Financial review

The review describes developments in various financial markets, mainly in the period February to April.

Summary

The money market *Conditions gradually eased during the period, although the market still required assistance on most days. The Bank's minimum lending rate fell in several steps from 12¼% to 8% by early May.*

Capital markets *In the gilt-edged market, turnover was still heavy, but less so than in the previous three months, and yields fell on balance; share prices rose strongly, and new issues picked up.*

Foreign exchange and gold markets *Sterling was little changed during February to April, but the US dollar eased back; the 'snake' arrangements were not unduly strained until late in April.*

Euro-currency markets *In the first quarter, the underlying rate of growth in the London market was probably much the same as in the fourth.*

Oil money movements *Oil revenues and the oil-exporting countries' surplus each rose slightly in the first quarter.*

The money market

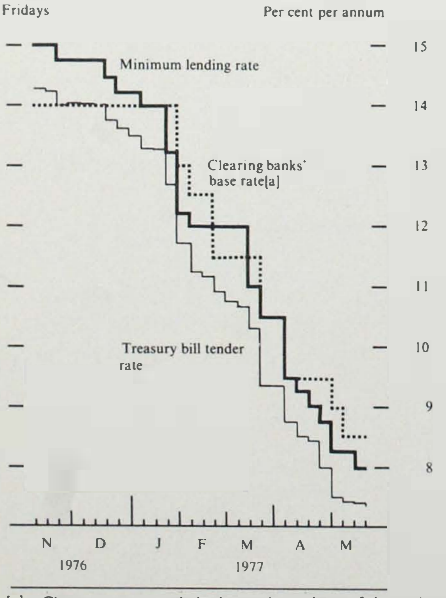
The money market, which had been extremely tight during November to January, remained so in the first half of February. Thereafter, conditions eased gradually, though the market was very short of funds on occasional days, including 24th March when the issue of 12¼% Exchequer Stock 1992 was heavily oversubscribed, and towards the end of April when an instalment on that stock coincided with tax payments. There were also several days when no intervention was required (for the first time in nearly three months), or when the Bank were able to sell Treasury bills to absorb a surplus (for the first time in five months). However, the market required assistance on most days, and this was given by very large purchases of Treasury, local authority and commercial bills, or by lending at minimum lending rate, either overnight or for one week.

The amount of Treasury bills on offer at the weekly tender remained at £300 million for most of the period. Demand for bills was keen, and the average rate of discount accordingly declined rapidly. With domestic monetary pressures easing, and the exchange rate stable, the authorities were prepared to accept some fall in interest rates, although continuing uncertainties about inflation and the need to finance the prospective public sector borrowing requirement for 1977/78 indicated that the decline should not go too far or too fast. In the event, the Bank took repeated action – by lending at minimum lending rate for seven days – to check the rate of decline.

At the beginning of the period, minimum lending rate was 12¼%, but it seemed likely that the tender on 4th February would bring about a sharp fall. To prevent this, the Bank announced an administered reduction in minimum lending rate to 12% on Thursday, 3rd February. At the same time, it was made known that the rate would remain there until the Treasury bill tender rate moved into the range which would result in a minimum lending rate of 12% under the usual formula (see the additional notes to Table 9 in the statistical annex), or until the Bank administered a further change. As expected, the tender rate fell more sharply, by ½%, thus moving too far to reinstate the formula.

Short-term interest rates in London

Interest rates continued to fall very sharply during February to April.



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

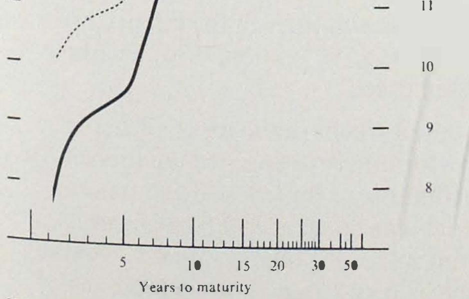
Minimum lending rate accordingly remained at 12% while other rates continued to fall, until another administered change – to 11% – was made on Thursday, 10th March. When the tender rate came into line on the next day, the Bank announced that in future they would reserve the right, exceptionally, not to follow the usual formula in whole or in part, if that would bring about an undesirable reduction in minimum lending rate. This right was exercised as early as the following Friday, the 18th: the formula would then have produced a fall of 1%, but the rate was in fact reduced by only ½%, to 10½%. Minimum lending rate remained at 10½% – with the formula suspended – until Thursday, 31st March, when the Bank made a further administered reduction to 9½%. At the tender on the next day (1st April), the formula produced that rate and thus became operative again. Three further falls, of ¼% each, resulted from the tenders on 7th, 15th and 22nd April, bringing minimum lending rate down to 8¾%, the lowest since the summer of 1973. There was a further sharp fall in the average tender rate on 29th April, but the Bank again reduced minimum lending rate by less than the full amount – to 8¼% instead of 8%. After the tender on 13th May, the formula became operative again, and minimum lending rate declined to 8%.

Special deposits equivalent to 1% of eligible liabilities, which had been temporarily released on 31st January (see the March *Bulletin*, page 21), were duly redeposited on 10th March, when 6¼% Treasury Stock 1977 matured.

During the period under review, the London and Scottish clearing banks reduced their base and seven-day deposit rates in five steps, from 13% to 9% and from 9½% to 4½% respectively, thereby widening the margin between the two rates from 3½% to 4½%. The banks reduced their rates further, each by ½%, at the beginning of May.

Time/yield curves of British government stocks[a]

Yields fell much more at the short end than at the long, and the yield curve steepened appreciably.



[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). The relevant computer program is now available from the Economic Intelligence Department of the Bank at the address given on the reverse of the contents page.

Capital markets

Turnover in the gilt-edged market – which had been exceptionally high in January – was lower during February to April, but still very heavy. Yields on both long and short-dated stocks declined sharply and fairly steadily in the first two months (apart from a pause in mid-February), but rose throughout most of April, when the market appeared to consider that the fall in interest rates had gone far enough, at least for the time being. Over the period as a whole, short-dated yields fell more than long-dated, and the yield curve became much steeper.

The two stocks which had been issued and exhausted in January were not immediately replaced. So the pause in the decline in yields during February took place despite the absence of a tap stock and not until well after the attempt to control the market in January, when the issue of £1,250 million 13¾% Treasury Loan 1993 (the largest ever single issue for cash), which had been intended to moderate the appetite for gilt-edged, had been exhausted in a week (see the March *Bulletin*, pages 21–2). With the central government borrowing requirement much smaller than had been forecast in December, and bank lending to the private sector subdued – so that domestic credit expansion was well within the limit for 1976/77 agreed with the International Monetary Fund – there was no immediate need for further sales of gilt-edged.

Nevertheless, while the market remained strong, it seemed prudent to make a start on funding the following year's borrowing requirement by the issue of a stock for which payment would largely fall in 1977/78. Accordingly, £800 million 12¼% Exchequer Stock 1992 was issued on 24th March at £96.00 per cent; only £15 per cent was payable on application, with the balance falling due in the next financial year – £40 on 25th April and £41 on 13th June. This was the first government stock payable in instalments to be issued since 1940, and it was heavily oversubscribed.

It was announced that, until further notice, the terms of this and future issues would not include the customary exemption from UK taxation for non-residents, and that there was to be no facility for conversion into bearer bonds. This was in line with the Government's policy of discouraging inflows into sterling. There is, of course, no question of withdrawing any tax exemption attaching to existing government stocks, or of changing rights under the Tax Acts or double taxation agreements, or of modifying any immunity to which overseas governments may be entitled under international law.[1]

Immediately after the Budget, a further partly-paid stock was announced – £800 million $9\frac{1}{4}\%$ Exchequer Stock 1982, at £97.00 per cent, to be issued on 6th April, with £15 per cent payable on application, £25 on 12th May and £57 on 4th July. Although technically medium-dated, this issue has effectively functioned as a short-dated tap stock.

On the same day as the 1982 stock was announced, it was made known that preliminary steps were being taken to enable a government stock to be issued with a variable rate of interest, linked to Treasury bill rate:[2] statutory instruments were being prepared to bring investment in such a security within the powers of trustees and building societies, and the Bank were to discuss technical details with the stock exchange. Subsequently, on 16th May, it was announced that an initial issue of £400 million of a variable rate stock was to be created on 27th May and allotted in full to the Issue Department of the Bank. A notice describing the issue was published on that day. The rate of interest to be payable was defined as the daily average, over an appropriate reference period, of Treasury bill rate, with the addition of a fixed margin of $\frac{1}{2}\%$. The stock was available for purchase through the stock exchange on 30th May.

The contribution of this new, experimental stock to the tasks of monetary management and public sector financing remains to be evaluated. It is not, however, expected to displace fixed-coupon stocks as the main market instrument used by the authorities.

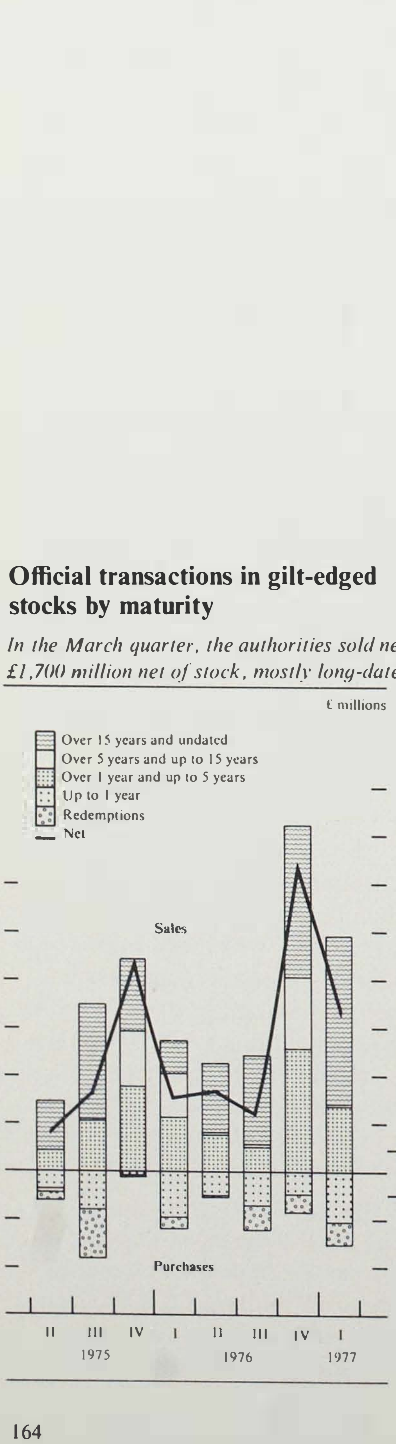
During the March quarter, the authorities sold £1,660 million net of stock, mostly in January.[3] Net sales of stocks within one to five years of maturity amounted to £675 million, of medium-dated to £20 million, and of long-dated to £1,750 million. Two stocks matured during the quarter – $6\frac{1}{4}\%$ Treasury Stock 1977 on 10th March and British Electricity 3% Guaranteed Stock 1974/77 on 15th March, with £195 million and £50 million respectively in market hands. The authorities also bought £540 million (net) of stocks within one year of maturity.

Total net sales of stock by the authorities in the financial year 1976/77 as a whole amounted to £6,290 million, of which about 80% (£4,980 million) was long-dated.

The absence of new gilt-edged stocks in the first half of the period gave the opportunity for others to come to the market. On 11th February, Finance for Industry Limited made an issue of £50 million of 14% unsecured loan stock at £99.50 per cent, maturing in 1983. The Corporation of London raised £25 million on 24th February, the Fife Regional Council £10 million on 3rd March, and the Greater London Council £50 million on 10th March. All these issues were heavily oversubscribed.

Official transactions in gilt-edged stocks by maturity

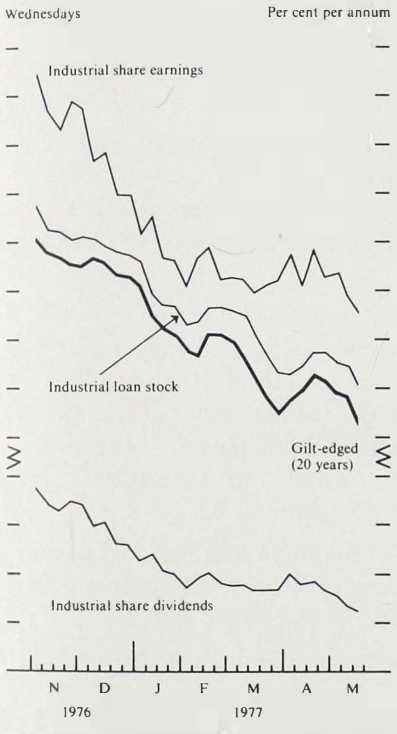
In the March quarter, the authorities sold nearly £1,700 million net of stock, mostly long-dated.



[1] *Hansard* 18th March 1977, Col. 350.
[2] *Hansard* 31st March 1977, Col. 241.
[3] These figures are cash values and therefore incorporate only instalments actually paid on partly-paid stocks.

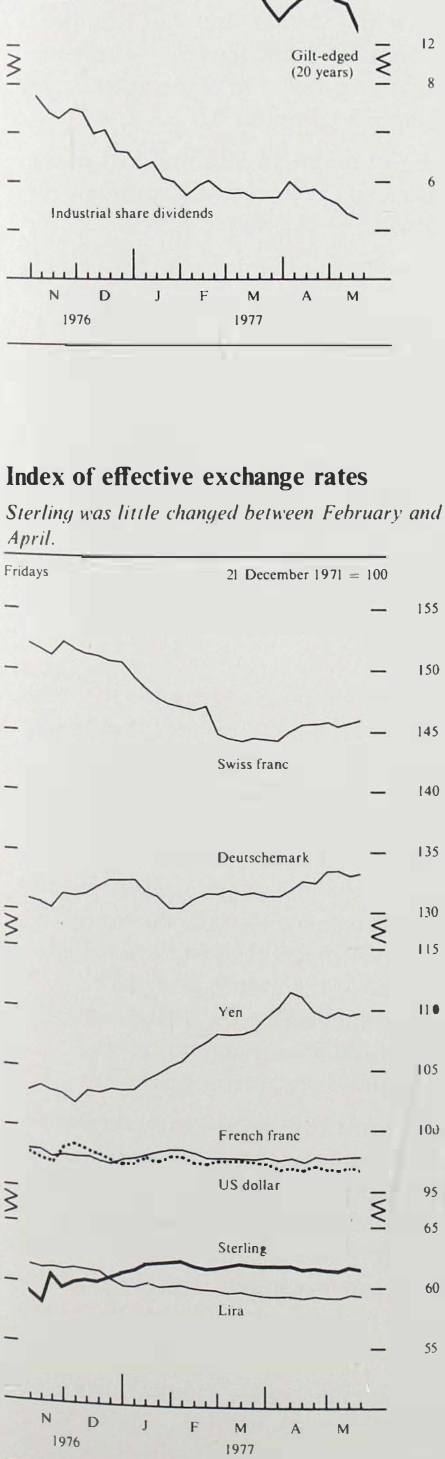
Security yields

Yields on long-dated gilt-edged and on debentures continued to decline on balance, although the fall was reversed in February and again in April.



Index of effective exchange rates

Sterling was little changed between February and April.



The special sixteenth issue of national savings certificates, which was available from 13th December 1976 to 31st March 1977 (see the December 1976 *Bulletin*, page 429), raised an exceptionally large amount – probably more than £700 million, net of encashment of previous issues.

Turnover in the equity market varied widely during the period and in March was the heaviest for two years. The FT-Actuaries industrial (500) share price index rose strongly on balance to reach 198 by the end of April, its highest point for nearly four years. New issues of equity capital picked up in March and April, and over the period as a whole were much the same as in the previous three months (about £75 million); the queue of prospective borrowers lengthened markedly.

Because of heavy repurchases (perhaps partly to finance investment in the sixteenth issue of national savings certificates), net sales of unit trust units amounted to only £13 million, or £24 million less than during November to January.

Turnover in the debenture market was particularly heavy in March, and yields, as measured by the Bank's index, fell on balance during the three months. New money raised by companies by way of loan capital and preference shares amounted to £20 million, including the first call on the issue by Finance for Industry Limited mentioned earlier.

Foreign exchange and gold markets

The pound remained within the narrow band of $\$1.71\frac{1}{2}$ to \$1.72 for most of the period between February and April, although the rate fell briefly to $\$1.69\frac{1}{2}$ in the middle of February. The US dollar eased on balance during the three months; and the 'snake' arrangements were not unduly strained until late in April, although the underlying weakness of the Swedish krona led the Scandinavian countries to realign their parities with effect from 4th April. The price of gold rose sharply in February and March, but was little changed in April.

In the early part of February, sterling continued to benefit from the effects of the reversal of leads and lags in commercial payments and of the exchange control measures taken last November.[1] After opening the month at around $\$1.71\frac{1}{2}$, the rate fluctuated only narrowly until 11th February, when it eased slightly on fears that the rate for the 'green pound'[2] would be devalued and on reports of resistance to a further period of incomes restraint. After the record monthly trade deficit for January was announced on 14th February, the rate fell sharply to $\$1.69\frac{1}{2}$. But official intervention subsequently helped to stabilise the pound at around $\$1.70\frac{1}{2}$; and towards the end of the month the rate gradually strengthened, partly because of speculative sales of Swiss francs.

By the end of February, sterling had risen to $\$1.71\frac{1}{4}$, and the effective exchange rate index was 61.8, compared with 62.0 at the end of January. The official reserves in February rose by \$591 million, including the first drawing of \$250 million on the Government's \$1,500 million euro-dollar loan announced in January. Net borrowing by public sector bodies amounted to only \$10 million.

In early March the pound continued to appreciate slowly, rising above $\$1.71\frac{3}{4}$ by the 9th. On the following day, however, reports that the National Union of Mineworkers would oppose an extension of incomes restraint, together with the continuing industrial dispute at British Leyland, depressed the market;

[1] See the December 1976 *Bulletin*, page 412.
[2] The exchange rate between sterling and the unit of account used in the European Economic Community's Common Agricultural Policy, which partly determines the price of agricultural products in the United Kingdom.

official support was given as the rate eased to 1.71\frac{1}{2}$. Market sentiment then improved after the February trade figures had been published and the British Leyland dispute had been resolved: the pound rose to almost $1.72, before falling back to 1.71\frac{1}{2}$ on 21st March on fears of political uncertainties which might have followed a defeat for the Government on a vote of confidence. However, the Government's survival helped the pound to recover, and demand became so strong after the Budget that the rate remained close to $1.72 for the rest of the month.

The effective exchange rate index for sterling was unchanged on balance in March, at 61.8. The official reserves rose by $1,831 million, including further drawings of $750 million on the Government's euro-dollar loan and net borrowing of $6 million by public sector bodies.

Persistent demand for the pound, much of which was met by official intervention, kept the rate close to $1.72 for most of April, though it occasionally eased back to around 1.71\frac{3}{4}$, partly in reaction to reports of opposition to a further round of incomes policy. The announcement of poor US trade figures towards the end of April weakened the dollar and added to demand for sterling which closed the month only slightly below $1.72.

The pound's effective exchange rate index eased slightly during the month to 61.6. The official reserves rose by $512 million, even though there was no net borrowing by the public sector.

The US dollar eased gradually during February to April. At the beginning of the period, the rate declined on fears that the very severe winter would delay economic recovery in the United States; and in mid-February the temporary weakening of the pound led to some precautionary selling of dollars. However, sterling's recovery, combined with expectations of higher US interest rates, strengthened the dollar later in the month, before it declined slowly again in March, partly reflecting the appreciation of the yen. The decline continued in April, initially because the yen strengthened further, while an unexpected fall in the US money supply made any immediate rise in US interest rates seem less likely; and later because of the announcement of a record US trade deficit for March.

There was no sustained pressure on margins between the 'snake' currencies in February and March: the weak Swedish krona was maintained well within the agreed limits against the other currencies. The realignment of several parities on 4th April accordingly took the market by surprise. The Swedish krona was devalued by 6%, and the Danish krone by 3%, in each case to improve the balance of payments; the Norwegian krone was also devalued by 3%, reflecting the importance of trade between Norway and Sweden. The market promptly adjusted to the new relationships; but towards the end of the month the guilder appreciated to the limit of its margin against the deutschemark on expectations of a revaluation, and official intervention was required to ease the pressure on the 'snake' arrangements.

The three months' euro-dollar rate remained steady throughout the period, at around 5$\frac{3}{16}$%, reflecting the continued stability of short-term US interest rates until the end of April. In contrast, the comparable UK inter-bank sterling rate fell steadily from 12$\frac{3}{8}$% at the end of January to 7$\frac{13}{16}$% by the end of April. The premium on forward dollars fell broadly in line with the uncovered differential, from 8$\frac{3}{8}$% at the end of January to 3$\frac{1}{2}$% by the end of April.

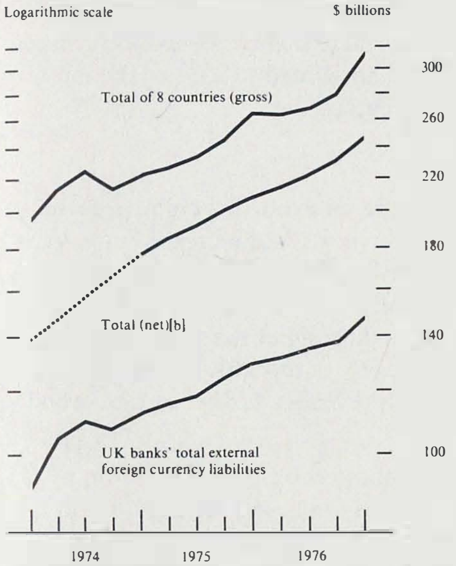
The price of gold on the London market rose steadily from 132\frac{1}{4}$ per fine ounce at the end of January to 148\frac{1}{4}$ on 7th March, partly because industrial and investment demand remained

UK and US three-month interest rates

The uncovered comparison in favour of sterling narrowed steadily between February and April; the covered comparison in favour of the dollar also narrowed after mid-February.

Growth of the euro-currency market as measured by the BIS[a]

The market expanded faster in the second half of 1976.



[a] Based on the foreign currency liabilities of the countries listed in the footnote on this page. Adjusted to remove the effects of changes in exchange rates, with December 1974 as the base.

[b] Excluding transactions between banks in the reporting area. For 1974 only annual data are available; quarterly data are shown from 1975 onwards.

UK banks' liabilities and assets by customer[a]

In the first quarter, the underlying growth of the London euro-currency market was probably much the same as in the previous three months.

$ billions

	1976				1977
	31 Mar.	30 June	30 Sept.	31 Dec.	31 Mar.
Foreign currency liabilities of UK banks to:					
Other UK banks	45.2	44.4	43.9	46.8	48.0
Other UK residents	5.3	5.4	5.5	5.7	6.3
Overseas central monetary institutions	31.4	31.6	33.7	35.7	36.5
Other banks overseas	82.4	85.4	84.2	92.6	93.8
Other non-residents	17.5	18.5	19.6	20.6	20.7
Other liabilities[b]	1.2	1.1	1.2	1.3	1.3
Total liabilities	183.0	186.4	188.1	202.7	206.6
Foreign currency assets of UK banks with:					
Other UK banks	44.9	44.1	43.3	46.6	47.6
Other UK residents	15.9	15.6	16.1	16.8	18.5
Banks overseas	88.7	92.2	93.9	102.6	102.3
Other non-residents	32.7	33.3	34.1	35.9	36.7
Other assets[b]	2.0	2.0	2.0	2.1	2.2
Total assets	184.2	187.2	189.4	204.0	207.3

[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.

UK banks' liabilities and claims by country or area

In the first quarter, 'other countries' supplied most of the new funds, and the off-shore centres were the largest borrowers.

$ billions outstanding

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

	1976				1977
	31 Mar.	30 June	30 Sept.	31 Dec.	31 Mar.
United States	– 2.7	– 5.2	– 4.3	– 3.2	– 4.7
Canada	– 2.1	– 2.4	– 2.1	– 2.5	– 2.4
European Economic Community	– 0.9	+ 1.2	+ 1.7	+ 1.4	+ 1.6
Other Western Europe	– 15.1	– 13.0	– 13.3	– 11.8	– 11.1
Eastern Europe	+ 5.3	+ 5.4	+ 5.7	+ 6.1	+ 6.4
Japan	+ 13.7	+ 13.4	+ 13.8	+ 12.6	+ 12.3
Oil-exporting countries[a]	– 18.9	– 20.9	– 22.1	– 22.9	– 23.6
Countries engaged in off-shore banking	+ 7.5	+ 8.4	+ 8.5	+ 8.5	+ 10.2
Other countries	+ 2.9	+ 2.9	+ 1.8	+ 1.2	– 0.9
	– 10.3	– 10.2	– 10.3	– 10.6	– 12.2

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

strong, and partly on fears that US inflation might accelerate. After some profit-taking, renewed demand raised the price to $153½ on 25th March – the highest since September 1975. The price subsequently weakened to $147¼ on 6th April on reports from Congress that the United States might sell part of its gold stockpile, but it recovered to $152¼ a week later, when the US Treasury denied the reports. In the second half of April, the price settled a little below $150, with speculative selling preventing any further appreciation, and it closed the month at $147¼ per fine ounce.

Euro-currency markets

Figures published recently by the Bank for International Settlements show that the euro-currency market expanded much faster in the fourth quarter of 1976: the gross external foreign currency liabilities and assets of banks in the European reporting countries[1] rose by some $33 billion and $27 billion respectively. Even after allowing for the usual building up of end-year positions among banks in the reporting area, as much as $17 billion was channelled to borrowers elsewhere – more than at any time since the first half of 1974.

A geographical analysis of international lending and borrowing in domestic and foreign currencies by banks in the Group of Ten countries and Switzerland, together with the branches of US banks in certain off-shore centres, is given in Table 22 in the statistical annex. Some $21 billion of new funds was provided in the fourth quarter to countries outside these areas – twice as much as the average in the previous three quarters. Over a third went to the non-oil developing countries, raising their gross borrowing outstanding at the end of 1976 to an estimated $82 billion – about $18½ billion higher than at the end of 1975; but some of these countries also deposited funds with banks in the reporting area, so that net borrowing by the group as a whole amounted to less than $2 billion during the quarter. Elsewhere, developed countries outside the Group of Ten and Switzerland took nearly $5 billion, to bring the total outstanding to more than $54 billion; and Eastern European countries borrowed a further $2¼ billion.

The size of the London euro-currency market, measured by the gross foreign currency liabilities of the reporting institutions, expanded by $4 billion in the first quarter of 1977, after an unusually large rise of $14½ billion in the previous three months. However, after adjustment for currency valuation changes, together with the build-up (and subsequent unwinding) of end-year positions among banks, the underlying rate of growth was probably around $8–9 billion in each period, more than twice as fast as in the earlier quarters of 1976.

By area, most of the new funds during the quarter came from 'other countries', which switched from net borrowers to net lenders and provided over $2 billion (mainly from the Asian countries). The oil-exporting countries – easily the largest source of outstanding borrowing by UK banks – provided a further $¾ billion. Among borrowers from London, the off-shore banking centres raised their outstanding net borrowing by $1¾ billion, to over $10 billion.

In total, net borrowing from abroad rose by $1½ billion, much of which probably reflected the banks' contribution to the drawings on the $1½ billion euro-currency loan to the Government arranged in January.

The latest quarterly maturity analysis of the foreign currency liabilities and assets of reporting institutions in the United

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

Maturity structure of UK banks' net foreign currency position

Net borrowing at less than eight days continued to rise between mid-November 1976 and mid-February 1977.

$ billions

Net liabilities – /net assets +

	1976 mid-Nov.	1977 mid-Feb.
Less than 8 days[a]	– 9.4	– 11.0
	– 5.9	*– 7.3*
8 days to less than 3 months	– 17.8	– 17.0
3 months to less than 1 year	– 6.0	– 5.8
Net borrowing up to 1 year	– 33.2	– 33.8
Net lending at 1 year and over	+ 33.5	+ 34.1
	+ 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 were slightly larger in the first quarter, after exports had risen in November and December.

$ billions

1975 Year	1976 Year	1976 1st half	1976 3rd qtr	1976 4th qtr	1977 1st qtr
96.8	113.2	53.5	28.4	31.3	31.9

Estimated deployment of oil exporters' surpluses

The total surplus in the first quarter is provisionally estimated to have been rather higher than in the fourth.

$ billions

	1975 Year	1976 Year	1976 1st half	1976 3rd qtr	1976 4th qtr	1977 1st qtr (provisional)
United Kingdom						
British government stocks	0.4	0.2	0.1	–	0.1	–0.1
Treasury bills	– 0.9	– 1.2	– 0.8	–0.4	–	–
Sterling deposits	0.2	– 1.4	– 0.9	–0.3	–0.2	0.2
Other sterling investments[a]	0.3	0.5	0.2	0.1	0.2	0.1
Foreign currency deposits	4.1	5.6	2.2	1.8	1.6	2.0
Other foreign currency borrowing	0.2	0.8	0.6	0.2	–	–
	4.3	4.5	1.4	1.4	1.7	2.2
United States						
Treasury bonds and notes	2.0	4.2	2.4	0.8	1.0	0.8
Treasury bills	0.5	– 1.0	0.5	–0.1	– 1.4	1.4
Bank deposits	0.6	1.6	1.0	0.2	0.4	0.1
Other[a]	6.9	6.7	3.1	1.9	1.7	1.2
	10.0	11.5	7.0	2.8	1.7	3.5
Other countries						
Bank deposits	5.0	7.0	1.5	2.0	3.5	1.5
Special bilateral facilities and other investments[a] [b]	12.4	10.3	6.1	2.4	1.8	2.3
	17.4	17.3	7.6	4.4	5.3	3.8
International organisations	4.0	2.0	1.8	0.1	0.1	0.1
Total	35.7	35.3	17.8	8.7	8.8	9.6

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

Kingdom relates to 16th February 1977 (see Table 21 in the statistical annex). In the three months from mid-November, the maturity of the banks' liabilities again shortened, probably reflecting the continued decline in euro-dollar rates. Within net liabilities up to one year – which rose by only $\$\frac{1}{2}$ billion – net borrowing at less than eight days increased by $\$1\frac{1}{2}$ billion (entirely accounted for by US banks) and amounted to 33% of the total, compared with 29% at mid-November.

Oil money movements

Total estimated oil revenues of the oil-exporting countries rose slightly in the first quarter, after exports had increased in volume in November and December ahead of the rise in prices on 1st January. Payment for oil is usually made about two months after shipment: the volume of exports during February to April was about the same as in the previous three months, so the latest increase in prices will have raised revenues further in the second quarter.

The cash surplus available to these countries in 1976 for investment abroad, for government loans and for addition to financial reserves has been revised upwards to some $35 billion – much the same as in the previous year. However, revenues were about $16 billion higher than in 1975, implying a substantial rise in imports. The surplus for the first quarter is provisionally put at $\$9\frac{1}{2}$ billion, a little higher than the revised quarterly average in 1976.

Sterling investments in the United Kingdom rose slightly during the quarter, and foreign currency deposits with UK banks continued to rise strongly.

Around $\$3\frac{1}{2}$ billion was placed in the United States. The proportion of short-term investments (40%) was higher than in 1975 and 1976, but this was probably only a temporary change. The US share of the total surplus in the first quarter (about 35%) was much larger than in the previous three months, but close to the quarterly average for 1976.

Deposits with banks in other countries probably continued to rise strongly in the first quarter.

Special bilateral facilities and other investments, at $\$2\frac{1}{4}$ billion, were larger than in the previous quarter, but the trend is still downwards.