosperity and of employment. If they are to be maintained they will have to be earned, and earned in an increasingly competitive world. The United Kingdom cannot afford to drop behind its competitors in improving efficiency and keeping down costs, or to devote to domestic consumption too high a proportion of total resources. No schemes for international credit can alter these basic facts of economic life: it would be disastrous to allow any such schemes to obscure them.

INTERNATIONAL MONETARY CO-OPERATION

The International Monetary Fund

The general increase in members' subscriptions to the International Monetary Fund, which had been agreed by the Board of Governors early in 1959, was virtually completed in 1960. The majority of members' quotas had been raised by 50%, though larger increases had been agreed to for countries with small quotas and for certain other countries to which special considerations applied. During the year under review the Fund gave assistance to members on a larger scale than in the previous twelve months. Nevertheless repayments, mainly by France and the United Kingdom, were about double the total of new drawings. Besides repaying ahead of schedule the drawing made in 1956, the United Kingdom made a voluntary repurchase which reduced the Fund's holding of sterling to 75% of the U.K. quota. These transactions increased the United Kingdom's potential drawing rights on the Fund. These payments were made at a time when reserves were rising, largely as the result of an inflow of short-term funds, and they underlined the United Kingdom view that, if an outflow were to occur, access to the Fund's resources should not be regarded as a crisis measure. This point was made by the Governor of the Bank of England when on the 20th October he said at the Mansion House that he would like to see countries draw on the Fund's facilities as a matter of ordinary business.

On the 15th February 1961 the United Kingdom, in company with Belgium, France, the Federal Republic of Germany, the Republic of Ireland, Italy, Luxembourg, the Netherlands, Peru and Sweden, notified the International Monetary Fund of its acceptance of the obligations of Article VIII of the Fund Agreement.

As was noted in the Bank's Annual Report last year, only gold or those currencies which are formally convertible may be accepted by the Fund in repayment of drawings, and in the past this limitation has tended to deter member countries from drawing currencies other than dollars. The wider acceptance of the obligations of Article VIII may lead to a higher proportion of drawings in other currencies and thus extend the flexibility of the operations of the Fund.

Indeed, in the year under review there was already a tendency for countries to take a greater proportion of their drawings in currencies other than the U.S. dollar, and this was clearly appropriate in a period in which the U.S. balance of payments was in substantial deficit and its gold reserves were falling. At the Annual Meeting of the International Monetary Fund held in Washington in September 1960, considerable emphasis was laid on the disequilibrium in international payments reflected in the substantial additions to the gold and foreign exchange reserves of certain West European countries and in increases in the short-term liabilities of the United States and the United Kingdom. At that meeting, the Chancellor of the Exchequer pointed to the danger that undue concentration on the drawing of the reserve currencies might have unfortunate consequences in the future, in that member countries might wish to draw reserve currencies at a time when those currencies were themselves under strain. The Chancellor therefore suggested that the Fund should study ways in which drawings could be concentrated on the currencies of those countries which were in overall surplus. This and other ways of increasing the effectiveness of the International Monetary Fund are now being studied.

As in previous years, the Fund has consulted with those member countries which maintain restrictions on payments with a view to removing such restrictions where possible. These consultations have, over the years, widened in scope and have come to include an annual review of financial and economic developments in the country concerned. Members who have assumed the obligations of Article VIII are only required to consult with the Fund where they are maintaining or have introduced measures specifically requiring Fund approval.

However, the Executive Directors of the Fund have declared that there is great merit in periodic discussions with members as a means of exchanging views on monetary and financial developments, even though no questions arise involving action under Article VIII, and it is expected that members generally will agree to the continuance of consultations on these lines.

The European Monetary Agreement

In the calendar year 1960, as in the previous year, the Multilateral System of Settlements was used only for certain small transactions of which the most important were settlements totalling less than $12 million arising out of the dwindling number of bilateral agreements for which settlement through the System is obligatory. Only one country took advantage of the interim finance facilities and the amounts drawn were repaid before the monthly settlements. The United Kingdom did not use the System of Settlements or make available or receive interim finance.

In the year under review the European Fund granted only one new credit, $50 million to Turkey. This was approved in December 1960 and was part of a joint operation with the International Monetary Fund in support of the revised Stabilisation Programme of the Turkish Government. It was the second credit to be granted from the European Fund to Turkey, which in February 1961 repaid at maturity the credit of $21½ million granted in 1959. In the same month Spain, which in January had repaid its drawings of $24 million from the European Fund, renounced the right to draw on the whole first tranche of $75 million of the credit line granted in August 1959. The Board of Management, in conjunction with the I.M.F., has continued to pay particular attention to economic developments in these two countries and in Iceland which also has a credit facility available from the European Fund. In the year under review the United Kingdom was not required to make any gold payments to the European Fund.

Members have agreed in principle that the European Monetary Agreement, which is due to be reviewed in detail before the end of 1961, should continue in being after the reconstitution of the O.E.E.C.

The Organisation for Economic Co-operation and Development

Under a Convention signed in Paris in December 1960, the Organisation for European Economic Co-operation (O.E.E.C.) is to be reconstituted as the Organisation for Economic Co-operation and Development (O.E.C.D.). The new Organisation, whose membership will consist of the present eighteen members of the O.E.E.C. together with Canada and the United States, is to come into being when the Convention has been ratified by at least fifteen members; this is expected to have been completed by the autumn of 1961.

The Bank for International Settlements

The Bank for International Settlements continued to act as Agent for the O.E.E.C. in the operation of the European Monetary Agreement, in addition to carrying out its normal banking operations in gold and foreign exchange markets. In December 1960 the Bank of Spain became a shareholder. The monthly board meetings provide an opportunity for regular discussions between European central bankers, and in March 1961 after the revaluation of the deutschemark and guilder the B.I.S. took the unusual step of issuing a communiqué, which read:

> "At the monthly meeting of the Bank for International Settlements at Basle this week-end the central bank Governors present discussed the situation following the recent currency adjustments in Germany and the Netherlands. They are satisfied that the rumours which circulated last week in the markets about possible further currency adjustments have no foundation and they wish it to be known that the central banks concerned are co-operating closely in the exchange markets.
>
> The central banks represented at the meeting were the Banque Nationale de Belgique, Deutsche Bundesbank, Bank of England, Banque de France, Banca d'Italia, De Nederlandsche Bank, Banque Nationale Suisse and Sveriges Riksbank."

The financing of development

The new resources made available by the International Bank for Reconstruction and Development in the calendar year 1960 remained at much the same level as in 1959. New loans arranged during the year totalled some $600 million and actual disbursements about $500 million. The amount of new money borrowed by the I.B.R.D. fell in comparison with 1959 and, in contrast with earlier years, almost all was borrowed outside the United States.

A notable achievement by the I.B.R.D. during the year was the successful conclusion of the Indus Waters Treaty, which opened the way to the further development of water resources by India and Pakistan. At the same time as the Treaty was concluded an international financial agreement was signed by seven countries (including Pakistan) and the I.B.R.D. establishing an Indus Basin Development Fund. The Fund will be financed with the equivalent of $894 million to be provided by the participating governments (including the United Kingdom, which is contributing the equivalent in sterling of $58 million), the I.B.R.D. and India.

During 1960 the International Development Association was formed as an affiliate of the I.B.R.D. It will lend funds on specially favourable terms to developing countries which are approaching the limits of their creditworthiness with the I.B.R.D. and are unable to obtain adequate finance from other sources on conventional terms. At the end of February 1961, thirty-nine countries with combined capital subscriptions equivalent to $853 million had joined the I.D.A.

The other I.B.R.D. affiliate, the International Finance Corporation, was formed in 1955 in order to further economic development, particularly in the developing countries, by investing in productive private enterprises in association with private investors. It is debarred from taking any interest in the equity of the enterprises to which it makes loans. The experience of four years has convinced the Corporation that this restriction is, in practice, a serious handicap, both to the growth of its operations and to the mobilisation of private capital for foreign investment, and an amendment of its Articles to remove this obstacle is at present before the Governors of the I.F.C.

The provision of increasing amounts of aid to the developing countries continued to pose serious problems, both in its effects on the demand for resources in individual countries and in its implications for the international balance of payments. During 1960, capital provided by the United Kingdom Government in the form of grants, loans and other assistance both direct and through international institutions totalled approximately £150 million, a substantially greater amount than in previous years. In addition to this direct governmental assistance, an important contribution to development was made, as in other years, by private long-term investment. The import of capital goods by the developing countries was also assisted by provision of medium-term credit (much of it guaranteed by the E.C.G.D.). The demands on domestic resources arising both from the export of capital on such a scale and the drawing down of the sterling holdings of sterling area countries underline the need for a steady expansion of savings and production in this country if the U.K. balance of payments is not to suffer.

The provision of aid has also aggravated the disequilibrium in the distribution of international reserves. Capital, largely provided by the United States, France and the United Kingdom, has enabled the developing countries to cover a large part of the deficits on current account generated by their development programmes. On the other hand a substantial part of the funds has been spent in industrial countries other than those by which they were provided and whose exports of capital have not offset the surpluses they have earned on current account. In these circumstances, therefore, recent evidence of the determination of the Government of the Federal Republic of Western Germany to make substantial amounts of aid available is most welcome.

The Development Assistance Group, which was established in 1960, continued to study the general problems posed by the provision of aid. At its fourth meeting in London in March 1961 the Group adopted two resolutions. The first provided for the appointment of a full-time Chairman and Vice-Chairman and the second called for an expansion of the total amount of the resources made available to the developing countries, for a greater proportion of grants and of loans on specially favourable terms, and for a study of the principles which should most equitably determine the contribution of individual governments to the common aid effort. The Group, which will be absorbed into the O.E.C.D. when that organisation comes into being, will be known as the Development Assistance Committee.

EXCHEQUER[a]

(Net sterling receipt or surplus + /expenditure or deficit −)

£ millions

	Year 1959/60 (b)	Year 1960/61 (b)	Quarter ended(c) June 1960	September 1960	December 1960	March 1961
Net Requirements:						
Budget	−333	−380	−228	−388	−299	+535
Extra-Budgetary Funds, etc. ...	+ 99	+100	+ 15	+ 75	− 17	+ 27
External Items	−114	−297	− 63	−188	−171	+125
Cash Deficit/Surplus ...	**−348**	**−577**	**−276**	**−501**	**−487**	**+687**
Financing:						
Net indebtedness to the Bank of England, Banking Department	+ 18	+160	+ 69	+ 64	− 23	+ 50
Bank of England notes in circulation	+ 94	+106	+ 90	− 2	+138	−120
Non-marketable debt held by the public	+297	+309	+120	+131	+122	− 64
Marketable debt held by the public:						
Stocks:						
Discount Market	+ 12	+ 44	+ 12	+ 44	+ 42	− 54
London Clearing Banks ...	−448	−294	−123	− 62	− 24	− 85
Scottish Banks	− 31	− 56	− 21	− 21	− 1	− 13
Overseas official holders ...	− 14	+ 97	+ 59	+ 53	− 13	− 2
Other home and overseas non-official holders ...	− 50	+530	+104	+188	+194	+ 44
Total	−531	+321	+ 31	+202	+198	−110
Treasury Bills:						
Discount Market	+ 95	−118	+ 21	− 77	+ 68	−130
London Clearing Banks ...	+ 64	−151	+ 17	+ 24	+ 24	−216
Scottish Banks	+ 1	—	− 6	+ 22	− 13	− 3
Overseas official holders ...	+112	− 14	− 4	− 40	− 31	+ 61
Other home and overseas non-official holders ...	+198	− 36	− 62	+177	+ 4	−155
Total	+470	−319	− 34	+106	+ 52	−443
Total Financing	**+348**	**+577**	**+276**	**+501**	**+487**	**−687**

(a) A general explanation of the items in this table appears in the Statistical Annex to the Bank of England Quarterly Bulletin (Volume I, No. 3) from which the figures have been extracted.

(b) The years between the London Clearing Banks' March make-up dates.

(c) The quarters between the London Clearing Banks' make-up dates.

LONDON CLEARING BANKS

£ millions — *Percentages of Total Deposits in italics*

	Net Deposits (a)	Liquid Assets(b)				Special Deposits with Bank of England	Investments		Advances to Customers and Other Accounts (c)	
		Total		of which: Money at Call and Short Notice	of which: Treasury Bills Discounted					
1955 Mar. 16th	5,722	1,917	*30·0*	438	849	—	2,281	*35·6*	1,949	*30·4*
1956 Mar. 21st	5,424	2,012	*33·1*	427	946	—	1,993	*32·7*	1,833	*30·1*
1957 Mar. 20th	5,455	2,007	*32·6*	446	915	—	1,993	*32·4*	1,899	*30·8*
1958 Mar. 19th	5,611	2,160	*33·9*	438	1,082	—	2,094	*32·9*	1,838	*28·9*
1959 Mar. 18th	5,827	2,053	*31·0*	502	877	—	1,928	*29·1*	2,364	*35·6*
June 17th	5,939	2,192	*32·3*	488	1,018	—	1,816	*26·8*	2,496	*36·8*
Sept. 16th	6,170	2,339	*33·2*	480	1,157	—	1,789	*25·4*	2,649	*37·6*
Dec. 16th	6,387	2,543	*34·2*	560	1,218	—	1,720	*23·1*	2,795	*37·6*
1960 Mar. 16th	6,073	2,217	*31·5*	555	941	—	1,501	*21·3*	3,006	*42·7*
Apr. 20th	6,129	2,262	*31·4*	541	1,004	—	1,439	*20·0*	3,094	*42·9*
May 18th	6,130	2,244	*31·6*	563	981	6	1,405	*19·8*	3,133	*44·1*
June 15th	6,176	2,253	*31·4*	548	958	70	1,376	*19·2*	3,134	*43·7*
July 20th	6,262	2,259	*31·2*	559	965	105	1,340	*18·5*	3,236	*44·7*
Aug. 17th	6,249	2,266	*31·4*	547	1,001	143	1,317	*18·2*	3,195	*44·2*
Sept. 21st	6,277	2,276	*31·6*	577	982	142	1,312	*18·2*	3,203	*44·4*
Oct. 19th	6,305	2,287	*31·5*	550	1,016	142	1,304	*18·0*	3,231	*44·5*
Nov. 16th	6,230	2,288	*31·3*	566	990	143	1,289	*17·7*	3,238	*44·4*
Dec. 14th	6,262	2,399	*31·9*	623	1,006	143	1,288	*17·1*	3,229	*42·9*
1961 Jan. 18th(d)	6,376	2,456	*33·1*	575	1,115	148	1,256	*16·9*	3,260	*43·9*
Feb. 15th	6,207	2,252	*31·1*	559	898	147	1,238	*17·1*	3,303	*45·6*
Mar. 15th	6,144	2,187	*30·4*	583	790	143	1,187	*16·5*	3,354	*46·6*

(a) Current and Deposit Accounts less (i) Balances with, and cheques in course of collection on, other banks in the United Kingdom and the Republic of Ireland; and (ii) Items in transit between offices of the same bank.

(b) Coin, Notes and Balances with Bank of England (excluding Special Deposits), Money at Call and Short Notice and the total of Bills Discounted including, from February 1961, re-financeable export credits due for repayment within eighteen months transferred from Advances to Customers and Other Accounts.

(c) Excluding items in transit and, from February 1961, re-financeable export credits.

(d) Before January 1961 figures included business of Lloyds Bank's Eastern Branches.

STATEMENTS, ACCOUNTS AND OTHER ITEMS

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	1960		1961		Change	
Liabilities						
Capital		14,553		14,553		—
Rest		3,917		3,917		—
Deposits:						
Public Deposits ...	12,293		18,239		+ 5,946	
Special Deposits ...	—		155,100		+155,100	
Bankers' Deposits ...	263,864		251,442		− 12,422	
Other Accounts ...	67,524	343,681	68,092	492,873	+ 568	+149,192
		362,151		511,343		+149,192
Assets						
Government Securities ...		274,324		424,955		+150,631
Other Securities:						
Discounts and Advances	32,724		28,040		− 4,684	
Securities	19,709	52,433	19,552	47,592	− 157	− 4,841
Notes		34,467		37,860		+ 3,393
Coin		927		936		+ 9
		362,151		511,343		+149,192

Half-yearly payments of £873,180 were made to H.M. Treasury on the 5th April and the 5th October 1960 in pursuance of Section 1(4) of the Bank of England Act, 1946.

ISSUE DEPARTMENT

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

£ thousands

End of February	1960	1961	Change
Liabilities			
Notes in Circulation	2,115,893	2,212,501	+ 96,608
Notes in Banking Department	34,467	37,860	+ 3,393
Notes issued	2,150,360	2,250,361	+100,001
Assets			
Government Debt	11,015	11,015	—
Other Government Securities	2,136,237	2,237,172	+100,935
Other Securities	734	798	+ 64
Coin other than Gold Coin	2,014	1,015	− 999
Fiduciary Issue	2,150,000	2,250,000	+100,000
Gold Coin and Bullion	360	361	+ 1
	2,150,360	2,250,361	+100,001

NOTE CIRCULATION

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

NOTES ISSUED, PAID AND IN CIRCULATION

£ millions

Year to end of February	1957	1958	1959	1960	1961
Issued	1,451	1,660	1,672	1,861	2,067
Paid	1,365	1,568	1,624	1,759	1,970
In circulation at the end of year	1,874	1,966	2,014	2,116	2,213
Increase in circulation as % of previous year's total	+4·8%	+4·9%	+2·4%	+5·1%	+4·6%

NOTES IN CIRCULATION BY DENOMINATIONS

£ thousands

End of February	1957	1958	1959	1960	1961
10*s.*	96,236	98,219	98,639	100,686	99,468
£1	1,404,611	1,337,894	1,265,124	1,218,636	1,153,329
£5	271,170	421,424	537,910	686,898	848,649
£10	603	573	540	509	476
£20	282	257	241	225	199
£50	556	517	481	447	397
£100	979	916	858	792	690
£200[(a)]	7	7	7	—	—
£500	94	83	79	64	61
£1,000	114	108	100	86	82
Over £1,000[(b)]	99,420	105,620	109,850	107,550	109,150
	1,874,072	1,965,618	2,013,829	2,115,893	2,212,501

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

DENOMINATIONS OF NOTES AS PERCENTAGE OF TOTAL CIRCULATION

End of February	1959	1960	1961
10*s.*	4·9	4·7	4·5
£1	62·8	57·6	52·1
£5	26·7	32·5	38·4
£10-£1,000	0·1	0·1	0·1
Over £1,000	5·5	5·1	4·9
	100·0	100·0	100·0

The note circulation reached £2,378 million on the 21st December 1960, an increase of £59 million on the previous highest figure of £2,319 million on the 27th July 1960, and £117 million higher than the figure for Christmas 1959.

The Fiduciary Issue rose over the year by £100 million to £2,250 million.

In November 1959, the Bank announced that a new series of 10*s.*, £1, £5 and £10 notes, bearing a portrait of Her Majesty the Queen, would be introduced by stages, starting with the issue of a £1 note early in 1960. It was then proposed that both the 10*s.* and £1 notes should be the same length as, but about half an inch narrower than, the existing £1 note and that both the £5 and £10 notes should be the same size as the existing £1 note.

In the light of representations made to the Bank on behalf of blind persons, these proposals were reconsidered and it was announced in March 1960 that all four denominations would be of distinctive sizes and that none of the sizes of the previous series of notes would be used in the new series.

The £1 note, which is the same size as originally proposed, was first issued on the 17th March 1960. The dominant colour is green and the paper is of the same quality as that used for the previous series and incorporates a metallic thread to the right of the centre of the note. Though the issue of the old type of £1 note has ceased, such notes remain legal tender; they now constitute substantially less than one-half of the total number of this denomination outstanding.

£5 notes bearing dates between the 2nd September 1944 and the 20th September 1956 ceased to be legal tender on the 14th March 1961. None of the black-and-white notes thereafter remained legal tender.

(a) The last notes of this denomination in circulation have been written off, pursuant to Section 6 of the Bank Act, 1892.

(b) 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.

MANAGEMENT OF STOCK REGISTERS

The nominal totals in recent years (and, for 1961, the number of accounts) of the different groups of Stocks managed by the Bank are given below:

£ millions					Number of accounts *000's*
End of February	**1958**	**1959**	**1960**	**1961**	**1961**
British Government Securities:					
Stock	15,086	14,738	14,782	15,716	2,130
Bearer Bonds	90	15	14	13	—
Total	15,176	14,753	14,796	15,729	2,130
Other Securities:					
Government Guaranteed	3,325	3,317	3,315	3,311	613
Commonwealth, etc.	202	228	226	214	79
Local Authorities	195	204	221	241	102
Public Boards, etc.	61	71	71	76	31
Miscellaneous	15	15	15	15	1
Total	3,798	3,835	3,848	3,857	826
Grand Total	18,974	18,588	18,644	19,586	2,956

NOTE: The figures for British Government Securities do not include—

(i) amounts on the Registers of the Bank of Ireland, the Post Office Savings Department and the Trustee Savings Banks;

(ii) Tax Reserve Certificates and interest-free loans.

Operations undertaken during the year include:

REPAYMENTS

At par

			£ millions
3% Exchequer Stock 1960		3rd March 1960	94·7
New Zealand Government 3½% Stock 1955/60		15th October 1960	6·3

ISSUES

For cash

5½% Treasury Bonds 1962	@ £99%	15th July 1960	300
Agricultural Mortgage Corporation Limited 6% Debenture Stock 1982/87	@ £99%	16th September 1960	6
5½% Treasury Stock 2008/2012	@ £95%	5th October 1960	500
London County 6% Stock 1976/79	@ £99%	14th October 1960	20
4¾% Conversion Stock 1963	@ £99:7:6%	3rd February 1961	300

The Report of the Committee on the Transfer of Securities set up by the Chairman of the Stock Exchange, on which the Bank are represented, was published on the 9th December 1960. The Report recommends a simpler technique for the transfer of Securities; legislation will be required before this recommendation can be adopted.

The experimental installation of electronic equipment for the production of dividend warrants has completed its trial period and up to 100,000 payments are being made each month by the new system. This number will be increased as additional equipment becomes available.

EXCHANGE CONTROL

In order to lighten the burden of control, further authorities have been delegated to banks and form-filling has been substantially reduced. The principal changes during the year in the administration of Exchange Control are set out below.

Credits, Sterling Loans and Overdrafts: 1st March 1960

Further authorities were delegated to banks to establish credits and to grant sterling loans and overdrafts to non-residents.

Wills and Trusts: 16th March 1960

Further authorities were delegated to Authorised Banks in respect of distributions to non-residents.

Somaliland Protectorate: 26th June 1960

The Somaliland Protectorate ceased to be a Scheduled Territory. Sterling Accounts of residents of the Somaliland Protectorate were designated as External Accounts.

Exports: 1st September 1960

The limit on the value of goods, other than private gifts in kind, which may be exported without the completion of a Form C.D.3. was raised from £500 to £2,000.

Cash Gifts: 8th October 1960

The limit on the amount of cash gifts which individuals resident in the United Kingdom may make to non-residents was raised from £10 to £250 a year.

Emigrants: 19th November 1960

Further authorities were delegated to Authorised Banks in respect of the transfer of assets of emigrants from the United Kingdom.

Sundry Payments: 19th November 1960

Further authorities were delegated to Authorised Banks in respect of personal and commercial payments.

Imports and Merchanting Transactions: 2nd January 1961

It was announced that Sterling Transfer Forms and Forms E were no longer required for payments up to £2,000 for imports into the United Kingdom; that for payments exceeding £2,000 no such Forms were required if evidence could be produced that the goods had already been imported; and that no such Forms were required for payments up to £2,000 in respect of merchanting transactions.

Commodity Markets

The United Kingdom commodity markets experienced difficult trading conditions during the year under review. While world consumption both of raw materials and basic foodstuffs was in general higher than in the preceding year, the increase in supply was even greater so that prices of many commodities fell substantially. In the second half of the year misgivings about the economic outlook in the United States and the United Kingdom caused prices in some markets to fall further than might have been strictly justified by the direct relationship of supply and demand.

In these circumstances dealers were not disposed to lengthen their forward commitments or to build up stocks, which in certain markets declined at times to unusually low levels. Futures markets were generally rather less active, increased turnovers being recorded only in the Liverpool futures market for barley and in the London futures markets for maize and sugar. On the London Terminal Sugar Market in particular turnover increased substantially. This was especially marked in the latter part of the year when the market benefited from a falling-off of interest in the New York futures market where difficulties were being experienced in the completion of contracts which at that time were based on Cuban sugar. A reduction occurred in the already low turnover on the Liverpool Cotton Futures Market, while in the London terminal markets for cocoa, coffee, rubber, wool and metals trading activity fell a little below the levels attained in 1959.

In line with the general policy of easing wherever possible the administrative requirements of Exchange Control, it was decided during the year to dispense with the need for participants in the various Commodity Market Schemes to maintain special ' Scheme ' banking accounts for their commodity trading. As a result of this relaxation the figures of total sales under the Schemes to countries outside the Scheduled Territories which have been reported in recent years are no longer available.

The close liaison between the Bank and the various markets has been fully maintained.

OTHER ITEMS

Re-financing of medium-term export credits

On the 6th February 1961 it was announced that, after discussion between the Bank of England, the Committee of London Clearing Bankers and the representative banking organisations of Scotland and Northern Ireland, a new facility had been arranged by the Bank of England to promote the availability of medium-term credit for U.K. export business.

Under this facility, where a bank participating in the scheme has agreed to provide finance for an export contract involving deferred payments by the buyer over a term of more than three years, measured from the date of contract, and the contract has been covered by the Export Credits Guarantee Department, the Bank of England stand ready to re-finance any instalments of the credit which fall due for repayment by the buyer to the bank concerned within the following eighteen months. The re-financing is to be effected on precisely the same terms as regards the rate of interest and the amount and date of repayment of instalments as applied to the original transaction. Three months' notice must be given by the Bank of England should they wish to withdraw from the scheme or to modify the terms thereof; despite any withdrawal or modification, participating banks will be entitled to re-finance on the terms previously ruling any credit to which they have committed themselves prior to the expiry of the period of notice.

The scheme is designed primarily to meet the needs of the London Clearing Banks, the Scottish banks and the Northern Irish banks, which provide the great bulk of medium-term credit for U.K. exports. Other British banks which provide medium-term finance for exports on similar lines as a normal part of their business are also eligible to participate in it.

Credit Clearing

In April 1959 the London Clearing Banks began a collective re-examination of the whole question of transmission of payments. Following the report of a committee on the subject the London Clearing Banks decided to extend the system of payment by credit transfer, including the use of credits for payments over bank counters by any member of the public. Accordingly a General Credit Clearing was instituted on the 20th April 1960 covering, as a first stage, payment by traders' credit, including salary and pension payments effected through the traders' credit machinery, and standing order payments. The Clearing was extended on the 24th October to include credits paid in over the counter by customers for transmission to accounts at other branch banks. Finally, on the 6th March 1961, the service was made general, so that any member of the public, whether a customer or not, could pay cash in at the counter of any branch of the clearing banks for transmission to a banking account anywhere in the United Kingdom.

The Scottish banks also introduced a credit clearing system, in three parallel stages, the first stage on the 20th June 1960, the second on the 21st November and a general service to any member of the public on the 6th March 1961.

BANK OF ENGLAND

28th February 1961

ISSUE DEPARTMENT

	£		£
Notes Issued		Government Debt	11,015,100
In Circulation	2,212,500,951	Other Government Securities	2,237,172,112
In Banking Department ...	37,860,068	Other Securities	798,112
		Coin other than Gold Coin	1,014,676
		Amount of Fiduciary Issue ...	£2,250,000,000
		Gold Coin and Bullion ... (@ 250*s.* 11*d.* per oz. fine)	361,019
	£2,250,361,019		£2,250,361,019

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

BANKING DEPARTMENT

		£			£
Capital		14,553,000	Government Securities ...		424,955,140
Rest		3,917,463	Other Securities		
Public Deposits (including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts)		18,238,633	Discounts and Advances	£28,039,517	
Special Deposits		155,100,000	Securities	£19,551,729	47,591,246
Other Deposits			Notes		37,860,068
Bankers	£251,441,307		Coin		936,145
Other Accounts	£68,092,196	319,533,503			
		£511,342,599			£511,342,599

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

Copies of this Report may be obtained from the Central Banking Information Department, Bank of England, London, E.C.2.

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