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UNITED NATIONS PALESTINE COMMISSION
Memorandum dated 12 March from the Advance Party
concerning Currency and Foreign Exchange

The following memorandum by Mr. Ghosh was received in Advance Party Air-Pouch No.2 on 21 March.

PALESTINE COMMISSION ADVANCE GROUP
CURRENCY AND FOREIGN EXCHANGE

Interview with Mr. Peters Accountant-General Currency Officer, and Mr. Bryant, Controller of Foreign Exchanges
(Memorandum by Mr. Ghosh)

The main topics of our discussion were:

- (a) The recent ordinances bearing on Palestine sterling balance and on the relation between the British and the Palestinian pounds, and
- (b) Changes in internal monetary circulation.

Neither Mr. Bryant nor Mr. Peters had my records to show any appreciable flight from either the Palestinian pound to the British or from the British pound to other sterling area currencies in recent months. They were not thus in a position to throw any light on the statement made by the "London Economist" in its issue of 28 February 1948, which I brought to their notice. The "Economist", in giving reasons from the currency instruments enacted on 22 February 1948, stated that "Palestine balances have been heavily drawn upon in the last few months, and they promise to be even more seriously depleted in the impending period of political and economic confusion". (p.353)

As stated in my previous memorandum, in order to alleviate the disruption to current trade and payments within Palestine, which will be caused by the new measures, the authorities have decided to release L7,000,000 out of the blocked balances. Of this, L4,000,000 would be available to the Palestinian banks as working capital in sterling areas and L3,000,000 for current commercial needs of Palestine up to 15 May. The current supply of sterling would be further augmented by the total value of orders for imports already placed and supported by confirmed credit. According to Mr. Bryant, this would amount to between L10,000,000 and L15,000,000 for the period. The recent currency measures are not, therefore, likely to affect current import trade and hence the revenue from import duties. These measures, along with the sums released for current needs, have been taken, in the opinion of Mr. Bryant, on the assumption that no changes in the existing scheme of import restriction, will be called for. Nor do they limit the freedom of Palestinian banks to convert their sterling resources into Palestinian pounds, if and when the occasion requires. The measures are, however, likely to affect Palestine import trade and revenue from about the end of June, insofar as applications for import licences unsupported by confirmed letters of credit have to be re-submitted to the licence-issuing authorities. The normal period between the first submission of an application for import licence and the arrival of the goods in the country is from four to six months.

Neither Mr. Bryant nor Mr. Peters was in a position to give me any idea of the extent of reduction in military expenditure in Palestine paid for by the United Kingdom in recent months and in the near future. The figures or estimates are, according to them, closely guarded secrets. It may be possible to get them from the Finance Secretary. They, however, feel that the figure might fall to fifty per cent of its 1946-47 level.

The uncertainty which envelops the near future seems to have stimulated enormously the demand for licences for import of food. According to Mr. Bryant, the demand for licences for other imports does not appear to have been affected and the licensee actually issued for import of food have not been increased above their normal level.

Foreign exchange speculation has existed in some measure at all times. But the black market, in dollars, in particular, developed greatly at about the end of 1945 when the censorship of mail became, for security reasons, rather ineffective. Until recently, however, the authorities, though they could not check the black market, had various broad indications of the strength of activity on it. But in recent months, even those indirect clues have ceased to be available.

Internally, the supply of currency in the country had been declining since the beginning of the financial year. Mr. Peters believed that the currency returning to the Board came largely out of boards, a good proportion of which belonged to people in Trans-Jordan, which has the same currency as Palestine. Since about the third week of last February this trend seems to have received a check. There was, in fact, a big run on the Anglo-Palestinian bank in Tel-Aviv on 22 February, and all banks in the city were closed on the following Monday. The phenomenon, however, seems to have been both local and transient. As the Anglo-Palestine Bank was fully prepared to meet the run made on it for cash, it having previously provided itself with L3,000,000 in cash froze the Currency Board, the demand died down in a few days. Other centres such as Jerusalem, Haifa, Jaffa, etc were, moreover, completely unaffected. According to Mr. Peters, however, the cash that was taken out by the public on the occasion has not since then returned, in spite of generally reduced business activity in the country. There are no comprehensive and reliable indices of business activity in Palestine, but the general opinion seems to be that business activity has suffered appreciably in recent months as a result of insecurity. In view of this fact, the tendency of currency in circulation to remain steady and even to increase somewhat points to a movement towards hoarding of money among the public. As the main food crops of the country are still in the fields, the choice between holding stocks of foodstuff has not yet presented itself to the primary producer. The situation may, however, change in June and July then the crops will have been harvested and become available for sale. According to both Mr. Peters and Mr. Bryant, who is also an official of Barclays Bank seconded to the Palestine Government, there has been no change in either business or consumers' expenditure in recent months.