Financial review

The review describes developments in various financial markets during August to October.

Summary

The money market *The Bank's minimum lending rate went up by 1½% to 13% on 10th September and by a further 2% on 7th October; conditions in the market were generally comfortable in the first half of the period but tightened later.*

Capital markets *The authorities sold nearly £600 million net of gilt-edged stock in the third quarter, mostly towards the end of September; in the equity market, turnover and prices again fell during August to October.*

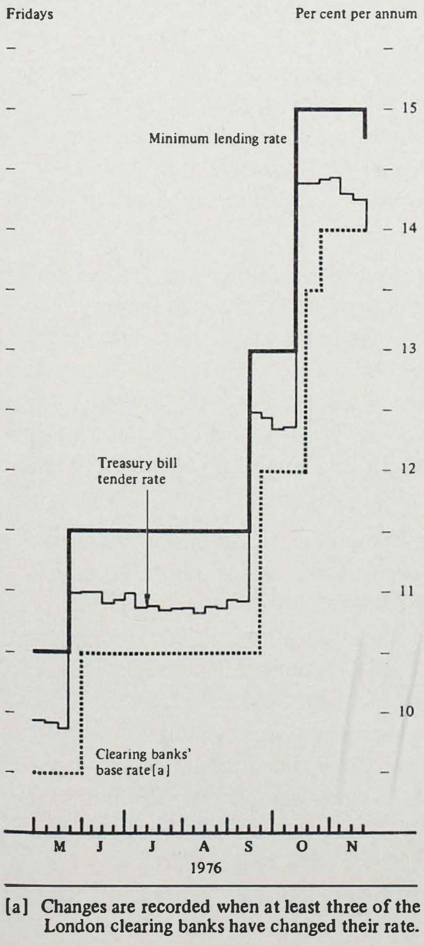
Foreign exchange and gold markets *Sterling was under heavy pressure for much of the period and its effective depreciation widened sharply; a realignment of 'snake' currency parities took effect on 18th October; the dollar price of gold rose on balance.*

Euro-currency markets *The London market grew more slowly in the third quarter.*

Oil money movements *Oil revenues rose sharply in the third quarter but the exporting countries' surplus was smaller than in the previous three months.*

Short-term interest rates in London

Short-term interest rates rose sharply in September and October.



[a] Changes are recorded when at least three of the major London clearing banks have changed their rate.

The money market

With the exchange rate under heavy pressure, minimum lending rate rose by 1½% to 13% as a result of an increase in the average rate of discount at the Treasury bill tender on 10th September. On Thursday, 7th October, the Bank themselves took direct action to raise minimum lending rate by a further 2% to 15%, the usual formula consequently being suspended until it could be applied without reduction in the rate (which, in fact, was at the tender on the next day). This was the first time since its previous peak of 13% in November 1973 that there had been an administered change in minimum lending rate. The two rises were associated with further calls for special deposits from banks (other than in Northern Ireland) and from deposit-taking finance houses. On 16th September, 1% of eligible liabilities was called (½% payable on 28th September and ½% on 6th October), followed by another 2% on 7th October (1% payable on 2nd November and 1% on 15th November). The timing of the final payment of 1% was later changed to 14th December (see below). These calls together brought the total call for special deposits to 6% of eligible liabilities.

Following the rise in minimum lending rate to 13% in September, the London and Scottish clearing banks raised their base rates by 1½% to 12% and their seven-day deposit rates by 2% to 8½%. After the further rise in minimum lending rate to 15% in October, most of the banks raised their base and deposit rates to 13½% and 10½%; but one bank moved its rates up to 14% and 11%, and was later followed by the others. The gap between base and deposit rates thus narrowed from 4% to 3%.

Earlier, conditions in the money market had been generally comfortable during August and the first three weeks of September, with the authorities giving help when necessary by buying Treasury or local authority bills or by lending overnight at minimum lending rate. The market was particularly well supplied with funds around the middle of August, thanks to heavy government disbursements and the redemption of 6½% Treasury Loan 1976.

However, from the fourth week in September conditions tightened, because of the calls for special deposits and a resumption in sales of gilt-edged stocks, together with some heavy tax payments. Official help was thus much larger than in the first half of the period. On 24th September (when a new long-dated stock was oversubscribed at issue – see next section) and again on the 27th, the Bank lent overnight at a rate below minimum lending rate, while at the same time buying an exceptionally large amount of bills.

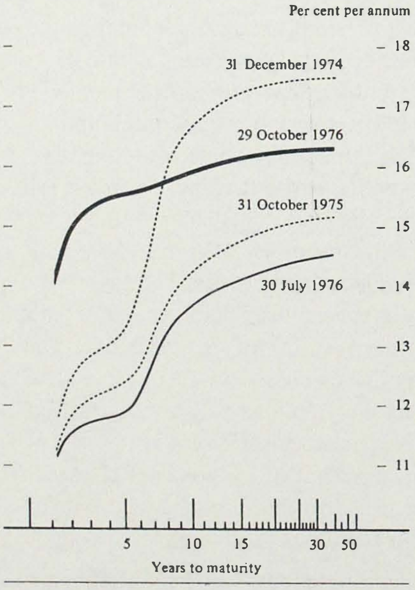
The amount of Treasury bills outstanding contracted sharply in October. The banks reacted in the normal way to this shortage of reserve assets by bidding for funds in the inter-bank market and by issuing certificates of deposit, thus driving interest rates in these and related markets above overdraft rates. To alleviate the shortage, the Bank announced on 5th November that the second instalment of the special deposits called in October would be payable on 14th December instead of 15th November. The pressure on money-market rates thereafter subsided.

Capital markets

In August, turnover in the gilt-edged market was the lowest for nearly a year, but it increased sharply in September and October. Yields on all maturities were little changed on balance in August; but those on short-dated stocks rose to record heights around the end of October while yields on long-dated stocks rose less steeply (remaining well below the peak reached at the end of 1974 – see chart). The yield curve thus flattened considerably.

Time/yield curves of British government stocks[a]

During August to October, yields on short-dated stocks rose much more steeply than those on long-dated, and the yield curve flattened considerably.



[a] The lines measure the nominal rate of interest which a stock at each maturity should bear if issued at par. The curve runs from the shortest-dated stock with a life of more than one year to the longest-dated stock. The construction of these curves has recently been revised (see June *Bulletin*, page 212).

Prices were fairly steady at the beginning of August, but weakened somewhat with the announcement of adverse trade and money supply figures, and the possibility of a seamen's strike, before recovering at the end of the month.

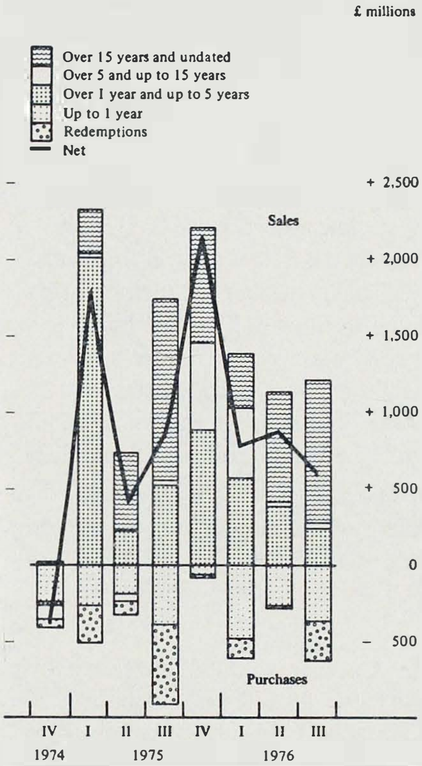
The authorities sold some of the long-dated tap stock (13¼% Exchequer Loan 1996) on 17th August. Although that was the first sale of a tap stock for six weeks, there were no further sales until the latter part of September, when yields had risen following the increase in minimum lending rate on the 10th. On the 20th, a new long-dated stock was announced, £600 million 14½% Treasury Loan 1994, issued at £96.50 per cent. The announcement was delayed from the more usual Friday until Monday so that investors could consider the money supply figures for August; in the event, the stock, which offered a higher coupon than any previous issue, was oversubscribed and never became a tap stock.

The surge of demand which followed the announcement of the 1994 issue had meanwhile exhausted the short-dated tap stock, 9¾% Treasury Stock 1981; and on 24th September, a new short-dated stock – a second tranche of £600 million 11½% Treasury Stock 1979 priced at £98.75 per cent – was announced. Within a few days, however, prices fell as pressure on sterling led to fears of a further rise in interest rates. Official sales once more dried up, and very little of the 1979 issue was applied for by the public.

On 8th October, the day after minimum lending rate was raised to 15%, two new issues were announced – £600 million 15½% Treasury Loan 1998 at £96.00 per cent and £400 million 3% Treasury Stock 1982 at £70.00 per cent (a stock designed to appeal to investors paying higher rates of income tax). Both the 1979 and the 1998 tap stocks were then sold heavily, and although demand weakened later in October when sterling fell sharply and short-term interest rates turned up, official holdings of each stock were exhausted by 4th November. On the following day, two new stocks were announced – £600 million of 14% Treasury Stock 1982 at £98.25 per cent and £600 million of 15¼% Treasury Loan 1996 at £97.50 per cent; and the timing of the call for special deposits due on 15th November was changed to 14th December, the maturity date of 10½% Treasury Stock 1976.

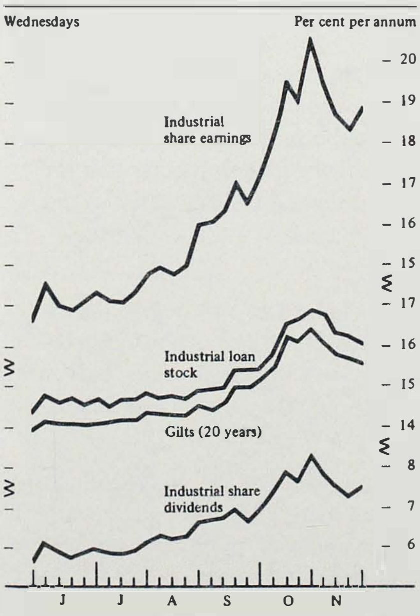
Official transactions in gilt-edged stocks by maturity

Most of the stock sold since March has been long-dated.



Security yields

Yields on long-dated gilt-edged and on debentures were little changed in August but rose steeply in the next two months.



During the September quarter as a whole, the authorities sold £590 million net of stock (see chart). Net sales of stocks within one to five years of maturity amounted to £245 million, net sales of medium-dated to £35 million and of long-dated to £930 million. The authorities bought £360 million of stocks within one year of maturity, and 6½% Treasury Loan 1976 matured in mid-August with just over £260 million in market hands.

To help to maintain the competitiveness of national savings after minimum lending rate had been raised to 15%, the Chancellor announced that, from 1st January 1977, the rate of interest on ordinary accounts at the National Savings Bank was to be raised from 4% to 5% (with the first £50 of interest free of tax instead of £40), and on investment accounts from 9% to 10%; and that a new issue of national savings certificates was to be made available between December 1976 and March 1977, with a tax-free yield of 8.78% per annum over four years.

In the equity market, turnover was smaller during August to October than in the previous three months – in August it was the smallest since December 1974 – and the FT-Actuaries industrial (500) share price index, which stood at 162 at the end of July, declined to 130. New issues of equity capital (almost entirely rights issues) fell sharply to £155 million, compared with £410 million in May to July. The queue of prospective borrowers continued to shorten.

Net sales of unit trust units amounted to £23 million, only half as large as in the preceding three months.

Turnover in the debenture market was also smaller than in the period May to July and yields, as measured by the Bank's index, rose sharply. Companies raised virtually no net new money by means of loan capital and preference shares.

Foreign exchange and gold markets

After a period of relative stability, sterling came under heavy pressure early in September, which led to a sharp fall in the rate to below \$1.77. Renewed pressure towards the end of September took the rate below \$1.70, and it then fluctuated widely in nervous markets, falling as low as \$1.55½ in late October. The deutschemark was periodically in very heavy demand on expectations of a realignment of 'snake' currency parities (which ultimately took effect on 18th October). After weakening during August, the price of gold recovered strongly and rose on balance during the three months.

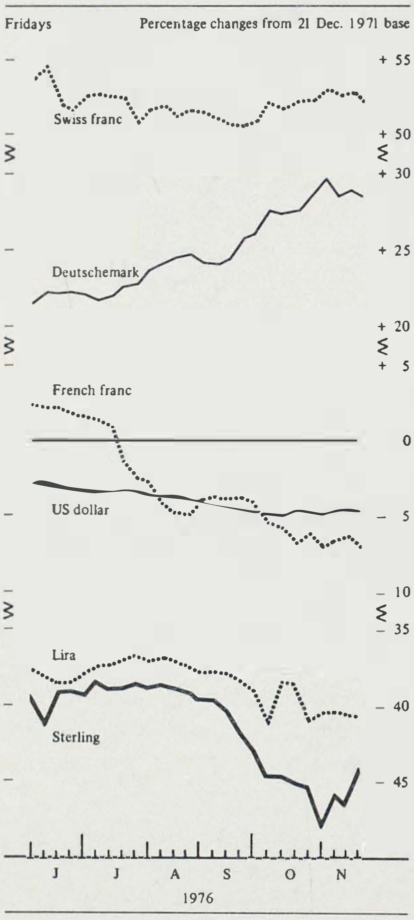
The pound traded in thin, quiet markets during the first three weeks in August, when attention was focused on the disturbances surrounding the 'snake' currencies. After opening the month at \$1.78½, the rate had improved by one cent by the 4th, helped by an encouraging business opinion survey by the Confederation of British Industry and by favourable reaction to the July reserve figures. Subsequently, sterling eased gradually to touch \$1.77¾ on the 13th when disappointing trade figures for July were announced.

Towards the end of August, market sentiment began to turn against sterling. This change in mood coincided with a temporary easing of pressures on the 'snake', and was initiated by fears that the drought might lead to three-day working in some sectors of industry. Cushioned by official support for the pound, the rate fell to around \$1.77 before the market became calmer at the end of August, when the pound recovered slightly to \$1.77½.

Sterling's effective depreciation since the Smithsonian settlement in 1971 widened from 38.8% at the end of July to 39.4% at the end of August. The official reserves fell by \$341 million during the month, after \$183 million of net borrowing in foreign currencies by the public sector; there were no new drawings on the short-term swap facility of \$5.3 billion arranged in June.

Effective changes in exchange rates

Sterling was under heavy pressure for much of the period and its effective depreciation widened sharply.



The market for sterling remained calm in the first few days of September, but on the 7th the possibility of a seamen's strike, together with industrial unrest at British Leyland, led to heavy selling and the rate fell back to $1.77. The market was further unsettled on the following day when the balance of payments estimates for the second quarter were published, revealing a sharp decline in non-resident sterling balances, and when the Labour Party's National Executive Committee made known its proposals to nationalise some major banks and insurance companies. The pressure on sterling was such that it was no longer possible to maintain the rate around $1.77; the pound fell quickly to $1.73½ before steadying at around one cent higher. During the next two weeks sterling eased further amid widespread uncertainty as to its future course. Demand for sterling after the rise of 1½% in minimum lending rate announced on the 10th, and the call for special deposits on the 16th, was short-lived. Light selling took the rate below $1.70 on the 27th; and the pound fell to a low of $1.63 on the following day when selling became widespread. However, news that an application was to be made to the International Monetary Fund for a stand-by credit, together with expectations of a further rise in minimum lending rate, helped the pound to recover to $1.66¾ by the end of September.

Sterling's effective depreciation widened to 44.6% by the end of September. The official reserves rose by $129 million over the month, after net foreign currency borrowing of $336 million by the public sector and a drawing of $515 million under the short-term swap facility.

The market remained unsettled in October, with the rate fluctuating widely from day to day. The pound fell to $1.63¾ on the 6th on renewed fears of industrial unrest at British Leyland, but recovered to $1.67¼ on the following day after the announcement of the further increase of 2% in minimum lending rate and the further call for special deposits. The rate fell back to $1.63½ on the 14th, ahead of the publication of the trade figures, before steadying for a time at around $1.65 following a squeeze by the authorities on the sterling swap market.[1] On the 25th, after a newspaper report that the IMF considered the appropriate rate for sterling to be $1.50, the pound fell by as much as five cents to $1.59½. A further weakening in the rate to a low point of $1.55½ on the 28th was associated with reports of political opposition to further cuts in public expenditure. However, the pound recovered somewhat on the following day on reports that the Government were hoping for some multilateral facility which would ease the problem posed by the sterling balances, and it closed the month at $1.58½.

The pound's effective depreciation widened to a record 48.8% on 28th October before closing the month at 48%. The official reserves fell by $455 million in October, when there was no public sector borrowing under the exchange cover scheme and no further drawings were made under the short-term swap facility.

Pressures on the 'snake' recurred throughout the period, culminating in a realignment of parities on 18th October. When such pressures became intense, the market's attention appeared to be distracted from sterling.

At the beginning of August, the 'snake' arrangements were strained almost to their limits, with the deutschemark near the ceiling and the other five currencies near the floor. Around the middle of the month,

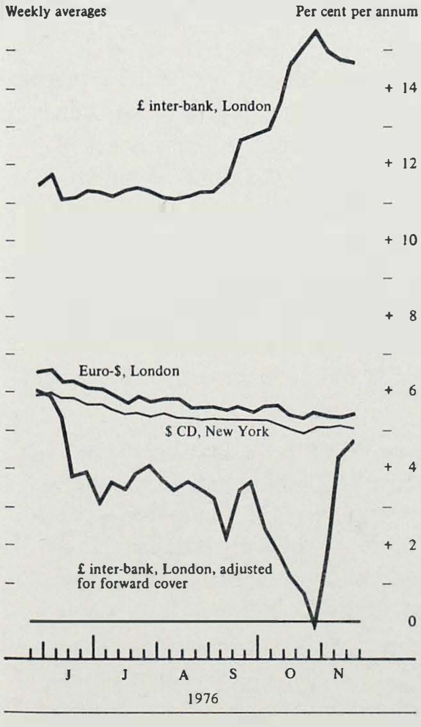
[1] When commercial banks outside the United Kingdom (and therefore not subject to UK exchange control) expect the spot rate to fall sharply, they may decide to 'borrow' sterling through a swap transaction (i.e. simultaneously buying spot and selling forward sterling – normally against US dollars), and then sell the sterling proceeds spot; alternatively, they may finance an earlier sale of spot sterling by such 'borrowing'. These operators hope that, at some future date, they will be able to buy sterling more cheaply than the forward rate deriving from the swap deal, and thus make a profit. However, the Bank can sometimes discourage such business by borrowing sterling themselves in a similar fashion, thereby depressing the forward rate close to, or below, the future rate expected by the market. In this case, the possibility of profit to commercial banks is reduced; so fewer banks would sell spot sterling while others, short of sterling, might prefer to buy spot sterling rather than incur the increased cost of borrowing sterling through a swap deal.

expectations of a realignment led to heavy demand for the deutschemark which appreciated sharply against the dollar, making necessary substantial official support for the other 'snake' currencies in order that these might also appreciate in line with the deutschemark. The strains on the 'snake' arrangements were temporarily eased in the final week in August when sterling came under heavy pressure, but re-emerged in the middle of September on renewed expectations of a currency realignment after the October general election in Western Germany. The pressure relaxed after the realignment on 18th October, which permitted the weaker 'snake' currencies to ease against the dollar while the deutschemark, helped by the announcement of a large West German trade surplus, continued to strengthen slightly.

The US dollar weakened during most of the period under review, partly reflecting the strengthening of the 'snake' currencies and a sequence of disappointing monthly US trade figures. The dollar's effective depreciation, which was 3.7% at the end of July, widened to more than 5% by early October, but after the realignment of 'snake' currencies it had recovered to 4.7% by the end of October.

UK and US three-month interest rates

Although the uncovered comparison in favour of the pound widened between August and October, the covered differential moved in favour of the dollar before narrowing sharply in November.



The three months' euro-dollar rate eased back gradually during August to October, in line with the movement of short-term US domestic rates. After closing July at $5\frac{13}{16}$% per annum, the rate fluctuated around $5\frac{5}{8}$% in August and September before easing to $5\frac{7}{16}$% by the end of October. In contrast, the three months' inter-bank sterling rate, which had been steady at around 11¼% in August, rose to 12¾% after the announcement on 10th September of the rise of 1½% in minimum lending rate, and to 14¾% after the further rise of 2% in minimum lending rate was announced on 7th October. On 27th October the rate touched $16\frac{1}{16}$% – the highest since February 1974 – on expectations of another increase in minimum lending rate, but by the end of the month it had fallen back to $15\frac{5}{16}$%. Because of the steep increase in the inter-bank sterling rate, together with the slight fall in the euro-dollar rate, the uncovered comparison in favour of sterling rose from 5½% at the end of July to a peak of $10\frac{5}{8}$% on 27th October before closing the month at $9\frac{7}{8}$%. The forward premium on three months' dollars was initially steady at around $7\frac{3}{8}$%, but increased to more than 8% towards the end of August when the pound came under some pressure. The premium then rose very sharply to $11\frac{5}{8}$% on 9th September, when spot sterling fell below $1.77, before easing to around 9% in the middle of the month. An official squeeze on the swap sterling market[1] late in September again raised the forward premium to more than 11%; and a further squeeze by the authorities in October, together with the increase in sterling interest rates, raised the premium sharply to a peak of 16¼% on the 28th.

Apprehension about the effect on prices of the International Monetary Fund's gold sales, and disappointment in some quarters that the programme for such sales was not to be postponed, led to steady selling on the London gold market in the second half of August. The price eased from around $112 per fine ounce at the end of July to a low of $103 on 31st August. However, sentiment improved markedly in September and October, when the market was encouraged by the prospect of smaller Russian gold sales and, later, by hopes of smaller, if more frequent, auctions by the IMF: the price rose to $120¾ on 22nd September, before steadying at around $115 during most of October. After the auction on 27th October, the gold price strengthened to close the month at just over $123 per fine ounce.

Euro-currency markets

According to figures recently published by the Bank for International Settlements, the gross external foreign currency liabilities and assets of banks in European reporting countries[2] each rose by about

[1] See footnote on page 430.

[2] Measured in terms of the external foreign currency liabilities and assets of the commercial banks in the European countries reporting to the BIS, viz. Belgium/Luxembourg, France, Western Germany, Italy, Netherlands, Sweden, Switzerland and the United Kingdom.

Liabilities and assets by customer[a]

The London euro-currency market grew more slowly in the third quarter.

$ billions

	1975		1976		
	30 Sept.	31 Dec.	31 Mar.	30 June	30 Sept.
Foreign currency liabilities of UK banks to:					
Other UK banks	43·3	44·5	45·2	44·4	43·9
Other UK residents	5·1	5·5	5·3	5·4	5·5
Overseas central monetary institutions	29·5	30·6	31·4	31·6	33·7
Other banks overseas	77·3	81·4	82·4	85·4	84·3
Other non-residents	16·7	16·6	17·5	18·5	19·4
Other liabilities[b]	1·2	1·4	1·2	1·1	1·2
Total liabilities	173·1	180·0	183·0	186·4	188·0
Foreign currency assets of UK banks with:					
Other UK banks	43·1	44·4	44·9	44·1	43·2
Other UK residents	16·0	15·8	15·9	15·6	16·2
Banks overseas	81·0	86·5	88·7	92·1	93·9
Other non-residents	31·6	32·2	32·7	33·4	34·0
Other assets[b]	1·9	2·1	2·0	2·0	2·0
Total assets	173·6	181·0	184·2	187·2	189·3

[a] Figures differ from those in Table 6; see additional notes to Tables 21 and 22 in the statistical annex.

[b] Mainly capital and other internal funds denominated in foreign currencies.

UK banks' liabilities and claims by country or area

In the third quarter the largest suppliers of new funds were the oil-exporting countries; net lending by the United States declined.

$ billions

Net source of funds to London –/net use of London funds +

	1975		1976		
	30 Sept.	31 Dec.	31 Mar.	30 June	30 Sept.
United States	– 1·5	– 3·2	– 2·7	– 5·2	– 4·2
Canada	– 2·0	– 2·4	– 2·1	– 2·4	– 2·1
European Economic Community	– 3·1	– 1·2	– 0·9	+ 1·2	+ 1·7
Other Western Europe	–14·0	–13·9	–15·1	–13·0	–13·3
Eastern Europe	+ 3·9	+ 4·4	+ 5·3	+ 5·4	+ 5·7
Japan	+12·9	+12·6	+13·7	+13·4	+13·8
Oil-exporting countries[a]	–17·7	–19·3	–18·9	–20·9	–22·1
Countries engaged in off-shore banking	+ 7·6	+ 9·7	+ 7·5	+ 8·4	+ 8·4
Other countries	+ 3·0	+ 3·3	+ 2·9	+ 2·9	+ 2·0
	–10·9	–10·0	–10·3	–10·2	–10·1

[a] Listed in the footnote to Table 20 in the statistical annex.

Maturity structure of UK banks' net foreign currency position

Between May and August there was a sharp rise in net liabilities at 8 days to less than 3 months.

$ billions

Net liabilities –/net assets +

	1976	
	mid-May	mid-Aug.
Less than 8 days[a]	– 7·9	– 7·7
	– 4·4	*– 4·1*
8 days to less than 3 months	–14·7	–17·4
3 months to less than 1 year	– 7·8	– 6·4
Net borrowing up to 1 year	–30·4	–31·5
Net lending at 1 year and over	+30·8	+31·8
	+ 0·4	+ 0·3

[a] Figures in italics include all holdings of London dollar certificates of deposit, regardless of maturity, as these are immediately realisable assets for the holding bank.

$5.5 billion in the second quarter of 1976. This was much faster than the recorded increase in the previous three months; but after allowing for the reversal of end-year window-dressing in that period, the market probably grew at much the same rate in the first and second quarters. During the first half of 1976 as a whole, the market expanded much more slowly than in 1975, largely because of a reduction in inter-bank activity within the European reporting area.

New credit channelled through the market to ultimate users within or outside the European reporting area amounted to about $8 billion, compared with only $6 billion in the first quarter. The growth in euro-currency business during the second quarter was not accompanied by a decline in activity in other channels of international finance. For the third successive quarter, some $4 billion was made available by banks in the United States to countries outside the European reporting area; about half went to off-shore banking centres which channelled the funds to a wide range of countries. New issues in the international and foreign bond markets remained high, at $6.6 billion.

A detailed geographical analysis of international lending by banks in the Group of Ten countries and Switzerland, together with the branches of US banks in certain off-shore centres, is shown in Table 23 in the statistical annex. In the second quarter, the banks lent some $11 billion to countries outside the reporting area. Among the main borrowers, the non-oil developing countries took $4.5 billion (of which Brazil +$1.5 billion and Mexico +$1.2 billion) and Eastern Europe $1.6 billion.

Only limited information is at present available for the third quarter. The amount of newly-announced medium-term credits[1] was much the same as in the previous quarter ($6.5 billion), but new issues of foreign and international bonds were smaller, at around $5 billion.

The size of the London market, measured by the banks' gross foreign currency liabilities, increased by only $1.6 billion in the third quarter, less than half as fast as in the previous three months (see first table). Moreover, about half of the latest rise represented currency valuation changes, so that there was little real growth during the period. The largest movement was a rise of over $2 billion in deposits from central monetary institutions abroad.

By area, the main suppliers of new funds to the London market were the oil-exporting countries which lent $1.2 billion net, raising the net amount outstanding from this source to over $22 billion (see second table). On the other hand, net liabilities to the United States fell by $1 billion. Among borrowers from London, 'other countries' reduced their outstanding net borrowing by nearly $1 billion.

The most recent quarterly maturity analysis of the foreign currency positions of banks in the United Kingdom was completed as at 18th August (see Table 22 in the statistical annex). In the three months to mid-August, the banks' net borrowing up to one year rose by over $1 billion, after changing little in the previous quarter (see table opposite). Within the total, net borrowing for terms between eight days and less than three months rose by $2¾ billion – mainly by the American and other overseas banks (excluding the Japanese) – and accounted for 55% of total net borrowing up to one year, compared with 48% at mid-May. Net borrowing for terms between three months and less than one year fell by nearly $1½ billion, and its share of the total was reduced from 26% to 20%. The share taken by net borrowing at less than eight days also declined during the period.

Oil money movements

Total oil revenues of the exporting countries are estimated to have risen by $1.4 billion to $29 billion in the third quarter. This was a much sharper rise than in the previous quarter and reflected an increase in both

[1] These enter the BIS figures only when the loans are taken up, and only if the credits are not replacing maturing debt.

Estimated oil revenues of exporting countries

Oil revenues rose sharply in the third quarter, reflecting an increase in both the volume and price of oil exports.

$ billions

	1974	1975	1976			
	Year	Year	1st half	1st qtr	2nd qtr	3rd qtr
US dollars	70·8	84·8	52·2	25·4	26·8	28·4
Sterling	19·0	12·0	2·4	1·6	0·8	0·6
	89·8	96·8	54·6	27·0	27·6	29·0

Estimated deployment of oil exporters' surpluses

In spite of the rise in oil revenues, the total surplus in the third quarter was smaller than in the second.

$ billions

	1974	1975	1976			
	Year	Year	1st half	1st qtr	2nd qtr	3rd qtr (provisional)
United Kingdom						
British government stocks	0·9	0·4	0·1	0·1	–	–
Treasury bills	2·7	– 0·9	– 0·8	–0·1	–0·7	–0·4
Sterling deposits	1·7	0·2	– 0·9	–0·4	–0·5	–0·3
Other sterling investments[a]	0·7	0·3	0·2	0·1	0·1	0·1
Foreign currency deposits	13·8	4·1	2·2	–0·1	2·3	1·8
Other foreign currency borrowing	1·2	0·2	0·6	–	0·6	0·2
	21·0	4·3	1·4	–0·4	1·8	1·4
United States						
Treasury bonds and notes	0·2	2·0	2·4	0·9	1·5	0·8
Treasury bills	5·3	0·5	0·4	0·1	0·3	–0·1
Bank deposits	4·0	0·6	0·9	0·6	0·3	0·2
Other[a]	2·1	6·9	3·4	1·2	2·2	1·7
	11·6	10·0	7·1	2·8	4·3	2·6
Other countries						
Bank deposits	9·0	5·0	1·5	1·0	0·5	2·0
Special bilateral facilities and other investments[a] [b]	11·9	12·4	5·6	3·5	2·1	2·2
	20·9	17·4	7·1	4·5	2·6	4·2
International organisations	3·5	4·0	1·8	1·6	0·2	0·1
Total	57·0	35·7	17·4	8·5	8·9	8·3

[a] Includes holdings of equities and property etc.
[b] Includes loans to developing countries.

the volume and the average price of oil exports, associated with rising consumption. In the fourth quarter, revenues are also likely to benefit from stockbuilding in anticipation of some further increase in prices.

In spite of the increase in revenues, the oil-exporters' cash surplus available for investment abroad, for government loans or for additions to financial reserves is estimated to have fallen by about $½ billion in the third quarter, suggesting that there may have been a further rise in imports. About half the surplus went into financial reserves.

During the third quarter, sterling investments in the United Kingdom continued to decline, but more slowly, while foreign currency deposits with UK banks rose by about $2 billion, much the same as in the previous quarter.

The amount invested in the United States appears to have been much less than in the previous quarter; the decline was spread among all forms of investment.

Deposits with banks outside the United Kingdom and United States are estimated to have been much larger in the third quarter, particularly in some off-shore centres. On the other hand, 'special bilateral facilities and other investments' was as small as in the second quarter.

Within the small net figure for contributions to international organisations, there was a repayment of $0.2 billion of an IMF oil facility borrowing.