



BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28TH FEBRUARY

1947

Issued by Order of the Court of Directors, 10th April, 1947

COURT OF DIRECTORS

FOR THE YEAR ENDED 28TH FEBRUARY, 1947.

THE RT. HON. LORD CATTO, C.B.E., GOVERNOR.

CAMERON FROMANTEEL COBBOLD, Esq., DEPUTY GOVERNOR.

THE RT. HON. LORD AIREDALE, D.S.O., M.C.

DALLAS GERALD MERCER BERNARD, Esq.

RALPH ELLIS BROOK, Esq., O.B.E.

LAURENCE JOHN CADBURY, Esq.

BASIL GAGE CATTERNS, Esq.

SIR PATRICK ASHLEY COOPER.

GEORGE GIBSON, Esq., C.H.

SIR ALBERT CHARLES GLADSTONE, BT.

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

JOHN COLDBROOK HANBURY-WILLIAMS, Esq.

EDWARD HOLLAND-MARTIN, Esq.

SIR OTTO ERNST NIEMEYER, G.B.E., K.C.B.

THE RT. HON. LORD PIERCY, C.B.E.

BASIL SANDERSON, Esq.

HARRY ARTHUR SIEPMANN, Esq.

*ARTHUR GEORGE WANSBROUGH, Esq.

*Appointed 1st June, 1946, to fill the vacancy created by the death of
THE RT. HON. LORD KEYNES, C.B., on 21st April, 1946.

BANK OF ENGLAND.

Report for the year ended 28th February, 1947.

The Bank of England Act, 1946 (9 & 10, Geo. 6, Ch. 27) came into force on 1st March, 1946. By Section 1 of this Act, Bank of England Stock was transferred to a nominee of H.M. Treasury in exchange for Government Stock. Section 2 provided for the appointment of the Court of Directors by His Majesty and reduced its membership to Governor, Deputy Governor and 16 (previously 24) Directors.

The Act also contained consequential and supplemental provisions as to the constitution of the Bank and the qualification and terms of service of members of the Court of Directors. In pursuance of Section 3 a new Royal Charter was granted to the Bank on 1st March, 1946, by which such part of the Charter of 27th July, 1694, as no longer applied and the Supplemental Charter of 19th August, 1896, were revoked.

The following Report summarises the operations of the Bank of England during the year ended 28th February, 1947, together with certain related developments in finance, both internal and external.

Banking Department.

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

<i>£ thousands.</i>	BANKING DEPARTMENT.			
28TH FEBRUARY.	1946.		1947.	Change.
Capital	14,553		14,553	—
Rest	3,900		3,901	+ 1
Public Deposits	14,724	7,051		— 7,673
Bankers' Deposits	241,730	298,322		+ 56,592
Other Accounts	54,523	96,334		+ 41,811
Total Deposits	<u>310,977</u>		<u>401,707</u>	+ 90,730
	<u>329,430</u>		<u>420,161</u>	+ 90,731
Government Securities	214,560		306,931	+ 92,371
Discounts & Advances	9,373	12,281		+ 2,908
Securities	26,354	26,840		+ 486
Other Securities	35,727		39,121	+ 3,394
Notes	78,178		73,228	— 4,950
Coin	965		881	— 84
	<u>329,430</u>		<u>420,161</u>	+ 90,731

Total Deposits rose by £91 million, Bankers' Deposits rising by over £56 million and Public Deposits falling by over £7 million while Other Accounts

showed an exceptionally large rise of £42 million. The greater part of this last change is explained by the payment on 27th February, 1947, to the account of the International Monetary Fund of the cash proportion of H.M. Government's quota, amounting to £32 million. The increase of £91 million in deposits was reflected in rises of over £92 million in Government Securities and over £3 million in Other Securities, mostly in Discounts and Advances, the Reserve falling by nearly £5 million. Half-yearly payments of £873,180 were made to H.M. Treasury on 5th April and 5th October, 1946, in pursuance of Section 1 (4) of the Bank of England Act, 1946.

Note Circulation and Issue Department.

The total of Notes in Circulation remained relatively stable in comparison with the previous seven years, rising by 4.2% from £1,322 million to £1,377 million, with a high point of £1,428 million at Christmas, 1946. Notes in the Banking Department fell from £78¼ million to £73¼ million. The total of Notes Issued and Paid in recent years is shown in the following table.

<i>£ millions:</i>		NOTES ISSUED, PAID, AND IN CIRCULATION.				
YEAR ENDED FEBRUARY.		1939.	1944.	1945.	1946.	1947.
Issued during year	... ..	969	831	857	935	927
Paid during year	... ..	968	664	726	830	872
In Circulation at end of year	... ..	478	1,086	1,217	1,322	1,377

Changes in the denomination of Notes in Circulation were influenced by the decision announced in April, 1943, to issue no more notes with a face value in excess of £5. Notes of £10 and upwards ceased to be legal tender on 1st May, 1945. A new type of £5 note, incorporating a metallic thread as an additional protection against the forger, was first issued in October, 1945; and the old type of £5 note ceased to be legal tender on 1st March, 1946. Notes of all denominations that have ceased to be legal tender continue to be paid on presentation to the Bank of England. The table below covers the period of these changes.

<i>£ thousands.</i>		NOTES IN CIRCULATION BY DENOMINATIONS.					
END OF FEBRUARY.		1939.	1943.	1944.	1945.	1946.	1947.
10s.	... ..	53,338	88,552	95,223	99,971	102,290	98,996
£1	... ..	283,646	662,541	820,898	938,241	1,078,442	1,113,279
£5	... ..	38,283	56,487	78,470	90,470	61,461	83,962
£10	... ..	14,596	16,111	8,539	6,587	2,969	2,079
£20	... ..	4,436	3,968	2,636	2,303	1,423	985
£50	... ..	12,305	12,630	7,298	6,021	3,221	2,168
£100	... ..	26,518	24,910	15,569	13,276	7,428	4,810
£200(a)	... ..	19	13	13	12	9	9
£500	... ..	3,654	2,793	1,761	1,408	812	493
£1,000	... ..	23,199	4,400	3,215	2,942	1,815	1,209
Over £1,000(b)	... ..	18,455	46,715	52,710	55,910	62,200	69,030
Total	... ..	<u>478,449</u>	<u>919,120</u>	<u>1,086,332</u>	<u>1,217,141</u>	<u>1,322,070</u>	<u>1,377,020</u>

(a) Issue discontinued in 1928.

(b) Used by the Bank of England for internal purposes, e.g., as excess cover for Scottish and Irish note issues.

With the return to more normal conditions, the main seasonal movements in the Circulation reappeared substantially on the pre-war pattern. Broadly speaking, in pre-war years the Circulation rose from the end of January to a high point after the August Bank Holiday : fell from then until late in November : rose again to Christmas : and then fell away to the annual low point at the end of January. In addition to these main movements there were increases over the end of each month and in connection with Bank Holidays. In 1946 the main phases were again in evidence. The outflow at the end of each month was not appreciably greater than before the war : that at the Bank Holiday seasons was more in accordance with pre-war experience and, in comparison with the 1930's, was larger on each occasion, particularly at Whitsun. The Christmas increase persisted more normally throughout the war and in 1946 was considerably greater than in previous years.

After an increase of the order of £150 million in each of the four preceding years, the Fiduciary Issue remained at £1,400 million, to which level it had been raised on 10th December, 1945, until 10th December, 1946. It was then raised by £50 million to meet the Christmas outflow, and stood at £1,450 million at the end of February, 1947. Gold held in the Issue Department remained unchanged through the year at slightly below £250,000.

ISSUE DEPARTMENT.

£ thousands.

28TH FEBRUARY.	1946.	1947.	Change.
Notes in Circulation	1,322,070	1,377,020	+ 54,950
Notes in Banking Department	78,178	73,228	- 4,950
Notes Issued	<u>1,400,248</u>	<u>1,450,248</u>	<u>+ 50,000</u>
Government Debt	11,015	11,015	—
Other Government Securities	1,388,224	1,438,236	+ 50,012
Other Securities	754	739	- 15
Coin other than Gold Coin	7	10	+ 3
Fiduciary Issue	1,400,000	1,450,000	+ 50,000
Gold Coin and Bullion	248	248	—
	<u>1,400,248</u>	<u>1,450,248</u>	<u>+ 50,000</u>

Floating Debt.

The outstanding total of the Floating Debt, as given in the Exchequer Return for the date nearest to the end of February in each year, showed a further increase of £541 million. The total of Treasury Bills rose by £535 million and that of Treasury Deposit Receipts fell by £93 million.

£ millions.

FLOATING DEBT OUTSTANDING.

	4th Mar. 1939.	26th Feb. 1944.	24th Feb. 1945.	2nd Mar. 1946.	1st Mar. 1947.
Treasury Bills	856	3,117	3,739	4,206	4,741
Ways & Means Advances:					
by Public Departments	40	340	543	446	530
by Bank of England	6	32	—	—	15
Treasury Deposit Receipts	—	1,376	1,801	1,566	1,473
	<u>902</u>	<u>4,865</u>	<u>6,083</u>	<u>6,218</u>	<u>6,759</u>

The weekly allotment of Treasury Bills by tender rose from £130 million at the beginning of the year to £170 million at the end. For half the year allotments were on the basis of £150 million a week.

£ millions.

WEEKLY ALLOTMENT OF TREASURY BILLS.

1 week ended 9th March, 1946	...	...	...	...	...	...	...	...	130
1 " " 16th March	...	...	...	...	...	...	...	...	140
5 weeks " 20th April	...	...	...	...	...	...	...	...	150
1 week " 27th April	...	...	...	...	...	...	...	...	140
3 weeks " 18th May	...	...	...	...	...	...	...	...	150
1 week " 25th May	...	...	...	...	...	...	...	...	140
18 weeks " 28th September	...	...	...	...	...	...	...	...	150
1 week " 5th October	...	...	...	...	...	...	...	...	160
3 weeks " 26th October	...	...	...	...	...	...	...	...	170
6 " " 7th December	...	...	...	...	...	...	...	...	160
6 " " 18th January, 1947	...	...	...	...	...	...	...	...	170
1 week " 25th January	...	...	...	...	...	...	...	...	165
2 weeks " 8th February	...	...	...	...	...	...	...	...	160
3 " " 1st March	...	...	...	...	...	...	...	...	170

The average rate of discount at which the Bills were allotted remained stable at around 10s.%, the highest and lowest rates being 10s. 2.83d.% at the tender on 30th August, 1946, and 9s. 11.25d.% on 6th December, 1946. The rate of interest on Treasury Deposit Receipts remained unchanged at $\frac{5}{8}$ %.

Public Debt (other than Floating Debt).

It is a statutory duty of the Bank of England to manage all British Government stocks and bonds outstanding, except those on the registers of the Bank of Ireland (Belfast and Dublin), the Post Office Savings Department and the Trustee Savings

Banks. They also act as registrars of loans guaranteed by H.M. Treasury, and of the stocks of certain Dominion and Colonial Governments, United Kingdom Local Authorities and Public Boards. The nominal total of stocks and bonds managed (*i.e.*, excluding amounts on the above registers) showed a net increase during the year of £119 million, a rise of £187 million in British Government securities being partly offset by a fall of £68 million in other securities. The following table gives some detail of changes in recent years in the different groups of stocks managed by the Bank. Tax Reserve Certificates and interest-free loans are not included in the figures.

DEBT MANAGED BY THE BANK.

£ millions.

END OF FEBRUARY.	1939.	1944.	1945.	1946.	1947.
British Government:					
Stock	5,107	10,507	11,133	12,367	12,567
Bearer Bonds	1,002	168	163	158	145
Total	<u>6,109</u>	<u>10,675</u>	<u>11,296</u>	<u>12,525</u>	<u>12,712</u>
Other Securities:					
Treasury Guaranteed	140	210	209	207	151
*Dominion & Colonial	454	156	150	126	122
Local Authorities	197	188	188	173	166
Public Boards, etc.	202	203	202	202	201
Miscellaneous	19	16	16	16	16
Total	<u>1,012</u>	<u>773</u>	<u>765</u>	<u>724</u>	<u>656</u>
Grand Total	<u>7,121</u>	<u>11,448</u>	<u>12,061</u>	<u>13,249</u>	<u>13,368</u>

*Including Government of India.

The principal operations during the year in stocks managed by the Bank are set out below. The figures given (to the nearest £ million) refer to the total of stock outstanding, which is slightly larger than the total managed by the Bank, by the amounts standing on the Bank of Ireland and other Registers.

Repayments for cash included:—

2½% Conversion, 1944-49	1st April, 1946	£31 million
2½% National War Bonds, 1945-47	1st July, 1946	160 ..
2½% National War Bonds, 1946-48	15th August, 1946	159 ..
2½% National Defence Bonds	15th September, 1946	60 ..
3% Local Loans	5th January, 1947	125 ..

Issues for cash or by exchange or conversion included :—

3% Treasury Stock, 1966 or after:			
1st March, 1946. Exchange for Bank of England Stock			£58 million
1½% Exchequer Bonds, 1950:			
1st April, 1946. Conversion of 2½% Conversion, 1944-49	176		
" " 2½% N.W. Bonds, 1945-47	284		
	—	460	..
2½% Savings Bonds, 1964-67:			
17th May—9th July, 1946. For cash at par	418		
15th August, 1946. Conversion of 2½% N.W. Bonds, 1946-48	334		
	—	752	..
2½% Treasury Stock, 1975 or after:			
28th October, 1946—11th January, 1947. For cash at par	177		
5th January, 1947. Reinvestment of 3% Local Loans	395		
	—	482	..
2½% Treasury Stock, 1986-2016:			
1st January, 1947. Exchange for £69 million 3% Coal Commission Guaranteed Stock, 1980-2016			78 ..
2½% Guaranteed Airways Stock, 1971-76:			
1st June, 1946. For cash at 99			5½ ..
2½% Guaranteed Airways Stock, 1977-82:			
24th January, 1947. For cash at 101½			10 ..

The last three of these issues were made to the Commissioners for the Reduction of the National Debt. From the administrative point of view, the most noteworthy operation was the redemption of 3% Local Loans, a stock nearly sixty years old of which £413 million (out of a total of slightly less than £430 million) was held on the Bank of England Register in some 97,000 accounts. The announcement on 16th October of its forthcoming redemption was followed by great activity in the stock, more than 25,000 transfers being received between that date and the closing of the register on 13th December.

Between February, 1939, and February, 1947, the nominal total of British Government stocks and bonds managed by the Bank increased by 108%, but the number of accounts rose during the same period from 2,170,000 to 2,477,000, or by only 14%. The striking fall in the total of bearer bonds outstanding which took place between February, 1939 (£1,002 million) and February, 1944 (£168 million) illustrates the success of the campaign to exchange bearer securities into registered securities. The smallness of the subsequent movement, from £168 million to £145 million, may be explained by a considerable proportion of the bonds still outstanding being held abroad.

During the year there was a marked increase in the number of transfers to be registered, which at 640,000 showed a rise of 34% on the previous year's total of 476,000. The figure includes transfers for nominal consideration and also covers transfers of non-Government stocks.

The following table shows the price of four representative gilt-edged securities at the beginning and end of the year. The corresponding yield has been calculated after allowing for accrued interest, but not for income tax : and assuming redemption at the earliest optional date, except for 2½% Consols for which the flat yield is given.

GILT-EDGED PRICES AND YIELDS.

DAILY AVERAGE.	Price.		Yield %.	
	Feb., 1946.	Feb., 1947.	Feb., 1946.	Feb., 1947.
2½% Consols	92.43	96.98	2.70	2.58
3% Savings Bonds, 1960-70	103.36	107.99	2.72	2.31
3½% War Loan, 1952 or after	104.37	107.26	2.79	2.16
2½% National War Bonds, 1952-54	101.17	103.82	2.29*	1.71*

*Yield to redemption in 1954, 2.34% and 1.92% respectively.

London Clearing Banks.

Relations with the Committee of London Clearing Bankers, as with other representative organisations in the financial field, continued to be close and intimate.

In December, 1946, the Committee of London Clearing Bankers gave notice that, on and after 31st December, 1946, the monthly statements of the Clearing Banks would be aggregated on common dates, synchronising with the weekly return of the Bank of England and compiled on the third Wednesday in each month, except in the months of June and December, when the statements would be made up as at the 30th and 31st respectively. They further announced that, taking into account the general disposition of bank assets now ruling, it had been agreed in consultation with the Bank of England that the daily ratio of cash balances to deposit liabilities would be sustained on the basis of 8%.

These changes mark an important departure from the practice followed hitherto. Incidentally they affect to a minor degree the comparability of the monthly statements before and after the end of 1946 : and this must be borne in mind in the comparisons which follow. During the year the total deposit liabilities of the Clearing Banks increased by £835 million, the rate of increase being faster than in previous years. There was no appreciable change in the proportion of Current Accounts to Deposit and Other Accounts.

<i>£ millions.</i>		LONDON CLEARING BANKS : DEPOSITS.				
FEBRUARY.		1939.	1944.	1945.	1946.	1947.
Current Accounts	... ..	1,212	2,583	2,904	3,078	3,603
Deposit and Other Accounts	... ..	964	1,314	1,501	1,606	1,916
Total Deposits	... ..	2,176	3,897	4,405	4,684	5,519
Balances with Other Banks, etc.	... ..	58	122	135	143	170
Net Deposits	... ..	2,118	3,775	4,270	4,541	5,349
Rate of Increase on previous year in Net Deposits	... ..		10.6%	13.1%	6.3%	17.8%

The most marked change during the course of the year in the principal categories of the Clearing Banks' assets was an increase in Money at Call and Short Notice and in Bills Discounted. These two items, together with Cash in Hand and at the Bank of England, approached 29% of Net Deposits in February, 1947, as compared with little over 18% in February, 1944 and 1945 and 28% in the same month of 1939. Although investments rose by a further £198 million, their ratio to Net Deposits fell slightly: and although in February, 1947, advances had risen to over £1,000 million, they still amounted to less than 20% of Net Deposits as compared with over 45% before the war. The difference is to be found in the Clearing Banks' holdings of Treasury Deposit Receipts which at £1,436 million showed a small fall on the year but still represented over one-quarter of Net Deposits. The following table shows the movement of the principal assets in recent years, the figures in italic giving each item as a percentage of Net Deposits.

LONDON CLEARING BANKS : PRINCIPAL ASSETS.

£ millions.

Percentage of Net Deposits is shown in italic.

FEBRUARY.	1939.	1944.	1945.	1946.	1947.
Cash in Hand and at Bank of England	243 <i>11.5</i>	414 <i>11.0</i>	455 <i>10.7</i>	483 <i>10.6</i>	463 <i>8.7</i>
Money at Call and Short Notice	138 <i>6.5</i>	150 <i>4.0</i>	188 <i>4.4</i>	243 <i>5.4</i>	421 <i>7.9</i>
Bills Discounted	212 <i>10.0</i>	123 <i>3.3</i>	140 <i>3.3</i>	340 <i>7.5</i>	659 <i>12.3</i>
Total of above items	593 <i>28.0</i>	687 <i>18.3</i>	783 <i>18.4</i>	1,066 <i>23.5</i>	1,543 <i>28.9</i>
Treasury Deposit Receipts	— —	1,264 <i>33.5</i>	1,639 <i>38.4</i>	1,468 <i>32.3</i>	1,436 <i>26.8</i>
Total of above items	593 <i>28.0</i>	1,951 <i>51.8</i>	2,422 <i>56.8</i>	2,534 <i>55.8</i>	2,979 <i>55.7</i>
Investments	617 <i>29.1</i>	1,141 <i>30.2</i>	1,160 <i>27.2</i>	1,241 <i>27.3</i>	1,439 <i>26.9</i>
Advances	977 <i>46.1</i>	753 <i>19.9</i>	759 <i>17.8</i>	837 <i>18.4</i>	1,005 <i>18.8</i>

Discount Market.

Over a number of years past, the number of houses constituting the Discount Market has been reduced by amalgamations and absorptions as well as by retirements. From time to time the remaining members of the Market have raised fresh capital, with the effect of producing a smaller number of Discount Houses each disposing of considerably greater resources. This process was accentuated during the year ended 28th February, 1947, in the course of which eight companies raised a total of £7¼ million new capital, including premiums received on new issues: in addition one new company, with a capital of £500,000, came into operation in January, 1947, raising the total membership of the Market to 12. The Market's resources in capital and published reserves now amount to £25¾ million.

External Finance.

The following paragraphs review briefly the principal changes in the monetary relations of the United Kingdom with other countries, whether these are embodied in inter-governmental agreements or in arrangements made directly between the Bank of England and other central banks, up to 28th February, 1947.

Argentina.

As part of a comprehensive Agreement (Cmd. 6953) signed on 17th September, 1946, between the two Governments, provision was made for the use of the funds accumulated on Argentine Special Accounts in the repatriation of sterling debt and British investments in Argentina: the balances outstanding from time to time to carry $\frac{1}{2}$ % interest. In each of the four years beginning from the date of the Agreement, £5 million may be used in payment for current transactions anywhere and at the end of the four years further discussions are to take place. From the date of the Agreement, all sterling received by Argentina (including the interest on the pre-agreement accumulated balances) was made freely available for payment of current transactions anywhere.

Subsequently an Agreement for the sale of the British-owned Railways was signed on 13th February, 1947, and, subject to ratification, the agreed purchase price should absorb the whole of the outstanding accumulated balances, plus a substantial part of Argentina's current sterling receipts.

Austria.

A Payments Agreement (Cmd. 6891), in the form of an Annex to an exchange of letters between the two Governments, came into force on 1st August, 1946. This provided for a relaxation of Trading with the Enemy (T.W.E.) legislation to permit trade and payments of a current nature: but Austrian property and income continue to be subject to the control of the T.W.E. Department. Payments to Austria must be made in sterling, and sterling accounts of residents in Austria are designated Austrian Accounts. Banking channels are at present limited to an account opened by the National Bank of Austria with the Bank of England. The Agreement will terminate on the entry into force of a Treaty of Peace between the United Kingdom and Austria, unless otherwise agreed.

Belgium.

An Agreement (Cmd. 7057) supplementary to the Anglo-Belgian Monetary Agreement (Cmd. 6557) of 5th October, 1944, signed on 26th February, 1947, extended the availability of sterling at the disposal of the National Bank of Belgium for making payments for current transactions to residents of countries outside the Belgian Monetary Area. The Belgian Government undertook to place no restrictions upon the acceptance by residents of the Belgian Monetary Area of sterling received from residents outside that Area in respect of current transactions; and the National Bank of Belgium became entitled to request the Bank of England to purchase, in terms of the Articles of Agreement of the International Monetary Fund, any sterling held by the first-named bank.

Canada.

An Anglo-Canadian Financial Agreement (Cmd. 6904) was signed on 6th March, 1946, and became fully effective on 16th July, 1946, providing for a credit of Can.\$1,250 million, to run until the end of 1951. Interest at 2% on the amount outstanding and amortisation sufficient to redeem it in not more than 50 years will begin on 31st December, 1951, with provision for a waiver of interest payments in specified conditions. The Canadian Government also agreed to cancel an outstanding debt of Can.\$425 million on the Commonwealth Air Training Scheme : and to continue the interest-free loan made in 1942, of which Can.\$561 million was still outstanding at the date of the Agreement, until 1st January, 1951, the terms thereafter to be the subject of discussion. The Governments further agreed that the treatment given by either to the other in matters of exchange and import control would be not less favourable than that given to any other country.

Following agreement with the Canadian authorities, sterling currently accruing was made transferable, as from 1st January, 1947, between Canada and American Account countries and Argentina. On 27th February, 1947, the area of transferability was extended to cover the Belgian and Netherlands Monetary Areas and Portugal : payments to certain other countries were also permitted.

Egypt.

On 1st-3rd April, 1946, it was agreed in an exchange of letters (Cmd. 6792) between His Majesty's Embassy in Cairo and the Egyptian Government that the earlier arrangements (Cmd. 6582 and Cmd. 6720) by which H.M. Government would provide an agreed amount of certain foreign currencies (viz., U.S. dollars, Canadian dollars, Swiss francs, Swedish kronor and Portuguese escudos) to be used for normal imports and "invisible" payments from 1st January, 1945, to 31st March, 1946, against Egyptian pounds or sterling, should be extended to 31st March, 1947. On 21st February, 1947, it was agreed to extend the arrangement until 15th July, 1947. These Agreements added the equivalent of £E15,880,000 to the amount previously available, making a total of £E30,440,500 for the 30½ months from 1st January, 1945, to 15th July, 1947.

France.

The Anglo-French Agreement (Cmd. 6613) of 27th March, 1945, expired on 28th February, 1946, the French Government having drawn on the credit to the original limit of £100 million plus an additional £50 million. A payment of £40 million was made in gold, pending a final calculation of the amount to be repaid in that form : and a Supplementary Agreement (Cmd. 6809) signed on 29th April, 1946, provided for a reduction of the outstanding balance to £55 million by 31st March, 1947, and to £30 million by 1st April, 1948, final repayment to be effected by 1st April, 1949. To provide for the first instalment it was agreed that the French Government would requisition and transfer to H.M. Government during 1946 such securities as the latter were willing to accept, and H.M. Government also stated their readiness to acquire additional requisitioned securities in settlement of the remaining instalments. Failing payment in sterling or in agreed securities settlement was to be effected in gold.

As regards current expenditure, the existing technical arrangements were prolonged until 31st December, 1946, with the provision that the French Government could, if necessary, acquire sterling against the refund of certain U.S. dollars up to the equivalent of £10 million, against the sale of gold or against the transfer of acceptable securities. The total deliveries of gold in respect of current expenditure were to be adjusted before 1st April, 1947, to one-third of the gross amount of payments in franc or sterling currencies made during the last ten months of the year 1946.

This Supplementary Agreement was considerably modified by a new Financial Agreement (Cmd. 6988) signed on 3rd December, 1946. A further £10 million of the indebtedness having been liquidated in gold, the balance was fixed at £99,188,750. This sum is to be repaid in twelve equal annual instalments beginning on 1st September, 1950, bearing interest meanwhile at $\frac{1}{2}\%$, that for the first three years being capitalised and added to the principal on 1st September, 1949. From 1st January, 1947, the proceeds of requisitioned securities transferred to H.M. Government after 16th September, 1946, were made available for current French payments in the Sterling Area and existing technical arrangements were to continue in force until reviewed by the two Governments.

Hungary.

An inter-Governmental Agreement (Cmd. 6915) came into force on 27th August, 1946, on the lines of that with Austria referred to above except that banking channels are restricted to sterling accounts in the name of the National Bank of Hungary with the Bank of England and since 1st October with the "Big Five" banks. The Agreement will terminate on 26th August, 1947, or on the entry into force of the Treaty of Peace between the United Kingdom and Hungary (whichever is the earlier) unless otherwise agreed.

Iraq.

On 8th April, 1946, it was agreed (Cmd. 6803) to extend the existing arrangements (Cmd. 6646 and Cmd. 6742) with the Iraqi Government for the provision of certain foreign currencies for another year to 31st March, 1947, and in February, 1947, it was agreed to extend the arrangement until 15th July, 1947. These agreements added the equivalent of I.D. 4,433,841 to the amount previously available, making a total of I.D. 9,074,392 for the 30 $\frac{1}{2}$ months from 1st January, 1945, to 15th July, 1947.

Netherlands.

From August, 1946, the Netherlands East Indies were included within the scope of the Anglo-Netherlands Monetary Agreement (Cmd. 6681) of 7th September, 1945. This Agreement was amended by an exchange of notes (Cmd. 6921) on 12th and 16th September, 1946, in which provision was made for increases from Florins 53,450,000 to Florins 106,900,000 and from £5 million to £10 million in the amounts of each other's currency which the Bank of England and the Netherlands Bank respectively were prepared to hold. Gold settlement will be required above these limits, subject to the already existing proviso that the Netherlands Bank has agreed to hold an additional sum equivalent to the net amount of sterling owned by

residents of the Netherlands Monetary Area at the date of the Agreement. A Supplementary Agreement (Cmd. 7051) signed on 26th February, 1947, extended the availability of sterling at the disposal of the Netherlands Bank for making payments for current transactions to residents of countries outside the Netherlands Monetary Area. The Royal Netherlands Government undertook to place no restrictions upon the acceptance by residents of the Netherlands Monetary Area of sterling received from residents outside that Area in respect of current transactions; and the Netherlands Bank became entitled to request the Bank of England to purchase, in terms of the Articles of Agreement of the International Monetary Fund, any sterling held by the first-named bank.

Portugal.

A Monetary Agreement (Cmd. 6798) of 16th April, 1946, established the rate of exchange at escudos 100 = £1 and provided that the Bank of England and the Bank of Portugal would sell such sterling or escudos to the other as might be required for current payments between the Sterling and Portuguese Monetary Areas. Each Bank will hold the other's currency up to £5 million or its equivalent, with gold settlement for any sum in excess.

The two Governments agreed not to restrict the availability of sterling and escudos at the disposal of residents of their respective monetary areas for transfers to other residents in either of the areas or for such transfers to residents in other countries as might be mutually agreed. A Supplementary Agreement (Cmd. 7050) signed on 26th February, 1947, extended the availability of sterling at the disposal of the Bank of Portugal, and of escudos at the disposal of the Bank of England, for making payments for current transactions to residents of countries outside the Portuguese Monetary Area and the Sterling Area respectively. The two Governments agreed not to restrict the acceptance, by residents of their own areas, of payments in the other's currency tendered in settlement of current transactions by residents of third countries; and the Bank of Portugal and the Bank of England each became entitled to request the other to purchase its holding of the other's currency acquired as a result of current transactions, provided that the conversion was required for making payments of a current nature.

The principal Agreement will last for two years but can be terminated at any time on three months' notice. Following the conclusion of the Agreement, the Special Account arrangements were cancelled and the accounts of residents of Portugal were redesignated Portuguese Accounts.

Sweden.

The first year of operation of the Anglo-Swedish Monetary Agreement (Cmd. 6604) of 6th March, 1945, was reviewed by representatives of the two Governments in March and April, 1946. It was decided that the sterling balances of the Riksbank arising from current transactions with the Sterling Area and certain third-country transfers should be allowed to increase by £15 million (or in certain circumstances by £16 million) during the twelve months ended April, 1947. A further review took place in September, 1946, when it appeared that the Agreement was operating in accordance with the plans and intentions of the contracting parties.

Switzerland.

A Monetary Agreement (Cmd. 6756) of 12th March, 1946, provided for the Bank of England and the Swiss National Bank to sell each other their respective currencies up to a maximum of £5 million and S.Fcs. 86,750,000 to meet current payments. Above these figures, the other's currency must be paid for in gold; but the Swiss National Bank will hold up to £10 million until 11th March, 1947, and £15 million thereafter during the currency of the Agreement before requiring gold settlement. Provision was made for co-operation in controlling capital transfers and, if so agreed between the two Governments, for arrangements whereby residents of third countries might make and receive payments of a current nature in sterling or Swiss francs.

The Agreement will last for three years, but can be terminated at any time on three months' notice.

United States of America.

The provisions of the Anglo-U.S. Financial Agreement (Cmd. 6708) of December, 1945, came into force on 15th July, 1946.

Use of Sterling.

Most of the recent Monetary Agreements have provided for the use of sterling (by agreement of the contracting parties) for payments between the other country concerned and places outside the Sterling Area. Applications and enquiries relating to transactions of this kind have been increasingly numerous and a wide range of them has been permitted, in many cases with advantage to U.K. international merchanting business. The necessary financial arrangements were made in May for the reopening of an international coffee market and in November for the reopening of the London rubber market, both on a basis of sterling payments.

Transferable Accounts.

In order to facilitate as wide an extension as possible of the field over which sterling currently accruing to non-residents may be used for making payments in respect of current transactions, the introduction of a system of "Transferable Accounts" was announced on 27th February, 1947. Transfers of sterling from one Transferable Account to another, irrespective of the country of residence of the account holder, may be made freely, subject only to report to the Bank of England. Transfers between Transferable Accounts and American Accounts may also be made freely, subject only to similar report.

In order to ensure that these transfer facilities are used only in respect of current transactions, the new designation has been applied only to those accounts which the monetary authority or exchange control in a particular country is prepared to supervise. The initial list of countries to which these arrangements apply included Argentina, Canada and Newfoundland, and the Belgian, Netherlands and Portuguese Monetary Areas.

International Monetary Institutions.

The International Monetary Fund and the International Bank for Reconstruction and Development set up under the Agreements signed at Bretton Woods in July, 1944, began preparing for operations after the Savannah meeting of Governors in March, 1946. The first meetings of the Boards of Executive Directors of the two Institutions were held early in May, 1946, and their first annual reports were submitted to the Boards of Governors in September, 1946. The Bank of England have been appointed Fiscal Agents in the United Kingdom for both Institutions.

The International Monetary Fund asked members on 12th September, 1946, for declarations of par values of their currencies. H.M. Government declared the existing value of sterling, namely, that one pound sterling possessed a theoretical gold content of 55.26857 grains of fine gold, this weight of gold producing a sterling/dollar rate of £1 = 4.03 United States dollars of the weight and fineness in effect on 1st July, 1944, and a parity price of gold in London of 173/8.367d. per fine ounce.

The Fund announced that it would formally begin operations on 1st March, 1947, and members' quotas were payable before that date. H.M. Government paid during the year the outstanding amount (£322,548,000) of its quota; £52,203,000 of this was paid in gold and the balance in sterling or non-interest-bearing sterling notes cashable on demand.

The Bank formally began operations on 25th June, 1946, and has so far called for payment of 15% of its capital. H.M. Government paid during the year £48,355,000; of this £6,419,000 was paid in U.S dollars and the balance in sterling or non-interest-bearing sterling notes cashable on demand. A further 5% of capital is payable on or before 26th May, 1947.

Court of Directors.

The term of office of four Directors expired at 28th February, 1947. Of these Lord Airedale and Sir Albert Gladstone, who had been Directors for 24 and 23 years respectively, did not seek renomination in order to make way for new appointments: Sir Patrick Ashley Cooper and Sir Charles Hambro were reappointed for four years from 1st March. The vacancies were filled by the appointment, for the same period, of Lord Dukeston and the Hon. H. K. M. Kindersley.

Copies of this Report may be obtained from the Secretary, Bank of England.

BANK OF ENGLAND.

28TH FEBRUARY, 1947.

ISSUE DEPARTMENT.

	£		£
Notes Issued :		Government Debt ...	11,015,100
In Circulation ...	1,377,019,585	Other Government Securities ...	1,438,235,434
In Banking Department ...	73,228,248	Other Securities ...	739,359
		Coin other than Gold Coin ...	10,107
		Amount of Fiduciary Issue	1,450,000,000
		Gold Coin & Bullion (@ 172s. 3d. per oz. fine)	247,833
	£ 1,450,247,833		£ 1,450,247,833

K. O. PEPPIATT, *Chief Cashier.*

BANKING DEPARTMENT.

	£		£
Capital ...	14,553,000	Govt. Securities ...	306,930,660
Rest ...	3,900,610	Other Securities :	
Public Deposits ...	7,051,291	Discounts and Advances.	
<small>(Including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts)</small>		£12,280,677	
Other Deposits :		Securities.	
Bankers.		£26,839,910	39,120,587
£298,321,740		Notes ...	73,228,248
Other Accounts.		Coin ...	880,705
£96,333,559	394,655,299		
	£ 420,160,200		£ 420,160,200

K. O. PEPPIATT, *Chief Cashier.*

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