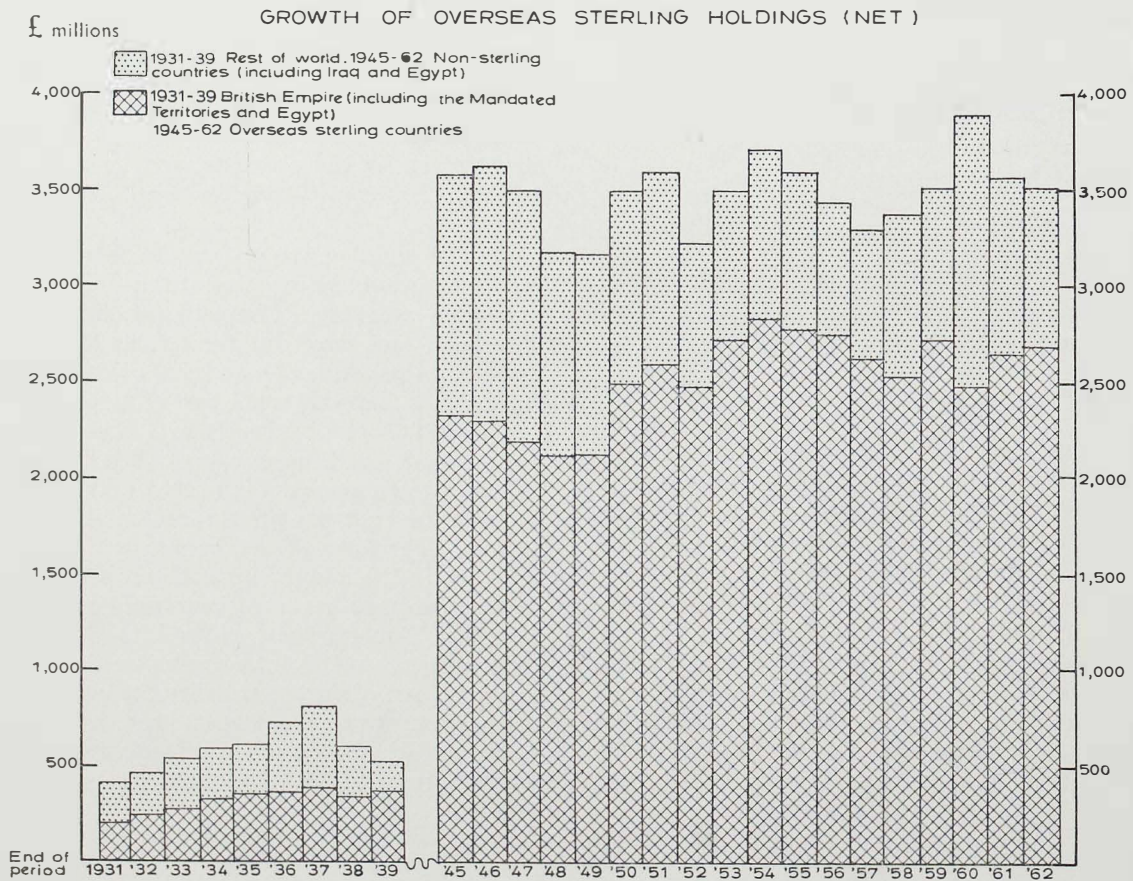


OVERSEAS STERLING HOLDINGS

The willingness of government agencies and residents in other countries to hold sterling for their own convenience is also of advantage to this country. The accumulation of these holdings has augmented the available supply of capital and although the employment of these funds, of course, costs something, the use of sterling as an international currency increases the national earnings through the provision of a variety of services. The fact that the holding of sterling by overseas residents is a voluntary act, and may therefore be affected by confidence, reinforces the need to maintain the quality of the currency. Thus, overseas holdings are an important element in the whole monetary position. This article examines their growth, distribution and character, the motives of

different countries and classes of holders, and the factors which influence movements in their holdings.

The statistics used are, for the period between the end of 1945 and the end of December 1962, those in the series "Overseas Sterling Holdings" (published in earlier numbers of this *Bulletin* and in the Bank of England's *Annual Report* for the year ended 29th February 1960). Since that date, they are those in the new series "United Kingdom External Liabilities and Claims in Sterling" (Table 22 of the Statistical Annex). Broadly they cover the same ground, although they are not strictly comparable. An article in the June 1963 issue of this *Bulletin* introduced the new series, and explained how it differed from the old. Some information from



both series is now published for the first time (see the list at the end of this article). Except briefly at the end, the article excludes from consideration sterling held by international organisations.

For convenience of analysis, holdings are divided into two main groups of countries, "overseas sterling countries" (sterling area countries other than the U.K.) and "non-sterling countries"^(a) following the exchange control definition which forms the basis for the figures in both series of statistics mentioned above. This somewhat rigid division has its limitations because, as explained later, the distinction between the two groups is much less clearly marked than it was in the earlier post-war years. These limitations should be borne in mind throughout.

The growth of overseas sterling At the end of June 1963 gross sterling holdings amounted to £3,800 million, and U.K. claims, which similarly arise from London's international banking activities, to £907 million, giving a net total of £2,893 million. This figure covers the greater part of sterling now held by overseas countries in liquid or readily marketable form and the United Kingdom's short-term claims in sterling on overseas countries. The growth in the net total between 1931 and 1962 is illustrated on the previous page.

From the end of 1931, when the Bank of England first collected information on this subject, up to the war, the United Kingdom's short-term external liabilities (calculated slightly differently from both the post-war statistical series) fluctuated between £400 million and just over £800 million, and both the level and the movements closely matched those of the United Kingdom's own reserves. In the early war years, until Lend-Lease was introduced, the United Kingdom's reserves fell as they were drawn on to buy supplies of all kinds; and throughout the war sterling held by overseas countries rose steeply as payments were made in sterling to countries which became theatres of war, notably India and Egypt, and also to other countries. The rise would have been even greater had not some countries, such

as India, redeemed their long-term sterling debts to the United Kingdom, and had Canada not converted part of her sterling into a long-term dollar loan. Even so, by the end of 1945, the total had reached £3,567 million (old series) of which £2,327 million was held by overseas sterling countries and £1,240 million by non-sterling countries. The largest holders were India and Egypt (including the Sudan). Liabilities on this scale presented a serious problem to the United Kingdom in the immediate aftermath of war. The right solution was a subject of much discussion and some controversy. Here it need only be said that in 1947 and 1948 the U.K. Government reached agreements (since expired) with a number of countries to limit the rate at which their war-time accruals could be drawn down.

Since the end of the war, overseas sterling has fluctuated from time to time, but the total is still much the same. At the end of 1962 the net total was £3,501 million (old series) or £66 million less than at the end of 1945. However, the liabilities are now of a quite different character, and are differently distributed.

End-year figures for the post-war period are summarised in Tables I and II at the end of this article. Holdings of the non-sterling group of countries first rose to a peak of £1,373 million at the end of June 1947, the year in which, for a short period, the sterling holdings of a large number of non-sterling countries were convertible into U.S. dollars. They then fell to £665 million at the end of 1957, but increased again before and after the reintroduction of convertibility for sterling at the end of 1958. During 1960 they rose quite sharply to £1,405 million^(b) because interest rates in the United Kingdom were high and because the U.S. dollar had become a less popular currency with foreign holders. During 1961, when sterling was under pressure, they fell equally sharply. At the end of December 1962 they amounted to £826 million (old series), or some £400 million less than in 1945. Holdings of the overseas sterling group of countries, on the other hand, have tended to move in the opposite direction. They fell gradually to £2,003 million at the end

^(a) Egypt and Iraq are shown throughout the post-war period as non-sterling countries although they were in the sterling area until July 1947 and June 1959 respectively.

^(b) Including £131 million acquired by the Ford Motor Company of America for the purchase of the minority interest in its U.K. subsidiary in the first quarter of 1961.

of September 1949, then increased to £2,822 million at the end of 1954, and have since shown a tendency to fall again, though slowly, to £2,675 million (old series) at the end of 1962.

Holdings of overseas sterling countries The present relationship with sterling of the overseas sterling countries owes much to the way in which the sterling area has developed. These countries hold and use sterling primarily as a reserve currency and as a currency for the settlement of international transactions. These uses had their beginnings in the pre-eminent part played by the United Kingdom in the development of international trade during the 19th century.^(a) The reserve function stemmed essentially from the conduct of trade in sterling, from the range and efficiency of the banking and investment facilities available in London, and from the fact that the local currencies in what is now the overseas Commonwealth were often looked upon as overseas extensions of the currency of the United Kingdom. In many Commonwealth countries local note issues became linked to sterling by statute, and the currency authorities were required to cover their issues with an equivalent amount in sterling. This statutory link itself encouraged the holding and use of sterling. Sterling, it should be noted, meant the gold sovereign up to 1914, while from 1925 to 1931 the United Kingdom operated the gold standard on the basis of gold bullion. When the gold standard was suspended for sterling in September 1931, those countries which used sterling extensively as a reserve and trading currency had to choose between maintaining their link with gold or with sterling. From the decision in favour of sterling emerged the pre-war sterling bloc. Countries in the bloc based the exchange value of their currencies on sterling and consequently held most, and some of them virtually all, of their external reserves in sterling. They comprised all overseas countries within the Commonwealth (except Canada) and a number of countries outside.

With the outbreak of war in 1939 the sterling area became formalised; it was composed of most, but not all, members of the sterling bloc, together with the United Kingdom. (Later the countries in the sterling area were to be defined

as the "Scheduled Territories" in the First Schedule to the Exchange Control Act, 1947.) By mutual consent, the sterling area countries agreed to exercise a common form of exchange control and to follow a common policy to conserve their external reserves by restricting payments to countries outside the area to essential purposes. This policy was continued after the war and was, at that time, aimed particularly at conserving U.S. dollars. Economic recovery led to the gradual easing of restrictions and a lessening of discrimination, at first towards non-dollar sources of supply. With the removal of discrimination against payments to the dollar area, when sterling on external account became convertible at the end of December 1958, the need for discrimination by the overseas sterling countries between payments to sterling and to non-sterling countries disappeared. In practice, therefore, the position has been returning to what it was before the war, when sterling was held by the overseas sterling countries because it was to their commercial and financial advantage, both for external reserve purposes and for international trade and payments.

At the same time, within the overseas sterling group itself, some important developments have taken place. In the post-war years more and more countries within the group have become independent. Many have established central banks, and present legislation now rarely links the currencies of these countries so firmly to sterling as in the past, or requires their reserves to be held in sterling. Some countries have sought to widen their trading connections and consequently now hold currencies other than sterling in their reserves, though, by and large, these are working balances. Certain countries also, for a variety of reasons, some political, hold part of their reserves in gold. South Africa, as a major gold producer, holds by far the greater part in gold. India holds, as part of its currency backing, a gold reserve which has scarcely changed since the establishment of the central bank. Australia holds gold; so do Nigeria, Ghana and some other countries. There is no particular pattern underlying these gold holdings which, as a proportion of reserves, vary from country to country. The reasons for holding gold have to be balanced

^(a) This is covered more fully in *Sterling as an International Currency—Bank of England Memoranda of Evidence to the Radcliffe Committee*, June 1957.

against the need for sterling for international payments; and, unlike sterling, gold does not earn its keep.

Even though the links between their currencies and sterling are looser and trading connections have widened, the extensive facilities of the London markets, the traditional trading links, the wide network of banks centred on London and the range of investment opportunities in London, together remain the most important element in the external financial arrangements of the overseas sterling countries. They still find it advantageous to conduct the bulk of their business in sterling, to hold the major part of their official and unofficial funds in London, and, for practical purposes, to link the external value of their currencies to sterling. Local currencies are quoted against it at fixed rates, while quotations for other currencies are based on the fixed rate for sterling. Foreign exchange earnings are usually sold in the London market; and in most of the overseas sterling countries where an exchange market in currencies other than sterling does exist, it is narrow. The link with sterling continues to be an element of stability, assisting their external trade and commerce.

In the immediate post-war years the common policy of sterling area restraint allowed a sharp distinction to be drawn between the sterling holdings of the overseas sterling countries and those of the non-sterling countries. The convertibility of sterling on external account, together with the evolution of the overseas

sterling group in recent years, has gradually blurred the edges of this distinction. In the overseas sterling group decisions on whether or not to hold sterling are increasingly dependent on considerations of commercial and financial advantage, as they already are in the non-sterling group. Moreover, a number of countries in the non-sterling group with traditional trading links with London are reverting to their practice of holding part of their foreign exchange reserves in sterling. In effect, the sterling area, together with these non-sterling countries, is coming more and more to have the character of the pre-war sterling bloc. A valid distinction between the overseas sterling and the non-sterling groups nevertheless still remains, the main difference being that the overseas sterling countries (except South Africa) hold the major part of their external reserves in sterling, thus accumulating sterling when their balance of payments is in surplus and drawing holdings down when in deficit.

Overseas sterling countries: main movements The table below shows the movements in various groups of sterling countries between end-1945 and end-1954 and between end-1954 and end-1962. The holdings of the various groups at end-years from 1945 to 1962 are shown in Table I at the end of this article. Movements in the holdings of these countries (apart from South Africa), being movements in their main external reserves, correspond broadly with the surplus or deficit of their

OVERSEAS STERLING COUNTRIES: MOVEMENTS IN STERLING HOLDINGS (NET)

£ millions

	Total	Australia, New Zealand and South Africa	India, Pakistan and Ceylon	Carib- bean area	East, Central and West Africa	Middle Eastern countries ^(a)	Far Eastern countries ^(b)	Other overseas sterling countries ^(c)
End-years								
1945-54 ...	+495	+191	-700	+48	+551	+101	+278	+26
1954-62 ...	-147	-33	-514	+47	-328	+313	+329	+39
Holdings at end-1962 (old series)	2,675	452	138	148	427	413	749	348

(a) Persian Gulf territories, Libya and Jordan.

(b) Malaysia, Brunei, Hong Kong and Burma.

(c) Malta, Gibraltar, Mauritius, Fiji and other dependent territories not elsewhere included; Cyprus, the Republic of Ireland and Iceland.

balance of payments. Holdings are particularly sensitive to the prices of, and trade in, primary commodities. In some cases they reflect the policies of governments towards expenditure on development. Distinct seasonal variations also occur in the holdings of some countries (for example, receipts from exports of cocoa tend to assist Ghana's reserves in the first half of a year).

The increase in commodity prices in 1950 and 1951 brought a sharp rise in the holdings of the overseas sterling group. In those years they rose by £474 million, largely because of increases by East and West African countries, Malaya and Singapore, and Australia and New Zealand. Subsequently, when prices fell, and the terms of trade turned against them, some of these countries either ceased to accumulate sterling or drew on their holdings. On the other hand the Persian Gulf territories were soon to start, and have continued, to accumulate substantial amounts in sterling from their oil revenues.

In the 1950's, large-scale expenditure on development within the overseas sterling group was taking place, although the effect on holdings of sterling was reduced by accruals from development loans and other forms of aid and external investment, particularly from the United Kingdom. The pace of expenditure on development in the public sector has been governed by the speed at which administrations have been able to draw up and execute plans in countries where technical skills and capital equipment are usually scarce. As a group, India, Pakistan and Ceylon have drawn down their sterling from £1,352 million at the end of 1945 to under £200 million at the end of 1960, the impact of development expenditure in India and Pakistan being particularly noticeable from 1955. The East, Central and West African group built up their sterling to an end-year peak of £755 million in December 1954; and have since been drawing on it, largely to finance development plans. On the other hand, the holdings of the Far Eastern group, which includes the new Federation of Malaysia, and of the Middle Eastern group have continued to rise.

These general trends are also reflected in the movements in official holdings since 1951, which are set out in Table I. In some countries the proportion of external assets backing the

local currency has been reduced and replaced by local assets, and the surplus funds of some governments have been drawn upon: but the overall fall in official holdings of £196 million during the eleven years end-1951 to end-1962 has not been substantial. No doubt, holdings will run down further as development expenditure gathers pace in Africa, the Far East and the Middle East. On the other hand, the sterling held by the group India, Pakistan and Ceylon has been reduced to a level which is probably regarded by them as barely adequate for their reserve requirements and for financing their overseas trade.

A particular feature of the holdings of overseas sterling countries is that they have not reflected to anything like the same extent the changes in sentiment towards sterling at times of pressure as have the holdings of non-sterling countries. Table III on page 278 (which also covers non-sterling countries) gives quarterly figures covering the periods of September-December 1956, June-September 1957 and March-June 1961, in each of which sterling was under pressure. Non-official holdings of the overseas sterling countries fell in the last quarter of 1956, but official holdings rose slightly. The decline in the total was negligible, and may well have been due to seasonal influences. In the September quarter of 1957 both official and non-official holdings fell. This was the beginning of a balance of payments trend which continued through to September of the following year, and the proportionately larger fall in the September 1957 quarter included substantial official expenditure on development plans. During the 1961 period holdings were rising. This does not mean, however, that international sentiment towards sterling does not affect these countries. Clearly they must have regard for the international purchasing power of the currency in which they hold the bulk of their reserves.

Overseas sterling countries: present position The analysis has so far been largely concerned with past movements and has drawn necessarily on the old statistical series. The new series gives gross liabilities and enables a more detailed analysis to be made both of the types of holder and of the manner in which the sterling is held, as well as of the countervailing U.K. short-term claims.

At the end of June 1963 the gross total of £2,763 million was divided among the various groups of overseas sterling countries as follows :

	£ millions
Australia, New Zealand and South Africa	559
India, Pakistan and Ceylon	225
Caribbean area	195
East, Central and West Africa	390
Middle Eastern countries ^(a)	423
Far Eastern countries ^(b)	675
Other overseas sterling countries ^(c)	296
Total overseas sterling countries	2,763

^(a) Persian Gulf territories, Libya and Jordan.

^(b) Malaysia, Brunei, Hong Kong and Burma.

^(c) Malta, Gibraltar, Mauritius, Fiji and other dependent territories not elsewhere included; Cyprus, the Republic of Ireland and Iceland.

The largest holders were Australia, Hong Kong, Malaysia and the Persian Gulf territories, whose combined holdings totalled £1,307 million, each within the range of £200-£400 million. The combined holdings of India, the Republic of Ireland and New Zealand

amounted to £397 million, each holding between £100-£200 million. Other holdings in the range of £50-£100 million were those of the Bahamas, Brunei, Malta, Nigeria, Pakistan and the Federation of Rhodesia and Nyasaland, which together totalled £484 million. All other overseas sterling countries held less than £50 million each and totalled £575 million. Some 75% of the grand total was held by independent countries.

The table below shows the type of holder and of asset held, and, in addition, the United Kingdom's short-term claims against these holders. Some two-thirds of the gross total was held by central monetary institutions, which comprise central banks, currency boards and governments. About half of this total was held by central banks, whose funds are chiefly required to cover balance of payments deficits and to support the exchange value of their currencies. These are normally held in readily realisable investments, and the larger part of them is, in fact, invested in U.K. Treasury Bills and short-dated U.K. government stocks. The most important holders of funds purely for

OVERSEAS STERLING COUNTRIES: U.K. STERLING LIABILITIES AND CLAIMS BY TYPE OF HOLDER

£ millions, June 1963

Type of holder	U.K. LIABILITIES					U.K. CLAIMS				NET LIABILITIES
	Total	Current and deposit accounts	U.K. Treasury Bills	Commercial bills and promissory notes	British government and government guaranteed stocks ⁽¹⁾	Total	Advances and overdrafts	Commercial bills and promissory notes	Acceptances	
Central monetary institutions ...	1,847	160	700	—	987	16	16	—	—	1,831
Others	916	728	48	32	108	340	232	80	28	576
Total	2,763	888	748	32	1,095	356	248	80	28	2,407

⁽¹⁾ The series covers holdings of central monetary institutions and banks only. An analysis by maturity dates of the holdings by both overseas sterling (£1,095 million) and non-sterling (£53 million) countries showed:

Up to 5 years	Over 5 and up to 10 years	Over 10 and up to 15 years	Over 15 years	Undated	Unallocated	Total
542	396	62	73	48	27	1,148

currency backing are now the boards for the Malaysian area and East Africa, and the exchange fund for Hong Kong. Government funds comprise general revenue surpluses and other reserves.

The gross sterling holdings of non-official holders (shown in the table above as "others") at the end of June 1963 amounted to £916 million. These holdings consist mainly of the working balances of commercial banks and overseas companies (some of which may be U.K.-owned) with their bankers in the United Kingdom. At the same date U.K. short-term claims on this class of holder, which partly offset U.K. liabilities, amounted to £340 million. Since the end of 1951 these non-official holdings have tended to rise in total (Table I), particularly those of countries in the Middle East and of the entrepôt centres of the Far East whose traders have a close connection with London, while the holdings of the East, Central and West African group have fallen. The pressure for development finance and the growth of local security markets under the guidance of new central banks (which gives opportunities for local short-term investment in liquid form) and, in some cases, the tendency for local exchange restrictions to concentrate sterling into the hands of official holders, may all affect the level of non-official holdings.

Holdings of non-sterling countries

For the non-sterling group the function of sterling as a reserve currency is of much less significance. The majority of them have no traditional links with sterling and normally hold their reserves in gold and U.S. dollars. Where sterling is held in their reserves it tends to be covered against the exchange risk in the forward market. In this respect they differ from the overseas sterling group and from those non-sterling countries already mentioned which are now holding part of their official exchange reserves in sterling. In the main, their sterling is therefore held either for commercial purposes or as a means of employing short-term surplus funds more advantageously than elsewhere. The size of their holdings has been influenced by the climate of confidence in sterling and by the level of short-term interest rates in the United Kingdom, compared with those obtainable in other countries after allowing for the

cost of forward exchange cover. Table II on pages 276 and 277 shows the end-year holdings from 1945 to 1962 by groups of countries and, since 1951, when figures first became available, by type of holder. Movements fall into two periods, before and after December 1958, when convertibility for sterling on external account was reintroduced.

In the first period, they fell from £1,240 million at the end of 1945 to £665 million at the end of 1957, then rose to £834 million at the end of 1958. The dollar area showed little significant change over these years, except at the end of 1953, during 1954 and during the first half of 1955, when comparatively high rates of interest in the United Kingdom probably attracted non-official holders. Countries in the Western Hemisphere outside the dollar area, notably Argentina, had, by 1952, spent what they had accumulated during the war and the immediate post-war years. The countries in the O.E.E.C. group were influenced first by the Intra-European Payments Agreements and, from 1950, by the mechanism of the European Payments Union, which prevented any significant movements in the sterling holdings of their central banks. "Other" non-sterling countries, of which the main holders were in the Middle East, notably Egypt, reduced their holdings by over £300 million between end-1945 and end-1958. (The rise in this group in 1954 may have been influenced by higher interest rates in the United Kingdom and by the extension in March of the transferable sterling account system to nearly all countries outside the dollar area.)

In the second period, holdings of the non-sterling group have fluctuated considerably, with very sharp movements in 1960 and 1961. In 1960, they rose rapidly, attracted by comparatively high interest rates in the United Kingdom, some foreign concern for the U.S. dollar, and, probably, the action taken by some continental countries to discourage an inflow of short-term funds. In 1961, they fell as sharply, this time because of loss of confidence in sterling following the revaluation of the deutschmark and the Dutch guilder. At the end of 1962 they were £826 million (old series). The main fluctuations have been in the holdings of West European and North American countries. Holdings of the Latin American group have, since 1958, continued to be small; indeed latterly they have been less than

U.K. short-term claims. "Other" non-sterling countries, which comprise Eastern Europe, the Middle East and the Far East, have continued to draw on their holdings; their lower net figures are also due to some extent to an increase in U.K. claims.

Non-sterling countries: official holdings The most noticeable movements in the official holdings have taken place in the West European group. Up to the end of 1958 any increase for O.E.E.C. countries was virtually excluded by the mechanism of the European Payments Union whereby holdings of European currencies at the end of each month, above agreed levels, were extinguished during the course of the following month.^(a) Before the end of 1958 movements in these holdings are, therefore, of limited significance and cannot be compared directly with their behaviour since then. But with the introduction of convertibility in December 1958, the Union was succeeded by the European Monetary Agreement, and compulsory settlement ceased, so enabling European central banks to accumulate sterling if they wished to do so. Subsequently their holdings rose,^(b) partly because of the high interest rates ruling in the United Kingdom compared with those obtainable elsewhere; partly because sterling had become formally convertible (and for members, the exchange risk was limited by the Agreement); and partly because continental countries as a whole tended to have balance of payments surpluses. A new element arose out of the exchange crisis of the period March–June 1961, the so-called "Basle arrangements". One effect was to add to West European official holdings, for, between March and September 1961, the central banks of Switzerland, Western Germany, Italy, the Netherlands and France increased their sterling holdings in order to assist in counteracting the heavy loss to the

U.K. reserves, which had been caused, in the main, by an outflow of non-official funds. The largest such amount outstanding in sterling with European countries was £103 million, at the end of June 1961.^(c) By the end of October sterling deposits under these arrangements had been repaid. Since then other mutual support operations have been undertaken by European countries, but not through sterling deposits and therefore without adding to official sterling holdings. In March this year the exchange guarantee under the E.M.A. was, by agreement, limited to total sterling holdings of £11¼ million, and official balances fell from £226 million (new series) at the end of 1962 to £155 million at the end of June 1963. They were then comparatively low.

The official holdings of North America have remained fairly steady as have those of Latin America, except during 1960 when there was a temporary rise (probably caused by the attraction of high interest rates). Both North American and Latin American official holdings are now very small. Those of the "other" non-sterling group decreased steadily between 1951 (when they were £441 million) and 1962 (when they were £154 million), largely because of a reduction in the Middle East. The holdings of this group are widely spread. They include a fairly high proportion held by countries with state-run economies, and these may be regarded as working balances for trade.

Non-sterling countries: non-official holdings The non-official holdings of the non-sterling countries, those of commercial banks, firms and persons, are naturally most subject to fluctuations for confidence reasons and most influenced by interest rates. This can be seen clearly from the graph on page 272 which plots the gross non-official sterling^(d) of Western Europe and North America. Sharp falls occurred in the periods September–December

(a) During the year 1957 as a whole, holdings rose, partly because of a special arrangement with Western Germany for the repayment of post-war debt which was outside the scope of E.P.U. settlements. A sharp rise in official holdings in the period June–September 1957, when continental commercial banks sold sterling to their central banks, reflected the normal delay in effecting E.P.U. settlements.

(b) The fall in the first half of 1959 reflected an advance repayment of post-war debt (£22½ million) and the purchase of a U.K. Treasury Bond (£37½ million) by Western Germany. In addition, an unexpended balance of special deposits (£22½ million) made by Western Germany to meet arms purchases was transferred to the United Kingdom.

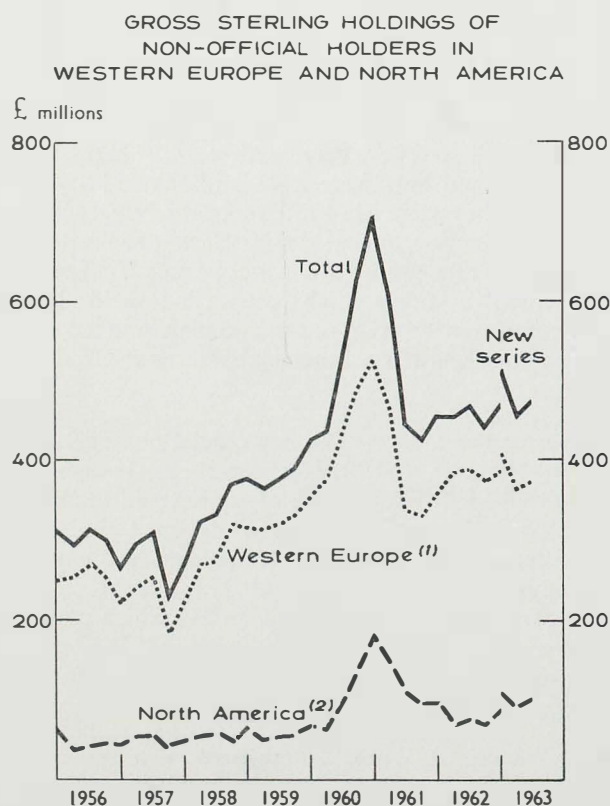
(c) For fuller details of the "Basle arrangements" see page 9 of the September 1961 issue of this *Bulletin*.

(d) The holdings are shown gross, except for small inter-branch claims, whereas the Overseas Sterling Holdings series showed them net.

1956, June–September 1957 and March–June 1961, followed by a reflux when corrective measures were taken and confidence restored.

The gross non-official holdings of West European countries stood at £272 million at the end of June 1956. Between that date and the end of December 1956 they fell by £51 million, but recovered to £256 million at the end of June 1957, only to fall to £187 million at the end of September. Thereafter they rose steadily, until 1960 when, as already mentioned, they increased sharply influenced by doubts about the U.S. dollar and by comparatively high interest rates in the United Kingdom. A peak of £527 million was reached in December 1960. Between March and June 1961 the holdings fell by £126 million—from £463 million to £337

million—but gradually increased thereafter following the measures taken to restore confidence in sterling. The graph shows that the June 1963 total of £376 million (new series) is well above that of June 1957. The rising trend is due to a number of factors. Relaxation of restrictions in West European countries has given their banks more freedom to hold foreign exchange for their own account and, consequently, to invest where they feel they can obtain the best return. Further, balance of payments surpluses in some continental countries have made their banking systems highly liquid; and they have been officially encouraged to hold part of their liquid resources overseas. Probably the increase also reflects the higher levels of world trade. Nevertheless, the present total of these non-official holdings is only slightly above the level to which they fell in June 1961. This suggests that since then short-term funds have not been invested in sterling to the same extent as they were before, and that the sterling may be held mainly for commercial purposes. Moreover, U.K. banks have sizable short-term claims on non-official holders in this group of countries (see page 274).



(1) March and June 1961 exclude Basle support

(2) December 1960 excludes £131 held by the Ford Motor Company of America

Movements in North American gross non-official holdings have shown a similar tendency to those of Western Europe. Although there was virtually no change in 1956, there was a modest outflow in the third quarter of 1957 when these holdings fell from £58 million to £41 million. They then rose to £62 million at the end of 1958 and remained at around that level until the end of 1959. In 1960 they rose steeply under the same influences as were affecting West European holdings, reaching £180 million in December 1960.^(a) They too fell sharply in the period of March–June 1961, but have remained fairly steady since March 1962, and in June 1963 were £101 million (new series). This is almost double the June 1957 figure, but much lower than the peak reached in December 1960, suggesting that the proportion of volatile funds is not now so large.

The non-official holdings of the “other” non-sterling countries are equally susceptible to changes in sentiment, but these holders, and those in Latin America, had more short-term liabilities to the United Kingdom than sterling assets at the end of June 1963.

(a) Excluding £131 million held by the Ford Motor Company of America, see footnote on page 265.

Non-sterling countries: present position At the end of June 1963 the gross holdings of non-sterling countries were divided as follows:

	<i>£ millions</i>
E.F.T.A. countries	221
E.E.C. countries	205
Other West European countries ^(a) ...	105
East European countries	41
Middle Eastern countries ^(b)	135
Far Eastern countries ^(c)	154
North America ^(d)	113
Latin America ^(e)	41
Other non-sterling countries	22
Total non-sterling countries	1,037

^(a) Finland, Greece, Spain, Turkey and Yugoslavia.

^(b) Egypt, Iran, Iraq, Israel, Lebanon, Saudi Arabia, Sudan, Syria and Yemen.

^(c) China, Indonesia, Japan, Thailand, Formosa, Cambodia, Laos, Vietnam, Korea and the Philippines.

^(d) United States and dependencies, and Canada.

^(e) Other independent countries of the American Continent.

Within these groups the holdings were well spread. Only six countries, whose combined total was £399 million, held over £50 million each, and only seven more held over £30 million.

The table below shows how the holdings were divided between central monetary institutions and other holders, the form in which they were held, and the size and type of U.K. short-term claims on these holders. While U.K. sterling liabilities to non-sterling countries amounted to £1,037 million at the end of June 1963, the group, as a whole, had £551 million of short-term debts in sterling to the United Kingdom, the majority being owed by the private sector ("others" in the table). Against U.K. liabilities of £661 million there were, at the end of June 1963, U.K. claims of £531 million, giving net U.K. liabilities to the non-official holders of £130 million. This latter figure must be small in relation to the turnover of trade and other business conducted on a sterling basis by private holders in the non-sterling group, reinforcing the suggestion that their sterling holdings are largely working balances. Further details of the U.K. claims are given in the next section.

The chief difference compared with overseas sterling countries which the table reveals is the absence of any large holdings of British government stocks. Among U.K. claims, commercial bills and acceptances predominate, whereas with the sterling countries the bulk of the U.K. claims consists of advances and overdrafts, a reflection of different methods of financing.

NON-STERLING COUNTRIES: U.K. STERLING LIABILITIES AND CLAIMS BY TYPE OF HOLDER

£ millions, June 1963

Type of holder	U.K. LIABILITIES					U.K. CLAIMS				NET LIABILITIES
	Total	Current and deposit accounts	U.K. Treasury Bills	Commercial bills and promissory notes	British government and government guaranteed stocks ⁽¹⁾	Total	Advances and overdrafts	Commercial bills and promissory notes	Acceptances	
Central monetary institutions ...	376	94	255	—	27	20	20	—	—	356
Others	661	594	10	31	26	531	97	259	175	130
Total	1,037	688	265	31	53	551	117	259	175	486

(1) See footnote (1) to the table on page 269.

As this analysis of movements of the non-sterling countries has shown, official holdings are now somewhat lower than in the past. The holdings of the private sector, too, are comparatively low and seem little or no greater than is necessary for trade. They are prone to movements of confidence, but they are largely matched by this sector's substantial short-term liabilities to the United Kingdom. Moreover, the movements suggest that it is not easy for holders in the private sector to go short of sterling for very long if the conduct of their business in the London market is not to be disrupted. Though important in relation to the reserves, the movements of the more volatile element in the sterling holdings have not been large in relation to total holdings, and substantial international arrangements are available to offset them.

U.K. claims in sterling on non-sterling countries The growth of claims on both official and non-official debtors in non-sterling countries is illustrated in the table below. Details of U.K. claims, including acceptances, collected under the old statistical series showed a rise from

£284 million at the end of 1957 to £382 million at the end of 1962.^(a) The new series, which covers more branches and more institutions, revealed a much higher total at the end of 1962, of £496 million; and by the end of June 1963 this had increased to £551 million. This increase in sterling lending abroad over recent years is a direct result of an increase in trade and probably of a gradual lengthening of credit terms. But acceptances have not risen in proportion to the growth of world trade. This may be due to the emergence of alternative methods of finance (e.g., the Euro-dollar market).

Holdings of international organisations The sterling holdings of international organisations are a special category which came into being after the war. At the end of June 1963 they amounted to £611 million (see Table 22). Most of these originated from the U.K. sterling subscriptions to the International Monetary Fund and the International Bank for Reconstruction and Development, and are held mainly in the form of non-interest-bearing notes, until sterling is required by the organisations concerned. The fluctuations in

£ millions

NON-STERLING COUNTRIES: U.K. STERLING CLAIMS

					Total	North America	Latin America	Western Europe	Eastern Europe	Other non-sterling countries
STERLING ACCEPTANCES OUTSTANDING										
End of period										
1957	...	...	...	...	138	6	20	66	6	40
1958	...	...	...	...	119	4	16	52	5	42
1959	...	...	...	...	121	5	15	37	2	62
1960	...	...	...	...	93	3	12	42	9	27
1961	...	...	...	...	147	3	11	39	33	61
1962	Old series	...	...	...	144	3	6	46	26	63
	New series	...	...	...	149	3	7	47	30	62
OTHER STERLING CLAIMS⁽¹⁾										
1957	...	...	...	...	146	11	24	79	4	28
1958	...	...	...	...	136	11	25	68	4	28
1959	...	...	...	...	143	12	28	68	3	32
1960	...	...	...	...	172	14	42	64	3	49
1961	...	...	...	...	205	11	47	65	13	69
1962	Old series	...	...	...	238	15	61	78	20	64
	New series	...	...	...	347	25	94	99	32	97

⁽¹⁾ In the old series there is a small amount of netting of inter-branch liabilities.

^(a) The fall in acceptances in 1960 was probably due to the comparatively high level of U.K. interest rates.

recent years have been largely caused by the United Kingdom's own drawings on the Fund and repurchases in foreign currencies, and, to a lesser extent, by other countries' drawings and repayments in sterling. The holdings of the International Bank were derived almost entirely from the U.K. sterling subscription, and movements reflect the lending of these funds by the Bank to other countries and their repayment.

Summary

In the post-war years the total of sterling holdings of overseas countries has remained remarkably steady, drawings on sterling by one country or group of countries being offset by increases in the sterling holdings of another country or group of countries. Over two-thirds of the total holdings are owned by the overseas sterling group of countries, whose funds have tended to be less volatile. Expenditure on development plans has already affected their amount and will probably continue to do so. The funds of non-sterling countries are more volatile, particularly those of the non-official holders. The holdings in this

latter category are not high in comparison with recent years, and are largely balanced by U.K. short-term claims on them. These holdings may, therefore, be not much more than is needed for normal trading and commercial activities. Official holdings in the non-sterling group too are at present at a somewhat lower level than in the past.

Although large individual holdings of sterling by certain countries remain, the big war-time accumulations have been eliminated and those that now exist have been built up in post-war years from trading surpluses. Holdings are more widely spread than in the immediate post-war period. In today's conditions, when funds can and do move freely, decisions as to whether or not to hold sterling are increasingly dependent on considerations of commercial and financial advantage. To maintain the confidence in sterling of holders in both overseas sterling and non-sterling countries must remain an important aim of U.K. policy. This confidence is likely to be considerably influenced by their judgment of the management of the economy of the United Kingdom.

The new information given in this article is as follows:

- (i) Table I gives new geographical groupings. It also contains a division by official and non-official holders from 1951 to 1962 hitherto published only for the overseas sterling area as a whole.
- (ii) The table in the text on page 269 shows U.K. gross sterling liabilities to overseas sterling countries at end-June 1963 divided into new geographical groups. There is a similar table for non-sterling countries on page 273.
- (iii) The text on page 269 gives the gross holdings, within certain ranges, of individual overseas sterling countries at end-June 1963.
- (iv) Tables on pages 269 and 273 show U.K. gross liabilities to, and claims on, both overseas sterling and non-sterling countries at end-June 1963, by type of liability and claim, with "central monetary institutions" shown separately from "others". So far published detail has shown only *total* liabilities and claims divided by type of holder.
- (v) A footnote to the table on page 269 gives an analysis by maturity dates of holdings of British government and government guaranteed stocks by central monetary institutions and banks.
- (vi) The graph on page 272 plots gross non-official balances of Western Europe and North America at end-quarters from end-1955 to June 1963. In the "Overseas Sterling Holdings" series only net figures were published for these two groups.
- (vii) The table on page 274 gives figures of "acceptances outstanding" and "other sterling claims" on groups of non-sterling countries at end-years from 1957 to 1962. Hitherto only totals of acceptances for non-sterling countries, and no figures of "other sterling claims" collected under the old series, have been published.

OVERSEAS STERLING HOLDINGS (NET) BY GROUPS

Table I: Overseas

£ millions

End of period	Total overseas sterling countries			Australia, New Zealand and South Africa			India, Pakistan and Ceylon			Caribbean area		
	Total	Official	Other	Total	Official	Other	Total	Official	Other	Total	Official	Other
1945	2,327			294			1,352			53		
1946	2,300			247			1,305			56		
1947	2,192			228			1,208			52		
1948	2,108			356			939			54		
1949	2,111			463			774			55		
1950	2,497			640			787			64		
1951	2,585	2,252	333	548	574	-26	782	801	-19	64	36	28
1952	2,482	2,019	463	429	394	35	648	637	11	72	38	34
1953	2,715	2,203	512	537	504	33	644	631	13	86	42	44
1954	2,822	2,260	562	485	476	9	652	642	10	101	48	53
1955	2,764	2,266	498	313	298	15	704	693	11	97	50	47
1956	2,730	2,240	490	371	339	32	541	538	3	111	53	58
1957	2,608	2,126	482	447	416	31	354	330	24	124	54	70
1958	2,519	1,993	526	383	366	17	228	217	11	125	64	61
1959	2,704	2,165	539	471	430	41	255	245	10	113	67	46
1960	2,478	2,029	449	285	283	2	198	206	-8	116	73	43
1961	2,631	2,097	534	450	419	31	180	180	—	126	76	50
1962	2,675	2,056	619	452	412	40	138	146	-8	148	74	74

(a) Persian Gulf territories, Libya and Jordan.

(b) Malaysia, Brunei, Hong Kong and Burma.

Table II: Non-

End of period	Total non-sterling countries			Dollar area		
	Total	Official	Other	Total	Official	Other
1945	1,240			34		
1946	1,310			33		
1947	1,306			18		
1948	1,044			19		
1949	1,032			31		
1950	986			79		
1951	992	659	333	38	28	10
1952	737	477	260	34	15	19
1953	778	474	304	62	19	43
1954	881	460	421	97	8	89
1955	812	438	374	58	5	53
1956	692	400	292	37	7	30
1957	665	383	282	35	4	31
				North America ^(b)		
1958	834	399	435	58	7	51
1959	803	325	478	60	5	55
1960	1,405	499	906	303 ^(e)	6	297
1961	915	440	475	93	7	86
1962	826	375	451	80	6	74

(a) Including Egypt and Iraq.

(b) United States and dependencies, and Canada.

(c) Other independent countries of the American Continent.

* The "official" category is incomplete in so far as some official holdings are included indistinguishably in "other".

OF COUNTRIES AND TYPE OF HOLDER* (OLD SERIES)

Sterling Countries

£ millions

East, Central and West Africa			Middle Eastern countries ^(a)			Far Eastern countries ^(b)			Other overseas sterling countries ^(c)			End of period
Total	Official	Other	Total	Official	Other	Total	Official	Other	Total	Official	Other	
204			—	1		142			283			1945
215			1			191			285			1946
249			1			196			258			1947
307			8			192			252			1948
336			8			195			280			1949
426			19			279			282			1950
531	426	105	18	10	8	391	283	108	251	122	129	1951
593	488	105	35	13	22	423	315	108	282	134	148	1952
658	535	123	60	35	25	432	315	117	298	141	157	1953
755	585	170	100	57	43	420	298	122	309	154	155	1954
743	623	120	169	118	51	459	330	129	279	154	125	1955
720	626	94	211	156	55	490	375	115	286	153	133	1956
671	625	46	247	178	69	470	365	105	295	158	137	1957
652	589	63	310	222	88	507	376	131	314	159	155	1958
630	571	59	338	237	101	592	460	132	305	155	150	1959
529	523	6	368	248	120	678	542	136	304	154	150	1960
464	437	27	385	248	137	701	572	129	325	165	160	1961
427	399	28	413	251	162	749	599	150	348	175	173	1962

^(c) Malta, Gibraltar, Mauritius, Fiji and other dependent territories not elsewhere included; Cyprus, the Republic of Ireland and Iceland.

Sterling Countries

Other Western Hemisphere			O.E.E.C. countries			Other non-sterling countries ^(a)			End of period
Total	Official	Other	Total	Official	Other	Total	Official	Other	
163			351			692			1945
212			363			702			1946
235			419			634			1947
135			309			581			1948
80			356			565			1949
45			314			548			1950
57	35	22	328	155	173	569	441	128	1951
6	20	—14	239	86	153	458	356	102	1952
40	57	—17	223	68	155	453	330	123	1953
8	6	2	244	56	188	532	390	142	1954
9	3	6	213	50	163	532	380	152	1955
32	19	13	193	61	132	430	313	117	1956
31	12	19	260	131	129	339	236	103	1957
Latin America ^(c)			Western Europe ^(d)						
18	1	17	408	159	249	350	232	118	1958
12	8	4	387	99	288	344	213	131	1959
63	56	7	699	236	463	340	201	139	1960
13	16	—3	571	277	294	238	140	98	1961
—27	1	—28	521	214	307	252	154	98	1962

^(d) European members of O.E.C.D. together with their dependent territories, and Andorra, Finland, Vatican City and Yugoslavia.

^(e) Includes 131 acquired by the Ford Motor Company of America in December 1960 for the purchase of the minority interest in its U.K. subsidiary in the first quarter of 1961.

Table III: STERLING HOLDINGS (NET) OF OVERSEAS STERLING AND NON-STERLING COUNTRIES BY TYPE OF HOLDER*

£ millions

End of period	Total excluding international organisations	Overseas sterling countries		Non-sterling countries	
		Official	Other	Official	Other
OLD SERIES					
1955 December ...	3,576	2,266	498	438	374
1956 March ...	3,568	2,284	501	415	368
June ...	3,549	2,270	506	395	378
September ...	3,505	2,233	529	410	333
December ...	3,422	2,240	490	400	292
1957 March ...	3,486	2,275	520	350	341
June ...	3,496	2,279	540	333	344
September ...	3,375	2,188	501	457	229
December ...	3,273	2,126	482	383	282
1958 March ...	3,243	2,051	488	356	348
June ...	3,274	2,007	530	352	385
September ...	3,268	1,969	523	360	416
December ...	3,353	1,993	526	399	435
1959 March ...	3,337	2,034	540	350	413
June ...	3,379	2,076	573	295	435
September ...	3,443	2,097	580	306	460
December ...	3,507	2,165	539	325	478
1960 March ...	3,490	2,154	514	335	487
June ...	3,612	2,152	520	387	553
September ...	3,740	2,083	492	467	698
December ...	3,883	2,029	449	499	906
1961 March ...	3,714	1,985	454	568	707
June ...	3,696	2,097	500	535	564
September ...	3,490	2,061	538	453	438
December ...	3,546	2,097	534	440	475
1962 March ...	3,431	2,025	543	424	439
June ...	3,516	2,098	585	394	439
September ...	3,448	2,068	591	373	416
December ...	3,501	2,056	619	375	451
		Central monetary institutions	Others	Central monetary institutions	Others
NEW SERIES					
1962 December ...	2,940	1,744	548	444	204
1963 March ...	2,838	1,786	547	395	110
June ...	2,893	1,831	576	356	130

* See footnote (*) to previous tables.