

## Overseas sterling balances 1963–1973

This article attempts to put into perspective what has happened to overseas holdings of sterling since December 1962, when the Bank launched a new statistical series covering external liabilities and claims in sterling. The series was described in an article in the June 1963 *Bulletin*. An article in the December 1963 issue discussed movements up to the end of 1962 as recorded by the earlier statistical series.

The presentation of the figures – both of the levels outstanding and of the movements recorded in the balance of payments accounts – was revised during the period. The concepts behind the revised presentation were described in the December 1970 *Bulletin*. Thus sterling balances here cover:

- a exchange reserves in sterling – defined as central monetary institutions' holdings of short-term banking and money market assets in the form of sterling deposits and Treasury bills, together with their holdings of British government stocks; and
- b other sterling balances – often referred to as 'private' sterling balances – comprising holdings of short-term banking and money market assets by banks abroad (but not by central banks) and by companies and private individuals, and also some unidentified holdings of overseas governments. Throughout this article, 'overseas sterling countries' refers to the Scheduled Territories as they were before 23rd June 1972, that is to the countries comprised in the current exchange control definition of the overseas sterling area together with the Republic of Ireland and Gibraltar. They include Rhodesia up to the end of 1965, Burma to the end of 1966, and Libya to the end of 1971.

### International liquidity and sterling

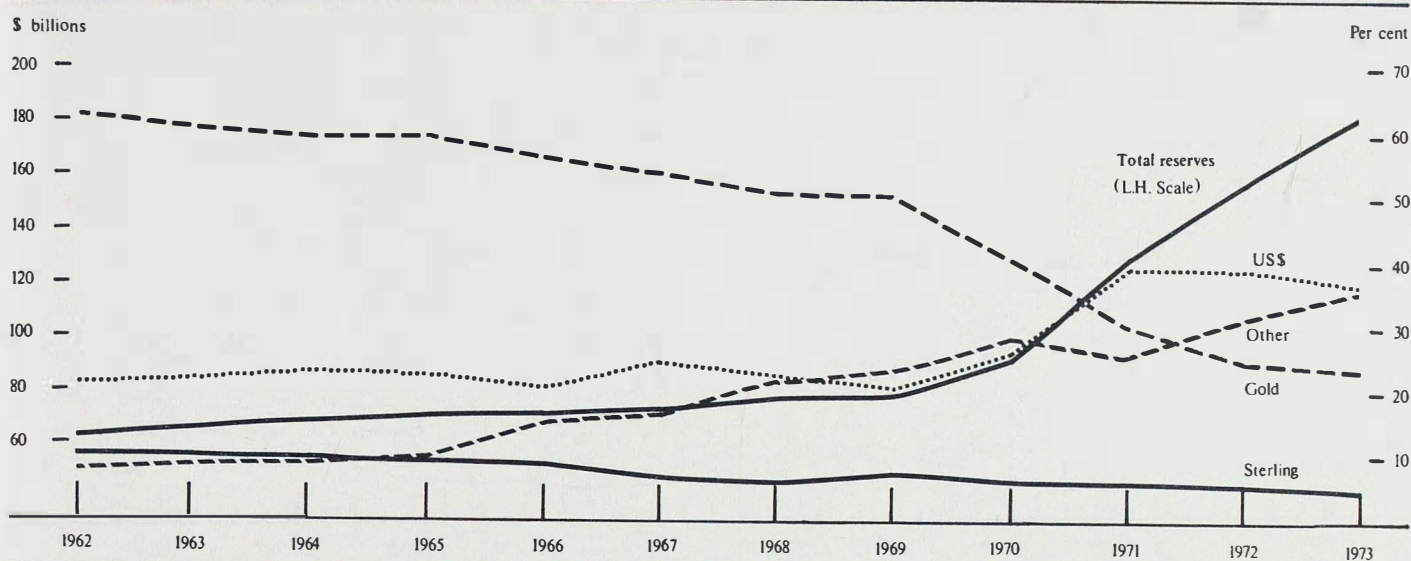
Although in 1973 the value of sterling balances was the highest during the period under review, reaching a total of some £6,000 million, sterling's rôle in the world today, whether as a trading medium or as a reserve currency, is less important than it was at the start of the period.

There are no accurate statistics available for the proportion of world trade settled in sterling, but some broad orders of magnitude can be estimated. In the years immediately after the Second World War approximately one half of world trade was thought to be settled in sterling, but by 1962, following the 1949 devaluation of sterling and the increasing use of the US dollar, the proportion had probably already dropped to less than one third. During the period under review, it declined still further, and is now probably under one fifth.

As far as the reserve rôle of sterling is concerned, rather more statistics are available, although, because they come from many different national sources, they are likely to include numerous inconsistencies in valuation and coverage. With this qualification, it can be said that before the 1949 devaluation sterling accounted for approximately 20% of world reserves, that by 1962 the proportion was down to 10%, and that since then the proportion has continued to decline, to about 5% at the end of 1973. As shown in the chart,[1] up to the 1967 devaluation the decline had been fairly gradual, but over the two years 1967 and 1968 the proportion fell from 8½% to 5½%; and, although there was a subsequent increase in 1969, the proportion continued to fall thereafter. The reasons are not difficult to find. Reserve holdings of US dollars, which had been relatively stable between 1962 and 1969, both absolutely and proportionately, started to rise in 1970 and doubled in 1971 as the US balance of payments deficit grew. Secondly, holdings of euro-dollars and of leading European currencies – both included in the chart under 'other' – have grown enormously in the last few years. Indeed, in October 1972 foreign currency deposits placed with UK banks by overseas central monetary

[1] Based on figures from *International Financial Statistics* (which exclude the Sino-Soviet blocs). The sterling figures exclude the counterpart of the central bank assistance to provide a better impression of the amount of sterling held voluntarily; the amounts so excluded are taken up in 'other'.

## World reserves: the proportions held in sterling and other reserve assets[a]



'Other' includes, besides holdings of other currencies, special drawing rights, reserve positions in the IMF, and holdings of euro-currencies, depending upon what individual countries treat as reserve assets.

[a] End-year figures.

institutions were somewhat greater than their total sterling reserves, including their holdings of British government stocks, and by September 1973 the gap was very much wider. Moreover, according to the annual *Report of the Deutsche Bundesbank* for 1972, 'The possibility cannot be ruled out that other countries already hold more currency reserves in Deutsche Mark than, for example, in sterling. The Deutsche Mark would in this case have become – involuntarily – the second most important reserve currency after the dollar.' Thirdly, special drawing rights came into existence in 1970. In all, there was a vast increase in world reserves in the four years 1970–73, which not only reduced the proportion held in gold – actual holdings of which were fairly stable – but also substantially reduced the proportion held in sterling, even though the nominal value of reserve holdings in sterling had reached new heights.

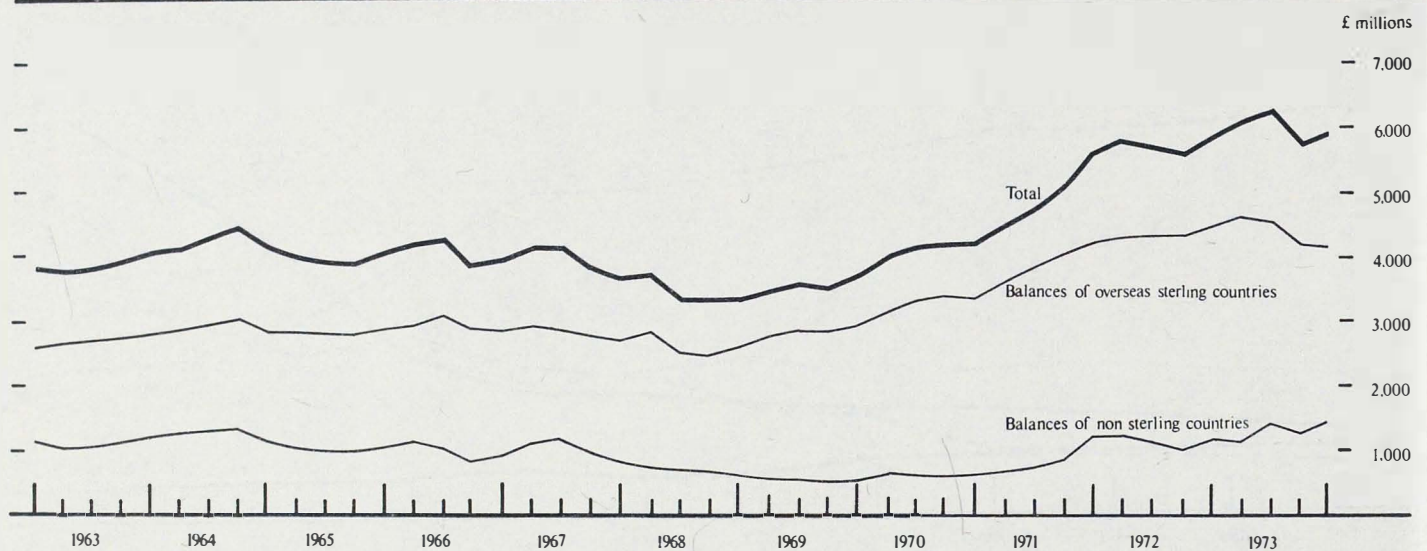
Although private holdings of sterling have risen since 1962, their growth has not been exceptional. No doubt the expansion of the euro-dollar market, particularly in London, helped to hold it down, because it provided a third outlet for liquid funds which, before the introduction of external convertibility for the main European currencies in 1958, were virtually all held either in sterling in London or in dollars in New York.

### Movements in sterling balances since 1962

At the end of 1962, sterling balances totalled £3,860 million, comprising exchange reserves in sterling of £2,310 million and other holdings of £1,550 million; by the end of 1973 they had increased to over £5,900 million, with exchange reserves at £3,680 million and other holdings at £2,260 million. These totals include (under exchange reserves) holdings of international organisations other than the International Monetary Fund; they are largely the holdings of the International Bank for Reconstruction and Development and the International Development Association. Their growth has been fairly steady – from about £90 million at end-1962 to £310 million at end-1973.

The growth of overseas countries' balances has, however, been far from steady over the period, which can broadly be divided into four phases. Initially, up to the autumn of 1964, confidence in sterling was reviving after the troubles of 1961, and holdings rose by some £600 million. This was followed by a very erratic period, between September 1964 and September 1968, containing a number of sharp movements into and out of sterling as confidence waxed and waned, the net effect of which was an outflow of well over £1,000 million. From then until May 1972, despite generally unfavourable interest rates in the United Kingdom (allowing for the cost of forward cover), there was an almost uninterrupted inflow of

## Overseas sterling balances 1963–1972



The total includes international organisations (other than IMF) which are not shown separately.

funds into sterling of over £2,700 million. This reflected both an accumulation of increasing balance of payments surpluses by many of the countries of the overseas sterling area and the operation of the sterling agreements (explained later). The final period was again erratic. It included the outflow of June 1972, followed by a recovery to a new peak in April 1973, a further substantial outflow in the third quarter of 1973, and the subsequent partial recovery.

### *December 1962–September 1964*

The first period, generally speaking, was one of consolidation for sterling. During 1961 there had been a sharp fall in overseas holdings when sterling had come under pressure as a result, largely, of the speculative flows associated with the revaluation of the deutschemark and the guilder. Between December 1962 and September 1964, however, overseas holdings of sterling rose by nearly £600 million. The sterling area, which was in balance of payments surplus, accounted for nearly £450 million of this, almost equally split between official and private holdings. At the same time holdings of countries outside the area also rose (entirely in private balances) because interest rates were generally favourable to investment in sterling, even after allowing for the cost of forward cover; and in July 1964 holdings reached £1,385 million, a figure which was not surpassed until June 1973. At the former date, only one non-sterling country held over £100 million, and even now few do so except, for example, when an oil-producing state has just received its oil revenue or when there is a short-term inflow of funds from the United States or certain countries in Western Europe.

### *September 1964–September 1968*

The second period saw an almost regular weakening of confidence in sterling each year for one reason or another, generally followed by a recovery. The first outflow occurred in the autumn of 1964. It stemmed from the growing public realisation, followed by official confirmation, that Britain was heading for a large balance of payments deficit; moreover, the sterling area as a whole was moving into deficit, tighter monetary conditions were developing on the Continent, and the small parliamentary majority of the new Government after the general election produced further uncertainties. Despite the Government's stated intention to defend sterling, overseas holdings fell by nearly £350 million in the fourth quarter, and it was decided to draw from the International Monetary Fund and from central banks under the General Arrangements to Borrow, and to raise Bank rate. These steps were only partly successful in arresting the decline, which continued, albeit at a slower rate, until the summer of 1965, when further foreign borrowing and domestic action were

announced. Thus, between September 1964 and September 1965, there was an outflow of over £550 million, a very considerable amount for those days. Over £300 million was on account of non-sterling countries, approximately two thirds of which was on private account – geographically well spread – and the rest nearly all on account of West European central banks. As far as the sterling area was concerned, the main outflow was from reserve holdings; in particular, Australia was drawing on its reserves to finance a large balance of payments deficit.

The various measures taken by the Government in 1965 helped to revive confidence, and overseas holders, mainly sterling area countries now back in substantial surplus, started to rebuild their balances. Early in 1966 confidence again weakened, and by July sterling was under intense pressure, with talk of devaluation. As before there was a combination of factors: a seven-week strike by the seamen, poor reserve and balance of payments figures, tight money on the Continent and in the United States, and a period of uncertainty when further measures to restore equilibrium to the balance of payments were expected. Up to June the pressure came largely from non-sterling countries – between March and September their holdings fell by £275 million, once again mainly the private balances and mainly on West European and North American account. By the third quarter, however, the sterling area had moved into its usual seasonal deficit, and in the second half of the year its balances were reduced by over £250 million. Well over half of this fall was again in official holdings, partly associated with a diversification of reserves and partly with withdrawals by Australia, India and New Zealand to repay London market loans or other official debts.

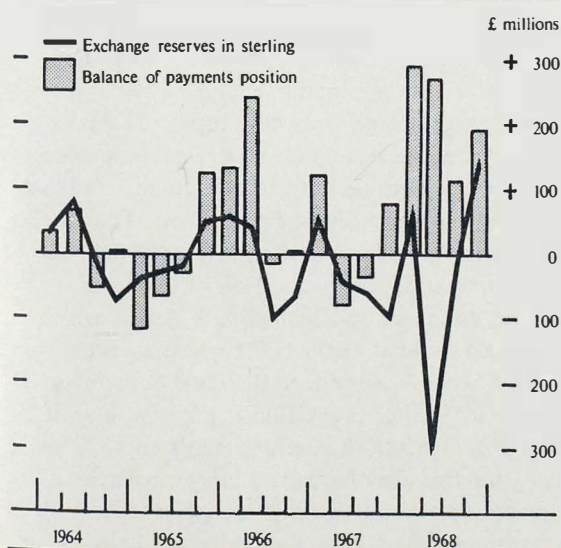
It was in the summer of 1966 that what came to be known as the first Basle Arrangement was announced. Central bank support arrangements made through the Bank for International Settlements or set up at meetings in Basle had been available to this country before, but this particular facility was specifically designed to offset any reduction in the United Kingdom's reserves caused by fluctuations in other countries' holdings of sterling.

By the end of 1966, confidence in sterling had been partly restored, and by the middle of 1967 the balances of countries outside the sterling area were larger than they had been early in 1966. However, sterling area countries, apart from the Middle Eastern oil producers, were mostly no longer running balance of payments surpluses, and consequently total holdings at the peak reached in the middle of 1967 were below the peaks reached in 1964 and 1966.

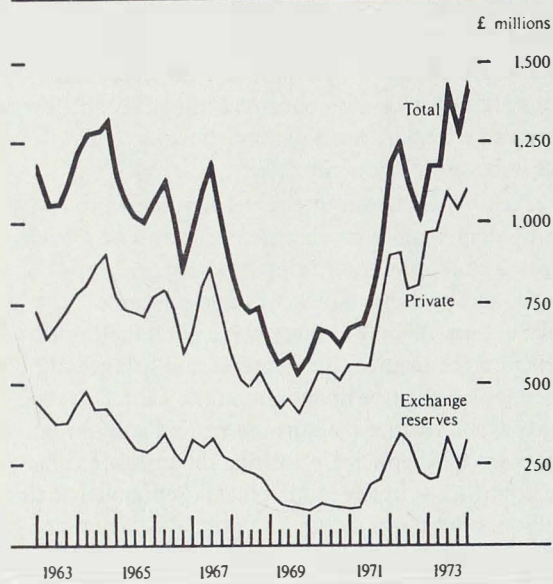
The events leading up to the devaluation of 1967 are sufficiently well known for only a brief description to be given here. Confidence in sterling in the foreign exchange market was already ebbing when the war in the Middle East broke out. This not only threatened the country's trade and oil supplies, but also raised the possibility that the sterling balances held by the Middle Eastern oil producers might be withdrawn. The closure of the Suez Canal and a slowdown in the growth of world trade jeopardised the hoped-for improvement in the balance of payments. Strikes, particularly in the docks, and interest rates moving against sterling contributed to the weakening in confidence and consequent outflows of funds. Devaluation began to appear to many as inevitable, and this precipitated further outflows.

The effects of these events on sterling holdings differed from area to area. Between June and the end of November (the nearest reporting date to devaluation), there was no net change in the overall holdings of sterling area countries. Although their holdings had fallen seasonally in August, the fall was more than offset in October when Middle Eastern countries received oil revenue and at the same time restored balances which they had placed outside the United Kingdom during the Middle Eastern crisis. Some countries in the sterling area reduced their balances before devaluation, but none seem to have done so on any scale. Indeed, on the basis of these figures, it might be deduced that the sterling area as a whole was less perturbed by the UK position in 1967 than in earlier crises.

OSA reserve movements: quarterly figures



### Balances of non-sterling countries



The story for countries outside the sterling area was rather different. Their balances fell in every month between the end of June and the end of November, in all by over £350 million, of which £125 million occurred in October alone. As before, the greater part, over £250 million, was withdrawn by private holders in Western Europe and North America.

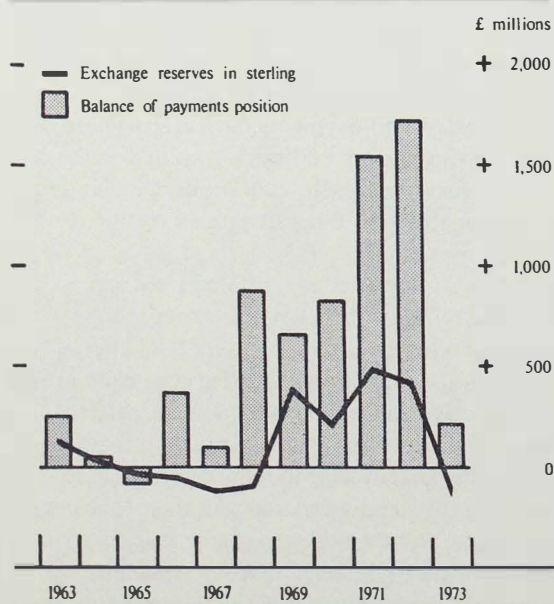
The announcement of devaluation itself provided no early solution to sterling's problems: further deflationary measures were awaited. The United States, also running a deficit, announced a programme to strengthen the dollar, which in turn further temporarily weakened sterling; and lack of confidence in both reserve currencies led to a demand for gold, which culminated in the gold crisis of March 1968. The slight upturn in sterling holdings which had occurred after devaluation, largely through the sterling area's balance of payments surplus, was quickly reversed. Even after the establishment of the two-tier gold market, the international monetary scene still contained many uncertainties: rumours of a French devaluation and a West German revaluation, no apparent signs that Britain was beginning to benefit from its devaluation, increasingly unattractive UK interest rates, and further outbreaks of industrial disputes, all helped to bring sterling under severe pressure once more in May and June.

For the first time, the main withdrawals were by sterling area countries. By March 1968 non-sterling countries' holdings had already fallen to £750 million: their exchange reserves were below £250 million and their private holdings just over £500 million, both approximately halved since their peak in July 1964; and over the next six months they moved very little. To much of the sterling area, however, devaluation entailed a fall in the purchasing power of their reserves, in some cases substantial. On this occasion, unlike in 1949, many sterling area countries decided not to keep their par values in line with sterling, because both their economic and their political ties with Britain had meanwhile become far less close. The process of diversification of reserves by members of the sterling area gained momentum. Shortly before devaluation, the proportion of their reserves held in sterling by sterling area countries (excluding South Africa, which holds its reserves mainly in gold) stood at just over 70%, having fallen from 85% at the end of 1962. Then between November 1967 and September 1968 the proportion fell from 67% (after conversion at the new rates of exchange) to as low as 53%. Whether lack of confidence in sterling was a more powerful factor than attractiveness of gold and other currencies is impossible to know; but many countries deliberately lowered the sterling proportion of their reserves, among them Australia, India, the Republic of Ireland, Jordan, Kuwait, Malaysia, Qatar, Singapore, Tanzania, and Uganda. A further development occurred in June 1968 when the Government recognised that Hong Kong too wished to diversify its reserves: in view of its rather exceptional position as a colony with very substantial sterling holdings, the Government offered Hong Kong a special issue, up to a limit of £150 million, of British government bonds denominated in Hong Kong dollars. Bonds worth £62 million were issued under this arrangement and were redeemed in September when the sterling agreements came into force.

Withdrawals by sterling countries were particularly heavy between March and June 1968, when their holdings of sterling fell by well over £300 million, nearly all the fall, as usual, being in reserve holdings. By August their total holdings were below £2,500 million, their lowest point in the period under review. This, moreover, occurred in a year when the overseas sterling area's total reserve and currency inflow was approaching £900 million.

Thus, over the four years between September 1964 and September 1968, and despite several revivals of confidence, assistance from central banks and from the IMF, and a series of deflationary domestic measures, overseas holdings of sterling fell by about £1,100 million. Of this, £500 million was withdrawn by overseas sterling countries (entirely from reserve holdings) and nearly £600 million by other countries (in the approximate ratio of two thirds from private balances, one third central monetary).

### OSA reserve movements: annual figures



An interesting feature of the period was the relative stability of the private holdings of the overseas sterling area. Movements in these balances did, of course, take place, sometimes of over £100 million in a month, but the balances were contained within a range of £900 million at the lowest and £1,125 million at the highest. Geographically, too, there were changes: Middle Eastern and African balances generally declined, while Caribbean and Far Eastern holdings generally rose. Nevertheless, this otherwise rather amorphous group of holdings did not follow the same downward course as other holdings. There were probably three main reasons for this: first, the need for working balances to support the still substantial trade links – both visible and invisible – between Britain and the rest of the sterling area; secondly, the need for banks, either locally registered or with head offices in London, to employ surplus balances more profitably when a full range of investment possibilities might not have been available locally and when London still seemed the most lucrative market; and, thirdly, the effect of local exchange controls in preventing funds from leaking outside the sterling area.

#### *September 1968–May 1972*

Confidence in sterling was strengthened by the announcement in September 1968 of the negotiation of the Sterling Area Agreements supported by the second Basle Facility. Under these arrangements, described more fully later, the sterling area countries were to keep agreed percentages of their official reserves in sterling in return for a guarantee by the United Kingdom to maintain the value of the bulk of these sterling reserves in relation to the US dollar; and any run-down of overseas sterling countries' balances below a 'trigger' point would allow the United Kingdom to draw on the Basle Facility.

For most of this period there was a very substantial and almost uninterrupted rise in total overseas holdings. Except for a limited period in late 1971 and early 1972, this was almost entirely attributable to the overseas sterling countries. It was in part a direct result of the operation of the sterling agreements, because some of the sterling area countries were developing huge balance of payments surpluses and were therefore having to direct a proportion of the increase in their reserves into sterling.

However, in the autumn of 1968 there were still doubts about the United Kingdom's balance of payments while the beneficial effects of devaluation were only slowly working themselves through; and in November, with renewed uncertainties about the West German and French currencies, the Government took further measures (including the import deposit scheme) to strengthen the economy and help confidence. Sterling area countries had in fact started to rebuild their balances, when, in August 1969, at the time of the French devaluation, there was a further outflow of non-sterling countries' balances. These fell to the lowest point of this series – only a little over £500 million for central monetary and private holders combined, an amount which can probably be regarded as representing at that time the hard core of essential working balances.

In September 1969, it became evident that Britain had at last moved into balance of payments surplus, and sentiment towards sterling improved. When subsequent trade and balance of payments figures showed that the surplus on current account was not just a temporary phenomenon, there was a large inflow of foreign funds, which lasted until the fourth quarter of 1970. Non-sterling countries' balances rose by less than £100 million, largely, no doubt, because covered interest rate differentials were generally adverse to sterling; but sterling area countries increased their balances by well over £500 million. As a whole, the sterling area was now in the middle of several years' uninterrupted balance of payments surplus and, because the bulk of the countries' official holdings were guaranteed, there was little need for forward cover. In 1970 sterling was strong enough to withstand another worsening situation in the Middle East, a general election, and a dock strike, a combination of developments which in earlier years might well have resulted in a large outflow of sterling. At this time non-sterling countries' holdings were probably still

not much larger than normal working balances, but sterling area countries were generally content to hold well above the minimum amounts necessary under the sterling agreements.

Despite generally unattractive interest rates in London (allowing for the cost of forward cover), the year 1971 produced the largest inflow to sterling holdings yet recorded, larger even in money terms than in any of the individual war years when the balances first became a problem to the authorities. Sterling was itself inherently strong because Britain was heading for its third, and biggest, consecutive year of balance of payments surplus, and the overseas sterling area's surplus was still growing. At the same time the US dollar was coming under considerable pressure. In May 1971 large amounts of liquid funds were moved to the Continent, where the Swiss and Austrian Governments revalued their currencies and the West German and Netherlands Governments allowed theirs to float upwards. In August, when the United States announced that the dollar would no longer be convertible into gold or other reserve assets, sterling too was allowed to float, and exchange control measures were taken by the UK authorities to discourage the inflow of volatile funds from non-sterling countries.<sup>[1]</sup> However, to those determined to get into sterling, the non-payment of interest seemed to be only a partial deterrent (in this, the UK authorities' experience was by no means unique), for bank deposits of residents of non-sterling countries rose by nearly £500 million between end-July and December, mainly from mid-November onwards when expectations of a realignment of currencies were particularly strong. As usual, the increase was mainly in private North American and Western European holdings, but central banks of some of the oil-producing countries outside the sterling area, which normally kept little sterling, also increased their holdings. The second half of the year also saw an unusually large rise – over £300 million – in private holdings of the sterling countries.

Official holdings of the sterling area countries, which had been built up by well over £400 million in the first half of the year, continued to rise, although at a slower rate. In December Libya withdrew virtually all its holdings (and was excluded from the sterling area). As a result, the recorded total of the area's exchange reserves went up by only £50 million in the second half of 1971 whereas, if the Libyan funds had been retained, the rise would have been well over £200 million. Because of such a large influx of funds from elsewhere at this time, the withdrawal had little or no effect on sterling.

Of the £1,400 million increase in sterling balances in 1971, over £850 million came from the sterling area, the largest amounts from Australia, Hong Kong, and, following an agreement to raise oil prices, from Kuwait and all the other oil-producing countries. Very few countries did not increase their balances. At the end of the year, official holdings were well above the minimum proportions required under the sterling agreements, though the extra amount was very unevenly spread.

The Smithsonian agreement on exchange rates of December 1971 temporarily brought to an end the uncertainties of the international markets. Official dealing rates for the pound were restored, and it was revalued against the US dollar; and the exchange control measures against inflows from abroad were removed. There was no immediate efflux of sterling balances; indeed by May 1972 private balances had hardly changed since December and central monetary holdings, particularly of the sterling area, had continued to increase – by over £400 million.

#### *May 1972–December 1973*

But by May doubts had already been expressed about the durability of the Smithsonian agreement, and now doubts were appearing about sterling's position in the agreement. Visible trade had returned to deficit in the first

[1] The payment of interest on subsequent increases in non-sterling countries' balances was forbidden; local authorities, finance houses, etc. were not allowed to accept further deposits from these countries; and new purchases by residents of non-sterling countries of short-dated government stocks, Treasury bills, local authority securities, and sterling certificates of deposit were prohibited. In October the ban on new purchases of securities was extended to all government securities, commercial bills, and other sterling paper.

quarter, in part as a result of the miners' strike, and although a deficit is traditionally more usual for UK trade than a surplus, this return was taken by many as a symptom of industrial strife and continuing inflation. In the middle of June a national dock strike became imminent, devaluation was rumoured, and confidence in the existing parity of sterling collapsed. In a few days there was an outflow of capital of over £1,000 million. On 23rd June the London foreign exchange market was closed, sterling was allowed to float, and transactions between the United Kingdom and the overseas sterling area became subject to UK exchange control for the first time. Overseas sterling holdings accounted for a large part of the outflow: in the month of June they fell by over £400 million. Most of the decline was on sterling area countries' account – their exchange reserves fell by £160 million and other holdings by £80 million – but non-sterling countries' balances also fell sharply, central monetary holdings by nearly £50 million, and private holdings by £125 million. Despite this very rapid outflow, total sterling holdings were still slightly larger than after the signing of the Smithsonian agreement in December. Moreover, private balances remained about £500 million larger than before the inflow of short-term funds started in mid-1971: whether so much of this inflow was retained because the authorities acted quickly or whether it was because sterling was not universally regarded as suspect is debatable, but it cannot have been because of relative interest rates, which were unfavourable.

After the outflow in June, holdings of sterling were very stable. The only movement of note in the third quarter was a fall of £83 million in official US holdings, which the US authorities had drawn from the IMF in April to help the United Kingdom to repay its remaining drawings from the IMF. From September 1972 until April 1973, however, there was a further substantial inflow, partly from Middle Eastern oil countries and partly – perhaps rather surprisingly in view of the generally pessimistic forecasts for the British economy – from private holders in non-sterling countries. A peak of nearly £6,300 million was reached in April 1973, but, with the sterling guarantee arrangements due to expire on 24th September, overseas sterling countries started to draw down their official balances. By the end of September, they had withdrawn some £500 million, and total sterling holdings of all countries stood at under £5,800 million. The Government announced on 6th September an extension of the sterling guarantees until 31st March 1974. By the end of 1973, total holdings of sterling had risen again to over £5,900 million, but the recovery was accounted for mainly by holders in non-sterling countries and by international organisations.

#### **The second Basle Facility and the Sterling Area Agreements**

Following the devaluation of sterling in 1967, it became clear that there was a need for new and more comprehensive arrangements to give greater stability to the sterling system. In the spring of 1968 the Bank began discussions in Basle with the representatives of certain other central banks [1] and with the Bank for International Settlements. Early in July this group indicated its willingness to provide a facility to cover any run-down in sterling balances of the overseas sterling countries, subject to a satisfactory outcome to the consultations which the UK Government were undertaking with sterling area governments. These consultations concerned the provision of a dollar guarantee for their sterling reserves in exchange for their agreement to hold not less than an agreed proportion of their reserves in sterling. Sufficient progress had been made with these consultations by 9th September for the Basle group to announce their final decision to set up a facility of \$2,000 million. (The previous facility in 1966, took account of the holdings of all countries and was for \$1,000 million.) The BIS were to be able to draw on several sources of finance: borrowing in international markets, deposits with the BIS on normal banking terms by central banks (particularly those of the overseas sterling

[1] Those of Austria, Belgium, Canada, Denmark, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United States, and Western Germany.



area), and the resources of the twelve lending countries and the BIS themselves.

Under this facility, which became available after the announcement of 9th September, the United Kingdom was able to draw US dollars or other foreign currency as, and to the extent that, the sterling area countries' sterling balances, both official and private, fell below an agreed starting level, which was set at £3,080 million. Drawings could be made during the first three years of its life, and the net amount ultimately drawn was to be repaid between the sixth and the tenth and final years. As the level of sterling balances was already below the 'trigger' point, drawings started almost immediately, and by the end of October \$600 million — the highest amount used under the facility had been drawn. It was all repaid by the end of September 1969, and no further drawings were made.

Under the agreements with the sterling area countries (and five currency issuing authorities), which became effective on 25th September 1968, the United Kingdom undertook to maintain the US dollar value of the bulk of their sterling reserves. More precisely the UK Government entered into a commitment that in the event of the middle sterling/US dollar rate in London falling, and remaining for thirty consecutive days, below \$2.3760 (1% below the parity of \$2.40 ruling when the agreements were concluded), a payment in sterling would be made to restore the dollar value of officially-held sterling exceeding 10% of each country's total official external reserves.

In return for this guarantee the sterling area countries undertook to keep a minimum percentage of their total official external reserves in sterling (known as the 'minimum sterling proportion'). The guarantee was conditional on each country maintaining this agreed proportion at all times. These minimum sterling proportions broadly reflected the existing proportions of sterling in reserves when negotiations began, and therefore varied from country to country.

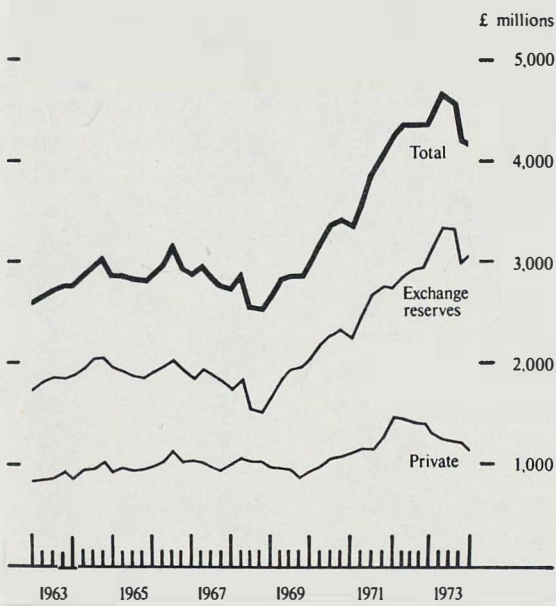
Agreements were concluded with sixty-four countries and authorities, of which thirty-five opted for three-year agreements, extendable by mutual agreement to five years, while the remainder chose an original term of five years. Separate and parallel arrangements were made with Kuwait. The three-year agreements were, with two exceptions, renewed in September 1971 for a further two years, when a uniform reduction in minimum sterling proportions was also made. At the same time the Basle Facility was extended for a further two years, the detailed drawing arrangements having been modified slightly (the 'trigger' point, for example was reduced to £2,881 million).

Between 24th October and 24th November 1972 the sterling/dollar rate remained below \$2.3760 for thirty consecutive days, and the guarantee had to be implemented. The cost to the United Kingdom was about £60 million. Thereafter, sterling improved and there was no further call on the guarantee before it was due to expire.

In September 1973 the UK Government announced unilaterally that they were prepared to extend the guarantee for the period from 25th September to the end of March 1974 to all countries and currency boards with which agreements were still in operation.

Certain new features were introduced to prevent countries being obliged by the operation of the minimum sterling proportion to accumulate more sterling if they were to qualify for the guarantee, and to limit the guarantee to existing holdings only. This was consistent with the policy of stabilising sterling holdings. Thus to qualify for the guarantee official holders had to maintain in their reserves either the minimum sterling proportion (as defined in the agreements) or, if it was less, an absolute amount of sterling derived by applying this minimum proportion to total reserves on 24th September 1973. An upper limit to the amounts covered by the guarantee was set by reference to the total of eligible balances (as defined under the agreements) on 24th September, compensation being paid either on those or on eligible balances held on 29th March 1974, whichever were less.

## Balances of overseas sterling countries



A further modification lay in the exchange rate used for the guarantee. The Government undertook to compensate official holders in sterling should the average sterling/US dollar rate over the period fall below \$2.4213 (which was the average noon rate on 4th, 5th and 6th September). The average rate over the six months was \$2.3335, so the guarantee was implemented at the end of March. The cost to the United Kingdom is expected to be about £80 million.

In March 1974 the Government announced, after considering opinion in the sterling area, that they would extend the guarantee to the end of 1974. This new arrangement followed broadly the terms of the previous one, the upper limit to the guarantee this time relating to the lowest of the eligible totals in September 1973, end-March 1974 or end-December 1974. The main change is that the guaranteed rate is expressed in terms of the average effective depreciation of sterling from Smithsonian parities during the guarantee period ending in March 1974 – which was 18.35%. [1] It will be implemented if the average effective depreciation in the nine-month period of the new guarantee is greater than the guaranteed rate. The new terms also include a general reduction of 10% in minimum sterling proportions, which is also reflected in the absolute amounts of sterling that those countries with rising reserves need to hold.

### Summary review, 1963–1973

The period 1963–73 ended therefore with total overseas holdings of sterling some £2,000 million higher in money terms than at the beginning. Apart from a rise of some £220 million by international organisations, virtually the whole of the inflow can be attributed to the overseas sterling area, whose central monetary holdings rose by about £1,270 million and private holdings by over £300 million. Other countries' holdings in total rose by about £250 million, but this figure includes a fall of over £100 million in reserve holdings.

About half of the total increase over the period was accounted for by four countries – Australia, Hong Kong, the Republic of Ireland, and New Zealand – and their combined holdings rose from under 20% of the United Kingdom's sterling liabilities at the beginning of the period to over 30% at the end of 1973. At the beginning and end of the period, the main oil-exporting countries (apart from in North America, the USSR, and Eastern Europe) accounted for some 18% of all sterling balances. Little more than a dozen countries therefore held half of the sterling balances at the end of 1973 and were responsible for about 70% of the increase since 1962.

Another important aspect of the period was the growth in the amount of interest paid on sterling holdings (included indistinguishably within 'interest, profits and dividends' in the balance of payments accounts). At the beginning of the period, interest payments were estimated to average around £150 million a year, but, during the middle 1960s, generally higher interest rates raised this to around £200 million a year. By 1973, both because liabilities were larger and because interest rates had risen again, payments amounted to over £450 million.

### Changes in sterling balances 1963–1973

£ millions

	Overseas sterling countries		Non-sterling countries		International organisations (excluding IMF)	Total
	Exchange reserves	Other holders	Exchange reserves	Other holders		
Dec. 1962 to Sept. 1964	+ 246	+190	- 25	+179	+ 8	+ 598
Sept. 1964 to Sept. 1968	- 512	+ 10	-218	-373	+ 11	-1,082
Sept. 1968 to May 1972	+1,584	+473	+160	+392	+116	+2,725
May 1972 to Dec. 1973	- 49	-344	- 40	+177	+ 86	- 170
<b>Total change</b>	<b>+1,269</b>	<b>+329</b>	<b>-123</b>	<b>+375</b>	<b>+221</b>	<b>+2,071</b>

[1] The calculation of the effective change, which gives a better measure of the value of sterling than the rate in terms of any single currency, is briefly described in the additional notes to Table 29 of the statistical annex.

Exchange reserves in sterling

£ millions

	Total all holders	International organisations (other than IMF)	Total all countries	Total overseas sterling countries	Australia, New Zealand and South Africa	India, Pakistan, Sri Lanka and Bangladesh	Caribbean area
1962 Dec.	2,312	89	2,223	1,772	399	138	50
1963 Mar.	2,309	91	2,218	1,806	415	182	53
June	2,322	91	2,231	1,855	440	180	55
Sept.	2,304	87	2,217	1,838	462	153	54
Dec.	2,440	105	2,335	1,898	514	170	59
1964 Mar.	2,515	103	2,412	1,938	563	189	62
June	2,549	100	2,449	2,026	618	148	65
Sept.	2,541	97	2,444	2,018	595	146	61
Dec.	2,436	110	2,326	1,947	552	133	67
1965 Mar.	2,351	102	2,249	1,909	515	137	65
June	2,283	101	2,182	1,881	472	111	66
Sept.	2,254	97	2,157	1,862	407	124	66
Dec.	2,318	104	2,214	1,911	389	134	69
1966 Mar.	2,424	108	2,316	1,970	387	192	68
June	2,408	107	2,301	2,014	437	189	66
Sept.	2,278	104	2,174	1,917	404	119	63
Dec.	2,304	117	2,187	1,855	369	81	63
1967 Mar.	2,343	109	2,234	1,930	320	89	64
June	2,324	106	2,218	1,890	337	73	62
Sept.	2,198	94	2,104	1,831	317	67	59
Dec.	2,102	101	2,001	1,736	327	60	59
1968 Mar.	2,151	100	2,051	1,815	360	92	60
June	1,866	104	1,762	1,531	349	82	65
Sept.	1,822	108	1,714	1,506	313	91	71
Dec.	1,920	117	1,803	1,650	297	118	87
1969 Mar.	2,105	129	1,976	1,847	320	187	87
June	2,175	129	2,046	1,921	325	178	93
Sept.	2,236	141	2,095	1,977	273	184	79
Dec.	2,319	173	2,146	2,039	226	187	76
1970 Mar.	2,496	171	2,325	2,196	260	232	79
June	2,583	169	2,414	2,290	359	196	80
Sept.	2,598	168	2,430	2,313	328	153	81
Dec.	2,547	182	2,365	2,254	287	122	80
1971 Mar.	2,776	179	2,597	2,475	389	159	78
June	3,053	172	2,881	2,690	539	139	88
Sept.	3,143	179	2,964	2,760	643	150	82
Dec.	3,240	210	3,030	2,740	733	133	88
1972 Mar.	3,441	210	3,231	2,884	836	135	96
June	3,477	224	3,253	2,931	985	182	101
Sept.	3,391	222	3,169	2,943	990	211	87
Dec.	3,618	257	3,361	3,159	999	189	82
1973 Mar.	3,821	271	3,550	3,347	1,055	207	85
June	3,918	264	3,654	3,324	1,095	203	80
Sept.	3,494	266	3,228	2,987	967	178	76
Dec.	3,679	310	3,369	3,041	910	151	79

East, Central and West Africa	Middle East	Far East	Other	Total non- sterling countries	North America	Latin America	Western Europe	Other
309	258	463	155	451	2	7	226	216
288	245	468	155	412	11	7	147	247
274	271	490	145	376	12	11	155	198
264	268	492	145	379	6	27	164	182
282	227	485	161	437	8	22	207	200
265	196	498	165	474	9	31	196	238
269	231	515	180	423	6	36	178	203
276	236	520	184	426	24	23	201	178
284	222	496	193	379	26	17	187	149
271	204	516	201	340	25	11	128	176
266	262	511	193	301	24	12	113	152
265	263	534	203	295	24	17	95	159
275	299	533	212	303	26	30	112	135
253	304	529	237	346	22	33	94	197
256	306	535	225	287	43	15	72	157
260	298	535	238	257	23	8	69	157
265	302	523	252	332	50	8	85	189
249	423	530	255	304	14	10	89	191
231	396	547	244	328	56	7	86	179
223	355	547	263	273	10	4	71	188
195	339	498	258	265	2	5	82	176
217	389	455	242	236	6	3	58	169
212	240	380	203	231	13	3	59	156
204	203	419	205	208	11	5	46	146
225	253	455	215	153	9	4	46	94
248	295	474	236	129	7	4	38	80
256	342	503	224	125	7	2	35	81
268	332	530	311	118	8	5	36	69
293	350	587	320	107	5	7	34	61
325	378	601	321	129	3	3	36	87
341	380	616	318	124	2	4	40	78
363	390	655	343	117	4	2	38	72
342	391	695	337	111	3	4	32	72
362	411	722	354	122	3	5	35	79
360	443	758	363	191	3	3	43	142
301	450	744	390	204	3	5	58	138
305	315	784	382	290	4	10	64	212
276	338	785	418	347	4	11	77	255
222	288	742	411	322	97	15	76	134
243	310	698	404	226	4	12	54	156
262	404	760	463	202	3	11	43	145
312	524	731	433	203	3	6	41	153
356	479	712	399	330	3	19	54	254
255	517	563	431	241	3	18	59	161
320	611	567	403	328	5	35	67	221

**Banking and money market liabilities to holders other than central monetary institutions**

£ millions

	Total all countries	Total overseas sterling countries	Australia, New Zealand and South Africa	India, Pakistan, Sri Lanka and Bangladesh	Caribbean area	East, Central and West Africa
1962 Dec.	1,551	823	119	23	110	105
1963 Mar.	1,511	867	131	28	113	127
June	1,553	870	126	28	131	118
Sept.	1,663	931	142	29	143	134
Dec.	1,662	874	143	28	120	115
1964 Mar.	1,754	950	169	29	132	146
June	1,818	950	155	32	146	130
Sept.	1,920	1,013	157	33	144	167
Dec.	1,704	931	134	33	120	140
1965 Mar.	1,710	978	142	34	141	183
June	1,666	939	125	40	143	151
Sept.	1,658	948	109	42	141	154
Dec.	1,756	985	137	43	137	143
1966 Mar.	1,804	1,009	119	45	154	143
June	1,878	1,134	124	41	176	150
Sept.	1,626	1,018	104	37	154	135
Dec.	1,684	1,030	104	37	155	136
1967 Mar.	1,827	1,017	108	39	154	133
June	1,844	986	109	35	175	137
Sept.	1,669	947	103	37	174	127
Dec.	1,588	1,002	113	37	158	139
1968 Mar.	1,580	1,066	147	37	182	138
June	1,510	1,014	143	43	173	134
Sept.	1,558	1,023	141	37	185	138
Dec.	1,460	984	130	35	170	134
1969 Mar.	1,406	980	113	40	188	133
June	1,408	955	134	39	186	132
Sept.	1,308	897	119	36	155	133
Dec.	1,407	936	128	37	149	140
1970 Mar.	1,522	978	137	34	165	150
June	1,604	1,069	144	36	177	158
Sept.	1,597	1,088	113	38	180	160
Dec.	1,673	1,111	111	40	175	163
1971 Mar.	1,733	1,171	144	44	175	162
June	1,730	1,174	115	44	176	169
Sept.	1,970	1,276	114	44	182	173
Dec.	2,382	1,480	138	47	194	187
1972 Mar.	2,385	1,474	135	48	219	189
June	2,218	1,419	142	56	217	186
Sept.	2,213	1,410	132	57	207	193
Dec.	2,291	1,319	125	61	166	203
1973 Mar.	2,254	1,282	154	60	163	222
June	2,333	1,241	149	70	146	222
Sept.	2,258	1,219	151	68	151	267
Dec.	2,255	1,152	169	67	148	256

Middle East	Far East	Other	Total non-sterling countries	North America	Latin America	Western Europe	Other
205	134	127	728	168	32	379	149
190	145	133	644	152	30	333	129
194	140	133	683	150	32	348	153
197	139	147	732	146	34	375	177
195	131	142	788	146	37	392	213
187	127	160	804	143	37	408	216
210	123	154	868	167	39	421	241
234	123	155	907	181	39	442	245
236	120	148	773	143	37	367	226
229	113	136	732	144	34	345	209
220	126	134	727	113	31	357	226
240	124	138	710	111	31	373	195
240	151	134	771	101	30	416	224
242	162	144	794	119	30	426	219
286	182	175	744	116	31	392	205
266	171	151	608	73	27	330	178
251	193	154	654	70	25	345	214
234	192	157	810	86	29	465	230
196	164	170	859	105	25	507	221
174	154	178	722	80	26	395	221
221	156	178	586	76	23	322	165
210	170	182	515	63	22	275	155
172	181	168	496	62	22	251	161
169	192	161	534	93	25	265	151
158	202	155	475	64	23	241	147
127	216	163	427	58	21	211	137
105	208	152	453	67	21	226	139
96	202	156	411	69	21	193	128
112	207	163	470	73	22	238	137
113	219	160	544	79	25	288	151
117	251	186	537	94	25	264	153
119	264	214	510	73	26	264	146
125	273	224	562	89	29	272	172
151	286	209	562	74	25	299	164
144	323	203	556	90	30	279	157
168	388	207	694	113	33	345	203
229	454	231	902	137	41	488	236
201	459	223	911	134	46	480	251
106	500	212	799	95	58	414	232
108	502	211	803	104	52	407	240
136	427	201	972	119	48	548	257
142	338	203	972	115	50	560	247
129	316	209	1,092	139	55	611	287
127	225	230	1,039	145	64	558	272
149	96	267	1,103	161	67	561	314