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CONSULTATION WITH AUSTRALIA UNDER ARTICLE XII:4(b)

Statement by the Australian Delegation

Australian Balance of Payments

In 1953-54 the Australian balance of payments was approximately in equilibrium and the Government was able to pursue without interruption the policy of progressive relaxation of import restrictions. By the end of the year import licensing was not seriously restricting the import of essential goods and quotas for less essential goods had been raised to 60 per cent of imports of those goods in the basis year 1950-51. Actually, the degree of restriction of less essential goods was not as great as the 60 per cent figure would suggest because supplementary quotas had been granted in many instances where strict adherence to quotas based on 1950-51 imports would have proved inequitable.

By September 1954, however, it had become evident that Australia would find it difficult to maintain the policy of progressive relaxation. At the opening of the 1954-55 wool sales prices averaged about 6d. a lb. greasy lower than the previous season's average of 82d. and every penny a lb. fall in the price of wool means a decline of about £5 m. in Australia's export income. In addition, the outlook for wheat and flour exports, which had suffered in the previous year from a sharp decline in overseas demand, continued to be poor. Precautionary measures were accordingly introduced in October 1954, to bring imports under closer control until the trends could be ascertained more definitely. These measures were notified to the CONTRACTING PARTIES at the time. They consisted chiefly of putting back under quota control a number of commodities which had previously been licensed on a no-quota restriction basis, though still providing for rather more imports of those goods than in the previous licensing year.

During the following six months the position deteriorated further. Wool prices declined to 68d. at one stage and by March 1955, when a large proportion of the season's wool had been sold, it was estimated that the average price for the year would be about 71d. a lb. Although the wheat export position had improved a little and other exports were on the whole almost maintaining their 1953-54 levels, total exports in the nine months to March 1955, were £68 m. lower than in the same period of 1953-54, and it seemed probable that exports for the year would be of the order of £750 m. Imports in the meantime continued at high levels, the annual rate being over £800 m. f.o.b. a year. Thus in

March 1955 balance of payments forecasts for 1954-55 indicated a deficit of over £50 m. in the trade account to which had to be added net invisible payments exceeding £140 m., producing a deficit on current account for the year of the order of £200 m. This would be partly offset by net capital movements which could amount to £80-90 m. On these estimates reserves were expected to decline from £571 at the end of June 1954, to about £450-450 m. at the end of June 1955.

Since March the outlook has deteriorated a little further. Imports in April and May continued at high levels and it is now possible that they will reach about £845 m. for the year. Exports may turn out to be a little more than £750 m. but less than £760 m. Reserves at the end of June could be as low as £420-430 m., a decline of £140 m. or more over the twelve months.

Even at these levels the Government would probably not regard reserves as unhealthy, but reserves would not remain healthy if they were to continue to fall at anything like the present rate. A further decline of over £100 m. would bring reserves to dangerously low levels. In considering the level of Australia's reserves, the Government has had to keep in mind the unpredictability of seasonal factors which can adversely affect the output of the principal export industries. The experience of the past is that a run of good years, such as those enjoyed for some years now, is almost invariably followed by a succession of dry years, when there is widespread loss of production in the drought-stricken areas.

In order to check a decline in reserves in 1955-56 it was necessary to act well in advance. In Australia it takes something like six months for import licensing measures to alter the flow of imports. Even in March 1955, it was too late for import licensing action to affect imports in the first quarter of 1955-56. If the Government delayed taking action in March it ran the risk of having to impose much more drastic restrictions later in the year. It could only accept this risk if there were reasonably good prospects of an early improvement in the balance of payments.

There were no solid reasons in March 1955, nor are there any today, for expecting a significant increase in export earnings next year. A rise in the price of wool would, of course, alter the whole picture. But the average price for the week ended 10 June 1955 was 68d. a lb., and it has been less than 70d. a lb. since early April. It would be optimistic to assume now that next year the price will rise substantially. Among other export commodities 1954-55 has not been a bad year. Exports of wheat and flour have turned out rather better than had been expected, meat and butter exports have risen well above 1953-54 levels, base metal

exports have been slightly higher, sugar a little lower, and coarse grains, "other" dairy produce, and iron and steel exports have fallen more noticeably. Seasonal conditions have been good. Although the 1955-56 season is beginning well with useful rains and production should be well maintained, it would require unexpectedly good export prices to permit exports of these commodities to fare much better than they have this year.

The possible trend of net capital movements in 1955-56 is most obscure. As far as governmental operations are concerned there could possibly be some increase in net borrowing overseas owing to smaller debt redemptions. Net private capital movements, however, are quite unpredictable. They include the balancing item in the balance of payments, so that genuine private investment in Australia is frequently obscured by technical factors such as timing in the payment of imports and exports. In 1952-53 the net capital inflow amounted to £190 m. but in 1953-54 a net outflow of £A8 m. was recorded. In 1954-55 it seems possible that there may be a net inflow of some £80 to £90 m. but it would be optimistic to count on as favourable a figure in 1955-56.

Thus on the information available in March it seemed to the Australian Government that, if imports continued at the levels then current, and unless export proceeds and other exchange earnings rose more than could reasonably be expected, a further decline of reserves in 1955-56 of over £100 m. was inevitable. It is now clear that reserves at the beginning of 1955-56 will be rather lower than was expected in March.

Import Licensing Measures

The Government accordingly introduced on 1 April 1955, measures designed to reduce imports by about £100 m. in a full year. The reduction in 1955-56 would be rather less as the measures would not affect significantly imports for the first quarter of that year. Moreover, there was still a substantial value of non-dollar import licences outstanding from the period before 1 October last (i.e. the first six months of the licensing year) when licences for a wide range of imports were granted freely on application. Where the licences held by individual importers exceeded the annual quotas available to them under the October decisions it was originally intended that the excess should be debited against their quotas for the new licensing period beginning on 1 April 1955. The Government, however, decided to cancel these debits and importers have therefore been able to make full use of any outstanding licences in their hands without prejudice to the new quotas becoming available to them from 1 April. Details of the measures announced have been notified to the CONTRACTING PARTIES (ref L/350 and L/351 Add.1).

It will be noticed that in announcing these measures the Acting Prime Minister regretted their necessity and re-affirmed the Government's intention to reduce, and eventually to eliminate, all import restrictions as soon as that could be safely done. There is ample evidence of the Government's desire to

do away with import controls, for in 1950-51 virtually all non-dollar import licensing restrictions had been removed and again in 1953-54 the Government had progressed a long way towards their removal.

The Acting Prime Minister also reiterated that the restrictions were intended to protect the balance of payments and not to be a substitute for, or an adjunct to, protective tariffs. While it is recognized that import restrictions inevitably confer incidental protection on local industries the Australian Government has always made it clear to the public that Australian industry cannot rely on balance-of-payments import restrictions for protection.

The new import licensing measures continue to embody the non-discriminatory principles which Australia has been following since the present system of restrictions was introduced in March 1952. Importers are allowed to bring goods up to the value licensed from any country outside the dollar area. (Until recently imports from Japan were licenced separately from other non-dollar imports, but since November 1954, imports from Japan have been licensed on the same basis as other non-dollar imports, except for a short list of reserve items.) Under this system, therefore, importers are free to choose their own sources of supply.

The system of licensing less essential goods also remains unchanged. These goods are contained in Category B, and an importer entitled to a Category B quota is free to use it to import any of the less essential goods. He may aggregate quotas and use the aggregate for importing any, or all, of the goods falling within Category B so that the import of none of these goods is prohibited.

The reduction of the licensing period from six months to three months was merely a precautionary measure to give the Government better control of the situation, for it is not possible to alter the rate of licensing during a licensing period.

The new import licensing measures are far less severe than the action taken in March 1952, when it was necessary to reduce the annual rate of imports by about 50 per cent. In 1952 reserves had already reached a dangerous level when action was taken , and the restrictions inevitably caused a good deal of disturbance to trade and to the commercial interests of other countries. On this occasion the measures have been introduced in advance of a potentially dangerous situation, and should cause the minimum of damage to other contracting parties. They are designed to check, but not necessarily to halt completely the decline in reserves.

Indeed it now seems possible that imports in 1955-56 could be as high as £750 m. If export earnings do not exceed £750 m. (and there are no good grounds at present for believing they will be higher than this), reserves will be drawn down by the amount of total net invisibles less any net capital inflow.

Internal Economic Conditions

The basic objectives of the Australian Government's economic policy are to promote the rapid development of Australia's resources, to maintain full employment and to preserve economic stability.

Immigration has an important place in the rapid development of Australia's resources. Recent figures of net permanent immigration (which take account of persons leaving the country) are as follows:-

	Net Permanent Migration Annual Rate
	'000
1952-53	63.3
1953-54	
September quarter	25.6
December "	56.5
March "	58.3
June "	65.0
1954-55	
September quarter	58.5
December "	92.4
March "	104.0

From the combined effects of natural increase and net permanent immigration, the Australian population is at present growing at the rate of about 2.5 per cent per annum while the available work force is increasing by slightly less than 2 per cent per annum.

To assist development the Australian Government has, over the past five years, arranged with the International Bank for Reconstruction and Development loans totalling $258.5 m. It has also borrowed in Switzerland 120,000,000 Swiss francs. Investment by oversea firms in Australia has been encouraged and many British, American and European companies have set up plants or other establishments in Australia in recent years. Investment of this kind is continuing.

A year ago it was possible to say that all of the Australian Government's main economic objectives were being fully met in that employment was high, population and production were expanding and development programmes proceeding at a very satisfactory pace while costs and prices were remaining remarkably steady.

It was then recognized, however, that there must always be some potential danger spots in any rapidly expanding economy. This fact was dwelt on at some length in the Australian Treasurer's Budget Speech in August 1954, when he indicated that there we unmistakable signs that stresses were again threatening to develop in the economy and that pressure upon resources seemed likely to grow rather than diminish. In stating the Government's financial and economic policy for the year the Treasurer therefore emphasized the need for restraint. On the Budget itself the main points of policy included:-

(a) Firm control of expenditure. Thus, although the Treasurer indicated that it was inevitable that some branches of expenditure, such as Defence and Social Services, should increase, he emphasized that it would be wrong at a time when community spending as a whole was on a rise, to make large additions to public expenditure.

(b) Although tax reductions costing £35 m. in 1954-55 were granted, these reductions were designed to provide the maximum incentive to effort and to save and to encourage some reduction in costs.

(c) Balanced Budget. The Treasurer stated that he took care to ensure that the Budget for the year would balance, for there could be no thought, under current circumstances, of adding to the volume of spending power by the process of deficit financing. It should be noted also that the Treasurer provided for a balanced Budget after meeting the whole of the Commonwealth's (i.e. the Australian Federal Government's) own capital works programme from revenue.

The annual report issued by the Commonwealth Bank at about the same time as the Budget also emphasized the need for restraint during 1954-55. The report stated, for example, that it would be in the interest of economic stability if firms were for the present to plan to reduce their dependence on bank finances. The Commonwealth Bank also stressed the need for the trading banks to direct their policies to maintain an adequately liquid structure of assets and put forward the view that a ratio of liquid assets and Government securities to total deposits of about one-quarter would generally be appropriate.

In the event, the level of demand within the economy has increased during the current financial year. Nevertheless, although some strain has shown up in a few directions, supplies available have been generally adequate to meet demand. The level of supply has benefited from a fairly considerable

Increase in local output of most goods and services and this increase in local output has been supplemented by a large increase in imports. (During the first three-quarters of 1954-55 imports brought some £120 m. more goods on the local market than in the same period of the previous year.) In brief, demand and supply in the economy are at present broadly in balance and up to the present there has been little rise in price levels.

Public Finance

The growth of demand during 1954-55 has come from several quarters. It is true that expenditure on goods and services by governments and their associated authorities has increased to some extent, but this increase does not appear to have been large.

Largely as a result of expenditure savings, it is now certain that the Commonwealth (i.e. Federal) Government will have a substantial budget surplus. It is impossible to predict with any certainty the Budget results of the Australian State Governments for 1954-55, but it appears that no State will run into substantial deficit whilst some States should have Budget surpluses. In the aggregate, the State Budgets should come close to balancing.

In the field of public investment the ceilings which have, in effect, been imposed on public investment of the various authorities in recent years continued to be reasonably effective in 1954-55. Such information as is available would suggest that the States' expenditure from loan moneys on works and housing will amount this year to rather less than £200 m. - i.e. slightly less than last year. Commonwealth expenditure on capital works and services will certainly fall short of the Budget estimate of £104.6 m. although it will probably exceed last year's figure of £94 m. During the last two years expenditure by all public authorities in Australia on new works and maintenance remained stable at about £408 m., and there seems no reason for supposing that this figure will be exceeded to any significant extent in the current financial year.

With regard to the financing of the Loan Council programme, total loan raisings in Australia for the year (including domestic raisings of about £9 m.) will amount to approximately £137 m. After taking account of funds accruing from overseas borrowings total loan raisings for the year will amount to about £165.m. This result compares favourably with the results achieved in any previous year. It is clear, however, that loan raisings will fall short of the figure of £180 m. on the basis of which the Commonwealth has been making monthly loan advances to the States. Although the Commonwealth did not undertake this year to underwrite the Loan Council programme, and although the Commonwealth gave no guarantee that loan raisings would reach £180 m. it has now been decided that the Commonwealth will arrange finance to meet the short-fall below £180 m. This short-fall - estimated at about £15 m. - will in effect be financed from the Budget surplus..

After meeting this commitment in relation to the States' works and housing programmes and after meeting the whole of its own capital works programme from revenue, it now seems clear that the Commonwealth (that is, the Federal Government) will finish the year with a cash surplus.

Consumption Expenditure

Although a firm estimate cannot be made at this state it is possible that total consumption expenditure in 1954-55 will prove to be about 7 per cent higher than in 1953-54. The rate of increase in consumption expenditure, during the first half of the financial year at least, was probably less than it had been earlier. This fact is illustrated in the following table:

Retail Sales (other than motor vehicles parts, petrol etc.)

Quarter ended	Percentage Change from Same Period in Preceding Year		
	Retail Traders' Association		Bureau Census & Statistics
	Sydney	Melbourne	Australia
1953			
June	+ 2	+ 2	+ 5
September	+ 9	+ 12	+ 8
December	+ 11	+ 15	+ 9
1954			
March	+ 7	+ 11	+ 6
June	+ 10	+ 9	+ 6
September	+ 9	+ 8	n.a.
December	+ 7	+ 6	n.a.

The increase in consumption expenditure this year has been stimulated in large part by the rapid expension of consumer credit. Consumer credit has also been a significant factor in the striking increase in expenditure on motor vehicles which is referred to under the head of private investment. Some idea of the expansion in consumer credit can be seen in the fact that in the December quarter of 1954-55 the value of goods sold at retail on hire purchase was 21.6 per cent higher than in the corresponding quarter of 1953-54. With the cessation of Federal capital issues control, control of hire purchase has been a matter for the States.

Private Investment

During the calendar year 1954 activity in the building industry increased steadily and at the end of 1954 the industry was fully extended. The calendar year 1954 was marked by a sharp increase in non-residential building. There have been reports in recent months that the volume of new work reaching house builders is diminishing. Complaints about shortages of funds in this field are prevalent as some of the major financial institutions have reduced their lending for home building purposes. Simultaneously, it has been reported that the supply position of some building and construction materials has lately been easier, although there does not appear to be any real sign of slackening in the construction of buildings other than houses. The following figures show the value of buildings commenced in recent quarters:

Value of Commencements
£m.

Quarter ended	Houses	Other New Buildings
September, 1953	48.5	21.6
December, 1953	46.8	18.9
September, 1954	53.4	32.4
December, 1954	51.5	26.2

In 1952-53 registrations of new motor vehicles were lower than in any post-war year since 1948-49. Since the beginning of 1953-54 new registrations have gradually accelerated and in 1953-54 were only slightly below the peak reached in 1951-52. During 1954-55 registrations of new motor vehicles have proceeded at a monthly rate of 13,305 for the first ten months - 27.6 per cent above the average monthly rate in 1953-54 - whilst the monthly rate for commercial vehicles was 5,566 in the first 10 months of 1954-55, as compared with 4,824 in 1953-54. Although firm figures are not yet available it is estimated that investment in private motor vehicles in 1954-55 will be some £30m. higher than last year, whilst investment in commercial vehicles may be about £10m. higher - thus giving a total increase of £40m. for the year.

Private investment in new plant and equipment appears to have been fairly stable. New capital expenditure (including building) by a sample group of firms in the private sector was at about the same level in 1954 as in 1953. A substantial increase is expected by the firms covered by this sample in the first half of 1955, but there has been an increasing tendency for the actual capital expenditure in this field to fall short of expectations.

By contrast, however, one other form of private investment has been making a considerably greater call on resources and that is investment in stocks. Preliminary estimates which have been made by the Australian Commonwealth Statistician indicate that the total value of non-farm stocks is expected to increase by at least £90m. in 1954-55 - that is 13 per cent higher than the value of stocks held at the end of 1953-54. Manufacturers are expected to add £60m. to stocks; wholesalers £15m., and retailers £15m. These figures must, of course, be regarded as tentative only.

In total, therefore, private investment in 1954-55 is expected to be considerably higher than in the previous year, mainly because of increased investment in motor vehicles and in stocks.

The Monetary Situation

The movements during the last year or so in the main assets and liabilities of the major trading banks are shown in the following table:

	Total Deposits	Liquid Assets and Governmental securities		Special Accounts with Central Bank (a)	Advances
		Amount	% of Deposits		
	£m.	£m.	%	£m.	£m.
1953					
December	1449	384	27	283	735
1954					
June	1471	318	22	352	778
September	1429	260	18	326	841
December	1495	294	20	295	873
1955					
March	1545	359	23	295	867
April	1527	318	21	295	890

Note (a): The Central Bank may require trading banks to lodge amounts, not exceeding statutory maxima, in Special Accounts with the Central Bank. Withdrawals from Special Accounts can be made only with the consent of the Central Bank (i.e. the Commonwealth Bank of Australia).

The banking system commenced the year in a comparatively liquid position. In June 1954, the banks' holdings of liquid assets and Government securities represented about 22 per cent of their total deposits.

Particularly during the September quarter, however, the liquid position of the banks was subject to some strain. There was a marked fall in international reserves during the early months of 1954-55 and the effect of this fall on the banking system was only offset in part by releases from Special Accounts totalling £40m. during the September quarter and by a cash deficit on Government account which occurred during that period. In the March quarter the liquidity of the banking system improved (mainly on account of seasonal financing by the Government) but during the June quarter the banking system is passing through a period of falling liquidity.

The reduction in the liquidity of the banking system which began early in the financial year occurred at a time when the banks were under great pressure to increase advances to finance a higher level of inventories and to assist various types of primary producers adversely affected by marketing difficulties in overseas markets. The demand for finance was particularly pressing in the case of manufacturers, whose advances had declined some 16 per cent between December 1952 and June 1954 and who were faced with an urgent need to expand stocks in step with increasing production.

In the event the major trading banks increased advances by £95m. during the six months ended December 1954, of which probably something like half went to manufacturers and wholesalers. Much of the balance was advanced to the primary industries especially the rural industries. The result for the private banks was a further decline in their liquidity. The L.G.S. ratio (i.e. ratio of cash, Treasury Bills and Government Securities combined to total deposits) which had been at the level of 25 per cent in March 1954 and which had fallen to 19.9 per cent in June declined further to 16.3 per cent in September and recovered only slightly to 17.5 per cent by December.

During the quarter ended 31 March the drain on overseas reserves continued, The Government had a small cash deficit and bank advances declined. Indications are that in recent months, bank advances have tended to rise again while the substantial inflow of Government revenue has exerted considerable pressure upon the liquidity of the private banks.

Supply Position

Increases have been recorded in the production of practically all commodities in respect of which statistics are collected. The main exceptions were electrical appliances where the slowing down of production reflected some tapering off of demand. Details of production in secondary industry during 1954 are given in a recent report by the Division of Industrial Development of the Australian Department of National Development. This report states that factory output expanded by something like 5 per cent in the twelve months to April last. This is, of course, an average figure; the changes differed widely from one industry to another. This diversity is illustrated in the following paragraphs quoted from the report:

> "The present level of output is higher than ever before in Australia's history. However, in line with the return of more normal and competitive conditions and particularly of seasonal influences, some industries are not as prosperous as previously.
>
> "Comparing the level of manufacturing activity in April, 1955 with the level in the previous October, production increases of 10 per cent or more are shown by industries making rubber tyres, electric wires, cables and control gear, radio receivers, mechanical handling equipment, alkalis, fertilisers, cement and some types of plastic and paper.
>
> "Many products of the engineering industries are being made at a rate roughly 5 per cent higher than six months ago; these include motor vehicles, metal working machinery, machine tools and hand tools, electric motors and copper products.
>
> "Industries producing at much the same level as last October, or perhaps with a slight increase, include other general heavy engineering, makers of railway rolling stock and farm machinery, most foundries and suppliers of most building materials ranging from bricks to fibrous plaster.

"Output of galvanised iron has recently been at much the same level as last year. The small cutlery industry has continued to lose ground to imports.

"Turning to products whose output is markedly seasonal and should accordingly be compared on an annual basis, washing machines are being made at a rate more than 15 per cent higher than in April 1954, but output of refrigerators had dropped by a similar percentage.

"In total, production in the textile and clothing group of industries is somewhat lower than a year ago. Overall output of wool textiles and also of rayon piecegoods is appreciably lower, while the cotton textiles, hosiery and knitwear, clothing and leather footwear industries are in general working at much the same level.

"Minor differences in the changing output of various goods over a period of six or twelve months occur for a variety of reasons and are not necessarily significant in themselves other than as an indication perhaps of seasonal or temporary influences.

"It is of more general interest to notice the types of manufacturing industry that have been able to expand output during the last year. Predominantly, it is the chemical and engineering industries which have stepped up their output by more than the average. By comparison, industries making subsistence needs, such as textiles and clothing, have either fallen or have at best made only small gains.

"Following the decline in production in 1952, there was a general rise in the output of the majority of factories in almost every industry. By 1954, output in most industries had regained or surpassed the previous highest point reached in 1951. The producers of consumer goods were able to provide readily most of the everyday requirements of the Australian community, and the emphasis was once again on sales promotion."

Employment

Employment continued at a very high level throughout 1954-55. Total civilian employees (excluding employees in rural industries and private domestic services) rose by 150,000 between June 1954 and February 1955. During 1954-55 unemployment has been virtually non-existent with less than 4,000 persons on average receiving unemployment benefits. Although there has been some pressure on labour supplies, the position in the labour market in the last few months has been relatively stable. In fact unsatisfied demands for labour are showing some signs of decreasing. In April 1955 the number of unfilled vacancies was 60,230 as compared with 64,453 in October 1954.

Prices and Wages

Such increases as have occurred in prices and wages during the last twelve months have been relatively small.

During the period since the March quarter of 1954 the "C" series (retail price) index (six capital cities) has moved as follows:

March 1954	2,327
June 1954	2,324
September 1954	2,321
December 1954	2,333
March 1955	2,349

The wage level rose less during 1953-54 than for many years. The nominal (award) wage rate rose by 2 per cent during 1953-54 and by a further 0.5 per cent by 31 December 1954. Average weekly earnings per employed male unit were 3 per cent higher as atDecember 1954 than twelve months earlier. In November 1954 the Arbitration Court awarded increases margins for skill to employees in the metal trades to restore these margins broadly to pre-war proportions. This decision has since led to increases for many other groups of skilled workers. Although it is not yet possible to estimate precisely the full effects of these increases in margins the total addition to wages is expected to be in the vicinity of 3 per cent.

Present Situation

As indicated earlier, demand and supply in the economy are at present broadly in balance. Import restrictions will not begin to alter the supply side until late in 1955. Thereafter they will affect it fairly substantially although the significance of this will obviously turn on what happens to demand over the next few months.

At present the signs which might indicate the direction of movement of the economy do not all point in the one direction. There are some particular shortages - e.g. some types of skilled labour and steel - but shortages, either of locally produced or imported goods, are not evident to anything like a degree which could be called a general shortage of goods and services. One thing rather difficult to judge accurately is the prevailing general psychology of the business world. On the one hand, some concern is expressed about the "high cost" problem and this has been stimulated by the recent increases in salary and wage margins. This would suggest a pervading mood of caution and the decline in wool and other export markets could be expected to have an influence of the same nature. On the other hand, profits generally have been buoyant and there is evidence that private industry still has a substantial investment programme in hand and in prospect. There is, incidentally, no indication of any concerted move by private industry to expand local productive capacity to take advantage of the tighter import restrictions.

During the last quarter of 1954-55 certain factors have been operating to reduce liquidity in the economy. The seasonal tide of Government finance has now turned and during the last quarter of 1954-55 a substantial amount of Treasury Bills discounted with the Central Bank will probably be redeemed whilst further redemptions will probably be made in the early months of 1955-56. This action will, of course, reduce liquidity.

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A further fall of some £40m. is expected during the last quarter of the financial year in our international reserves, and here again the fall may be expected to continue for a month or two beyond June.

Central Bank policy at the moment is to allow the trading banks to feel the liquidity squeeze without forcing them into excessive restrictions. Already one or two banks have had to borrow from the Central Bank or remit funds from London to safeguard their cash position. Some small releases from Special Accounts may have to be made during the coming months (the first release for six months was made on 1 June), but even with such releases the liquid assets in the hands of the banks can be expected to decline substantially. Although there is likely to be strong pressure on the banks for advances, this pressure will come at the same time as the ability of the banks to lend is being fairly sharply pared. It is fairly certain that monetary factors will be restrictive in their influence for some months ahead.