COMMENTARY

OCTOBER—DECEMBER 1960

Bank Rate was reduced from 6% to 5½% on the 27th October 1960. The most important of the reasons leading to this decision was the desire to lower short-term interest rates and so help to curtail the flow of overseas funds to London. It was realised at the time that if the inflow continued a further reduction in Bank Rate might become appropriate.

Whether or not such a step could safely be taken would depend on the economic outlook at home. There was little evidence during the next six weeks to justify any substantial change in that outlook. The fall in demand for cars led to a steeper fall in car production and to an increase in short-time working. In industry as a whole, however, skilled labour continued to be scarce; and some important wage negotiations were in progress. The general outlook for domestic costs and prices, together with the unsatisfactory state of the balance of payments, still suggested that any relaxation in credit restriction would have to be approached with caution. Nevertheless, caution did not require rigidity; and at the beginning of December a further reduction in Bank Rate seemed appropriate on domestic grounds, so long as it could again be made without weakening the other measures restraining credit. Accordingly, Bank Rate was reduced from 5½% to 5% on the 8th December.

International capital movements This further reduction in Bank Rate was desirable on external grounds. Large capital movements were still taking place; it was evident that the threat to confidence in exchange stability had yet to be removed. U.S. gold reserves fell by $637 million during the third quarter of 1960 and by $921 million during the fourth quarter. These falls took place despite a continuing surplus in the U.S. balance of payments on goods and services account; for there were substantial transfers of funds from the United States both by U.S. residents and by foreigners on private account.

Just as this outflow of capital outweighed a marked improvement in the U.S. balance of payments on goods and services account, so in the main West European countries, where imports were rising more rapidly than exports, the corresponding inflow more than offset the changed position on trading account. The reserves of most of these countries, after allowing for such special items as advance debt repayments, continued to rise.

During the fourth quarter of 1960, Western Germany's reserves rose by the equivalent of £131 million. This reflected a continuing substantial surplus on goods and services account, and an inward movement of capital. The growth in short-term borrowing abroad by West German residents to take advantage of lower interest rates and, up to the end of October, the repatriation of funds by West German commercial banks to meet pressures on their domestic liquidity each contributed to the inflow of capital.

The measures adopted by Western Germany earlier in the year to restrict the inflow of foreign short-term funds seem to have diverted funds both to other centres and into purchases of equities and long-term fixed interest securities in Western Germany which were not covered by the restrictions; net foreign purchases of these securities amounted to the equivalent of £89 million during the fourth quarter. The rise in West German reserves was most pronounced in October; it persisted during the remainder of the quarter although the rate of capital inflow appeared to have decreased.

In November there was some transfer of funds abroad by West German commercial banks, stimulated partly by the reduction in the discount rate from 5% to 4% on the 11th November but mainly by a temporary improvement in their domestic liquidity position; this flow was reversed in December. Credit restraint in Western Germany was eased further on the 19th January 1961 when it was decided to lower the discount rate from 4% to 3½%, and reduce the minimum reserves required of commercial banks. Such measures could be expected to contribute to an outward movement of capital. At the same time, however, the Deutsche Bundesbank reduced from the equivalent of 1½% to 1% per annum the premium paid to German banks switching deutschemark into U.S. dollars for short periods, thereby lessening the effect of one of the existing inducements to outward movements of capital. Later this premium was reduced further and on the 13th February it was wholly withdrawn.

The restrictions on short-term inward investment in force in Western Germany and also in Switzerland increased the movement of funds to London. In October this inflow, both short-term and to some extent long-term, increased sharply and it was thought appropriate to repay the outstanding portion (the equivalent of £30 million) of the United Kingdom's debt to the International Monetary Fund which arose from the drawing made at the end of 1956.

In November 1960 the Ford Motor Company of America announced the terms of a bid for the minority shareholding of its U.K. subsidiary; and in December the company sold U.S. dollars equivalent to approximately £131 million to the U.K. authorities. The sterling proceeds were temporarily invested in Treasury Bills purchased direct from the authorities and payment was made to the minority shareholders during the second half of January 1961.

After the purchase of U.S. dollars from Fords the authorities made a voluntary payment of some $47 million (equivalent to £17 million) to the I.M.F. The effect of this was to reduce, for the first time, the I.M.F.'s holding of sterling to 75% of the U.K. quota.[a] The bulk of the United Kingdom's reserves is held in the form of gold. Both these payments to the I.M.F. therefore had the effect of reducing the amount of gold that the United Kingdom might otherwise have purchased from the U.S. Treasury and also of increasing the drawing rights available to the United Kingdom in the Fund.

In November the flow of funds to London appeared to slacken. There was no evidence that the deficit on current and long-term capital transactions had declined. Nevertheless, it was clear from the movement in the reserves that the inflow of capital, although smaller, was still sufficient to outweigh the effect on the reserves of the underlying deficit in the balance of payments. Furthermore, U.S. short-term rates had fallen and this had offset much of the effect of the reductions in bank rates in Western Europe so that strains in the international payments situation persisted.

The gold market The most important of the influences affecting the London gold market was large and persistent buying of gold on private account, for attention was focussed on the possibility of a rise in the value of gold in terms of the U.S. dollar and other currencies. From the middle of October to the end of the year the London price of gold in U.S. dollar terms remained consistently above $35·35 per fine ounce, that is at a level of more than 1% over the U.S. parity of $35 per fine ounce. This restricted purchases of gold on the London market by monetary authorities who were members of the International Monetary Fund.

Various political disturbances in the international field also had significant effects on the demand for gold. In particular, concern over events in the Congo, Laos and Algeria was often quickly reflected in determined buying of gold in London. A strong demand for small bars of a high fineness, traditionally required by buyers in the Middle East, probably indicated persistent buying from that area also.

On the 20th October gold was purchased on the London market at prices ranging up to $40 per fine ounce. On the following day the price fell sharply and dealings took place around $37 per fine ounce. This fall in price was caused by the market's reassessment of the exceptional rise that had occurred during the previous day, private sellers entering a market which had tended until then to be dominated by private buyers. The Bank of England operate regularly in the London gold market on behalf of their customers and the Exchange

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[a] 75% is the minimum percentage to which a member may itself reduce the I.M.F.'s holding of its own currency. Because of the low level of its reserves at the time of joining the I.M.F. in 1946, the United Kingdom had been permitted to subscribe more than 75% of its quota in sterling.

Equalisation Account, but it was normal market influences (perhaps not unaffected by an awareness that conversations were then taking place in Washington) which were primarily responsible for bringing the price down to around $36 per fine ounce by the end of October. In the early part of November, nervousness, largely induced by the imminence of the U.S. elections, caused demand to rise sharply and the scale of the Bank's operations had accordingly to be increased to prevent conditions in the market from getting out of hand.

In the middle of November the price steadied at around $35·75 per fine ounce and once more tended, under market influences, to fall slowly. But towards the end of the month, uneasiness over the situation in Algeria, and reflections on the significance of the result of a visit to Western Germany by the Secretary of the U.S. Treasury, caused demand to expand, and once again the Bank of England's intervention had to be increased in order to maintain orderly conditions in the market.

By December the market price had settled around $35·60 per fine ounce. Buyers seemed to consider that a purchase at a lower price was a satisfactory form of investment carrying little risk of loss and, unless there was at the time special concern over the international situation, sellers tended to appear when the price rose.

During the first fortnight in January demand for gold in London increased greatly and the price moved above $35·80 per fine ounce on the 12th January. On the 14th January the U.S. Treasury announced that the U.S. Gold Regulations had been amended to prohibit persons subject to the jurisdiction of the United States from acquiring or holding gold outside the United States and from acquiring or holding securities issued by organisations holding a substantial part of their assets in gold. Gold and securities falling within the scope of the amendment had to be disposed of not later than the 1st June 1961.

Immediately after this announcement the price of gold in London fell below $35·50 per fine ounce. Subsequently a strong demand reappeared and there was further intervention by the Bank of England. Towards the end of January the market was much quieter and turnover fell. On the last day of the month the text of President Kennedy's State of the Union Message became available; it contained a strongly expressed undertaking to maintain the existing gold parity of the U.S. dollar. The price in London immediately fell and by mid-February had reached $35·15 per fine ounce.

The exchange markets

Attention in the foreign exchange markets, as in the gold market, was focussed on the U.S. dollar, which continued to be quoted in the principal continental exchange markets at or near to the limits at which the monetary authorities are accustomed to support it. During the quarter, sterling remained well above parity with the U.S. dollar, although there were minor fluctuations associated with international political developments or with expectations of changes in U.K. short-term interest rates. The strength of sterling reflected the substantial inflow of funds on capital account. Security sterling was quoted at around the rate for external sterling up to mid-December. Thereafter it weakened in anticipation of sales by those minority shareholders of Fords who were resident outside the sterling area, since the market did not expect these sales to be offset by an equivalent rise in demand for other U.K. securities.

Before considering the effects of the two reductions in Bank Rate on the relationship between short-term rates in London and New York, it is convenient first to discuss briefly the behaviour of the U.K. money and capital markets during the period.

Money and capital markets

The three-month Treasury Bill tender rate fell by $1\frac{7}{32}$% over the quarter, from $5\frac{9}{16}$% on the 30th September to $4\frac{11}{32}$% on the 30th December. During this period there was strong competition for Bills, the reductions in Bank Rate being largely anticipated by both the discount market and other tenderers; but the authorities discouraged any abrupt fall in the rate and the market had recourse to the Bank on sixteen occasions compared with six in the previous quarter. The fall in Treasury Bill rates was in consequence a gradual and steady process and at the tenders immediately following each reduction in Bank Rate the fall in the rate was relatively small.

Most other short-term rates were also affected by the reductions in Bank Rate. Over the period rates paid by local authorities for three-month money fell by approximately $\frac{5}{8}$% and several hire purchase finance companies reduced the rates which they offered for such money by 1%. The rate for Tax Reserve Certificates was reduced from $3\frac{1}{4}$% to 3% on the 26th November.

Over the first six weeks of the quarter yields on most short-dated gilt-edged stocks fell by around $\frac{7}{16}$%, in sympathy with the falls in Treasury Bill rates, but for the remainder of the period they were little changed as selling by the clearing banks to protect their liquidity was generally expected. Up to the middle of November the market for medium and long-term gilt-edged stocks was firm; further purchases by overseas investors were reported but official sales restricted the rise in prices. Thereafter, prices of these stocks began to fall; and official activity was reduced. This change was due partly to less overseas buying and partly to a change in the market's expectations; there was a growing feeling that the difficulties in the U.K. balance of payments would be more prolonged than many had once thought.

The market in industrial shares remained generally quiet, being influenced by the weakness of Wall Street and by the announcement of substantial new issues, as well as by some cautionary statements on the economic outlook. On the other hand reflections on the possible effects of the Trustee Investments Bill and the bid by Fords contributed occasional strength.

Short-term rates in London and New York

As explained earlier the most important of the reasons leading to the decision to lower Bank Rate on the two occasions during the quarter was the desire to reduce the movement of short-term money to London. It is not easy to assess the effect of these reductions on the relative attractiveness of short-term interest rates in London and New York, the two financial centres most immediately affected by the movement of short-term funds. Any comparison must involve an arbitrary choice both of investments to be compared, and also of dates, since exchange and money markets customarily attempt to anticipate changes in official discount rates. Furthermore a distinction must be drawn between investment on which the exchange risk is covered forward and that on which it is not.

Neither reduction in Bank Rate came as a surprise to the markets. For this reason, in order to assess the effect of the first reduction on the 27th October, the dates here chosen for comparison are the 5th October, the day preceding the reduction of the French bank rate from 4% to $3\frac{1}{2}$%, which led many to expect a fall in London rates, and the 4th November, by which time rates in London were fully reflecting the reduction in Bank Rate. The most usual comparison made is that between yields on three-month Treasury Bills. Between the selected dates the discount market's selling rate for three-month U.K. Treasury Bills fell by $\frac{11}{16}$% per annum from $5\frac{1}{2}$% to $4\frac{13}{16}$%; over the same period the yield on comparable U.S. Treasury Bills fell, though to a smaller extent, by $\frac{5}{16}$% from $2\frac{7}{16}$% to $2\frac{1}{8}$%. As the reduction in Bank Rate was accompanied by a narrowing of the discount on forward sterling, the margin in favour of covered investment in London fell over this period by only $\frac{1}{16}$%, but that in favour of uncovered investment, which may well have been of almost equal importance at this time, fell by $\frac{3}{8}$%. The dates chosen to assess the effects of the second Bank Rate reduction, on the 8th December, are the 4th November and the 16th December. This comparison shows that the margin in favour of London was unchanged for covered investment but was reduced by $\frac{9}{16}$% for uncovered investment. Despite the two reductions in Bank Rate these margins at the end of the year were still as high as $1\frac{1}{8}$% and $2\frac{1}{16}$% respectively.

In theory there should be few opportunities for persistent covered interest arbitrage between two important financial centres as changes in short-term rates in one centre might be expected to be followed by offsetting changes in forward exchange rates. The persistence of an apparent margin of over 1% in favour of London on covered investment in Treasury Bills therefore casts some doubt upon the validity of such a comparison. In practice it is a useful one, not only because some important investment decisions are influenced by it but also because it is widely used by financial institutions in both London and New York as a convenient yardstick.

Nevertheless, three reservations need to be made. First, Treasury Bills are only one of a wide variety of short-term assets available in both London and New York. For many holders of dollars the usual alternative to investment in U.S. Treasury Bills is investment in other short-term dollar assets. For holders of U.S. dollars the rates obtainable on such assets as three-month U.S. finance company paper, which yielded nearly 3% at the end of the year compared with approximately 2¼% on U.S. three-month Treasury Bills, and three-month dollar deposits with banks in London and other financial centres are important. These dollar deposits in London are mostly re-lent either to banks in other countries who find them a convenient method of obtaining additional resources or to North America. For overseas holders of sterling, who themselves place funds in London, rates paid by local authorities and hire purchase finance companies can be important; these borrowers probably also obtain a substantial proportion of that part of dollar deposits in London which is switched, on a covered basis, into sterling. The tables on pages 40 and 42 of the Statistical Annex show a recent growth in lending to U.K. local authorities by British Overseas Banks and Other Foreign Banks in London; it is likely that a part of this reflects the switching of foreign currency deposits.

Secondly, the amount of short-term money that will move on interest rate grounds during any given period from New York to London is not unlimited. Nevertheless, the rate differential required to induce movements of funds varies according to the circumstances of each investor and even small changes in the relationship of rates may have considerable effects on the volume of funds that moves. The third reservation is that an important part of the funds attracted to London may not be covered forward; this was more true of 1960 than of the immediately preceding years.

These qualifications prevent any precise conclusions being drawn. In general terms it is clear that the reduction in short-term rates in London was partly offset by a continued downward trend of rates in New York. This was a consequence of the policy of "active ease" which was being pursued by the Federal Reserve System to help combat a decline in domestic economic activity, though the System moderated the effect of this policy on Treasury Bill rates by buying, on occasion, short-term bonds rather than Treasury Bills. In so far as short-term investment in London was covered forward, the narrowing of the discount on three-month forward sterling, combined with the fall in New York rates, largely offset the effect on arbitrage margins of the two reductions in Bank Rate.

The external situation in January

By the end of January it was possible to form a clearer picture of developments in the U.K. balance of payments in the fourth quarter of 1960 and of prospects for the early months of 1961. It is convenient first to refer briefly to economic conditions abroad.

It was clear that the U.S. economy was in recession. Gross national product had declined slightly between the second and third quarters. The index of industrial production, seasonally adjusted, had been falling since May and unemployment had been rising. By December industrial production was 4% below its September level and 7% below the high point reached in January. In Canada also, activity was declining and unemployment rising towards the end of 1960.

On the other hand, in the principal West European countries, apart from the United Kingdom, output continued to expand. There had been an apparent slackening in the rate of growth towards the end of the summer. Thereafter expansion was resumed, although at a somewhat slower pace than during the first six months of 1960, probably because in some industries there was a slackening in export demand, itself a consequence of the recession in the United States, and because in most countries output in other industries was approaching the limits of available manufacturing capacity and labour.

About the middle of 1960 prices of primary commodities began to fall gradually and this trend continued for the rest of the year. The incomes of the producing countries declined but their imports continued to grow and some, particularly in the overseas sterling area, found it necessary to take measures to stem a loss of external reserves.

Although the United Kingdom's principal export markets outside North America seemed to have been still growing during the fourth quarter of 1960, U.K. exports rose by only a little more than might have been expected seasonally. Exports of machinery, metals and chemicals expanded, but those of cars continued to suffer from the contraction of their North American market. Exports to countries in the overseas sterling area were disappointing, despite the growth in those countries' total imports. In general there seemed little reason to count on any appreciable rise in exports in the early months of 1961.

Imports, mainly of food, beverages and tobacco, also rose somewhat more than seasonally in the fourth quarter. The decline in prices of primary commodities and reduced production in some U.K. industries helped to check the earlier rapid rise in the value of imports of industrial materials. Imports of capital equipment continued to rise and those of consumer goods to fall. In general there were some signs that the growth of imports as a whole might be coming to an end.

The rise in exports in the fourth quarter was greater than that in imports but the identified deficit on current and long-term capital transactions was probably little different from that incurred in the third quarter. Its impact on the reserves and overseas sterling holdings continued to be mitigated by unidentified receipts, mainly no doubt an inflow of capital, some of it probably long-term.

The reserves rose by £44 million and overseas sterling holdings by £89 million. These increases were affected by the purchase of £131 million by Fords. Apart from this transaction there was a rise of £110 million in the sterling holdings of countries outside the sterling area. The holdings of non-territorial organisations decreased by £55 million, reflecting mainly the United Kingdom's two repurchases of sterling from the International Monetary Fund. A fall of £97 million in holdings of overseas sterling area countries reflected adverse balance of payments positions, notably in Australia, New Zealand and Nigeria.

The domestic situation in January

At the time of the reduction in Bank Rate on the 8th December there was no reason for judging that there had been any significant change in the outlook for the domestic economy since the previous reduction on the 27th October. By January it was possible to see the direction of events more clearly.

During the six months to October 1960 demand for household durable goods and cars had fallen, partly as a result of the re-imposition of hire purchase controls in April; but spending on other consumer goods had increased. In the fourth quarter of 1960 there was probably little further decline in the rate of spending on household durable goods, but there was a sharp fall in expenditure on cars. Consumers' expenditure as a whole was no longer rising and had perhaps even begun to edge downwards. Hire purchase debt outstanding was still falling, mainly because of the continuing decline in new contracts for cars; and in the quarter ended mid-November there was a fall in bank advances to the categories of borrowers most closely concerned with consumer credit.

At the end of 1960 there were grounds for believing that the long awaited slowing down in the rate of stock accumulation was beginning. Some manufacturers were reported to be adopting a more cautious attitude to stocks of materials in the face of the less certain economic prospect. Retail stocks, allowing for seasonal adjustments, had begun to fall in the summer and there was clearly a possibility that the tendency towards a slower accumulation of stocks might soon affect manufacturers. This could lead to a welcome reduction in imports.

Little new information regarding plans for fixed investment was available until the results of a Board of Trade survey of investment intentions carried out in December were published towards the end of January. This survey strongly suggested that the expansion of private investment in industry and commerce had rather more momentum behind it than had hitherto been supposed. On the other hand the rise in private house building seemed to be slowing down. The same was true of investment in the public sector. It was not true, however, of the Government's current expenditure, in which further large increases in 1961/2 had been declared to be inevitable.

Early in January the economic prospect as a whole, including the outlook for costs and prices, still did not warrant any general relaxation of credit policy. It was, however, becoming clear that the hire purchase controls had helped to depress the demand for durable consumer goods to a greater extent than could be justified by the need to restrain domestic expenditure as a whole. Accordingly on the 20th January the Board of Trade increased to three years the maximum repayment period for all those goods for which it had previously been two years. No change was made in the minimum down-payments.

The Bank of England made no change in the Special Deposits which the clearing banks and Scottish banks were required to hold. The mid-January statement of the clearing banks showed their combined liquidity ratio to be 33·1%. There were two factors which it was thought might in some degree offset the usual seasonal pressures on the liquidity ratios of the clearing banks; first, the receipt of money by U.K. shareholders of Fords and secondly, the possibility that funds required for the payment of taxes might be found to a lesser extent than usual by the running down of deposits or the taking of advances. Instead taxpayers might allow holdings of short-term government debt to run off and might sell their holdings of the government stock maturing on the 15th April; some part of these sales would normally be absorbed by the Issue Department. These possibilities and, of greater importance, the feeling that the economic outlook did not warrant any further relaxations caused the authorities to leave the level of Special Deposits unchanged at this time.

QUARTERLY ANALYSIS OF BANKING AND EXCHEQUER STATISTICS

22nd September—14th December 1960[a]

Banking During the quarter Bank Rate was reduced on two occasions by ½%, falling from 6% to 5%; most short-term interest rates fell in line with Bank Rate but yields on medium and long-dated government stocks rose; the policy of restraining domestic credit was broadly maintained. Against this background the underlying downward trend in net deposits, first noticeable in the previous quarter, appeared to have continued. Net deposits with the clearing banks fell by £15 million over the period compared with a rise of £217 million in the corresponding period of 1959. The introduction on the 24th October of the second stage of the clearing banks' credit clearing scheme caused a permanent increase in the " other accounts " component of gross deposits at the expense of net deposits. Even allowing for this, some upward movement in net deposits could have been expected in this period for seasonal reasons.

Advances by the clearing banks rose by £25 million, excluding an increase of £1 million in advances to the nationalised industries. Making some allowance for seasonal factors, which normally exert a downward influence in this quarter, this seems to represent an upward trend of perhaps £35 million per month, broadly in line with the trend in the preceding quarter. At the end of the period there were no signs that the rate of increase was falling. There was further evidence of a change in the pattern of lending following the change in the pattern of expenditure. In the quarter ending in mid-November, advances by all members of the British Bankers' Association rose by £38 million, excluding £16 million to the nationalised industries; there was a further marked rise in lending to the engineering industry of £35 million (9%) and to the iron and steel group of £12 million (15%). In both cases the increases were contrary to the seasonal movement and continued the trend of the preceding quarter. Advances to the " other financial " group fell by £20 million (6%) and to " personal and professional " borrowers by £9 million (1%), the first reductions recorded in these two categories for two and three years respectively.

Pressure on the clearing banks' liquidity ratios continued throughout the period. The rise in their advances was largely matched by a fall in their investments of £24 million, and liquid assets rose only by £123 million,

[a] This period contained twelve weeks compared with fourteen in the preceding quarter and thirteen in the corresponding quarter of 1959.
Figures for the Scottish banks used in this section relate to periods between slightly different dates.

compared with £204 million in the corresponding period of 1959. The bulk of this increase was concentrated in the last four weeks of the period and was accompanied by a switch in the proportion of assets held in the form of call money as opposed to bills. It seems likely that this move took place largely in the period after the reduction of Bank Rate on the 8th December. The banks were probably not then expecting a further immediate fall in short-term rates and were therefore content to increase the amount of money which they held with the discount market, in preparation for the end of the year. Gross deposits rose by £315 million (owing mainly to postal delays in December which caused an unusually large rise in cheques in course of collection and items in transit) and the combined liquidity ratio rose only slightly during the quarter, from 31·6% on the 21st September to 31·9% on the 14th December, an exceptionally early make-up date. On the 16th December 1959 the comparable figure was 34·2%. The transaction with Fords did not affect the clearing banks during December.

Over a roughly corresponding period gross deposits with the Scottish banks rose by £33 million. Their advances increased by £6 million, after falling by a similar amount in the previous quarter, and their investments showed little change, in contrast with a fall of £20 million between June and September: their liquid assets rose.

Exchequer financing The overall budget deficit during the period was £299 million. Extra-budgetary funds, etc., required £17 million, and external items £171 million; the purchase of exchange equivalent to £131 million from Fords being a significant item in the latter figure. The Government's total cash requirement of £487 million showed little change from that of the previous quarter.

Of this requirement, £393 million was financed by an increase in Bank of England notes and in government debt held outside the banking system,[a] either directly, or indirectly[b] through the discount market. This was taken up as follows:

ESTIMATED ACQUISITION OF GOVERNMENT DEBT AND BANK OF ENGLAND NOTES BY HOLDERS OTHER THAN THE EXCHEQUER GROUP[c] AND THE BANKING SYSTEM: 22nd SEPTEMBER-14th DECEMBER 1960

£ millions

Bank of England Notes		+ 69
National Savings ...	+ 43	
Tax Reserve Certificates	+ 79	
Treasury Bills	− 27	
Gilt-edged Stocks ...	+181	+276
		+345
Indirect holdings ...		+ 48
		+393

The sharp rise in holdings of Bank of England notes outside the banking system was mainly seasonal. Net receipts from National Savings totalled £43 million and were running further below the level of 1959 than they had been in the two preceding quarters; Premium Savings Bonds alone showed an improvement on a year earlier. Although the 'financial surplus' of the personal sector was probably rising appreciably during 1960, reduced net receipts from National Savings were not unexpected when there was restraint on bank advances and repayments on hire purchase debt were running at a high rate. (A survey of the majority of the members of the Building Societies Association, which was published in February 1961, showed that during the fourth quarter the net inflow of funds to these members was also smaller than that in the corresponding quarter of 1959.) Receipts from Tax Reserve Certificates were lower than in the previous quarter but repayments were also lower and net receipts again amounted to £79 million. The rate of interest was reduced from 3¼% to 3% on the 26th November; receipts during November were high, probably in anticipation of this reduction, and continued at a high level until the end of the quarter, possibly because a further reduction was being anticipated. There was a fall in Treasury Bills held outside the

(a) " Banking system " means only the London Clearing Banks, the Scottish banks and the Banking Department of the Bank of England, the appropriate figures for other banks being not yet available quarterly.

(b) Changes in the discount market's holdings of government debt are treated as changes in the " indirect holdings " of those from whom the market has borrowed. See Additional Notes, page 57.

(c) The Exchequer, the Paymaster General, the National Debt Commissioners, the Exchange Equalisation Account and the Issue Department of the Bank of England.

banking system of £27 million, despite the acquisition of £131 million on account of Fords, but gilt-edged holdings rose by £181 million, giving a rise in direct holdings of marketable debt of £154 million.

With the Exchequer overall requirement at £487 million, the £393 million raised outside the banking system, as defined, meant that £94 million was raised from within the banking system. This was made up as follows:

ESTIMATED ACQUISITION OF GOVERNMENT DEBT AND BANK OF ENGLAND NOTES BY THE BANKING SYSTEM:
22nd SEPTEMBER-14th DECEMBER 1960

£ millions	Bank of England Notes	Govt. debt held directly	Govt. debt held in-directly	Total
Clearing banks ...	+64[a]	—	+47	+111
Scottish banks ...	+ 5[a]	−14	+22	+ 13
Bank of England, Banking Department	+12	−35[b]	− 7	− 30
	+81	−49	+62	+ 94

The increase in the holding of notes by the clearing banks and Scottish banks reflected seasonal needs.

Changes in direct holdings of marketable government debt, outside the Exchequer Group, as defined, and the Banking Department of the Bank of England, are analysed in the following table:

CHANGES IN HOLDINGS OF TREASURY BILLS AND GILT-EDGED STOCKS:
22nd SEPTEMBER-14th DECEMBER 1960

£ millions	Treasury Bills	Gilt-edged Stocks	Total
Clearing banks ...	+24	− 24	—
Scottish banks ...	−13	− 1	− 14
Discount market ...	+68	+ 42	+110
Overseas official ...	−31	− 13	− 44
Other home and overseas non-official ...	+ 4	+194	+198
	+52	+198	+250

Over the period the discount market increased its borrowing by £100 million and reduced its holdings of assets other than marketable government debt by £10 million. The clearing banks, Scottish banks and other financial institutions were content to increase their lending to the market. Despite keen competition at the Treasury Bill tenders, the market, by frequently raising its bid, was able to acquire a high proportion of the Treasury Bills on offer; and its holdings increased by £68 million over the quarter. The yields on short-dated gilt-edged stocks fell but the average cost of money to the discount market fell more. The rise in the running profit margins on most of these stocks and the market's expectation of a fall in short-term rates contributed to an increase of £42 million in its holdings of short-dated gilt-edged stocks.

The total take-up of marketable government debt by "Other home and overseas non-official" holders was £198 million; excluding the acquisition of the Ford money (which is omitted in all calculations in the remainder of this Analysis) the take-up amounted to £67 million. This represented a sharp decrease on the comparable figure of £365 million for the previous quarter.

This decrease is entirely attributable to a reduction in the group's holding of Treasury Bills and is in contrast to the previous quarter when the group had been a substantial net purchaser of Treasury Bills. One factor here was the increase of £48 million in net lending to the discount market by lenders outside the banking system as opposed to a decrease of £36 million in such lending during the third quarter. The group's take-up of stocks was little changed at £194 million as against £188 million, but the rate at which stocks were taken up diminished sharply during the period.

In the Bulletin dated December 1960 it was estimated that during the third quarter the net inflow of private overseas money might have been of the order of £250 million. Judging from rises in overseas sterling holdings and the exchange reserves the rate of inflow increased in October; subsequently it fell away, and for the fourth quarter as a whole may have been little more than £100 million. Much of the

(a) Including some coin.

(b) This figure represents the change in the Exchequer's "net indebtedness to the Bank of England, Banking Department" excluding any change in the Department's holding of Bank of England notes which in this table is shown separately.

reduction in the inflow is reflected in a smaller rise in non-official overseas sterling holdings, £35 million compared with £118 million.

This diminution, amounting to some £150 million, in the inflow of overseas money was accompanied by an even more marked reduction in the acquisition of marketable government debt by " Other home and overseas non-official " holders. Including the change in marketable government debt held indirectly through the discount market, the total holdings of this group of investors rose by only £115 million in the fourth quarter compared with £329 million in the third. These figures suggest that the reduced inflow from abroad was not the only factor contributing to the smaller acquisition of marketable government debt by this group. It may be that the special factors stimulating such acquisition by " other home " investors in the third quarter, and described in the last Bulletin, lost some of their strength in the fourth quarter.