BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

29th FEBRUARY

1964

Issued by Order of the Court of Directors, 2nd July 1964

COURT OF DIRECTORS

29TH FEBRUARY 1964

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

SIR HUMPHREY CHARLES BASKERVILLE MYNORS, BT., 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.

SIR WILLIAM JOHN CARRON.

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

WILLIAM JOHNSTON KESWICK, ESQ.

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

JOHN MAURICE LAING, ESQ.

THE RT. HON. LORD NELSON OF STAFFORD.

LESLIE KENNETH O'BRIEN, ESQ.

MAURICE HENRY PARSONS, ESQ.

SIR WILLIAM HENRY PILKINGTON.

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

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

SIR HENRY WILSON SMITH, K.C.B., K.B.E.

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

Sir William Carron was appointed on the 1st November 1963 in the place of the late Sir Charles Hambro.

Sir Henry Wilson Smith was appointed on the 13th January 1964 in the place of the late Sir Alfred Roberts.

The term of office of Sir Humphrey Mynors expired on the 29th February 1964. It was announced in October last that Mr. L. K. O'Brien had been appointed Deputy Governor in his place for a period of five years from the 1st March 1964. Mr. W. M. Allen was appointed to the Court for the remainder of Mr. O'Brien's term of office as a Director, namely until the 28th February 1966.

The term of office of Sir George Abell expired on the 29th February 1964 and Mr. J. V. Bailey was appointed in his place for a period of four years.

The term of office of Sir George Bolton, Mr. J. M. Laing and Sir Harry Pilkington expired on the 29th February 1964 and they were reappointed for a period of four years.

BANK OF ENGLAND

Report for the year ended 29th February 1964

The first part of this Report reviews the main economic and monetary developments of the year at home and abroad, most of which have already been discussed in greater detail in the Bank's Quarterly Bulletins. The second part, starting with the Bank of England Return for the 29th February 1964, deals with various other aspects of the Bank's work.

The year under review was a period of rapid development in the domestic economy and of expanding markets abroad for British goods. When it opened, the main problem was to judge when recent measures to expand demand would begin to show effects and whether further stimulus might be necessary; whereas at its close, the emphasis had changed completely. The problems were then to secure that demand would not expand faster than output could satisfy and that costs and prices did not rise unduly. At the very end of the period, on the 27th February, Bank Rate, which had been reduced from 4½% to 4% on the 3rd January 1963, was raised to 5%.

GENERAL ECONOMIC BACKGROUND

In the closing months of 1962, economic activity was flagging. During this time, the last of the credit restrictions imposed in 1961 were removed and positive measures were taken to stimulate demand. Large reductions were made in purchase tax on cars and other goods, the release of post-war credits was accelerated, and increased investment and depreciation allowances were promised to industry. Plans were announced for substantially increased investment by public authorities. All official requests to the banks concerning the direction of their advances were now withdrawn and the remaining Special Deposits, amounting to some £160 million, were repaid to the London clearing banks and Scottish banks.

These measures needed time to take effect. Moreover, to begin with, all was overlaid by the severe winter weather; output, especially in building, was further depressed and in February 1963 unemployment in Great Britain as a whole rose to nearly 4% of all employees. The abrupt ending of the Common Market negotiations at the end of January added to the general uncertainty.

Before the Budget in April 1963 there was little to give the public confidence that business would improve. The motor industry was the only clear point of growth, and this was helping firms supplying components, sheet steel and rubber. Chemicals were another comparatively bright spot; but more generally demand was sluggish. Current expenditure by consumers and public authorities was running about level; while total investment—even apart from building work, which was naturally set back by the weather—still appeared to be falling. Capital expenditure by private manufacturers had been declining since the autumn of 1961 and plans to increase public spending had yet to take effect. Exports, in contrast, were doing quite well, benefiting from an improved competitive position and from better market conditions abroad.

The Budget The National Economic Development Council, in their first report published at the end of February 1963, put forward the objective of a rate of economic growth of 4% a year. The Chancellor accepted this, and to give some further immediate stimulus he provided in his Budget for a substantial increase in government expenditure, and for tax concessions amounting to some £270 million. The total budget deficit foreseen for 1963/64 was £687 million, some £620 million more than in 1962/63.

The concessions were largely in personal income tax allowances; and, in view of the need to stimulate the economy and of the importance of incomes policy, they were framed so as to spread the benefits as evenly as possible over the whole range of incomes. Special incentives were also provided for industrial investment in development districts. These were a fresh attempt to tackle a very long-standing problem which had been brought into particular prominence during the bitter weather early in the year when unemployment in Scotland, Wales, and the North of England had risen to between 6% and 7% of all employees. In Northern Ireland with its special problems the figure rose as high as 11%. Further increases in public investment in two of these areas were announced later, in November, when White Papers were published outlining proposals for the redevelopment of Central Scotland and North-East England.

Signs of recovery The survey carried out in May 1963 by the Federation of British Industries showed a considerable improvement in business confidence and, although the signs at the time were not always easy to read, it is now clear that from the second quarter onwards the economy had turned firmly upwards. The motor industry continued to lead the recovery, which spread more widely about the middle of the year into metal manufacture and engineering and electrical goods. In the second half of the year building work expanded strongly and this, together with improved demand from the shipyards, helped to draw the heavy end of the steel industry into the revival. The recovery in the shipyards owed much to a scheme instituted by the Government in May to provide £30 million (later increased to £75 million) of comparatively cheap credit for U.K. shipowners ordering from U.K. yards. Order books almost throughout manufacturing industry lengthened appreciably and, as the period under review closed, the prospects for a further general rise in activity seemed assured. In the building industry fears of overloading were already beginning to be expressed.

By February 1964 output in general was growing substantially more rapidly than 4% a year and it was necessary to consider how to moderate the rate of growth of demand to a level which could be sustained. Unemployment had nearly halved compared with a year earlier, and was down to 2%. But the regional contrasts persisted between, for example, London and the South-East with a rate of 1·3% or the Midlands with 1·2%, and Scotland and the North of England both of which were over 4%. By this time, the Government's measures appeared to be having some success in encouraging expansion in the development districts; but this could not be expected to show itself quickly in substantially increased opportunities for employment.

Until September 1963, there was little sign that labour was short anywhere. But from then on vacancies notified to employment exchanges, allowing for seasonal changes, began to increase, and shortages of skilled men developed, especially for building.

Sources of strength Much of the impetus for the recovery came from personal spending. The demand for cars remained high throughout the year. Spending in the shops, after a slow start, quickened after the middle of the year, helped by the income tax reliefs which affected incomes from July onwards; household durable goods and clothing sold particularly well. Public authorities' current spending did not expand as much as expected; but public spending on capital account, both on housing and other work, rose sharply from the second quarter onwards. Private house building also expanded vigorously; and it was clear early in 1964 that, with new orders for most kinds of constructional work running ahead of output, there was a strong expansionary thrust still to come from the building industry. Industrial fixed investment ended its two-year decline towards the end of 1963, when there was a substantial increase in orders for machinery and in the amount of new industrial building authorised by the Board of Trade.

Overseas trade and stocks Exports grew fairly steadily until August; thereafter their performance was a little less sure, but the trend continued upward. They were at a new peak in February 1964, at which time conditions abroad, new orders, and business expectations all offered a reasonable prospect of further expansion.

Stocks appear to have changed little in total between March and September : industries outside manufacturing were building them up, but manufacturers were running them down. Although manufacturing work in progress increased a little, this was outweighed by substantial falls in stocks of materials and fuel, and of finished goods. Towards the end of the year, however, as evidence of expansion accumulated and confidence grew that it would be maintained, manufacturers' stocks of materials as well as work in progress appear to have increased sharply, as did stocks held by wholesalers and shopkeepers.

Industrial recovery and, later in the year, the resumption of stockbuilding led to a sharp increase in imports of industrial materials from the middle of 1963 onwards. Other kinds of imports also increased during the year, including finished manufactures : these were mostly consumer goods, especially cars and clothing, but imports of machinery started to increase in the fourth quarter of 1963 and rose further early in 1964.

The trade balance thus deteriorated, which was only to be expected in the early phases of industrial recovery and restocking. How far this deterioration would go was one of the principal uncertainties early in 1964, and was a question which depended largely upon the eventual extent of the stockbuilding and upon the ability of U.K. manufacturers to remain competitive.

Incomes and prices In his Budget speech in 1963, the Chancellor suggested that the average rate of increase in incomes per head compatible with a rate of economic growth of 4% would be 3% to 3½%. (This was, broadly, the rate at which it was thought that output per man would grow, year by year, leaving something under 1% to be contributed by the increase in the working population) In fact, during 1963, incomes rose rather more than this.

Towards the end of 1963, wage settlements were affecting many more workers and earnings were probably growing faster. At the same time, with much of the slack in the economy by now taken up, it was no longer reasonable to expect a further increase in productivity on as large a scale as had been seen in the preceding months. In these circumstances the need for a national incomes policy became increasingly evident. During the year the National Incomes Commission continued their work; and the possibilities of an agreed policy for incomes and prices were explored at length in the National Economic Development Council. Although these discussions brought no specific agreement, something was gained in exposing the issues more clearly.

The prices of raw materials for manufacturing industry rose on average about 5% during the year under review, mainly because imported foods, wool and some metals were dearer. Although wages also rose substantially, much of the increase in costs was absorbed by the increase in productivity, and manufacturers' selling prices—and retail prices—rose by only about 2%. Companies' gross trading profits, seasonally adjusted, resumed their recovery in the second quarter and there was some further increase in the third and fourth quarters. Nevertheless, the survey made in January 1964 by the Federation of British Industries suggested that average costs per unit of output had probably risen appreciably in the preceding four months, providing a warning that it might be difficult to prevent selling prices from rising more sharply in the future.

SOURCES OF CREDIT

The London clearing and Scottish banks With expansion the objective, it was appropriate that credit should be readily available. Accordingly, early in 1963 when it seemed possible that the London clearing banks might have to retard the growth in their advances if they were required to maintain the traditional 30% minimum liquidity ratio, the Bank told them that it would be acceptable if at that time they made up to a ratio between 29% and 30%. Circumstances thus permitted a first step to be taken towards reducing the minimum ratio to a figure nearer that which the banks themselves would today regard as desirable on grounds of commercial prudence. Later, in the autumn, a minimum of 28% was accepted, a figure which it was thought would carry the banks reasonably comfortably through the difficult tax-paying season early in 1964; and which remains for the time being the minimum which the banks are asked to observe.

There were two main reasons in the autumn of 1963 for expecting that the 30% ratio might come under pressure early in 1964. One was that the sharp increase expected in government spending during 1963/64 was materialising only slowly (and was not, indeed, fully realised). The other was that the trends which had produced the pressure in the spring were continuing: the banks' customers were again acquiring government debt, particularly stocks; and it looked moreover as if the gilt-edged market would remain firm. As a result deposits were rising no more quickly than advances. In the event, in the year to mid-March 1964, advances rose by a further £377 million or 10%, and gross deposits by £542 million or 7%. The advances ratio rose to just over 51% and the combined liquidity ratio fell to just under 30%. During the year under review the questions of competition for larger deposits and other means of attracting deposits from new sources were actively studied by the clearing banks.

The London clearing banks' investments fell by £33 million during the year. Their liquid assets rose about £100 million: there was on balance no change in their holdings of Treasury Bills and little change in call money; the rise in their liquid assets was due to roughly equal increases in cash, maintaining the ratio at just over 8%, and in commercial bills.

The Scottish banks' gross deposits rose during the year by £48 million or 6%, much the same proportionate increase as for the clearing banks. But their advances rose by only £8 million or 2%. Their investments were up by £23 million and their liquid assets by £12 million.

Other financing

The analyses published by the British Bankers' Association suggest that a large part of the increase in bank advances during 1963/64 went to financial borrowers and to finance personal spending and retail trade. Advances to manufacturing industry rose comparatively little. Indeed, with profits rising, investment expenditure low, and substantial receipts from capital issues, industrial and commercial companies appear to have had financial resources to spare. In the calendar year 1963, for example, they increased their deposits with banks by nearly £300 million; they put over £100 million into short-term loans with local authorities; and added nearly £50 million to their deposits with hire purchase finance houses. This almost matched the increase of £57 million recorded during the year in hire purchase and other loan debt owed to the finance houses. Hire purchase debt owed to retailers direct, apart from that discounted by them with the finance houses, rose by nearly £30 million during the year.

Building societies lent a further £420 million net on mortgages during 1963. This was financed by an increase of some £480 million in shares and deposits, which also helped the societies to invest nearly £70 million more in British government and local authority securities. Most investments with building societies are made by persons, and persons, like companies, had more spare financial resources in 1963. In other words, the rise in personal incomes, thanks both to increased earnings and to tax concessions, was more than enough to finance the sharp rise in consumer spending; and the rate of personal savings increased.

Unit trusts, another channel for personal savings, attracted nearly £60 million of new money during 1963; and deposits with the Special Investment Departments of the Trustee Savings Banks rose by over £130 million, which was invested mainly in local authorities' stocks and mortgages. Other National Savings rose by £155 million compared with £121 million in 1962. All forms made some contribution except National Savings Certificates where there had been a gap of two months between the withdrawal of the tenth issue in March 1963 and the introduction of the eleventh at a reduced yield.

The usual very large flow of money into life assurance and pension funds continued. Persons invested nearly £1,000 million in these forms of saving during 1963, about £75 million more than in the previous year. Rather more than half of this money was, in turn, invested in company securities. New issues of U.K. company securities raised £430 million, about the same as in 1962.

EXCHEQUER FINANCE

As already noted, the increase in government expenditure, both above and below the line, foreseen in the Budget for 1963/64 was not fully realised, although there was an appreciable acceleration in payments towards the end of the financial year. The shortfall above the line included savings on agricultural subsidies and on research and development in aviation; below the line, the nationalised industries—notably the railways—spent less than expected. Taxation also brought in more revenue than forecast, and the overall budget deficit for the financial year was £478 million, £209 million less than originally estimated.

To arrive at the Exchequer's cash deficit for the year, receipts of £131 million from internal extra-budgetary funds and of £24 million from external items must be set against the budget deficit. The resulting cash deficit of £323 million, though smaller than implied by the budget estimates, was nevertheless £238 million greater than in the previous year.

It was financed by an increase in the note circulation of £197 million (the unusually large rise was partly due to the early incidence of Easter in 1964) and by net receipts of £126 million from National Savings. Tax Reserve Certificates outstanding fell by £59 million. Net official sales of stocks brought in £35 million; market holdings of Treasury Bills rose by only £10 million; and net indebtedness to the Banking Department rose by £14 million.

These comparatively small changes in the totals of Treasury Bills and stocks held by the market masked more appreciable changes in the disposition of debt between various groups of holders. Thus while overseas holders, so far as they can be identified, and the banks increased their holdings of stocks by £43 million and £16 million, other market holdings fell by £24 million. There was a similar, though rather more pronounced, swing in Treasury Bills : the banks' holdings rose by £89 million and identified overseas holdings by £9 million, but other holdings of Bills in the market fell in total by £88 million.

THE FINANCIAL MARKETS

Both at the beginning and, to a lesser extent, towards the end of the year under review the authorities encountered, and resisted, speculative attacks on sterling. Apart from these temporary difficulties, the authorities' main concern was to maintain short-term interest rates at a level which would discourage large movements of funds across the exchanges either outwards or inwards. On the other hand, a uniformly high structure of interest rates would not have been appropriate in the early stages of an economic recovery and, in fact, for much of the period, long-term rates were level or falling. In the circumstances it was necessary to maintain the U.K. Treasury Bill rate unusually close to Bank Rate for most of the period.

Foreign exchange At the beginning of March 1963, sterling was still recovering from the sharp speculative attack which had followed the breakdown in the Common Market negotiations. As from the 1st March, moreover, the exchange guarantee extended under the European Monetary Agreement to member banks' holdings of sterling was limited to a total of £11¼ million, and this had prompted a few overseas official holders to run down their holdings substantially. Then, towards the middle of the month, there was some public discussion of the supposed contribution which devaluation might make to economic growth and this, coupled with fears that reflationary measures in the forthcoming Budget might threaten external stability, provoked further pressure.

Official support was given to the market at the end of January immediately after the breakdown of the Common Market negotiations, and again in March. In February and March aid in the form of foreign currency deposits equivalent in total to £89 million was received from some West European central banks. Confidence was quickly restored, and in June all the central bank assistance was repaid. The rest of the year was comparatively quiet until mid-February 1964 when critical press comment about the balance of payments prospects, and the publication of unaccountably bad figures for January trade, caused sterling to weaken. The pressure was already easing when the Bank Rate change was announced on the 27th February, and thereafter the market quickly steadied.

Money markets The effect of the run on sterling in March 1963 was less evident in the officially supported spot rate of exchange against the U.S. dollar than in the forward rate. At mid-March, the discount on three months' forward sterling was as much as $1\frac{3}{8}$% per annum, and a differential of almost 1% per annum developed in favour of covered investment in U.S., rather than in U.K., Treasury Bills.

On the 19th March 1963, the Bank charged the discount market $\frac{1}{2}$% above Bank Rate for advances, and the average tender rate for Treasury Bills rose from a little under $3\frac{1}{2}$% to around $3\frac{3}{4}$%, at which level it was broadly maintained until Bank Rate was raised the following February. This was the only occasion during the year on which market advances were made above Bank Rate, although heavy borrowing at Bank Rate was enforced on a number of occasions, particularly during the summer and autumn. As confidence returned and the forward discount for sterling lessened, the covered margin in favour of U.S. Bills was gradually eroded, and—despite some increase in the U.S. Bill rate—a very small margin in favour of covered investment in U.K. Bills obtained almost throughout the second half of 1963. Early in 1964, the forward discount widened again and the Treasury Bill comparison slightly favoured investment in the United States. After the increase in Bank Rate to 5% and the subsequent rise in the U.K. Treasury Bill rate to about $4\frac{1}{4}$%, there was no significant margin either way.

The use of commercial bills probably grew throughout the period under review; early on, some banks, for liquidity reasons, may have been content to see bills used to some extent instead of advances and the discount houses were the more disposed to hold commercial bills since their Treasury Bill portfolios were small. These portfolios were small partly because the Exchequer's financing requirement was small and partly because of strong outside competition at the tender which the discount houses could have countered only by increasing their bid and so lowering the rate, which would have been unwelcome to the authorities. Commercial bill rates changed little during the year, fluctuating around $3\frac{7}{8}$% for prime bank bills (a smaller margin over Treasury Bills than usual in recent years) and between 5% and $5\frac{1}{2}$% for trade bills of good average quality.

Rates for three months' loans to local authorities, after rising to $4\frac{1}{2}$% in the spring, declined from mid-May to reach 4% by mid-September. Thereafter they rose gradually to about $4\frac{1}{2}$% at the end of the year. They subsequently fell back slightly, but rose about $\frac{3}{4}$%, to $5\frac{1}{8}$%, after the change in Bank Rate. The larger hire purchase finance houses offered between 4% and $4\frac{1}{2}$% for three months' money throughout most of the period; they increased their rates by rather less than 1% after the rise in Bank Rate. Almost throughout the year—and especially in March and April 1963—dollar deposits in London offered a higher return, allowing for the cost of forward cover, than three months' money with local authorities or finance houses; and it is possible that this led to some withdrawal of overseas funds from these borrowers.

Gilt-edged Medium and long-term interest rates rose in the early months of 1963, when the gilt-edged market was sensitive to the weakness of sterling and the uncertain economic outlook. In March sentiment improved and these rates were tending to fall until October (although throughout the year they were generally higher than in other leading financial centres). During this time official sales of stocks were generally light : a moderate fall in yields seemed appropriate to the time; and the authorities were also more disposed to increase the supply of Treasury Bills than to sell stock, because of the shortage of Bills in the market, and because they did not wish to tighten bank liquidity.

It was in line with this objective that in April only £400 million of a new 5% Exchequer Loan 1976/78 was issued at the same time as it was announced that the two June maturities amounting to nearly £1,000 million (£341 million 3% Exchequer Stock 1962/63 and £653 million $4\frac{3}{4}$% Conversion Stock 1963) would not be converted. In the summer, too, steps were taken to encourage a series of fixed interest issues by borrowers other than H.M. Government. These helped to moderate the decline in yields without affecting bank liquidity to the extent that official sales of stocks would have done.

In October gross redemption yields on the longest-dated stocks were about $5\frac{1}{2}$% compared with 6% at the end of February. The tone then changed, partly because plans for increased public expenditure published in November and December aroused fears of a considerable growth in government borrowing; and by the end of February 1964 these yields were again around 6%. Official policy did not oppose this change, and operations were mainly concentrated on smoothing undue fluctuations in prices.

Two other issues of government stock were made during the year: in September £500 million of 4% Exchequer Loan 1968 was issued in order to supplement the official holdings of short-dated stocks which could be offered in exchange for the 1964 maturities; and in February 1964 £400 million of 5¼% Funding Loan 1978/80 was issued to replenish official holdings in the medium-dated range.

Other long-term rates Among the longer-term market rates, local authority mortgages were little changed throughout the period at around 5¾%. Borrowing by companies was concentrated more heavily than usual on loan capital as against ordinary shares. Debenture yields followed the gilt-edged market fairly closely; the yield on 20-year stocks, for example, fell from about 6¼% to a little under 6% between March and October, but this movement had been reversed and a little more by the following February.

Equities After remaining between 101 and 106 from the end of February to July, the F.T.-Actuaries index of industrial ordinary share prices began to reflect the growth of business confidence and it reached 117 by the end of December. But during January there was a reaction, due to political uncertainty and fears about the possible need for new policies of restraint. There was a small recovery in February, at the end of which the index stood at a little under 112.

Foreign loans in London In August 1963 the Japanese Government were permitted to issue £5 million of bearer bonds in London, in order to re-finance a sterling loan maturing the following December. Except for some loans to Scandinavian countries, this was the first sterling issue since the war on the London market by a country outside the Scheduled Territories. In October the Chancellor of the Exchequer announced that a rather wider range of overseas borrowers would in future be allowed to borrow sterling in London; and the Bank took this opportunity to summarise present policy in a circular to issuing houses and other interested institutions. This explained that applications to raise loans would be considered from central governments of countries in the Scheduled Territories or in the European Free Trade Association, or borrowers guaranteed by those governments; public bodies in the less developed Commonwealth countries; private borrowers in the Scheduled Territories; and any borrower, other than governments, where the proceeds of the loan were to be spent on additional purchases of goods and services in the United Kingdom. Subsequently, in March 1964, the list was extended to include the Government of Finland and borrowers guaranteed by them.

The year 1963 also saw a series of foreign-currency issues which were arranged through London. Leaving aside a private placing by the Belgian Government of three-year bonds with various banks in May, which was somewhat exceptional (as was a second similar loan issued in December), the first of these loans came early in July when an Italian company raised U.S.$15 million by the issue of 15-year bonds. Later in the same month the U.S. Administration put forward proposals for new taxation to discourage foreign borrowing in the United States, and thereafter the number of foreign currency issues in London increased rapidly. Besides those already referred to, others borrowing in this way to the end of February 1964 included the Austrian Government and bodies in Denmark, Norway, Israel and Japan. All these loans were denominated in U.S. dollars except for one in Swiss francs. They were mostly in bearer form and placed by syndicates of U.K. and foreign banks in London and abroad. U.K. residents were only allowed to invest in these bonds with investment dollars, apart from the special case of the Belgian Government bonds which the banks concerned took up by employing foreign-owned dollar deposits.

Gold Private demand for gold was fairly persistent throughout the year to end-February 1964; and particularly so in July and August when there was some uncertainty about the United States' balance of payments position and the efficacy of the measures taken to correct it. There was, however, no occasion to use the central banks' sales consortium (the consortium, and the buying syndicate mentioned below, were described in an article on the London gold market in the Bank's *Quarterly Bulletin* for March 1964). Substantial sales were made by the U.S.S.R. during September to November to finance grain purchases; and these, together with new production from other sources, were much more than enough to meet private demand. During the calendar year 1963 the Bank bought over U.S.$600 million of gold on behalf of the central banks participating in the buying syndicate; and further such purchases were made early in 1964. Between March 1963 and February 1964, the U.S. dollar equivalent of the daily fixing price in London ranged from $35·06$\frac{3}{8}$ to $35·12 per fine ounce, a narrower spread than for some years previously.

BALANCE OF PAYMENTS

The balance of visible trade, allowing for the usual seasonal changes, moved into surplus in the first quarter of 1963 when imports were little changed and exports were buoyant. During the second half of the year, as the economy expanded, imports rose more rapidly than exports and the trade balance moved back into deficit. Taking 1963 as a whole, however, the trade deficit was rather smaller than in 1962. Net invisible earnings on private account were well maintained (though there was a further small increase in net government expenditure abroad), but the improved surplus on current account was accompanied by a larger net outflow of long-term capital. This in turn was chiefly due to changes in portfolio transactions by both U.K. and overseas residents. As a result, the balance on current and long-term capital accounts moved from a small surplus in 1962 to a small deficit in 1963.

When sterling came under pressure early in 1963 there were substantial withdrawals of private short-term capital and these, together with some official sales of sterling in anticipation of the amendment of the European Monetary Agreement, were reflected in a sharp reduction in the first quarter of sterling liabilities to countries outside the sterling area. The reserves would have fallen by £107 million in February and March but for the receipt, as already described, of short-term currency deposits totalling £89 million from West European central banks. At the same time the reserves were helped by the improving payments position of countries in the sterling area.

These countries continued to build up their sterling balances during the rest of 1963; and after confidence was restored holdings of other countries also rose appreciably. From April to December 1963, if special transactions are excluded, the reserves showed an unbroken series of modest increases. But some of these special transactions—notably the repayment in June of the assistance received earlier in the year and the servicing in December of the U.S. and Canadian loans—were substantial; and the reserves fell by about £50 million in 1963 as a whole. There was a further small rise in January 1964, but a fall of £17 million in February when sterling was again under pressure.

Identified monetary movements in 1963 were unfavourable by as much as £155 million, considerably more than was implied by the recorded deficit on current and long-term accounts. Accordingly, there was a large negative balancing item. The pattern of international money and forward exchange rates offered little incentive for substantial transfers of short-term funds except early in 1963 during the speculative attacks on sterling. But for much of the year it was slightly unfavourable to sterling and some outflow on interest rate grounds may well have gone unrecorded. It is also likely that in a period when exports were expanding rapidly there was an increase in unrecorded trade credit.

INTERNATIONAL DEVELOPMENTS

Conditions abroad

The substantial increase in U.K. exports in 1963 was a reflection of rising activity abroad. The U.S. economy continued to expand throughout 1963, with government spending and industrial fixed investment providing an appreciable stimulus. Production, personal incomes and profits reached new levels, while prices remained generally stable. The relatively high unemployment rate, however, scarcely changed. Substantial tax cuts were enacted in February 1964 to reduce unemployment through more rapid growth; and provision was made for some further cuts in 1965.

In Western Europe as a whole the chief expansionary forces were public expenditure and, as incomes rose, personal consumption. Private fixed investment—apart from house building—was generally weak. Labour markets were tight and profit margins under some pressure. Prices tended to rise rapidly and many countries took measures to moderate the growth of demand. In Japan, also, a rapid rise in imports and prices necessitated monetary restrictions.

This increased activity in the industrial countries helped primary producers. Demand for primary products was strong, and prices of many foodstuffs and industrial raw materials rose appreciably.

The most rapidly growing market for U.K. exports in 1963 was again Western Europe. Exports to the overseas sterling area, which had been little changed in the two preceding years, also expanded strongly; and exports to the United States rose from the second quarter onwards. There was also a rise in U.K. trade with the U.S.S.R. and other East European countries. These countries showed growing interest in purchasing industrial equipment, including some complete factory installations, from Western Europe; whilst poor harvests, especially in the U.S.S.R., led to large imports of grain from North America and Australia.

The Kennedy Round of tariff reductions, designed to stimulate international trade, is under discussion in the G.A.T.T.; the United Nations Conference on Trade and Development has been examining the trading problems of the developing countries. Meanwhile, countries in both the European Economic Community and the European Free Trade Association have continued to reduce tariffs on industrial goods traded within each area.

International payments The international payments scene was again dominated by the U.S. balance of payments deficit on the one hand and the surpluses of some West European countries on the other, Italy being a notable exception.

In the first half of 1963 the U.S. balance of payments worsened considerably, mainly because of an increased outflow of private capital. In July President Kennedy sent a special message to Congress proposing measures to stem this outflow, including an interest equalisation tax to discourage foreign borrowing in the United States. Short-term interest rates were also increased. In the second half of the year, the capital outflow was smaller and exports rose, sharply reducing the deficit so that in 1963 as a whole there was some improvement over 1962. The improvement continued into 1964.

There were significant increases during 1963 in the reserves of a number of West European countries, particularly France and Western Germany. Western Germany further increased its trade surplus, but otherwise the increases were largely due to continuing capital inflows, and early in 1964 Western Germany and Switzerland both introduced measures to check these flows. As against this, inflationary developments led to a deterioration in the current trade of several countries, especially Italy whose official reserves fell sharply towards the end of 1963 and early in 1964. As a group, the primary-producing countries were tending to increase their reserves thanks to their improved trading position and increased aid.

Co-operation Co-operation in the field of international payments has continued. The assistance provided to the United Kingdom when sterling came under pressure early in 1963 has already been mentioned. In August the U.K. standby of U.S.$1,000 million from the International Monetary Fund was renewed for a further year as a safeguard against possible pressures on the balance of payments.

During 1963 the swap arrangements negotiated by the United States with a number of leading industrial countries and the Bank for International Settlements were increased from a total of $900 million to $2,050 million. Among these, in May 1963, a $50 million swap facility between the Federal Reserve Bank of New York and the Bank of England, which had been in existence during the previous twelve months, was increased to an amount of $500 million.

The facility is on a standby basis available to be drawn upon by either party as the need arises. In January 1963, the Federal Reserve Bank drew the equivalent in sterling of $25 million for three months. At maturity in April the swap was extended at the Bank of

England's request; it was liquidated in mid-July. Following the assassination of President Kennedy in November 1963, the Federal Reserve Bank drew the equivalent in sterling of $10 million for use in the exchange market, but sufficient sterling was acquired by the Federal Reserve Bank shortly afterwards for the swap to be liquidated early in December in advance of maturity.

The U.S. Treasury also issued to foreign central banks non-marketable medium-term convertible securities mainly denominated in the currency of the creditor and amounting to the equivalent of about U.S.$700 million, so helping to finance the U.S. deficit. France and the Netherlands made advance repayments of debt to the United States, and the United States obtained a standby from the I.M.F. of U.S.$500 million. Throughout 1963, action continued to be taken to discourage short-term speculation against the two main reserve currencies. The very small disturbance in the exchange markets after the death of President Kennedy may be seen as evidence of the success of this international co-operation.

At the annual meeting of the I.M.F. in 1962 the Chancellor of the Exchequer had referred to the possibility that international liquidity might become inadequate as world trade increased, and to the strains that might thereby fall on the reserve currencies. At the meeting in 1963 discussions were again centred on this problem and, while it was accepted that there was no immediate need for changes in the international monetary system, it was announced that representatives of the ten countries which were parties to the I.M.F. borrowing scheme would examine the outlook for the functioning of the international monetary system and its future needs for liquidity. At the same time the Fund itself would further examine the subject on broad lines, with particular emphasis on ways in which the Fund could contribute towards a solution. These studies proceeded throughout the year as a fore-runner to further discussion at the next annual meeting of the I.M.F.

In Europe monetary problems have also remained under review in the Organisation for Economic Co-operation and Development, in the monetary committee of the European Economic Community and between the members of the European Monetary Agreement. Towards the end of 1963 the Board of Management of the E.M.A. again reviewed the working of the Agreement but decided against making substantial alterations until the results of the wider discussions on international liquidity were available. The monthly meetings of the Board of the Bank for International Settlements continued to provide a forum for the exchange of views between central bankers; and the B.I.S. itself continued through various gold and currency swap operations to make its usual helpful contribution in the international payments field.

The arrangements for I.M.F. assistance to primary-producing countries which are in difficulties through fluctuations beyond their control in their export earnings, were used during 1963 for the first time when drawings were made by Brazil and Egypt.

International Bank for Reconstruction and Development

The balance of payments difficulties faced by many developing countries, and particularly the growing burden of debt service, are tending to reduce the opportunities for I.B.R.D. loans. What is more, in some of the developing countries, the more easily manageable projects are already being financed. In these circumstances the I.B.R.D. is considering whether it should broaden its activities, for example by giving more help than hitherto to agriculture and education in the early stages of a country's development, and whether in appropriate cases it should modify the terms on which it lends.

International Development Association

The I.D.A., which lends to developing countries for long periods at low interest rates for a wide range of projects, continues to play an important part. The Executive Directors have proposed that the industrial countries should provide new resources for the Association, amounting to U.S.$750 million, payable in three equal annual instalments, the first being due in November 1965. The United Kingdom's share is equivalent to $96,600,000.

Other finance for developing countries

The Development Assistance Committee of the O.E.C.D. continued actively to co-ordinate the aid policies of member countries. For example, in view of the rapidly increasing burden of debt service on the developing countries, member countries of the Committee agreed to try to bring the terms of their aid more into line with one another, which for some would mean easing the terms of their loans. H.M. Government for their part have agreed to ease their terms, where the circumstances of the receiving country justify it, by lengthening the periods of loans and the grace periods for capital repayments and by waiving interest payments in the early years. A number of loans have been so agreed. The Committee are continuing to study the problem of debt servicing which is being complicated by the growing volume of short to medium-term commercial credit, usually in the form of suppliers' credit and guaranteed by official credit insurance institutions. If this continues to increase at the present rate, it could offset the relief to the developing countries' balance of payments which the easier terms on which official assistance is being made available is intended to provide. Another problem being studied by the Committee is the tendency—experienced by donor countries and the international institutions—for the time between commitments and disbursements to lengthen, and for the total of undrawn facilities to increase accordingly.

The United Kingdom has taken part in a number of consortia and consultative group arrangements dealing with the problems of particular countries or areas. Notable among these are the consortia organised by the I.B.R.D. for co-ordinating international aid for India and Pakistan.

In general, increasing emphasis is being placed upon the contribution that technical assistance can make. U.K. expenditure on technical assistance amounted to £29 million in 1963/64, more than six times as much as in 1957/58. Altogether, U.K. government aid in 1963/64 amounted to £175 million, more than twice the amount in 1957/58.

BANK OF ENGLAND

29TH FEBRUARY 1964

ISSUE DEPARTMENT

	£		£
Notes Issued		Government Debt	11,015,100
In Circulation	2,429,974,703	Other Government Securities	2,437,955,295
In Banking Department ...	20,386,316	Other Securities	768,239
		Coin other than Gold Coin	261,366
		Amount of Fiduciary Issue ...	£2,450,000,000
		Gold Coin and Bullion ... (@ 250*s.* 11*d.* per oz. fine)	361,019
	£2,450,361,019		£2,450,361,019

2nd March 1964 J. Q. HOLLOM, *Chief Cashier.*

BANKING DEPARTMENT

		£			£
Capital		14,553,000	Government Securities ...		297,810,857
Rest		3,919,567	Other Securities		
Public Deposits (including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts)		9,854,768	Discounts and Advances	£32,352,664	
Other Deposits			Securities	£24,891,738	57,244,402
Bankers	£276,809,327		Notes		20,386,316
Other Accounts	£71,127,868	347,937,195	Coin		822,955
		£376,264,530			£376,264,530

2nd March 1964 J. Q. HOLLOM, *Chief Cashier.*

Half-yearly payments of £873,180 were made to H.M. Treasury on the 5th April and the 5th October 1963 in pursuance of Section 1 (4) of the Bank of England Act, 1946.

NOTE CIRCULATION

Changes in the note circulation in recent years are shown in the following tables:

VALUE OF NOTES ISSUED, PAID AND IN CIRCULATION

£ millions

Year to end of February	**1960**	**1961**	**1962**	**1963**	**1964**
Issued	1,861	2,067	2,268	2,403	2,672
Paid	1,759	1,970	2,179	2,396	2,551
In circulation at the end of year	2,116	2,213	2,302	2,309	2,430
Increase in circulation as % of previous year's total	5·1%	4·6%	4·0%	0·3%	5·2%

VALUE OF NOTES IN CIRCULATION BY DENOMINATIONS

£ thousands

End of February	**1960**	**1961**	**1962**	**1963**	**1964**
10*s.*	100,686	99,468	103,714	95,481	96,985
£1	1,218,636	1,153,329	1,091,365	982,963	1,024,525
£5	686,898	848,649	998,491	1,124,132	1,179,277
£10	509	476	447	400	16,012
£20	225	199	193	185	178
£50	447	397	382	357	339
£100	792	690	660	628	586
£500	64	61	57	52	50
£1,000	86	82	82	74	73
Over £1,000(1)	107,550	109,150	106,750	105,050	111,950
	2,115,893	2,212,501	2,302,141	2,309,322	2,429,975

(1) Held only within the Bank of England, on behalf of customers, *e.g.*, for banks of issue in Scotland and Northern Ireland as cover for their excess note issues.

The issue of £20, £50, £100, £500 and £1,000 notes was discontinued in 1943. The issue of £10 notes was suspended between 1943 and the 21st February 1964.

DENOMINATIONS OF NOTES

Percentages by value of total circulation

End of February	**1956(1)**	**1962**	**1963**	**1964**
10*s.*	5·3	4·5	4·1	4·0
£1	75·9	47·4	42·6	42·2
£5	13·5	43·4	48·7	48·5
£10	0·2	0·1	0·1	0·6
£20-£1,000				0·1
Over £1,000	5·1	4·6	4·5	4·6
	100·0	100·0	100·0	100·0

(1) Before the introduction, in February 1957, of a new £5 note.

The note circulation reached a peak of £2,598 million on the 18th December 1963; this was £94 million higher than the previous peak figure of £2,504 million reached on the 31st July 1963 and £145 million higher than the Christmas peak in 1962.

£10 notes of a new design were first issued on the 21st February 1964. This completed the series bearing portraits of Her Majesty the Queen, plans for which were announced in November 1959. £10 notes, printed in black on white paper, were last issued in April 1943; there are about 38,000 of these notes still in circulation.

At present about 49% of the total value of notes in circulation is represented by £5 notes, against 14% in 1956; the increase in their popularity since the issue of the new and smaller note in 1957 had demonstrated the scope for higher denominations, and many requests had been received for an issue of £10 notes. The greater use of larger denominations follows a trend already established in many countries and is welcomed by the Bank because it promises to reduce the numbers of notes that have to be printed. The present rate of issue is running at over 2,000 million notes of all denominations a year.

The Fiduciary Issue rose on balance over the year by £100 million to £2,450 million. The changes were as follows :

£ *millions*						
1963	March	1st	...			2,350
	April	4th	...	+50		
	June	5th	...	+50		
	July	15th	...	+50		
	July	24th	...	+50		
	August	14th	...		−50	
	August	23rd	...		−50	
	November	25th	...	+50		
	December	3rd	...	+50		
	December	10th	...	+50		
	December	17th	...	+50		
	December	31st	...		−50	
1964	January	3rd	...		−50	
	January	9th	...		−50	
	January	16th	...		−50	2,450

A further Order under the Currency and Bank Notes Act, 1954, authorising the maintenance of the Fiduciary Issue at levels above £1,575 million for two years from the 14th March 1964, was made on the 24th February 1964; the previous Order was dated the 26th February 1962.

TAX RESERVE CERTIFICATES

The following table shows the number and value of applications for certificates received in the Bank over the last few years and the value of certificates surrendered :

Year to end of February	Rate of interest in force at end of February	Applications		Surrenders			Change during year	Outstanding at end of period
		Number	Total value	Cancelled in payment of taxes	Repaid without interest	Total		
	%	*000's*	*£ millions*					
1959	2¼	73	371	304	4	308	+63	396
1960	2½	75	295	341	3	344	−49	347
1961	3	91	391	337	9(1)	346	+45	392
1962	3¼	104	374	364	3	367	+ 7	399
1963	2¼	94	279	323	4	327	−48	351
1964	2¼	92	249	307	3	310	−61	290

(1) These surrenders were largely offset by purchases of new certificates bearing a higher rate of interest.

MANAGEMENT OF STOCK REGISTERS

The nominal totals in recent years (and, for 1964, the number of accounts) of the different groups of stocks managed by the Bank are given below :

£ millions End of February	1961	1962	1963	1964	Number of accounts *000's* 1964
British government securities :					
Stock	15,716	15,084	17,716[1]	17,965	2,217
Bearer Bonds	13	13	13	15	—
Total	15,729	15,097	17,729	17,980	2,217
Other securities :					
Government guaranteed	3,311	3,300	1,851[1]	1,837	286
Commonwealth, etc.	214	230	237	251	99
Local authorities	241	253	298	352	123
Public boards, etc.	76	85	82	88	32
Miscellaneous	15	15	15	15	1
Total	3,857	3,883	2,483	2,543	541
Grand total	19,586	18,980	20,212	20,523	2,758

(1) On the 1st January 1963, the full liability for stocks of the British Transport Commission (£1,443·6 million) was assumed by H.M. Treasury under the Transport Act, 1962.

NOTE: The figures for British government securities do not include Tax Reserve Certificates and interest-free loans, nor amounts on the Registers of the Bank of Ireland, the Post Office Savings Department and the Trustee Savings Banks.

Operations undertaken during the year included :

REPAYMENTS

At par

		£ millions
3% Exchequer Stock 1962/63	14th June 1963	339·4
4½% Conversion Stock 1963	15th June 1963	650·7
Government of Newfoundland 3% Guaranteed Stock 1943/63 ...	1st July 1963	10·7
Agricultural Mortgage Corporation Limited 3½% Debenture Stock 1961/63	20th September 1963	2·6
Government of Southern Rhodesia 3½% Stock 1953/63	1st November 1963	1·4
Hull Corporation 3½% Redeemable Stock 1958/63	1st December 1963	1·0

ISSUES

For cash

			£ millions
5% Exchequer Loan 1976/78	@ £96%	22nd April 1963	400
London County 5½% Stock 1985/87	@ £98%	25th June 1963	25
Agricultural Mortgage Corporation Limited 5½% Debenture Stock 1993/95	@ £98:10*s*.%	11th July 1963	10
Government of the Federation of Malaya 6½% Stock 1973 (renamed Government of Malaysia 6½% Stock 1973 with effect from the 16th September 1963)	@ £98%	19th July 1963	5
4% Exchequer Loan 1968	@ £98%	25th September 1963	500
New Zealand Government 5½% Stock 1974	@ £96:10*s*.%	14th January 1964	15
London County 5½% Stock 1982/84	@ £95:10*s*.%	31st January 1964	30
5¼% Funding Loan 1978/80	@ £96:10*s*.%	19th February 1964	400

Federation of Rhodesia and Nyasaland

On the 1st January 1964, after the dissolution of the Federation of Rhodesia and Nyasaland and in accordance with the provisions of the Federation of Rhodesia and Nyasaland (Dissolution) Order in Council, 1963, holdings of Government of the Federation of Rhodesia and Nyasaland stocks were replaced by separate holdings of Southern Rhodesia, Northern Rhodesia and Nyasaland stocks at the rate of £52·120, £37·127 and £10·753, respectively, for each £100 nominal of Federation stock.

The stocks affected were:

	£ *millions*
Government of the Federation of Rhodesia and Nyasaland 4% Stock 1972/74 replaced by:	
Government of Southern Rhodesia 4% Stock 1972/74	4·6
Government of Northern Rhodesia 4% Stock 1972/74	3·3
Government of Nyasaland 4% Stock 1972/74	·9
Government of the Federation of Rhodesia and Nyasaland 5% Stock 1975/80 replaced by:	
Government of Southern Rhodesia 5% Stock 1975/80	4·7
Government of Northern Rhodesia 5% Stock 1975/80	3·4
Government of Nyasaland 5% Stock 1975/80	1·0
Government of the Federation of Rhodesia and Nyasaland 6% Stock 1976/79 replaced by:	
Government of Southern Rhodesia 6% Stock 1976/79	4·9
Government of Northern Rhodesia 6% Stock 1976/79	3·5
Government of Nyasaland 6% Stock 1976/79	1·0
Government of the Federation of Rhodesia and Nyasaland 6% Stock 1978/81 replaced by:	
Government of Southern Rhodesia 6% Stock 1978/81	5·0
Government of Northern Rhodesia 6% Stock 1978/81	3·5
Government of Nyasaland 6% Stock 1978/81	1·0

The registers for the new stocks were set up with effect from the 1st January 1964. In all some 10,000 Federation stock accounts had to be converted. A computer was used to calculate the amounts of the new holdings and to print advices showing the amounts of both old and new securities. These were despatched with an explanatory notice to every first or sole stockholder on the 1st January and the Federation stock certificates were called in for exchange over the succeeding weeks.

Mechanisation

The preparation of dividend payments by computer, which started in 1960, has gathered momentum with the delivery of further equipment. Well over 1¾ million of the 2¾ million stock accounts have now been converted to the new system and the change-over should be completed during the first half of 1965. With the delivery of another computer at the end of 1964, it is intended to keep the extracts of the account records from which the dividends are prepared on magnetic tape instead of punched cards.

Magnetic characters are being incorporated for the first time in the Bank's dividend warrants for use in connection with an experiment in high speed sorting. At present the experiment is confined to the inclusion of warrant number, the Bank's sorting code number, payment number and a code number of the stock.

Stock Transfer Act

The Stock Transfer Act, 1963, designed to simplify the method of transfer of certain fully paid securities, came into operation on the 28th October 1963. The new stock transfer form, although designed primarily for stocks dealt in for the Stock Exchange account, is also applicable to the transfer of stocks in the gilt-edged market. Its introduction has raised no problem for the Bank, who have found the form simpler to process than the common form of transfer which it has largely replaced.

BEARER SECURITIES

On the 1st August 1963, a general permission under the Exchange Control Act, 1947, for the issue of securities in bearer form was given in respect of any new issues which otherwise conformed with Exchange Control requirements. Although this permission did not extend to the issue of bearer securities in exchange for registered securities in existence on that date, the Bank announced that they would give favourable consideration to applications from those who wished to make such issues. The Exchange Control requirement that bonds to bearer held in the United Kingdom must be lodged with an authorised depositary remains in force.

Earlier in the year, with the agreement of H.M. Treasury, the Bank started to reintroduce bearer documents for British government stocks. The first bearer bonds of the new series were made available in June 1963 to holders of 3½% War Loan, and the facility is gradually being extended to other British government issues. It is hoped that by the middle of 1964 some fifteen stocks will have been included. Demand for this facility has been comparatively small; between June and the end of February 1964 only some 5,000 bonds with a total value of just under £4 million were issued; moreover, in the same period about half of these new bonds were later converted into registered form.

EXCHANGE CONTROL

Besides the relaxation in the regulations regarding the issue of securities in bearer form described immediately above, the main changes in the administration of Exchange Control during the year were as follows :

Foreign currency borrowing for portfolio investment

10*th May* 1963

A U.K. investment trust received permission to raise a long-term loan in foreign currency for the purpose of making portfolio investments in foreign currency securities, and it was made known that the Bank would in future consider applications for similar facilities.

New issues of foreign currency securities

1*st July* 1963

Arrangements were concluded, with Exchange Control consent, for a placing of U.S.$15 million 5½% Guaranteed Bonds 1972/78 by an Italian company to be made through London, and for the bonds to be dealt in on the London Stock Exchange against payment in U.S. dollars. Non-residents were thus enabled to buy and sell the bonds freely in London; transactions by U.K. residents were governed by the rules which apply to dealings in foreign currency securities outside the Scheduled Territories. This was the first of several similar issues of foreign currency securities which were made by overseas borrowers through London houses.

Access to the London market

17*th October* 1963

A notice was issued indicating the categories of borrowers from whom H.M. Treasury would consider applications to raise new sterling capital on the London market. So far as residents outside the Scheduled Territories were concerned, these comprised :

(i) the central governments of countries in the European Free Trade Association, and bodies whose borrowing was guaranteed by those governments;[a] and

(ii) subordinate authorities and private borrowers in any country, provided that the proceeds of the loans were to be spent on additional goods and services in the United Kingdom.

[a] In March 1964 this facility was extended to Finland.

Dealers in foreign currency securities

29th November 1963

The Bank stated that they would consider applications by jobbers and other security dealers in the United Kingdom for permission to arrange day-to-day borrowing of foreign currency from U.K. banks or from non-residents for the sole purpose of financing a 'book' in foreign currency securities.

Exports

16th December 1963

H.M. Treasury published a new general permission in order to simplify the Exchange Control procedure relating to exports from the United Kingdom to any destination outside the Scheduled Territories. As a result, Form C.D.3 was replaced by a shorter Form C.D.6 which does not require certification by a bank as to the receipt of funds and which, for the majority of exports, can be delivered to H.M. Customs up to six days after export of the goods instead of before export as was formerly the case.

RECENT DEVELOPMENTS IN FINANCIAL STATISTICS

Further progress was made towards developing more comprehensive and consistent statistics for the financial system as a whole. The improvements imposed extra demands on the banks and discount houses, among others, and their willing co-operation is gratefully acknowledged.

Two important new series of statistics were published during the year. The Bank's *Quarterly Bulletin* for June 1963 introduced the quarterly series "United Kingdom External Liabilities and Claims in Sterling" which replaced the less comprehensive "Overseas Sterling Holdings". The new figures show liabilities to overseas residents separately from claims on overseas residents and are subdivided by type of obligation and claim as well as by main classes of holders.

The second new series, also quarterly, was published in December 1963. It shows the main assets and liabilities, domestic and external together, of the whole banking sector, that is of the domestic banks, the accepting houses and overseas banks, and the discount market. The series includes a broad analysis by sectors of deposit liabilities and of advances to customers.

Among other developments in financial statistics, the Bank are now providing estimates of overseas investment in British government stocks. The figures, which are obtained partly from the Bank's stock registers and partly from banks (and their nominees), are used mainly in balance of payments calculations.

These and other recent improvements in statistics have enabled the Bank to compile and publish more comprehensive quarterly details of the sources of government borrowing and a fuller analysis of the holders of government debt. The new figures have also greatly facilitated the analysis of the flow of funds between the main sectors of the economy—public, overseas, banking, and private—and the associated changes in each sector's assets and liabilities. It is now also possible for this purpose to divide the private sector into three sectors—non-bank financial institutions, industrial and commercial companies, and persons—and so to take account of flows within the private sector, such as to the building societies, or into new issues of company securities. An article in the *Quarterly Bulletin* of September 1963 discussed the various flows between these six sectors during 1960, 1961 and 1962. This type of analysis is also being used to examine the more recent past and to consider the implications of possible future monetary conditions.

With the helpful co-operation of Hire Purchase Information Ltd. and hire purchase finance houses the Bank have undertaken a separate enquiry, as described in the *Quarterly Bulletin* of March 1964, into the length of hire purchase contracts for vehicles. The early findings, covering the period from April to September 1963, were published in detail in the March 1964 issue of *Credit*, the quarterly review of the Finance Houses Association.

The co-operation received from various quarters during the year in the development of new financial statistics has been acknowledged. In other respects, too, the Bank have continued to receive much help and co-operation from market institutions, particularly the associations of banks, finance houses, insurance companies, and the commodity markets. This co-operation brings many advantages in the execution of monetary policy, and the Bank wish once again to record their appreciation of the help they have received in this way.

Copies of this Report may be obtained from the Economic Intelligence Department, Bank of England, London, E.C.2.

PRINTED BY GORDON CHALMERS FORTIN AT THE BANK OF ENGLAND PRINTING WORKS
DEBDEN LOUGHTON ESSEX.