International financial developments

Among the main developments:

- *Current account imbalances continued to narrow in the early part of 1982. Developing countries have experienced financing problems which are likely to persist.*
- *During the second quarter of 1982, the combined current account balance of the oil exporters moved into deficit. Their borrowing from international capital markets continued at a high rate while their deposits with international banks were run down.*
- *The slowdown in international bank lending continued into the second and, seemingly, third quarters of 1982. Banks have become significantly more cautious, particularly as regards certain of the developing countries. An earlier period of price adjustment has given way to restrictions on the volume of lending irrespective of price.*

International balance of payments developments

The world current account

It is now estimated that the current account of the oil exporting countries as a group moved back into deficit in the second quarter of 1982, about two years after their surplus had been at its peak. This deterioration mainly reflects falling export volumes; for most of the last two years oil exporters' terms of trade have been sustained by the strength of the dollar, while their import growth has been modest compared with the mid-1970s. In the first half of 1982, growth in the volume of their imports slowed significantly as a number of the high absorbers took steps to counter growing deficits and several of the lower absorbers scaled down spending plans.

The counterpart to the shift in the oil exporters' current account has not been fully identified: the problem of the world current account discrepancy was described in some detail in the September 1982 *Bulletin* (page 356). This discrepancy may have been almost $50 billion in the first half of 1982 alone (see table). The recorded combined deficit of the major OECD countries was eliminated by the end of 1981, and has changed little since then (although there have been diverse movements within the group). With few exceptions, the deficits of the smaller OECD countries have remained stubbornly high. Efforts by these countries to improve their external positions have been vitiated by the weakness of demand in the major countries.

In the case of the non-oil developing countries, financing constraints have been severe. Signs of external adjustment began to emerge in the latter part of 1981 and have continued in the first half of this year. Import volumes seem to have been cut fast enough to bring a significant reduction in their current account deficit, despite their export markets and terms of trade remaining depressed.

Current account summary

$ billions; *seasonally adjusted*

	1980 Year	1981 Year	1982 Year(a)	1982 H1(a)	1982 H2(a)
Total OECD	- 68	- 30	- 22	- 11	- 11
of which:					
Major countries(b)	*- 33*	*- 3*	—	—	—
Other	*- 35*	*- 27*	*- 22*	*- 11*	*- 11*
Oil exporting countries	106	56	- 3	- 6	3
of which:					
Capital exporters(c)	*85*	*71*	*26*	*11*	*15*
Other	*21*	*- 15*	*- 29*	*- 17*	*- 12*
Other developing countries	- 66	- 79	- 60	- 29	- 31
Other countries(d)	—	- 4	- 1	- 2	1
World discrepancy(e)	- 28	- 57	- 86	- 48	- 38

(a) Includes Bank estimates/forecasts.
(b) United States, Canada, France, Italy, Japan, United Kingdom and West Germany.
(c) Kuwait, Libya, Oman, Qatar, Saudi Arabia and the UAE.
(d) South Africa and the centrally planned economies.
(e) This item reflects errors and omissions arising from incomplete country coverage, timing differences and other statistical deficiencies.

Major overseas economies[1]

The combined current account of the major overseas countries improved sharply during 1981. For most countries, this process continued in the first two quarters of this year, but at a slower rate. Weak economic activity helped bolster the current accounts of the United States and Canada. Over this period, the current accounts of Japan and West Germany showed fairly small changes, with their export growth having slackened off quickly despite the large competitive advantages enjoyed by both countries. Italy's current account performance was erratic; after a sharp deterioration in the first quarter, it moved back to balance in the second. France was the main exception to the general trend, with relatively strong domestic demand growth in the first half of 1982 accompanied by a substantial worsening of its external position.

(1) Developments in these countries' domestic economies are discussed in more detail in the Economic commentary (page 467).

Major countries: current balances

$ billions; *seasonally adjusted*

	1981	1982			
	Year	Q4	Q1	Q2	Q3(a)
United States	4.5	-0.9	1.1	2.1	-4.5
Canada	- 4.5	-0.2	0.2	0.5	0.9
France	- 4.8	-2.0	-2.1	-4.4	-3.5
Italy	- 8.0	-0.9	-4.0	0.4	0.1
Japan	4.8	1.0	0.9	2.8	2.2
West Germany	- 7.8	1.4	-0.8	0.3	0.5
Six major overseas countries	-15.8	-1.6	-4.7	1.7	-4.3
United Kingdom	12.7	2.8	1.3	1.6	1.7

(a) Includes Bank estimates.

In the third quarter, the most striking development was the sharp deterioration in the US current balance, to an estimated deficit of over $4 billion. Import volume (especially of oil) rose sharply and export volume fell.

United Kingdom

The visible trade balance was £0.4 billion in the third quarter of 1982. This was an improvement on the £0.1 billion surplus in the previous quarter and reflected an increased surplus on oil account partially offset by a deterioration in the non-oil balance. The surplus on oil account increased to £1.3 billion in the third quarter (from £0.9 billion in the second), whereas the non-oil deficit deteriorated from £0.8 billion to £0.9 billion.

The invisibles surplus fell slightly in the third quarter to £0.6 billion. Net receipts from interest, profits and dividends fell back to £0.2 billion, after a surplus of £0.4 billion in the second quarter, mainly because profits due to overseas parent companies on their investments in the United Kingdom increased. The surplus on trade in services was little changed, but the deficit on transfers fell sharply (the deficit with the European Community fell by £0.1 billion).

The chief counterparts to the third quarter current account surplus (£1.2 billion, unadjusted) were identified capital outflows of £0.3 billion, and unrecorded outflows, probably on capital account, indicated by the balancing item of £0.6 billion: there was also modest official financing (including a small increase in the reserves). Identified and unidentified capital outflows have been about £1 billion per quarter so far this year, rather less than last year. Among identified capital flows in the third quarter, the portfolio outflow remained just over £1 billion; this was less than the particularly rapid outflows earlier this year, but is still consistent with a continuing adjustment to exchange control abolition. There have continued to be substantial net outflows in respect of direct investment: outward investment, however, has remained lower than the exceptional rate in the second half of last year when there were some major acquisitions of US companies. Sterling lending overseas fell (erratically) in the second quarter, for the first time since exchange control abolition, but it was at a record level in the third quarter, when sterling balances continued to rise strongly.

UK balance of payments

£ billions; *not seasonally adjusted*

	1981	1982		
	Year	Q1	Q2	Q3
Current account	**+6.1**	**+0.9**	**+0.4**	**+1.2**
Outward portfolio investment	-4.1	-1.6	-1.3	-1.0
Net direct investment (non-oil)	-4.3	-0.5	-0.8	-0.5
Banks' net external lending in foreign currencies	+1.4	+1.6	+0.5	+1.2
Banks' sterling lending overseas	-2.9	-1.1	+0.2	-1.3
Sterling balances(a)	+2.7	+1.6	+1.3	+1.2
Other flows	+0.1	-0.1	+0.2	+0.1
Total identified capital flows	**-7.1**	**-0.1**	**+0.1**	**-0.3**
Official financing	+0.7	—	+0.7	-0.2
Balancing item	+0.2	-0.8	-1.1	-0.6

(a) Exchange reserves and other external banking and money-market liabilities in sterling.

Developing countries' balance of payments

$ billions; *not seasonally adjusted*

	1981			1982	
	Year	Q3	Q4	Q1	Q2(a)
Current account	-79	-20	-20	-18	-15
Capital account	73	21	23	13	13
Concessionary and other official flows	*19*	*5*	*5*	*5*	*5*
Direct investment	*12*	*3*	*3*	*3*	*3*
Capital market finance(b)	*43*	*12*	*18*	*3*	*13*
Other (including errors and omissions)	*- 1*	*1*	*- 3*	*2*	*- 8*
Official financing balance	- 5	1	3	- 5	- 2
financed by:					
Borrowing from IMF	*5*	*1*	*2*	—	*1*
SDR allocations	*1*	—	—	—	—
Reserves (increase –)	*- 1*	*- 2*	*- 5*	*5*	*1*

(a) Forecasts and estimates.
(b) Adjusted to exclude valuation effects.

Developing countries

The developing countries continued to run a large current account deficit in the second half of 1981. Capital inflows, in particular those from the international capital markets, were substantial, and there was a significant increase in developing countries' reserves. Preliminary data indicate a marked narrowing in their current account deficit in the early part of 1982, but their bank borrowing, the main component of net capital inflows, fell even faster, to only $2 billion in the first quarter. In part this lower borrowing reflected seasonal influences, but it fell well short of the developing countries' financing needs, and they ran down their reserves by over $5 billion. Borrowing from the banks recovered strongly in the second quarter, especially by certain of the Latin American countries such as Brazil and Mexico; but some of the increase was offset it seems by a significant outflow of private capital, much of it to foreign banks. Following severe debt servicing problems in several countries (see page 492), a marked slowdown in new borrowing from the international banks now seems likely. In the first half of this year lending by the IMF was low compared with 1981, partly because a large number of Fund programmes have been suspended in instances where countries have failed to meet performance criteria.

Oil exporting countries

During the second quarter of 1982, the combined current account balance of the oil exporting countries swung into a

The indebtedness of the developing countries

Many developing countries are facing severe difficulties in servicing their foreign debts. These problems are reflected in the increased number of countries resorting to debt rescheduling and in the greater incidence of payments arrears. In part, they have been brought about by the marked slowdown in world activity, and the associated weakening in developing countries exports and terms of trade, since the oil price increases of 1979. The sensitivity of the developing countries to such developments has been heightened by the size and composition of their debt, which they have accumulated over a long period.

The non-oil developing countries can be regarded as 'structural deficit countries' since they traditionally run deficits on their current account and finance them by importing capital. During the 1960s, their combined current account deficit (before receipt of official transfers) averaged close to 3% of their GNP (see Chart 1). Following the commodities boom of the early 1970s, it fell temporarily as a proportion of GNP. But the first oil shock increased their net oil bill by over $10 billion. The subsequent sharp slowdown in activity in the industrial countries caused the developing countries' export markets to contract and commodity prices to weaken. In response, the developing countries cut back their import growth, but their combined current account deficit widened sharply, especially in 1975. Much of the finance required came from commercial banks, whose share of current account financing—not just in the case of the developing countries—rose significantly. Current account deficits eased after 1975 as the industrial economies revived, but the developing countries' bank borrowing continued apace in the second half of the 1970s—bank claims on these countries grew at an average annual rate of 25% per annum, enabling a rapid accumulation of reserves—while direct investment and concessionary flows grew only moderately, despite higher lending by international institutions. The bulk of the bank borrowing was concentrated in a small group of newly-industrialising countries, mostly in Latin America, and was typically of shorter maturity than concessionary finance, with much more at floating rates.

Chart 1
Financing the developing countries deficit

Percentage of combined GNP

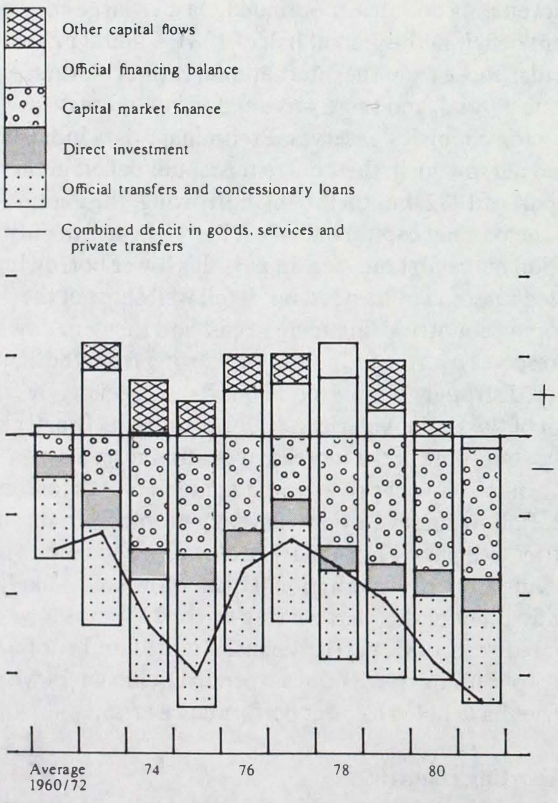
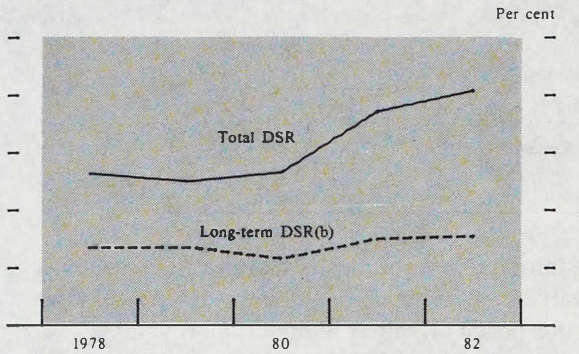


Chart 2
Debt service ratios[(a)]



(a) Average for a sample of LDCs which account for 90 per cent of total LDC debt.
(b) Excluding IMF debt.

The second series of oil rises, which began in 1979, had similar effects on the developing countries' oil bill, export markets and terms of trade. The situation differed, however, in important respects from that after the first oil shock. Counterinflationary policies contributed to more prolonged economic weakness and historically high interest rates in the major industrial countries, and the US dollar appreciated strongly from mid-1980 onwards. These developments meant that the developing countries' export markets failed to grow between 1979 and 1982; that non-oil commodity prices were their lowest in real terms for thirty years; and that debt service payments rose markedly, reflecting both the sharp increase in their banking debt over the 1970s as well as higher nominal interest rates.

Adjustment to this changed situation was only gradual—perhaps too gradual in some cases—and current account deficits widened sharply. Over half of these deficits were met by banking and capital market finance, and a large part of this new borrowing was short-term (with original maturity of less than a year).

Thus the external position of developing countries measured by both the size and liquidity of their debts deteriorated, short-term debt rising from just under a quarter of their banking debt in 1978 to nearly two-fifths by 1981. For some countries the deterioration was much greater. Another symptom was that they ceased to add to gross reserves, which fell in consequence from the equivalent of over four months' imports in 1978 to under three months' in 1981. And they faced mounting problems in servicing over $400 billion of debt incurred up to 1981.

One measure of this burden is the debt service ratio (DSR), expressing interest and amortisation payments as a proportion of total export receipts. Most DSR estimates relate only to long-term debt (debt of an original maturity of one year or more), the assumption being that short-term debt can be readily rolled over. But a total debt service ratio is perhaps more appropriate, though the data are often less satisfactory. The DSRs for long-term and especially total debt in Chart 2 show substantial increases from 1980 through to 1982, and without major debt restructuring there is unlikely to be any significant improvement in 1983. The debt burden has been exacerbated by the strength of the dollar since most of the developing countries' debt is denominated in dollars whereas most exports are at 'world' prices.

The situation for different groups of developing countries varies widely. Debt service in the low income countries remains a lower proportion of exports than in other sub-groups because of their limited access to the capital markets and their heavy reliance on concessionary borrowing. The debt problems of the net oil exporters (including countries such as Mexico) have been precipitated in part by this year's weakening in the oil markets.

deficit of \$7 billion: countries with current account surpluses were mainly confined to the low absorbers. In contrast to the previous quarter, receipts from earlier oil sales did little to compensate for falling oil production.

The current account deficit was largely financed by net borrowing (estimated at \$6 billion). The overall surplus for investment was replaced by a deficit in the quarter of around \$1 billion. Within this, bank deposits fell by £6 billion, but placements of longer-term investments in industrialised countries totalled \$5 billion. Loans direct to developing countries fell back sharply. The reduction in oil exporters' bank deposits was spread among nearly all the major international financial centres; in the case of the United Kingdom, it was accounted for almost entirely by the transfer of Venezuelan deposits.

In the third quarter, provisional data suggest that the oil exporters' current account deficit was cut to \$1 billion. Provisional data for the United Kingdom show a rise of \$1.5 billion in oil exporters' deposits, partly offset by a \$0.5 billion fall in their investments. In the United States, investments rose by just over \$2.5 billion while deposits fell by \$1 billion.

Identified deployment of oil exporters' surpluses[a]

\$ billions

	1980	1981	1982		
	Year	Year	Q1	Q2	Q3(b)
United Kingdom:					
Sterling bank deposits	1.4	0.5	0.5	0.3	0.2
Eurocurrency bank deposits	14.8	7.9	−0.9	−5.5	1.3
British government stocks	1.9	1.0	0.1	0.2	−0.3
Treasury bills	−0.1	—	−0.1	—	—
Other sterling placements	0.1	0.2	−0.1	−0.1	−0.2
Other foreign currency placements	−0.5	−0.6	—	—	—
	17.6	9.0	−0.5	−5.1	1.0
United States:					
Bank deposits	−1.1	−2.1	1.5	5.2	−1.0
Treasury bonds and notes	8.2	10.9	2.6	2.7	2.5
Treasury bills	1.4	−0.6	0.8	−1.5	—
Other portfolio investment	4.7	4.6	0.1	0.3	0.1
Other	0.9	3.3	0.2	0.5	..
	14.1	16.1	5.2	7.2	1.6
Bank deposits in other industrialised countries	26.2	−2.6	−2.0	−5.9	..
Other investment in other industrialised countries(c)	17.0	21.7	1.0	1.4	..
IMF and IBRD(d)	4.9	2.5	0.6	0.3	..
Loans to developing countries	6.7	7.2	1.2	0.2	..
Total identified deployed net cash surplus	**86.5**	**53.9**	**5.5**	**−1.9**	..
Residual of unidentified items(e)	26.5	11.1	3.5	0.9	..
Total net cash surplus derived from current account (as shown in the previous table)	**113**	**65**	**9**	**−1**	..

.. not available.

(a) This table excludes liabilities arising from net borrowings and inward direct investment and also, on the assets side, changes in credit given for oil exports. These items are shown as net movements in external borrowing etc in the table above. See the additional notes to Table 16.1 in the statistical annex in the March *Bulletin* for a list of oil exporting countries.

(b) Provisional.

(c) Mainly loans and holdings of equities.

(d) Includes holdings of gold.

(e) The residual may reflect errors in either the current or capital account.

Oil exporters' current account balance and cash surplus available for investment

\$ billions

	1980	1981	1982		
	Year	Year	Q1	Q2	Q3(a)
Exports	310	283	58	51	57
Imports	137	158	40	40	39
Merchandise trade	173	125	18	11	18
Net invisibles	− 67	− 69	−17	−18	−19
of which, official transfers	*− 4*	*− 4*	*− 1*	*− 1*	*− 1*
Current balance	**106**	**56**	**1**	**− 7**	**− 1**
Net movements in external borrowing etc(b)	7	9	8	6	..
Surplus available for investment	**113**	**65**	**9**	**− 1**	..

.. not available.

(a) Provisional.

(b) For definitions, see footnote (a) to table below.

International banking and eurocurrency markets[1]

International developments (second quarter of 1982)

In the second quarter, outstanding lending to non-residents by banks in the main financial centres grew by \$27 billion.[2] This second successive quarter of slower growth brought the overall increase in the first half of 1982 to \$75 billion compared to \$122 billion in the first half of 1981. The slowdown in the second quarter was more than accounted for by reduced activity in the cross-border inter-bank market, which grew by only \$3 billion in the quarter—partly for seasonal reasons, but also possibly reflecting a cautious approach by banks to their credit lines at a time of uncertainty in the market. Within this total, there was a large increase of about \$35 billion in inter-bank business between banks in the United States and banks in the rest of the reporting area and offshore centres, reflecting both the continuing substantial growth in business of US International Banking Facilities (IBFs) and the major share of lending undertaken by banks (including IBFs) in the United States in this quarter. This was largely offset by a fall of \$31 billion in inter-bank business outside the United States; a major part of this decline occurred between the European area and Japan, and is likely to be at least partly seasonal (the Japanese business year ends in March). Inter-bank lending within the individual reporting centres also fell, by rather more than might have been expected on seasonal grounds.

Foreign currency external assets of banks in the European reporting area declined by about \$10 billion. This was partly due to the fall of \$3 billion in UK banks' foreign currency assets (see the September 1982 *Bulletin,* page 360, for factors affecting the London market during this period). Total external assets of banks in Japan declined by \$8 billion, partly as a result of seasonal factors. Thus, during the first half of 1982, over 90% of new external lending came from banks in the United States, largely through IBFs—though some of this will have been lending rebooked

(1) All transactions data in this section exclude the estimated effects of exchange rate fluctuations and hence may not correspond with the differences between amounts outstanding.

(2) Including estimates for offshore banks which do not contribute to the BIS quarterly statistics.

from other centres. (IBFs' business continued to grow fast up to the end of the third quarter.) US non-banks also continued to supply funds to banks abroad in the second quarter.

External lending, net of inter-bank transactions, grew by $50 billion in the first half of the year against $65 billion for the corresponding period last year. Virtually all of this rise was financed from within the reporting area, largely by the supply of funds from the United States noted above.

Analysis of the gross lending figures shows that new borrowing by countries in Latin America in the three months to end-June totalled $7.5 billion, with Brazil and Mexico being the largest takers. The non-oil developing countries as a whole borrowed $13 billion, $3 billion more than the average of the previous four quarters, with countries outside Latin America accounting for rather more than their normal share; but non-oil developing countries also rebuilt their deposits by $4 billion. Lending to Eastern Europe fell for the second consecutive quarter. Oil exporting countries continued to be net borrowers, a trend begun in mid-1981, and drew fairly heavily on their deposits.

External business of banks in the BIS reporting area and offshore centres[a]

$ billions; changes exclude estimated exchange rate effects

	1981 Year	1982 Q1	1982 Q2	Outstanding end-June 1982
Deposits from non-residents				
Total	**+299**	**+ 46**	**+ 13**	**1,776**
Placed with banks in:				
Reporting European area	+128	+ 3	− 4	977
of which, United Kingdom	*+ 79*	*+ 19*	*− 1*	*456*
United States	− 38	+ 27	+ 27	230
Canada and Japan	+ 40	+ 11	− 11	160
Offshore centres:				
US banks	+ 33	− 2	+ 1	175
Non-reporting banks	+ 60	+ 7	+ 1	234
Source				
Outside reporting area				
Developed countries	+ 3	—	− 1	49
Eastern Europe	—	− 3	+ 1	12
Oil exporting countries	+ 3	− 1	− 7	145
Non-oil developing countries	+ 10	− 1	+ 4	100
of which, Latin America	*+ 6*	*—*	*− 1*	*38*
Sub-total	+ 17	− 5	− 3	306
Inside reporting area(b)				
Banks(c)	+158	+ 38	+ 8	1,039
Non-banks	+ 41	+ 2	+ 5	157
Unallocated(d)	+ 83	+ 11	+ 3	274
Lending to non-residents				
Total	**+329**	**+ 48**	**+ 27**	**1,819**
Lent by banks in:				
Reporting European area	+136	+ 5	− 5	959
of which, United Kingdom	*+ 80*	*+ 16*	*− 3*	*434*
United States	+ 76	+ 28	+ 38	321
Canada and Japan	+ 24	+ 9	− 8	121
Offshore centres:				
US banks	+ 32	− 3	+ 2	170
Non-reporting banks	+ 61	+ 9	—	248
Direction				
Outside reporting area				
Developed countries	+ 17	+ 5	+ 4	104
Eastern Europe	+ 5	− 3	− 1	54
Oil exporting countries	+ 4	+ 1	+ 3	75
Non-oil developing countries	+ 42	+ 3	+ 13	242
of which, Latin America	*+ 33*	*+ 4*	*+ 8*	*168*
Sub-total	+ 66	+ 6	+ 19	475
Inside reporting area(b)				
Banks	+152	+ 26	+ 2	886
Non-banks	+ 31	+ 1	+ 4	182
Unallocated(d)	+ 78	+ 15	+ 2	276

Source: Bank for International Settlements.

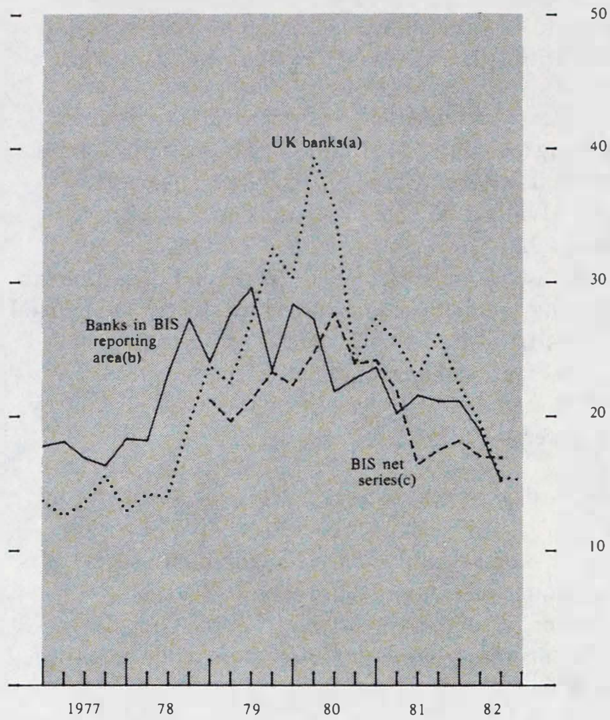
(a) The coverage of this table is as in Table 13 in the statistical annex plus an estimate for non-reporting banks in certain offshore centres (those listed in footnote (b) to Table 13 plus Bahrain and the Netherlands Antilles). A longer run of figures was provided in an article in the March 1982 *Bulletin*.

(b) Includes business with the offshore centres; the split between banks and non-banks is partly estimated.

(c) Includes liabilities to banks' trustee accounts (which may originate from non-banks).

(d) Mainly the positions of non-reporting banks in offshore centres.

Bank lending to non-residents



(a) UK banks includes the monetary sector and certain other financial institutions, consistent with the population in Tables 14.1 and 16.1 of the statistical annex.

(b) Total cross-border lending by banks in the BIS reporting area *plus* an estimate for non-reporting banks in the offshore centres.

(c) Excludes double-counting arising out of redepositing of funds between reporting banks but includes funds (foreign currency and domestic currency obtained through switches) used by banks for domestic lending.

Eurosterling market[a]

£ billions

	1981 30 June	1981 30 Sept.(b)	1981 31 Dec.	1982 31 Mar.	1982 30 June
Deposits by:					
UK banks	3.2	3.3	3.3	3.6	2.8
UK non-banks	1.0	1.0	1.0	0.9	1.0
Other Western Europe	4.5	5.4	5.5	5.6	5.0
Oil exporting countries	1.0	1.0	0.8	0.7	0.6
Other	1.4	1.5	1.7	1.4	1.5
Total	**11.1**	**12.2**	**12.3**	**12.2**	**10.9**
Of which, CMIs	*0.7*	*0.7*	*0.6*	*0.4*	*0.4*
Lending to:					
UK banks	3.0	3.2	3.4	3.6	3.7
UK non-banks	0.6	0.7	0.7	0.6	0.6
Other Western Europe	3.9	5.3	5.0	5.0	4.6
Other	1.1	1.4	1.2	1.0	0.9
Total	**8.6**	**10.6**	**10.3**	**10.2**	**9.8**

Source: Bank for International Settlements.

(a) The table shows sterling liabilities and claims of banks in the BIS reporting area (except the United States and—by definition—the United Kingdom). Apart from this geographical limitation, data on business with residents of countries in which the reporting banks are situated are not available for all countries. The table therefore understates the size of the market.

(b) From 30 September 1981 the coverage improved, resulting in an increase of around £0.8 billion in both liabilities and assets *vis-à-vis* 'Other Western Europe' at that date.

Eurosterling

During the second quarter of 1982, there was a marked contraction in the size of the market, mostly as a result of reduced lending to the market by UK banks. Thus the great bulk of sterling banking business continues to be done in the United Kingdom.

A maturity analysis of UK banks' positions *vis-à-vis* countries outside the BIS reporting area (end-June 1982)

UK banks' positions *vis-à-vis* countries outside the BIS reporting area, as notified to the BIS in its latest half-year maturity survey, are shown in Table 14.3 of the statistical annex.

The shortening in the overall maturity structure of external bank lending, which has been a feature of this series since the second half of 1979, appears to have ceased in the first half of 1982. The figures should be interpreted with caution, as the apparent lengthening of maturities may include some reallocation of loans subject to rescheduling.

At end-June, claims with a maturity of less than six months amounted to 38% of total outstanding claims, compared to 33% at the previous low point of end-December 1979. While Latin American borrowers as a whole appear to have lengthened slightly their borrowing profile, Brazil, Argentina and, in particular, Venezuela, recorded some shortening in maturities. The debts of Poland, East Germany, Romania and Hungary lengthened, but were offset by a further shortening in the debt profile of the USSR. The maturity structure of the Asian countries' debts also shortened considerably, and maturities falling due within one year now amount to 58%.

Unused credit commitments increased from 20.9% to 21.5% of outstanding lending.

London market (third quarter 1982)

Foreign currency

In the third quarter, the London eurocurrency market, as measured by gross foreign currency assets of UK banks, grew fairly fast, by $44 billion, following the $18 billion fall in the second quarter (during which special factors obtained—see the September 1982 *Bulletin* page 360). Within the total rise, business with other UK banks grew by $19 billion, so that inter-bank business as a whole (including that with banks abroad—predominantly with the reporting banks' own offices) grew rather more than would have been suggested by the rise in non-bank business.

Almost all of the $22 billion new external lending was to other BIS reporting countries and the offshore centres, possibly reflecting the reassessment by banks of country risk exposure. Lending to oil exporters grew by $2 billion, while that to Eastern Europe and non-oil developing countries declined by $0.6 billion and $1.1 billion respectively. Except for the fall in the previous quarter, which was probably more than accounted for by the rebooking of loans to Argentina, the fall in lending to non-oil countries was the first fall in recent quarters, and these countries also reduced

UK banks' foreign currency liabilities and assets by customer[(a)]

$ billions

	1981			1982		
	30 Sept.	31 Dec.		31 Mar.	30 June	30 Sept.
Foreign currency liabilities of UK banks to:						
Other UK banks	139.4	141.3	143.1	158.6	140.6	159.9
Other UK residents	19.8	18.4	19.2	18.8	19.9	20.9
Overseas central monetary institutions	53.0	53.1	53.4	51.0	48.1	50.5
Other banks overseas	249.8	266.6	270.2	282.9	284.2	303.7
Other non-residents	86.2	94.8	93.3	94.0	90.6	94.7
Other liabilities(b)	3.9	3.4	10.4	9.1	8.4	7.7
Total liabilities	**552.1**	**577.6**	**589.6**	**614.4**	**591.8**	**637.4**
Foreign currency assets of UK banks with:						
Other UK banks	137.5	135.2	140.4	156.5	138.3	156.0
Other UK residents	22.8	27.0	23.6	24.6	25.4	26.7
Banks overseas	277.4	291.3	293.7	301.8	294.9	314.6
Other non-residents	105.3	113.0	114.2	114.1	115.5	119.3
Other assets(b)	9.6	11.4	17.9	17.9	17.3	18.7
Total assets	**552.6**	**577.9**	**589.8**	**613.8**	**591.4**	**635.3**

(a) The reporting population is broader than the UK monetary sector (see additional notes to Table 14.1). The split between 'UK banks' and 'Other UK residents' in the table is consistent with this broader definition.

(b) Mainly capital and other internal funds on the liabilities side and investments on the assets side. Additional unallocated items are included from end-December 1981 for both assets and liabilities.

their deposits; within the Latin American countries' reduction in gross indebtedness to London of $0.8 billion, claims on Mexico fell by $0.7 billion while Brazil increased its indebtedness by $0.3 billion.

On the deposits side, the picture was broadly the same with the BIS reporting countries and the offshore banking centres being the main suppliers of funds; of the $26 billion provided by the BIS area plus offshore centres, nearly 90% was from banks. Liabilities to countries outside this area remained largely unchanged. Oil exporters increased their deposits by $1 billion (although being overall net users of funds for the fourth successive quarter), but there was a reduction in deposits of $1.1 billion by non-oil developing countries, more than accounted for by Latin American countries, presumably as their credit lines were reduced. Chile's deposits halved to $0.6 billion while Argentina, Brazil and Mexico each recorded falls of around $0.2 billion.

UK banks' net foreign currency liabilities and claims by country or area[(a)]

$ billions

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

	1981			1982		
	30 Sept.	31 Dec.		31 Mar.	30 June	30 Sept.
BIS reporting area:						
European area	+ 3.2	+ 2.7	+ 2.2	+ 2.4	+ 8.7	+11.1
Canada	+ 3.0	+ 1.5	+ 1.5	+ 1.8	+ 1.7	+ 1.9
Japan	+15.2	+16.7	+16.6	+17.0	+14.9	+14.3
United States	−32.9	−34.5	−34.6	−41.0	−47.4	−52.4
Offshore banking centres	+12.2	+ 9.7	+ 9.6	+10.7	+ 6.1	+ 4.4
Other Western Europe	+10.1	+11.1	+11.3	+11.8	+12.1	+11.7
Australia, New Zealand and South Africa	+ 5.6	+ 6.5	+ 6.7	+ 7.5	+ 8.7	+ 8.8
Eastern Europe	+11.2	+11.5	+11.2	+10.2	+10.0	+ 9.5
Oil exporting countries	−44.2	−43.0	−42.8	−41.1	−34.7	−33.6
Non-oil developing countries	+21.5	+22.8	+22.5	+23.3	+22.0	+22.2
Others(b)	−12.6	−17.3	−15.6	−16.8	−17.2	−15.5
Total	**− 7.7**	**−12.3**	**−11.4**	**−14.2**	**−15.1**	**−17.6**

(a) Liabilities and claims are shown separately in Table 14.1 in the statistical annex.

(b) Includes international organisations and certain unallocated items.

The maturity analysis of the foreign currency positions of British banks at mid-August shows that their short-term (less than six months) net liability position, expressed as a percentage of total claims, increased slightly from 24.5% at mid-May to 25% at mid-August. During the same period, the American banks were the only group to show a reduction in their short-term mismatched positions. The figures for foreign banks in particular may be unrepresentative of their operations worldwide for the reasons outlined in the additional notes to Table 14.2, in the March 1982 *Bulletin*.

Sterling

UK banks' sterling business with overseas residents continued to grow fast, with rises of over £1 billion in both liabilities and claims. The liabilities have risen by £4 billion in the first nine months of 1982, a rise of 27% compared with one of 22% in the whole of 1981. Most of the increase in the third quarter reflected deposits from non-banks. Deposits from overseas central monetary institutions recovered to £1.5 billion. Having fallen in the second quarter, sterling lending resumed the strong growth recorded in the first quarter; this was principally lending in the form of advances to banks (+£0.4 billion) and non-banks (+£0.5 billion). Acceptance lending, fell slightly in the second quarter, but grew by £0.5 billion in the third.

UK banks' external sterling liabilities and assets by customer[a]

£ billions

	1981			1982		
	30 Sept.	31 Dec.		31 Mar.	30 June	30 Sept.
UK banks' sterling liabilities to:						
Overseas central monetary institutions(b)	1.4	1.2	1.2	1.5	1.3	1.5
Other banks overseas	5.4	5.7	6.0	6.4	7.4	7.8
Other non-residents	7.1	7.2	7.4	8.2	8.7	9.3
Total liabilities	**13.9**	**14.1**	**14.6**	**16.1**	**17.4**	**18.6**
UK banks' sterling assets:						
Loans and advances to:						
Banks overseas	4.1	3.9	4.2	4.3	3.8	4.2
Other non-residents	1.8	1.6	1.7	2.0	2.4	2.9
Bills	5.0	5.1	5.1	5.1	5.2	5.3
Acceptances	0.6	1.5	1.5	2.2	2.0	2.5
Total assets	**11.5**	**12.1**	**12.5**	**13.6**	**13.4**	**14.9**

(a) The reporting population is broader than the UK monetary sector (see additional notes to Tables 16.1 and 16.2 in the March 1982 *Bulletin*).

(b) Includes international organisations.

International capital markets

The more cautious attitude of banks to international lending, mentioned earlier, is particularly evident from the data on announced medium-term eurocurrency credits (see table). This suggests that earlier upward price adjustment has given way to a tendency to restrict the volume of new lending irrespective of price. It seems that this slower rate of growth of international lending may continue beyond the next few months; the problems faced by many developing countries, together with the impact of larger provisions for bad and doubtful debts—both international and domestic—will incline banks towards caution.

Many of the countries facing debt difficulties have been hit by depressed commodity prices, high international interest rates, and the impact of the world economic recession on demand for their exports. Some relief to countries which are net borrowers of floating rate debt, has been provided by the fall in eurodollar interest rates—the six-month rate was down to $10\frac{1}{16}$% by the beginning of November from $16\frac{1}{2}$% in late June. But this has not been sufficient in all cases to avert debt servicing problems.

The most obviously pressing problems at present are faced by Mexico, which reached agreement with its creditors in August for a 90-day moratorium, since extended for 120 days to March 1983, on the repayment of principal on all maturities of public sector debt (except trade-related debt, bond and note issues, and some inter-bank debt). Like Argentina and Brazil, it has turned to the IMF for assistance. All three countries may have to restructure their debts.

Announced medium-term eurocurrency credits

The pace of gross new lending through publicised medium-term eurocurrency credits slowed considerably in the third quarter of 1982, bringing the total for the first nine months of the year to $62 billion compared with $98 billion for the same period in 1981. Of the $18 billion in the third quarter, $4 billion was accounted for by the Republic of France's standby 'jumbo' credit raised to support the franc. In October the total fell away still further to less than $4 billion, the cautious atmosphere in the market contrasting markedly with continued buoyancy in the international bond markets.

The slowdown in announced credits was most pronounced for the developing countries, whose share of the total market fell to 20% in the third quarter from almost half in the previous two years. Experience varied considerably between developing countries. Following the Mexican crisis and the uncertain situation in Latin America generally—with Argentina, Bolivia and Ecuador all having debt problems— the market has become increasingly selective. Bank attitudes have tended to 'regionalise', and this has had

Announced new medium-term eurocurrency credits[a]

$ billions

	1980	1981	1982			
	Quarterly average		Q1	Q2	Q3	Oct.
Major OECD countries	4.9	17.5(d)	5.6	6.0	7.0	1.1
Minor OECD countries	4.7	3.5	5.4	4.7	4.1	0.8
Oil exporting countries	1.8	1.7	1.8	1.8	2.6	0.5
Developing countries	6.1	8.4	8.3	10.1	3.7	1.2
of which:						
Newly industrialised countries(b)	*2.6*	*3.4*	*2.8*	*3.9*	*2.3*	*0.9*
Net oil exporting countries(c)	*1.6*	*2.5*	*3.7*	*4.9*	*0.2*	—
Other borrowers	0.8	0.4	0.5	—	0.8	—
Total	18.3	31.5	21.6	22.6	18.2	3.6

(a) Original maturities of three years and over.

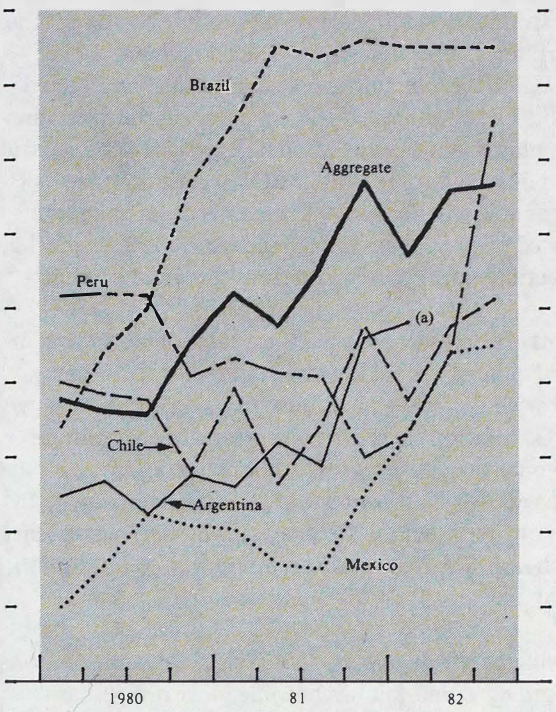
(b) Chiefly Argentina, Brazil and South Korea.

(c) Chiefly Mexico and Malaysia.

(d) $41 billion of the total for 1981 is related to takeover activity in North America.

Latin America

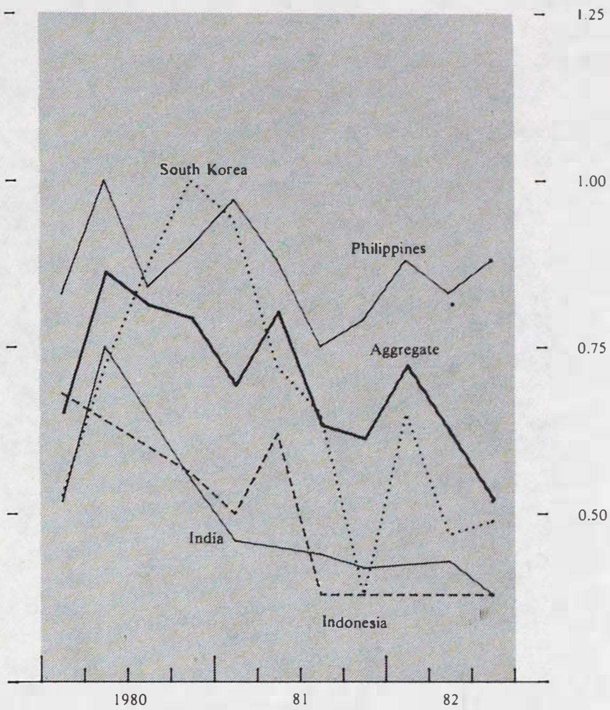
Average spreads



(a) Argentina has not borrowed in the relevant categories since 1982 Q1.

Asia

Average spreads



the effect of restricting access of other Latin American borrowers to this form of borrowing for several months. But by the end of October several countries in the area had approached the market again.

Far Eastern borrowers, by contrast, continue to be well received and were able to obtain increasingly fine terms on their announced credits—although they also borrowed less in aggregate than in the first two quarters of the year. The Republic of Indonesia announced a loan at a spread of $\frac{3}{8}$% over LIBOR almost immediately after the French jumbo loan came to the market at a spread of $\frac{1}{2}$%, but this was admittedly for a very much smaller amount.

Average spreads and maturities for developing countries as a group mask a wide range of experiences for individual countries and so need to be disaggregated or examined individually if the figures are not to be misleading (see charts). The average spread for Latin America rose only slightly because of the absence from the market in recent months of Mexico and other countries which—if they had borrowed—might have expected to face markedly higher spreads and shorter maturities; thus, the average does not fully reflect the reluctance of banks to lend. Similarly, Brazilian borrowing increased the figure for average maturity. Asian developing countries in contrast had spreads and maturities broadly similar to OECD countries.

By the end of October, tentative steps were being made to test the willingness of the market to relax a little. But the likely scale and speed of recovery is uncertain; it depends at least in part on the success of the reschedulings in prospect, acceptance by borrowers of realistic adjustment programmes and domestic policies, and world economic recovery. Much of the impetus behind the continuing diversification of international portfolios over the last decade may now be spent.

International bonds and notes

International bond and note issues continue at a historically high level. New issues in the third quarter of this year totalled $16 billion, with issues spread evenly over the months; in October the rate increased to over $6 billion. Since June, a decline in interest rates in all the major currencies, particularly the dollar and sterling, has encouraged borrowers to approach the market. Investors may have been attracted by the expectation of capital gains on their bond holdings as interest rates fell further. In addition, the underwriters of bond issues were able to finance their holdings at a profit as the yield curve became significantly positive.

Completed international bond issues[a]

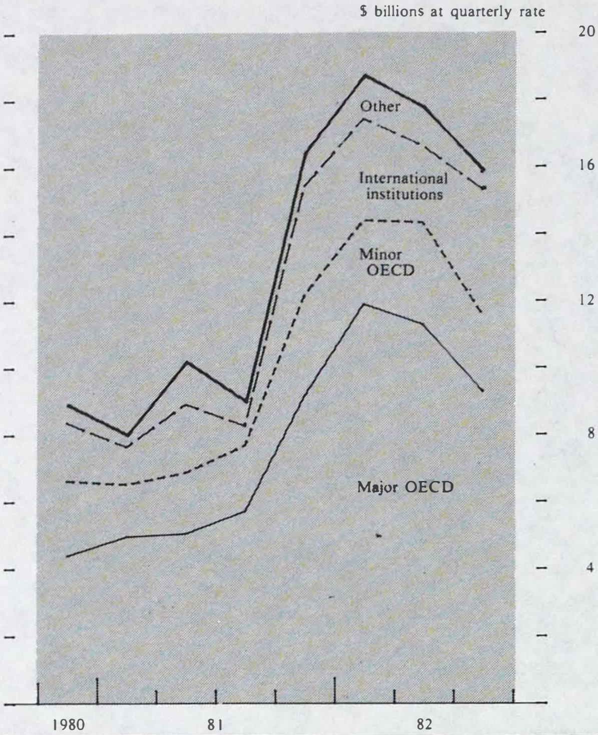
$ billions

	1980	1981	1982			
	Quarterly average		Q1	Q2	Q3	Oct.
Total[b]	**8.9**	**10.9**	**18.7**	**17.7**	**15.8**	**6.3**
By currency:						
Dollars	3.7	6.1	11.3	11.1	9.7	3.8
Deutschemarks	2.0	0.7	1.4	1.3	1.3	0.4
Swiss francs	1.9	2.1	3.3	2.9	2.6	1.0
Sterling	0.3	0.4	0.4	0.4	0.5	0.2
Yen	0.4	0.8	1.2	1.0	0.8	0.4
Other	0.7	0.9	1.1	1.0	0.9	0.5

(a) Euromarket and foreign issues, both fixed and floating rate, with original maturities of three years and over. Includes private placements, if publicised, but excluding Canadian borrowing in New York.

(b) Totals may not add because of rounding.

International bonds and notes: completed issues by borrower



Following its earlier brief stagnation as US interest rates rose rapidly in the last two weeks of June, the dollar sector revived strongly towards the end of July. Occasional pauses in issuing activity proved to be short-lived as rates continued their generally downward path, although at the end of October uncertainty about the future path of interest rates led to a more sustained pause in this sector. Over the third quarter the dollar sector accounted for 61% of the market, similar to the first half of the year. There was equally little movement in the shares of the other currencies, though the deutschemark and Swiss franc sectors were particularly active early in July when the dollar sector was unattractive to borrowers.

These interest rate developments were largely responsible for the marked decline in floating rate note issues which fell in the third quarter by almost a half, to $2 billion. With further falls in interest rates expected, warrants (entitlements—at terms agreed when originally issued—to purchase bonds at some future date) became more attractive to investors, although borrowers may have become less keen to use them to reduce the immediate cost of raising funds. Their use was halted in August when the warrants on three consecutive issues were overpriced; and the uncertainty—since resolved—about the tax treatment of US corporations' eurobond issues after the end of 1982 allowed the market for warrants no opportunity to recover.

Meanwhile, the dearth of convertible issues, which raised only $0.4 billion in the third quarter, reflected the weakness of the Japanese stock market. Nevertheless, Japanese borrowers maintained their rate of borrowing by switching to straight issues.

Throughout the period since July there has been a steady stream of issues involving an interest rate swap, with a bank raising straight bond finance while another borrower (the counterparty) raises floating rate debt at a margin over dollar LIBOR, exchanging this debt for the bank's fixed rate debt. The counterparty ends up paying the fixed rate coupon plus the margin over LIBOR, while the bond issuer takes on floating rate debt at LIBOR—although the precise details will depend on the contractual obligations negotiated by the parties involved. By exploiting a market imperfection, both parties gain from this arrangement.

All types of borrower reduced their rates of borrowing in the third quarter except the international institutions, which raised their largest amount in a single quarter—with the IBRD taking $2.0 billion of the total of $3.7 billion. Borrowing by the major OECD countries fell by $2 billion. This was entirely accounted for by reduced borrowing by US corporations, who shifted back to their domestic market where their issues rose by nearly $5 billion, to $11 billion, in the third quarter.

Borrowing by the developing countries in the international bonds and notes market has become more difficult as investor resistance to such issues has increased. A Mexican bond issue was withdrawn in August when Mexico's debt service problems became evident, and since then the only non-OPEC developing country borrowers have been from Taiwan, Hong Kong, Malaysia and Brazil.

At the top end of the market, indications of the increasing selectivity exercised by investors was provided by eurodollar issues in September by prime quality US corporations; these yielded up to eighty basis points less than comparable US Treasury notes. Fine terms were also obtained by such borrowers in the deutschemark and Swiss franc sectors of the market.

Foreign exchange and gold markets

(End-August to mid-November)

Introduction

Though US interest rates eased after the middle of September, the strength of the dollar continued to be the dominant feature; US currency rose to record levels against many currencies in early November. Sterling continued to trade stably until the middle of November when it fell sharply. Some of the EMS currencies occasionally experienced periods of weakness but the system was not generally under pressure.

Sterling

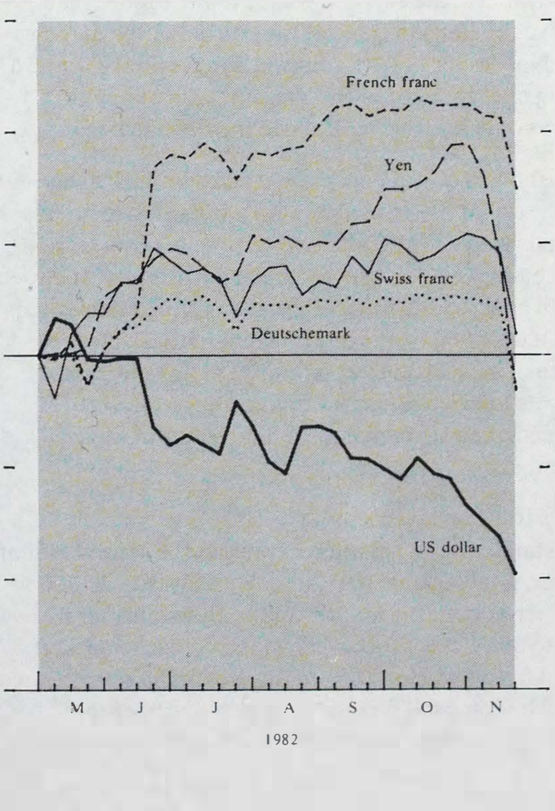
Sterling opened September at $1.7160, DM 4.28¼, and 91.3 in effective terms. After initially rising against a weak dollar, the pound gave ground—despite a modest firming in UK interest rates—when the US currency strengthened. It closed at $1.6947 on 30 September. In effective terms, and against the continental currencies, sterling continued to show considerable stability, rising gently to 91.9 and DM 4.30¾ on 27 September. But as sterling interest rates eased in the last days of the month, the pound declined against the continental currencies, and in effective terms, and closed at DM 4.28¼ and 91.5.

October followed a similar pattern. On balance, over the month sterling weakened against the strong dollar, but was stable against the continental currencies and rose in effective terms despite reductions in interest rates. As the dollar strengthened early in the month, the pound slipped to $1.6821 on 5 October. Despite a cut of ½% in banks' base rates, sterling rose to 92.9 in effective terms on 8 October. Much of this increase reflected the impact of devaluations of the Swedish and Finnish currencies. As the dollar eased back in the middle of the month, sterling rose to $1.7285 and 93.0 on 12 October. A second cut in banks' base rates on 13 October had little effect on sterling. Subsequently, as the dollar strengthened, expectations that the downward trend of interest rates would continue caused sterling to fall to $1.6765, DM 4.29, and 92.5.

Sterling began November steadily and showed little reaction to the base rate cuts on 4 November, but it lost a little ground subsequently in effective terms when the yen strengthened. However, between 15 November and the end of the period (17 November) it fell sharply. Although the precise timing of the fall was unexpected it occurred against a background of growing comment that sterling was overvalued. Other influences were the Industry Act forecast showing an end to the current account surplus in 1983, less optimism about further declines in US interest rates, and suggestions that oil prices might decline. By the close on 17 November sterling had fallen to 87.8 in effective terms, $1.6005 and DM 4.10½.

Sterling against selected foreign currencies

Change from end-April 1982 — Per cent



Official reserves

In the three months to end-September, there was an underlying increase in reserves of $386 million. The quarterly renewal of the EMCF swap gave rise to a valuation gain of $248 million.

Changes in UK official reserves

$ millions

	1982		
	August	September	October
IMF oil facility repayment	—	—	− 57
EMCF swap valuation	—	—	+248
Exchange cover scheme:			
Borrowing	+ 68	+ 13	+ 4
Repayments	− 20	− 36	− 56
Other (underlying changes in reserves)	+122	+209	+ 55
Total change in reserves (including valuation change)	**+170**	**+186**	**+194**
Level of reserves (end of period)	**18,113**	**18,299**	**18,493**

US dollar

In the United States the overall easing in interest rates, which had been evident in the third quarter continued, albeit more slowly, into October. After the discount rate was reduced to 9½% in mid-October, there was considerable market speculation over whether a further cut would take place fairly shortly; in the event a ½% cut was announced on 19 November.

The same day the minutes of the Federal Open Market Committee's meeting of 5 October were released. These stated that the Committee had decided, exceptionally, not to set a short-term growth target for M_1 for the fourth calendar quarter. This was consistent with earlier suggestions that it would be extremely difficult to forecast the path of M_1 over the coming months for purely technical reasons. The meeting had also adopted short-term targets for the wider aggregates which implied some overshooting of the annual target growth rates for M_2 and M_3; statements by the Federal Reserve Chairman explained that this relaxation took account of the comparatively weak state of the economy and did not imply any lessening of the resolve on monetary policy. With no clear assurance yet of a robust recovery, and bearing in mind rapid institutional and economic change, the Chairman has warned that highly simplified rules for the conduct of monetary policy are inappropriate.

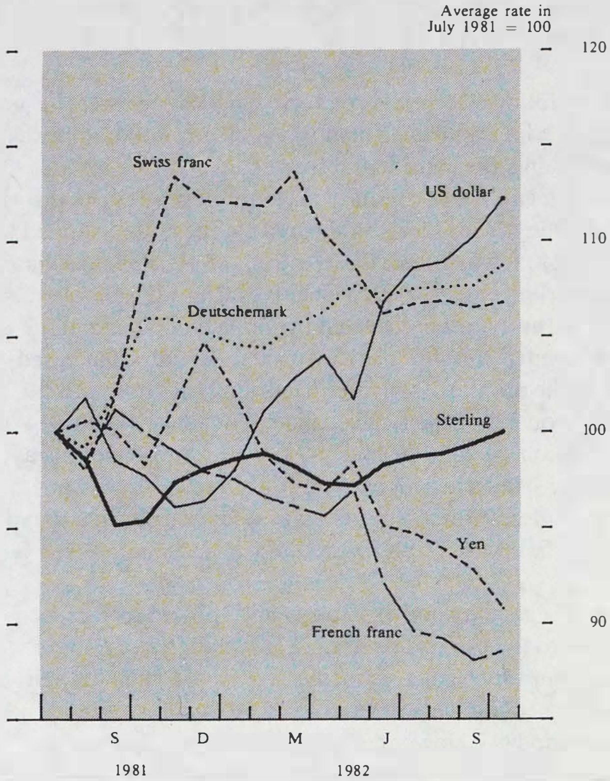
The dollar opened September at DM 2.4955, and 121.5 in effective terms and rose to DM 2.5240 and 123.1 on 13 September. It paused briefly, but with political uncertainties in Europe and worries about the health of the international financial system adding to the attractions of the currency, it resumed its rise to close the month at DM 2.5265 and 123.5.

In early October, an unexpected increase in the money supply caused some upward movement in interest rates, and the dollar rose to DM 2.5520 and 124.8 on 5 October. However, after the cut in discount rate was announced on 8 October the dollar fell back to DM 2.4887 and 122.7

on 12 October. Three-month eurodollar rates fell back from $11\frac{1}{2}\%$ at the end of September to $9\frac{3}{4}\%$ by 20 October. Subsequently, as interest rates were cut in a number of other countries but a widely expected further cut in US discount rate did not materialise, the dollar strengthened again to reach all time highs against a number of currencies. It closed the month at DM 2.5595 and 126.1.

The dollar was little affected on balance by the results of the mid-term elections at the beginning of November. Despite the Federal Reserve's openly more flexible approach to monetary control, evidence of continuing above-target money supply growth together with the absence of any further discount rate cuts pushed dollar rates higher. In effective terms it peaked at 126.7 on 8 November, but subsequently eased as the yen strengthened. On 11 November it rose briefly to DM 2.6050, its highest against the mark since January 1976, before easing back towards the middle of the month to DM 2.5646 at the close on 17 November.

Indices of effective exchange rates



Other currencies

The calm which had persisted in the EMS since the realignment of 12/13 June gave way to a period of greater, though not extreme, volatility within the system as the EMS currencies weakened further against the dollar. The Irish pound, which began September at the top of the narrow band, remained there until the last day of the month, but the deutschemark was replaced at the bottom by the Danish krone on 9 September when that currency weakened following political developments and the second Norwegian devaluation in two months. Substantial increases in money market rates gave the krone support, and, following cuts in Belgian discount and Lombard rates to $12\frac{1}{2}\%$ and $13\frac{1}{2}\%$ with effect from 9 September, the Belgian franc moved to the bottom of the system on 20 September. Despite these changes, the narrow band currencies came close to the $2\frac{1}{4}\%$ limits only rarely during the month.

The French franc came under further occasional selling pressure early in the month, but showed some improvement following the announcement on 15 September of a $4 billion bank credit, and the authorities were able to ease call money and money-market intervention rates down gently towards the end of the month.

The Dutch guilder, which replaced the Irish pound at the top of the narrow band on 30 September, remained there throughout October. The Belgian franc remained bottom for most of the month, except for a few days when it was briefly replaced by the Danish krone, which came under pressure following the devaluation of the Finnish and Swedish currencies. Though the EMS currencies again depreciated against the dollar, several of the member countries took advantage of the fall in interest rates elsewhere to cut their own domestic rates. The EMS currencies depreciated slightly further against the dollar in early November but recovered much of this towards the middle of the month. The Dutch guilder remained at the top and the Belgian franc at the bottom of the narrow band. Nevertheless, the Belgian authorities cut discount and Lombard rate by $\frac{1}{2}\%$ and interest rates were also cut in the Netherlands and France.

Despite some easing in money-market rates, the lira remained above the currencies in the narrow band throughout September, rising over the month from about $2\frac{3}{4}\%$ to $3\frac{1}{2}\%$ above the currency at the bottom of the narrow band. In October, it came within the narrow band, and though money-market rates firmed slightly towards the end of the month, the currency eased to little more than $1\frac{1}{4}\%$ above the Belgian franc at the bottom of the narrow band. In November the lira continued to weaken, despite a tightening of exchange control measures, and by mid-month was only just over 1% above the Belgian franc.

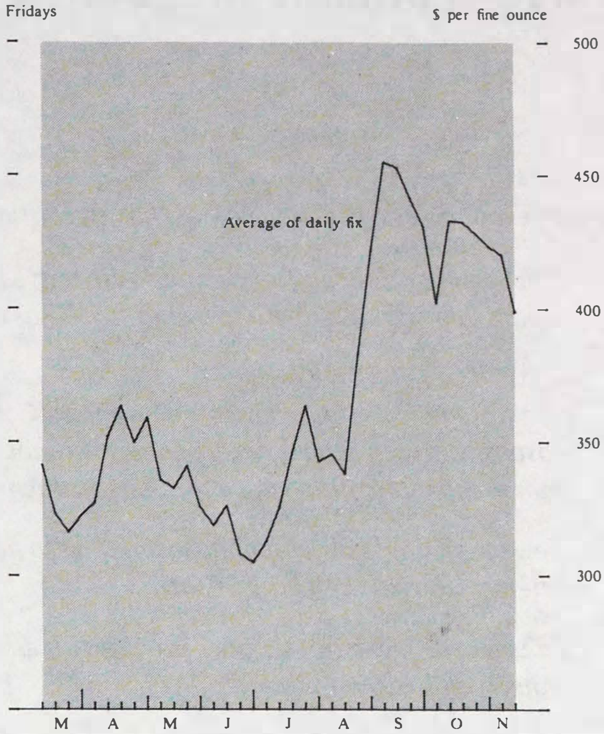
The yen, showed only an occasional rally, and fell away against the dollar in September with a widening in interest differentials, news of a significant trading loss by a large Japanese bank, and domestic political uncertainty. It closed the month at ¥268.00. In October, it continued to weaken despite a narrowing in interest rate differentials, closing the month at ¥277.10. After falling on 4 November to ¥278.75, its lowest against the dollar since March 1977. the yen recovered strongly to ¥263.20 by the close on 17 November.

The Swiss franc behaved similarly to the yen. Notwithstanding a rise in interest rates in the second half of September, it fell against the dollar from Sw. Fcs 2.1250 to Sw. Fcs 2.1682 over the month, and declined further in October to Sw. Fcs 2.2100. Against the deutschemark, it weakened from Sw. Fcs $0.85\frac{1}{4}$ to Sw. Fcs $0.86\frac{3}{8}$ over the two months. The franc fell further in early November to Sw.Fcs 2.2370 against the dollar on 8 November, its lowest since October 1977, but then recovered to Sw.Fcs 2.1880, and Sw. Fcs 0.85$\frac{3}{8}$ against the deutschemark, by 17 November.

The Norwegian krone was devalued by 3% on 6 September after devaluation in August. It ended September lower both against the dollar and in effective terms. The Swedish krona, on the other hand, was stable in effective terms, despite depreciating against the dollar. On 8 October a 16% devaluation of the krona was announced. The Norwegian currency depreciated in the wake of this and a two-stage Finnish devaluation, ending the month lower against the dollar and in effective terms. The Swedish currency ended October over 18% lower against the dollar and 14% down in effective terms. Both the Swedish and Norwegian currencies declined further against the dollar and in effective terms early in November but recovered to some extent against the dollar as it eased in the middle of the month.

The Canadian dollar traded very stably against the US dollar during September and October. It ended October slightly higher against the dollar and in effective terms. It continued to strengthen in early November as the interest rate differential against the US dollar moved further in its favour, but then eased back as the differential narrowed slightly towards the middle of the month.

London gold price



Gold

Following its considerable rise in July and August, gold opened September at $404.25 and rose strongly against a background of concern about the health of the international financial system. The price reached $513.50 in the Far East on 9 September. Subsequently, the gold price weakened considerably following significant producer sales as the dollar strengthened and worries about the financial system eased, ending September at $397. The fall in US interest rates in early October helped a recovery in the first part of the month, and the price rose to $448 on 14 October.

Disappointment that there were no further cuts in US interest rates then took the gold price back to $423.25, but it strengthened slightly to $433.50 on 3 November as US interest rates eased back in the first days of the month. It then fell back as interest rates edged up again, fixing at $412.60 at noon on 17 November, having fallen briefly below $400 on 12 November.