Financial review

The review describes developments in various financial markets, mainly in the period November to January.

Summary

The money market *Conditions in the market were exceptionally tight; competition for Treasury bills was very strong. The Bank's minimum lending rate came down in stages from 15% to 12% by early February.*

Capital markets *In the gilt-edged market, turnover rose strongly and yields declined; the authorities sold a record £3,180 million net of stock in the December quarter.*

Foreign exchange and gold markets *Sterling rose appreciably during November to January; the US dollar was little changed on balance against the 'snake' currencies.*

The investment currency premium *The effective premium fell during 1976 as a whole from 62% to 46%.*

Euro-currency markets *The London market probably grew much faster in the December quarter than earlier in 1976.*

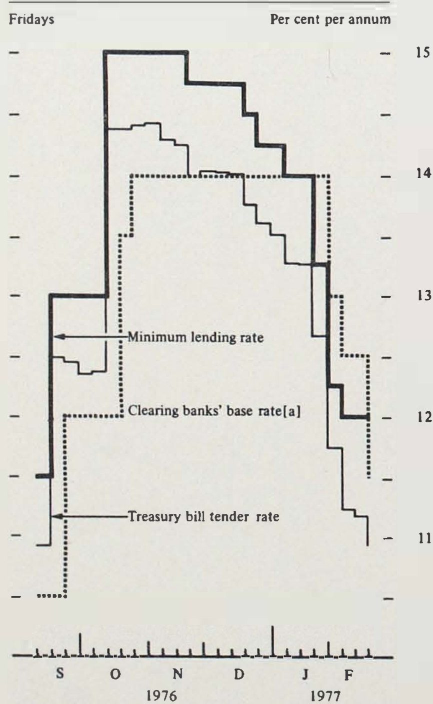
Oil money movements *The oil-exporting countries' surplus declined in the fourth quarter, even though revenues rose sharply.*

The money market

During November to January conditions were exceptionally tight in the money market, particularly during the latter part of the period, when very large shortages occurred almost every day. As a result, the market needed help from the Bank on all but two days throughout the three months. The shortages were caused mainly by large official sales of gilt-edged stocks and, particularly in January, by heavy tax payments. Official help was provided in a variety of ways. As well as buying Treasury and local authority bills throughout the period, the Bank began to purchase commercial bills in December, for the first time since March 1975; they frequently lent overnight at minimum lending rate (in December and January such lending occurred almost daily, and on an unusually large scale); and on more than twenty occasions they lent for one week at that rate (see below). On three days in January, when particularly large shortages resulted from heavy subscriptions to new issues of gilt-edged stocks, loans were made at below minimum lending rate. Finally, the Bank gave help on occasions by placing deposits in the local authority market and (as they had done two years earlier) by buying Treasury, local authority and commercial bills from the discount houses, for resale at a fixed date.

Short-term interest rates in London

During November to January, short-term interest rates fell back from the record heights reached in October.



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

These unusually tight conditions prevailed during a period when interest rates were widely expected to decline (see next section). Competition for Treasury bills was thus very strong and was intensified by the smaller amount of bills on offer at the weekly tenders: the authorities regarded £300 million as the minimum which could be offered in these circumstances. Because of the demand for bills, the Bank's minimum lending rate fell by ¼% on four occasions to 14%,[1] by ¾% on 21st January, and by 1% on 28th January. By lending frequently for seven days at minimum lending rate, the Bank sought to contain the pace at which the rate declined, especially before and just after the Chancellor's economic measures were announced in December; but with sterling remaining firm and sales of gilt-edged heavy, the Bank accepted a much sharper decline during the last two

[1] On 19th November, 17th and 24th December, and 7th January.

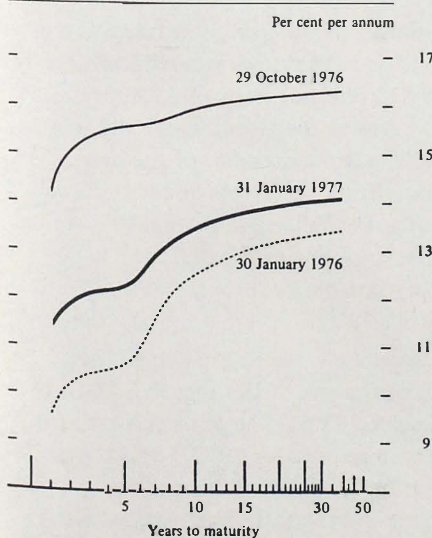
weeks of the period. However, to prevent a further steep decline stemming from keen competition for Treasury bills from outside the discount market, the Bank reduced minimum lending rate by ¼% to 12% on Thursday, 3rd February: the rate will remain at 12% until the Treasury bill tender rate moves into the range which would result in a minimum lending rate of 12% under the usual formula (i.e. 11¼% – 11½%), or until the Bank administer a further change.

As a result of the prolonged and severe shortage of funds, rates for overnight and one-week money in the inter-bank market were generally above minimum lending rate from the middle of November onwards. In order to avoid severe disruption in the money market and to ease the pressure on banks' reserve assets, the Bank announced on 5th November that payment of the outstanding call for special deposits equivalent to 1% of eligible liabilities was to be postponed from 15th November to 14th December; on 10th December payment was postponed again to 28th January; on 13th January it was announced that the call was cancelled and, also, that special deposits equivalent to 2% of eligible liabilities would be repaid on 17th January; and on 27th January a further 1% was released, subject to recall on 10th March (when 6¼% Treasury Stock 1977 was due to mature). The further release temporarily reduced special deposits to 2% of eligible liabilities (see page 14).

Towards the end of January, the London and Scottish clearing banks reduced their base rates from 14% to 13%, and their seven-day deposit rates from 11% to 9½%; in February, the two rates were reduced in two stages to 11½% and 8% respectively.

Time/yield curves of British government stocks[a]

Yields on all maturities fell during November to January.



[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. A revision to the construction of these curves was described in the June 1976 *Bulletin* (page 212).

Capital markets

Turnover in the gilt-edged market, which had risen sharply in September and October, continued to do so in the following three months; in January it was more than four times as heavy as in August (the low point of last year). Yields on all maturities declined sharply during the period under review, and at the end of January the general shape of the yield curve was little changed, after flattening markedly during the previous three months.

The rise in prices during November stemmed from greater confidence in sterling (see next section) and from hopes of effective measures to reduce the public sector borrowing requirement. Expectations of a further decline in interest rates were reinforced by the reintroduction of the supplementary special deposits scheme on the 18th. Trading later became quieter as negotiations with the International Monetary Fund continued. However, prices improved again shortly after the Chancellor's December measures became known, and went on rising for the remainder of the period – particularly after the announcement early in January of the new facility for official sterling holdings (see page 8).

During November to January the following stocks were issued or exhausted:

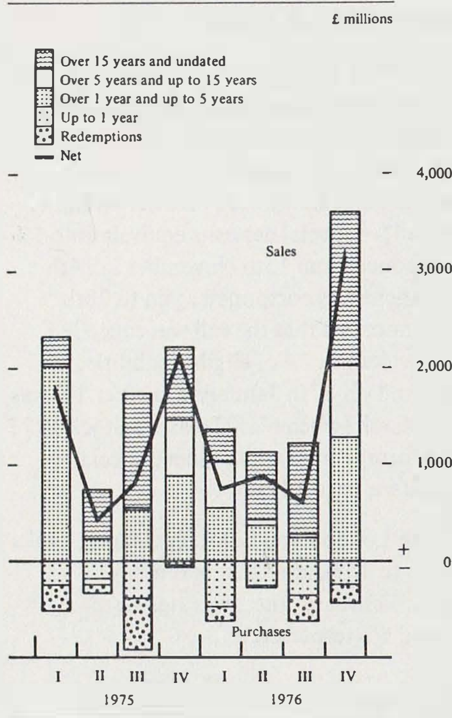
Date of issue	Official supplies exhausted	Stock	Nominal amount issued	Issue price	Gross yield to redemption at issue
			£ millions	Per cent	Per cent
Short and medium-dated					
30. 9.76	4.11.76	11½% Treasury Stock 1979[a]	600	£98·75	12·12
14.10.76	13.12.76	3% Treasury Stock 1982[b]	400	£70·00	10·47
11.11.76	17.11.76	14% Treasury Stock 1982	600	£98·25	14·49
25.11.76	4. 1.77	13% Exchequer Stock 1980	800	£96·25	14·25
13. 1.77	13. 1.77	12¾% Exchequer Stock 1981	600	£96·25	13·82
Long-dated					
14.10.76	4.11.76	15½% Treasury Loan 1998	600	£96·00	16·16
11.11.76	6.12.76	15¼% Treasury Loan 1996	600	£97·50	15·66
10.12.76	21.12.76	15½% Treasury Loan 1998[a]	500	£99·00	15·66
31.12.76	7. 1.77	15¼% Treasury Loan 1996[a]	750	£99·00	15·42
20. 1.77	27. 1.77	13¾% Treasury Loan 1993	1,250	£96·00	14·38

[a] Second tranche.

[b] Special low-coupon issue (see December 1976 *Bulletin*, page 428).

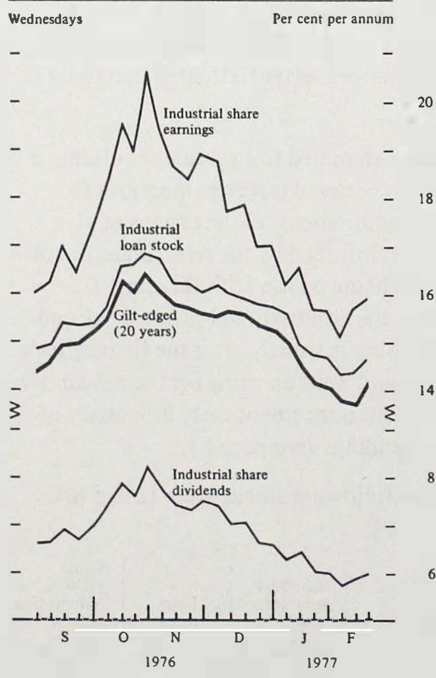
Official transactions in gilt-edged stocks by maturity

In the December quarter, the authorities sold over £3,000 million net of stock, spread fairly widely among the broad maturity bands.



Security yields

Yields on long-dated gilt-edged, debentures and equities all fell sharply during November to January.



The terms of each new issue during the period were pitched in line with the market and thus had no direct influence on yields. But towards the end of the period the size of the issues was designed to prevent too rapid a decline in yields until there were clearer signs of a sustained improvement in the balance of payments and in the prospects for containing inflation.

During the December quarter, the authorities sold a record £3,180 million net of stock (see chart), bringing the total for the first nine months of the current financial year to £4,630 million. Net sales of stocks within one to five years of maturity amounted to £1,295 million, net sales of medium-dated to £735 million and of long-dated to £1,580 million. The authorities bought £240 million of stocks within one year of maturity; and 10½% Treasury Stock 1976 matured on 14th December with £190 million in market hands.

In the equity market, turnover was higher on balance during November to January than in the previous three months. The FT-Actuaries industrial (500) share price index, which stood at 130 at the end of October, rose to around 180 at the end of January. New issues of equity capital fell to some £75 million, compared with £155 million in August to October. Equity issues had declined sharply in the second half of 1976, but the total for the year (£1,055 million) was much the same as the previous year's record, if £214 million issued by British Leyland in 1975, and largely taken up by the Government, is excluded.

Net sales of unit trust units amounted to £37 million, or £14 million more than in the previous three months.

Turnover in the debenture market also rose during the period and yields, as measured by the Bank's index, fell sharply. New money raised by companies by way of loan capital and preference shares, at £12 million, was less than redemptions (£46 million).

Foreign exchange and gold markets

The pound appreciated markedly during the three months from November to January, although early in the period the rate continued to fluctuate widely from day to day. Confidence in sterling improved for several reasons, including the discussions between the Government and the International Monetary Fund, and the announcement of the new facility to protect the exchange rate from the effects of a withdrawal of official sterling holdings. Both the US dollar and the 'snake' currencies were little changed on balance during the period. The gold price remained above $130 per fine ounce throughout most of the three months.

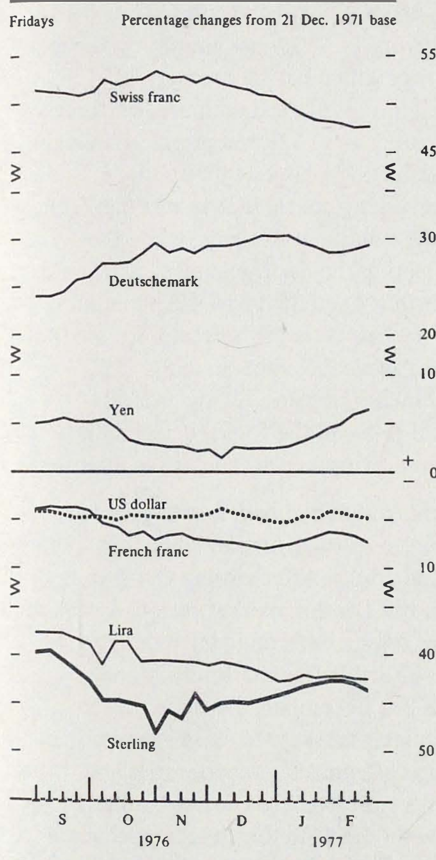
Growing expectations of cuts in public expenditure helped the pound to appreciate from $1.58½ at the end of October to $1.64¼ by 5th November, but the rate fell back to $1.61½ on the 8th on reports that the public sector borrowing requirement for 1977/78 had been underestimated. Confidence in sterling gradually returned as an agreement between the Government and the IMF became more likely, and by the 18th the pound had risen to $1.66¼. The reintroduction of the supplementary special deposits scheme was well received in the market, and measures prohibiting the use of sterling for financing third-country trade (see December 1976 *Bulletin*, page 412) also contributed to a rise in the exchange rate which touched $1.69½ on the 19th, before closing the month at $1.65½.

Sterling's effective depreciation since the Smithsonian settlement in December 1971 narrowed from 48.0% at the end of October to 45.3% at the end of November.[1] The official reserves rose by $453 million during the month, after $604 million of net borrowing in foreign currencies by the public sector.

[1] See note on page 46.

Effective changes in exchange rates

After weakening for several months, sterling appreciated during November to January.



The pound began to rise again early in December ahead of the announcement of the economic package. The market anticipated the measures by bidding the rate up to \$1.69¼ on the 14th, and after the announcement on the following day the pound eased back in a mood of anti-climax. Short-lived fears that the OPEC ministers' meeting would agree to a substantial rise in the price of oil, together with the prospect of industrial action after the result of the miners' ballot became known, also helped to bring the pound back to \$1.65¾ on the 16th. However, for the remainder of the month sterling appreciated steadily, assisted by the endorsement of the Government's policies by the OECD and by expectations of effective arrangements to protect the pound against withdrawals of sterling by overseas residents. The pound reached a high point of \$1.70½ on the 29th, before closing the month at \$1.70¼.

Sterling's effective depreciation in December narrowed to 44.1%. The official reserves fell by \$1,027 million, following the repayment of \$1,545 million drawn under the short-term facility of \$5.3 billion arranged in June. Net public sector borrowing in foreign currencies amounted to \$102 million in December.

In the first week of January, the announcement of the International Monetary Fund's formal agreement on a stand-by arrangement for the United Kingdom helped to sustain the higher rate for the pound which traded at around \$1.70¾. It then rose briefly to a high point of \$1.72¾ on the 11th when the new facility for the official sterling balances was made known. Although subsequently falling back below \$1.72, the pound remained firm during the rest of January. This was partly due to the reversal of leads and lags in commercial payments (see page 7). and to the continuing effects of the exchange control measures taken in November; it also reflected some overseas investment in gilt-edged stocks (though only to a small extent, judging by the evidence so far available). At the end of the month the rate was \$1.71½.

Sterling's effective depreciation narrowed further to 42.8% in January. The official reserves rose by \$3,067 million, after a drawing of \$1,139 million under the stand-by arrangement with the IMF. Net borrowing in foreign currencies by the public sector was relatively small, at \$13 million.

Throughout the period, the authorities intervened in the market from time to time in order to moderate movements in either direction in the exchange rate. Although official support for the pound was provided when necessary, the strong demand for sterling, particularly in January, was met by substantial official sales in order to prevent what seemed likely to be a temporary and inappropriate appreciation of the exchange rate, and to rebuild the foreign exchange reserves.

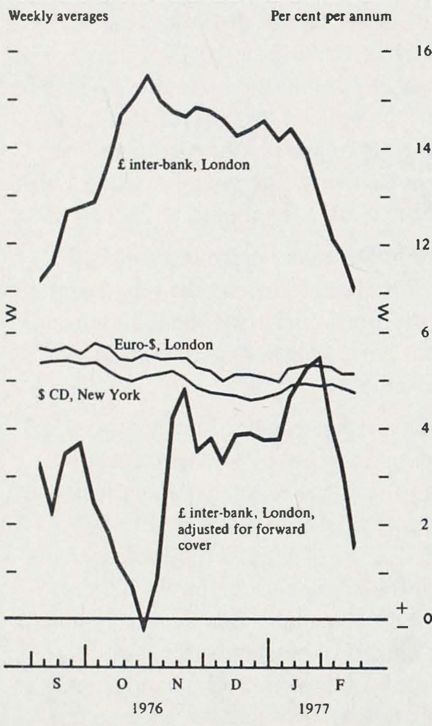
The US dollar was steady throughout most of November; but with dollar interest rates easing back in late November and December while rates in Western Germany became firmer, the dollar weakened a little towards the end of the year. US interest rates then rose slightly, and with the announcement of President Carter's package of expansionary fiscal measures raising expectations of a further rise in interest rates, demand for the dollar strengthened: over the three months as a whole, the rate was little changed on balance.

The pressures on the European joint float arrangements between July and October did not recur during the period under review. The 'snake' currencies appreciated against the dollar in December but weakened in January, and were little changed over the period as a whole.

The three months' euro-dollar rate fluctuated narrowly around 5$\frac{7}{16}$% per annum early in November, but subsequently eased back in response to a decline in US domestic interest rates, reaching a low point of 4⅞% on 8th December before closing the month at 5$\frac{1}{16}$%. In early January, the three-month euro-dollar rate rose broadly in line with comparable US domestic rates, but then steadied at around 5¼% from the middle of the month. The comparable UK inter-bank sterling rate declined from

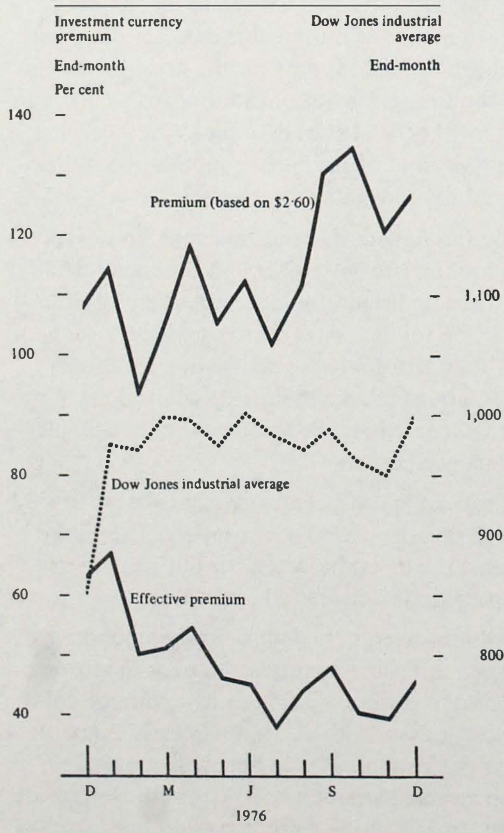
UK and US three-month interest rates

The uncovered comparison in favour of sterling narrowed sharply in January; but the covered differential in favour of the dollar fell steeply in November, and temporarily disappeared in January.



Investment currency premium

The effective investment currency premium fell quite sharply during 1976.



15⁵⁄₁₆% at the end of October to 14¹⁄₁₆% on 14th December. It then fluctuated narrowly around 14⁵⁄₁₆% in late December and early January, before falling sharply after 19th January; by the end of the month the rate had dropped to 12⅜% per annum. The uncovered differential in favour of sterling thus fell slowly from 9⅞% at the end of October to 9% on 19th January, and then sharply to 7¹⁄₁₆% per annum by the end of the month. This decline, together with a partial recovery of confidence in sterling, led to a fall in the forward premium on three months' dollars. After closing October at 15¾%, the premium quickly fell to 10% by 10th November, reflecting a large build-up of euro-sterling deposits as well as returning confidence in sterling. It then fluctuated fairly narrowly until the middle of January, when the premium began to ease back, reflecting the decline in sterling interest rates; towards the end of the month it had fallen to 7½% per annum. The forward premium exceeded the uncovered differential for most of the period, leaving sterling at an intrinsic discount of about 1½%. However, around the middle of January demand for the pound narrowed the forward margins and reduced the forward premium to the interest arbitrage point,[1] thus removing sterling's intrinsic discount.

The increase in the price of gold, which had begun in September, continued until early in December, in spite of further large sales by the Soviet Union and by several central banks. After closing October at $123 per fine ounce, the price on the London market rose to a peak of $138¾ on 15th November, before falling back on profit-taking to $130¼ at the end of that month. Shortly after the International Monetary Fund's gold auction on 8th December, the price rose to $137, but then drifted down in quieter markets to close the month at $134½. In January, the market was affected by uncertainties about the effects of selling part of the Fund's gold stock to central banks: [2] the price fell to a low point of $129½ on the 11th, but it later recovered to close the month at $132¼ per fine ounce, a rise of more than $9 over the period.

The investment currency premium

The September 1976 issue of the *Bulletin* included an article on the investment currency market, which described (on pages 321–2) movements in the premium from 1974 to August 1976. Changes throughout 1976 as a whole are outlined below.

At the beginning of the year, the effective premium[3] was about 62% (see chart). With economic prospects apparently favourable in the United States and continental Western Europe, demand for investment currency remained strong in January and most of February, when the premium fluctuated narrowly around 65%.

However, in early March political events in southern Africa led to widespread selling of South African shares, and the premium fell sharply to 45% (the lowest since September 1974). It then recovered strongly – partly because of the weakness of sterling – rising to 50% at the end of March and to nearly 60% at the beginning of May; but when extra investment currency became available from sales of resident-owned holdings in Australia and New Zealand Banking Group Ltd and London Tin Corporation Ltd, after these companies had emigrated, the premium fell back to below 40% in July and August.

In the autumn prices on many overseas stock markets were falling, probably reflecting the pause in world economic recovery. Pre-election uncertainties in the United States, rumours (later confirmed) of the

[1] The interest arbitrage point is reached when the premium on forward dollars plus the euro-dollar deposit rate equal the comparable UK inter-bank sterling rate. Throughout most of 1976 they exceeded the sterling rate by a considerable margin.

[2] In 1975, when the IMF decided to auction one sixth of its gold holdings, it was also agreed that a further one sixth would be sold to the central banks of member countries at the official price of SDR 35 per fine ounce. The recent sales were the first of four annual instalments.

[3] Based on the current exchange rate rather than on $2·60 = £1.

devaluation of the Australian dollar, and continued troubles in South Africa also led to widespread selling by UK residents in most markets. Consequently, apart from occasional rallies, the premium remained around 40% until the middle of December when Wall Street, in particular, recovered and the premium rose again, reaching around 46% at the end of the year.

Thus, over the year as a whole the premium fell quite sharply: the spot rate for sterling against the US dollar declined by some 30 cents but the investment dollar rate by only 7 cents. The main reason for the decline in the premium was probably that stock markets abroad were in general no more attractive than the UK market. Demand for new investment was therefore weak, while existing holders were selling foreign currency securities quite heavily, thus enlarging the supply of liquid balances of investment currency available for reinvestment, in spite of conversions into sterling under the 25% surrender requirement. Also, demand for investment currency to support portfolios financed by foreign currency borrowing was much lower than in the previous two years.[1]

Euro-currency markets

Recent figures published by the Bank for International Settlements show that, in the third quarter of 1976, the gross external foreign currency assets and liabilities of banks in the European reporting countries[2] rose by as much as $11 billion and $12 billion respectively. About $2½ billion of this increase reflected the appreciation of the deutschemark (and, to a lesser extent, the Swiss franc) against the US dollar. Nevertheless, after allowing for changes in currency valuation, the euro-currency market grew much faster than in each of the two previous quarters.

A detailed geographical analysis of international lending in domestic and foreign currencies by banks in the Group of Ten countries and Switzerland, together with branches of US banks in certain off-shore centres, is given in Table 22 in the statistical annex. In the third quarter, the banks lent some $12 billion to countries outside the reporting area, $1 billion more than in the second. Non-oil developing countries took about $3½ billion, most of which went to Latin America (mainly Brazil and Mexico). The other major borrowers were developed countries outside the Group of Ten countries (in particular, South Africa, Spain, Denmark and Austria), which together took nearly $4 billion. Elsewhere, the oil-exporting countries borrowed $2½ billion and Eastern Europe over $1½ billion.

Net lenders to, and borrowers from, these banks are shown by broad geographical areas in the first table. It will be seen that non-oil developing countries as a whole, other than in Latin America, are actually net suppliers of funds.

The size of the London euro-currency market, measured by the banks' gross foreign currency liabilities, increased by as much as $14½ billion in the last quarter of 1976. Although part of this rise reflected currency valuation changes, combined with the seasonal build-up of UK banks' end-year positions (both within the UK inter-bank market and with banks abroad), the underlying growth of the market was probably much faster than in each of the three previous quarters of 1976. In the year as a whole, recorded liabilities rose by nearly $23 billion, of which over $16 billion was to banks abroad (including central monetary institutions).

By area, the oil-exporting countries again increased their net lending to the London market, by $¾ billion, making a total rise of some $3½ billion over the year as a whole. But Western Europe (apart from EEC countries) – the other main source of funds – reduced its net lending

[1] See September 1976 *Bulletin* (pages 319 and 321–2).

[2] Belgium/Luxembourg, France, Western Germany, Italy, the Netherlands, Sweden, Switzerland and the United Kingdom.

Banks' net liabilities or claims by area[a]

Outside the reporting area, the oil-exporting countries are the largest net suppliers of funds, and Latin America the largest borrower.

$ billions

Banks' net borrowing from –/net lending to +

	1975	1976		
	31 Dec.	31 Mar.	30 June	30 Sept.
Group of Ten (including Switzerland)	–35·2	–38·2	–43·4	–45·7
Other Western Europe	+ 0·7	+ 2·4	+ 5·6	+ 7·2
Australia, New Zealand and South Africa	+ 6·9	+ 7·4	+ 8·5	+ 9·3
Eastern Europe	+15·3	+17·9	+19·0	+20·6
Oil-exporting countries[b]	–37·0	–36·6	–36·9	–38·7
Off-shore banking centres	+21·2	+22·6	+23·5	+25·7
Non-oil developing countries	+25·4	+27·3	+28·4	+30·7
of which:				
Latin America	*+25·6*	*+28·0*	*+30·3*	*+32·3*
Other	*– 0·2*	*– 0·7*	*– 1·9*	*– 1·6*
Unallocated	– 2·8	– 3·1	– 4·7	– 5·1
	– 5·5	– 0·3	–	+ 4·0

[a] Banks in the Group of Ten countries and Switzerland, and the foreign branches of US banks in the Caribbean Area and the Far East.

[b] Listed in the footnote to Table 19 in the statistical annex.

UK banks' liabilities and assets by customer[a]

The London euro-currency market expanded strongly in the fourth quarter.

$ billions

	1975	1976			
	31 Dec.	31 Mar.	30 June	30 Sept.	31 Dec.
Foreign currency liabilities of UK banks to:					
Other UK banks	44·5	45·2	44·4	43·9	46·8
Other UK residents	5·5	5·3	5·4	5·5	5·7
Overseas central monetary institutions	30·6	31·4	31·6	33·7	35·7
Other banks overseas	81·4	82·4	85·4	84·1	92·6
Other non-residents	16·6	17·5	18·5	19·6	20·5
Other liabilities[b]	1·4	1·2	1·1	1·2	1·3
Total liabilities	180·0	183·0	186·4	188·0	202·6
Foreign currency assets of UK banks with:					
Other UK banks	44·4	44·9	44·1	43·2	46·6
Other UK residents	15·8	15·9	15·6	16·2	16·8
Banks overseas	86·5	88·7	92·1	93·9	102·6
Other non-residents	32·2	32·7	33·4	34·0	35·8
Other assets[b]	2·1	2·0	2·0	2·0	2·1
Total assets	181·0	184·2	187·2	189·3	203·9

[a] Figures differ from those in Table 6; see additional notes to Tables 20 and 21 in the statistical annex.

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

Maturity structure of UK banks' net foreign currency position

Between mid-August and mid-November 1976, net borrowing at less than eight days rose by $1¾ billion.

$ billions

Net liabilities –/net assets +

	1976	
	mid-Aug.	mid-Nov.
Less than 8 days[a]	– 7·7	– 9·4
	– 4·1	*– 5·9*
8 days to less than 3 months	–17·4	–17·8
3 months to less than 1 year	– 6·4	– 6·0
Net borrowing up to 1 year	–31·5	–33·2
Net lending at 1 year and over	+31·8	+33·5
	+ 0·3	+ 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.

Estimated oil revenues of exporting countries

Oil revenues rose faster in the fourth quarter than earlier in the year, because of higher consumption and stockbuilding in anticipation of the rise in prices announced in December.

$ billions

	1975	1976				
	Year	Year	1st qtr	2nd qtr	3rd qtr	4th qtr
US dollars	84·8	109·2	25·0	25·9	27·7	30·6
Sterling	12·0	4·0	1·7	0·9	0·7	0·7
	96·8	113·2	26·7	26·8	28·4	31·3

Estimated deployment of oil exporters' surpluses

In spite of a further rise in oil revenues, the total surplus in the fourth quarter is provisionally estimated to have been the smallest since the third quarter of 1975.

$ billions

	1975	1976				
	Year	Year (provisional)	1st qtr	2nd qtr	3rd qtr	4th qtr (provisional)
United Kingdom						
British government stocks	0·4	0·2	0·1	–	–	0·1
Treasury bills	– 0·9	– 1·2	– 0·1	–0·7	–0·4	–
Sterling deposits	0·2	– 1·4	– 0·4	–0·5	–0·3	–0·2
Other sterling investments[a]	0·3	0·5	0·1	0·1	0·1	0·2
Foreign currency deposits	4·1	5·6	– 0·1	2·3	1·8	1·6
Other foreign currency borrowing	0·2	0·8	–	0·6	0·2	–
	4·3	4·5	– 0·4	1·8	1·4	1·7
United States						
Treasury bonds and notes	2·0	4·2	0·9	1·5	0·8	1·0
Treasury bills	0·5	– 1·0	0·2	0·3	–0·1	–1·4
Bank deposits	0·6	1·6	0·6	0·4	0·2	0·4
Other[a]	6·9	6·7	1·2	1·9	1·9	1·7
	10·0	11·5	2·9	4·1	2·8	1·7
Other countries						
Bank deposits	5·0	5·5	1·0	0·5	2·0	2·0
Special bilateral facilities and other investments[a][b]	12·4	9·7	3·5	2·1	2·3	1·8
	17·4	15·2	4·5	2·6	4·3	3·8
International organisations	4·0	2·0	1·6	0·2	0·1	0·1
Total	35·7	33·2	8·6	8·7	8·6	7·3

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

by $1½ billion during the quarter. Net claims on Japan (the largest borrower from London) fell by nearly $1½ billion, but were unchanged on balance over the year.

The latest quarterly maturity analysis of the foreign currency assets and liabilities of banks and certain other institutions in the United Kingdom relates to 17th November 1976 (see Table 21 in the statistical annex). It shows that, in the three months from mid-August, the maturity of the banks' liabilities shortened appreciably, probably reflecting expectations of a further decline in euro-currency rates: borrowing at less than eight days rose by $4 billion, and for terms between eight days and less than three months (mostly, in fact, for less than one month) by $3 billion. With short-term assets increasing less than liabilities during the period, the banks' net borrowing up to one year rose by $1¾ billion, after an increase of just over $1 billion in the previous three months. The banks' net borrowing at less than eight days rose from 25% to 29% of total net borrowing up to one year, largely reflecting operations by American and Japanese banks.

Oil money movements

Total estimated oil revenues of the exporting countries rose even faster in the fourth quarter, because of higher consumption and stockbuilding in the importing countries in anticipation of the increase in prices announced in December. In the year as a whole, total revenues amounted to around $113 billion, or $16½ billion more than in 1975. Revenues in the first quarter of this year are expected to be slightly larger than in the previous quarter: because of the delay between shipment and payment (normally about two months), the full effect on revenues of a run-down of stocks after the turn of the year is not likely to work through until the second quarter.

In spite of higher revenues, the exporting countries' cash surplus available for investment abroad, for government loans or for addition to financial reserves is estimated to have fallen by about $1¼ billion during the fourth quarter. This suggests that imports by these countries were still rising. As in the third quarter, about half of the surplus went into financial reserves. The surplus in 1976 as a whole, at some $33 billion, was $2½ billion less than in the previous year, even though revenues were much higher.

Sterling investments in the United Kingdom were virtually unchanged during the December quarter. Foreign currency deposits with UK banks rose only slightly less than in the third quarter, making a rise of $5½ billion for the year as a whole.

About $1¾ billion was invested in the United States – much less than in the third quarter. Nevertheless, the total for the year ($11½ billion) and the share of the total surplus (35%) were each higher than in 1975.

Preliminary information suggests that the increase in deposits with banks outside the United Kingdom and the United States was again large in the fourth quarter. On the other hand, 'special bilateral facilities and other investments' was smaller (less than a quarter of the total surplus): loans to developed countries have declined while a rise in commitments to lend to developing countries has not yet been reflected in actual disbursements.