International financial developments

The emerging recovery in the industrialised world, particularly the United States, is starting to ease the payments position of the developing countries although much of the reduction in the ldcs' current account deficit stems from steps to restrain their imports. It is important therefore that recovery is sustained if debt problems are to be materially reduced.

In the first half of 1983, the growth of international bank lending continued to slow, but the bond markets were buoyant. The OECD countries and international institutions accounted for the bulk of the money raised. Amounts raised by developing countries in the markets were small, and were not sufficient to meet their financing needs, although banks are committing funds to these countries through rescheduling and associated lending. Consequently, the ldcs have relied increasingly on official sources of finance, especially the IMF. In 1981, ldcs met over half of their financing requirements from the capital markets; by the second half of 1982, it was down to under a quarter and appears to have remained low in the first half of 1983.

In the foreign exchange market the dollar rose to new heights against several currencies on expectations of higher interest rates in the United States. Sterling was generally steady in effective terms.

Current account summary

$ billions; *seasonally adjusted*

	1981	1982	1983		
	Year	Year	Q4	Q1	Q2(a)
Total OECD	−30	− 27	− 6	− 4	− 8
of which:					
Major countries(b)	*− 2*	*− 6*	*− 1*	*− 1*	*− 4*
Other	*−28*	*− 21*	*− 5*	*− 3*	*− 4*
Oil exporting countries	58	− 13	− 1	− 9	− 8
Other developing countries	−81	− 68	−13	−11	−12
Other countries(c)	− 6	4	1	3	+ 2
World discrepancy(d)	−59	−104	−19	−21	−26

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

Developing countries' balance of payments

$ billions; *not seasonally adjusted*

	1981	1982			1983
	Year	Year(a)	Q3	Q4(a)	Q1(a)
Current account	−81	−65	−15	−13	−11
Capital account	78	46	10	8	8
of which:					
Concessionary and other official flows	*24*	*24*	*6*	*6*	*6*
Direct investment	*12*	*9*	*2*	*2*	*2*
Borrowing from banks(b)	*40*	*20*	*− 1*	*5*	*2*
Borrowing via bond issues	*4*	*3*	*1*	—	—
Other capital flows	*− 2*	*−10*	*2*	*− 5*	*− 2*
Official financing balance	3	19	5	5	3
of which:					
Use of Fund credit	*6*	*5*	*1*	*2*	*4*
Liabilities to other CMIs	—	*4*	*1*	*3*	—
Reserves(b) *etc (increase −)*	*− 3*	*10*	*3*	—	*− 1*

(a) Includes estimates/forecasts.
(b) Adjusted to exclude valuation effects.

International balance of payments

Official estimates show virtually all the main country groups still to be in current account deficit. The inconsistency of these estimates is reflected in the world payments discrepancy now estimated at $104 billion for 1982, equivalent to over 5% of world trade; this discrepancy may have narrowed slightly in the first half of this year. The principal explanation for the discrepancy seems to be the underrecording of service receipts and investment income, particularly by OECD countries, and allowing for this these countries could have been in overall modest surplus earlier this year.

Less developed countries

Preliminary data for the first quarter of 1983 show that the combined current account deficit of ldcs, which was contracting during 1982, appears to have fallen further. The Latin American countries in particular had a rising trade surplus. However, as in 1982, this improvement was mainly due to declining imports enforced by financial pressures on the ldcs. Their exports fell also, but less rapidly than imports. In 1982, import volumes declined 7% (compared with no change in the OECD countries), and in the first quarter of 1983 were more than 10% below levels a year earlier. Export volumes in the first quarter were lower than in the fourth quarter of 1982 and, despite the recovery in commodity prices, receipts fell.

The current account deficit in the first quarter of 1983 was financed to a substantial extent by official concessionary and other capital flows. Borrowing from the IMF in particular accelerated ($4 billion against $5 billion for the whole of 1982). Although seasonal factors may have contributed, bank borrowing remained low as it had been in the second half of 1982 when financing difficulties, most notably in Latin America, reduced it to $4 billion from $16 billion in the first half of last year. Reserves increased slightly in the first half of 1983, after being run down to an unprecedented extent in 1982.

Oil exporting countries

It is now estimated[1] that the oil exporters' current account moved to a deficit of $13 billion in 1982 after surpluses of over $100 billion in 1980 and $58 billion in 1981. This deterioration largely reflected the fall in their export receipts following the sharp cutback in world oil consumption and the weakening of prices during the recession.

The deficit widened further in the first quarter of this year as the mild winter and continued destocking by oil consumers in expectation of official price cuts further reduced demand; oil production in the quarter was under 50% of capacity although this appears to have been the low point. The recovery of activity, in the United States in particular, and an end to speculative destocking following the official price reductions announced in March, has led to an increase in production since then. Export receipts were virtually unchanged in the second quarter as the lower prices offset the higher volume. Imports by oil exporting countries have been falling in the first half of this year in response to tighter domestic policies, especially in Nigeria and Iraq.

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

$ billions

	1981	1982		1983	
	Year	Year	Q4	Q1	Q2(a)
Exports	285	229	59	48	48
Imports	161	161	38	37	37
Merchandise trade	124	68	21	11	11
Net invisibles	− 66	− 81	−22	−20	−19
of which, official transfers	*− 10*	*− 9*	*− 2*	*− 1*	*− 1*
Current balance	**58**	**− 13**	**− 1**	**− 9**	**− 8**
Net movements in external borrowing etc(b)	6	14	—	6	..
Surplus available for investment	**64**	**1**	**− 1**	**− 3**	..

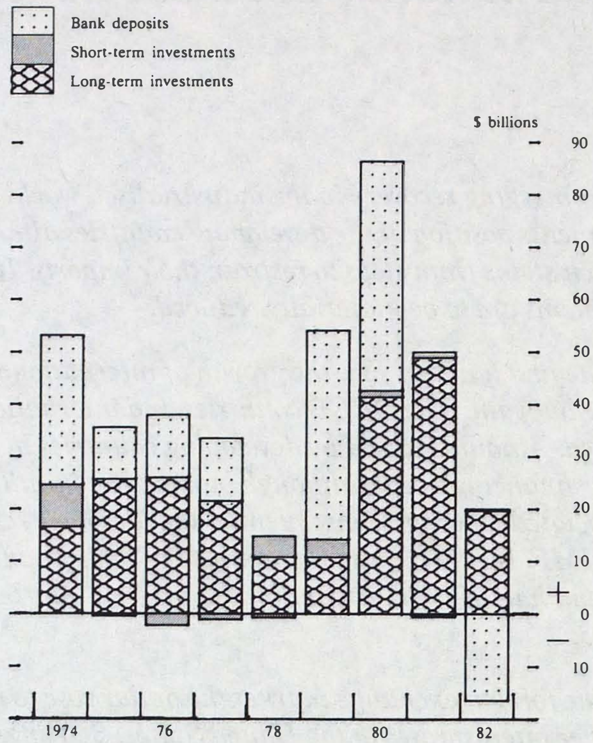
.. not available.

(a) Provisional.

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

The current account deficit of the oil exporters is estimated to have been $17 billion in the first half of 1983. In the first quarter a fall in outstanding credit on oil exports financed all but $3 billion: identified assets declined by $11 billion leaving an unidentified residual of $8 billion. Bank deposits fell by $8½ billion and investments by $3 billion; investments in 'other industrialised countries', which had been reduced in the previous quarter for the first time, again fell by $1½ billion. In the second quarter, assets continued to be drawn down, deposits with banks in the

Disposition of oil exporters' surpluses



Identified deployment of oil exporters' surpluses[(a)]

$ billions

	1981	1982	1983		Outstanding end-1982
	Year	Year	Q1	Q2(b)	
United Kingdom:					
Sterling bank deposits	0.4	1.2	0.3	−0.3	6
Eurocurrency bank deposits	7.8	− 9.4	− 3.7	−1.4	56
British government stocks	0.9	− 0.4	0.1	0.1	4
Treasury bills	—	− 0.1	—	—	—
Other sterling placements	0.2	− 0.6	− 0.1	−0.1	2
Other foreign currency placements	—	—	—	—	2
	9.3	− 9.3	− 3.4	−1.7	70
United States:					
Bank deposits	− 2.0	4.4	− 0.7	−1.0	17
Treasury bonds and notes	10.9	6.9	− 0.8	−0.9	33
Treasury bills	− 0.5	0.4	− 0.4	−1.1	8
Other portfolio investment	4.6	− 0.4	− 0.4	−1.0	22
Other	3.3	1.7	..	..	11
	16.3	13.0	− 2.3	−4.0	91
Bank deposits in other industrialised countries	− 5.1	−12.8	− 4.3	..	61
Other investment in other industrialised countries(c)	19.4	6.6	− 1.5	..	71
IMF and IBRD(d)	2.4	2.0	0.2	..	17
Loans to developing countries	7.2	3.9	0.1	..	53
Total identified deployed net cash surplus	**49.5**	**3.4**	**−11.2**	..	**363**
Residual of unidentified items	14.5	− 2.4	8.2	..	
Total net cash surplus derived from current account (as shown in the previous table)	**64**	**1**	**− 3**	..	

.. not available.

(a) The additional notes to Table 16.1 in the statistical annex in the March *Bulletin* give a list of oil exporting countries. 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 previous table.

(b) Provisional.

(c) Mainly loans and holdings of equities.

(d) Includes holdings of gold.

(1) Following recent revisions to figures for Saudi Arabia and Iraq.

United Kingdom and United States falling by $3 billion and other US investments by $3 billion. Previously, a declining surplus was reflected first in a smaller rise in oil exporters' bank deposits and only later in an adjustment to other assets (see chart); on the basis of these figures 1982 was the first year in which bank deposits actually fell. Oil exporters' total identified assets also fell slightly, to ($363 billion) at end-1982.

OECD countries

The OECD countries recorded a combined deficit on the current account of $4 billion in the first quarter. This was the smallest deficit since mid-1979 but provisional figures suggest it may have widened to $8 billion in the second quarter.

The combined current account deficit of the seven major countries fell to $1 billion in the first quarter of this year, with improvements in the United States and Japan roughly offsetting deteriorations in France and especially the United Kingdom. After falling throughout 1982, the major countries' export and import volumes recovered. Imports in several countries were stimulated by the recovery of domestic activity and rose despite cuts in oil imports. The UK surplus fell by $2.8 billion, wholly attributable to a widening deficit on non-oil trade.

Major countries: current balances

$ billions; *seasonally adjusted*

	1981	1982		1983	
	Year	Year	Q4	Q1	Q2(a)
Canada	− 4.8	2.4	0.9	0.2	0.9
France	− 4.8	−12.0	−2.4	−3.8	− 1.1
Italy	− 8.7	− 5.4	−0.4	−0.8	—
Japan	4.8	6.9	1.3	3.3	5.8
United Kingdom	13.3	9.5	4.0	1.2	− 0.5
United States	4.6	−11.2	−6.6	−3.0	− 9.7
West Germany	− 6.5	3.5	2.3	1.9	0.6
Major countries	**− 2.1**	**− 6.3**	**−0.9**	**−1.0**	**− 4.0**

(a) Includes Bank estimates.

Provisional current account figures for the second quarter suggest that the major countries' combined deficit increased. In the United States, where the deterioration was most marked, continued loss of competitiveness has taken its toll on exports of manufactures in particular, while the strong recovery in domestic activity has boosted both oil and non-oil imports. In West Germany and the United Kingdom, modest economic recoveries have also encouraged imports, while export growth has faltered. Canada and Japan have increased their current surpluses through higher exports, in Canada's case principally to the United States, while the Japanese current account also benefited from improving terms of trade and a reduced deficit on invisible trade as earnings on past outward investment continued to grow. In France the deficit narrowed by an estimated $2.7 billion between the first and second quarters, while continued weakness of the Italian economy probably underpinned the improvement in their current account.

In the second quarter, the £1.8 billion deterioration in the unadjusted UK current account was more than offset by an improvement in the identified capital account position. However, with reserves rising modestly, this left a £0.9 billion unrecorded inflow as the balancing item. (In the past, when the current balance has changed sharply, offsetting movements have often been observed in the balancing item.) Outflows of portfolio investment were less than at the turn of the year, but probably still enabled the share of overseas assets in institutional portfolios to continue rising. By contrast, inward portfolio investment, although much smaller, has continued to grow. Net direct investment returned to deficit after a substantial inflow in the first quarter, as inward investment fell to more normal levels. There was a net inflow on both sterling and foreign currency banking transactions, with sterling lending overseas (unusually) falling.

UK balance of payments

£ billions; *not seasonally adjusted*

	1982			1983	
	Year	Q3	Q4	Q1	Q2
Current balance	**5.4**	**1.2**	**2.7**	**0.9**	**−0.9**
Portfolio investment:					
outward	−6.2	−1.4	−1.7	−1.8	−1.4
inward	0.4	0.2	0.4	0.2	0.7
Net direct investment (non-oil)	−1.5	−0.5	−0.4	0.8	−0.1
UK banks' borrowing and lending abroad in foreign currencies	4.2	1.2	0.9	0.5	0.4
UK banks' sterling lending overseas	−3.2	−1.3	−1.0	−1.0	0.3
Sterling balances(a)	4.6	1.3	0.5	1.5	0.6
Other flows	−1.2	−0.4	−0.5	−2.1	−0.3
Total identified capital flows	**−2.9**	**−0.9**	**−1.8**	**−1.8**	**0.2**
Official financing	1.3	−0.2	0.8	0.6	−0.1
Balancing item	−3.9	−0.1	−1.8	0.2	0.9

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

The smaller OECD countries as a group appear to have had a smaller current account deficit in the first quarter than originally thought, with their exports stronger than expected as a result of more buoyant activity in the major economies. In the second quarter, their combined deficit probably showed little change. The modest shortfall for the group as a whole continued to mask large deficits in Australia, Portugal and Spain and surpluses in the Netherlands and Switzerland.

International banking and capital markets[1]

Banks in the BIS reporting area (first quarter 1983)

In the first quarter of 1983, outstanding cross-border lending by banks in the main financial centres[2] grew by $18 billion, less than half the average quarterly growth during 1982. Thus the growth of lending continued to decelerate.

(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 in the tables.

(2) Including estimates for non-reporting banks which do not contribute to the BIS statistics.

Interest, profits and dividends (IPD) in the balance of payments

In every year since the Second World War, apart from 1980, this category of the UK's invisible earnings has registered a surplus. There was a record surplus of £1.6 billion in 1982; following a surplus of over £1 billion in 1981. But whereas in nominal terms these latest two years, taken together, show a substantial increase compared with the average of the late 1970s, in 'real' terms (as a percentage of exports of goods and services) even the 1982 surplus was considerably below the average achieved in the mid-seventies (see chart). Provisional figures point to a lower surplus (in 'real' and nominal terms) in the first half of 1983.

Net IPD receipts

£ billions

	1973–76 Average	1977–80 Average	1981 Year	1982 Year	1983(a) H1
Total	**1.2**	**0.4**	**1.3**	**1.6**	**0.2**
of which, net earnings from:					
Direct investment	1.0	0.8	1.5	0.9	—
Portfolio investment	—	−0.2	—	0.5	0.8
Banks' external transactions:					
In sterling	−0.2	−0.4	−0.7	−0.7	−0.7
In foreign currency	0.1	0.2	1.0	1.5	0.6
Other(b)	0.3	—	−0.6	−0.5	−0.5

(a) Provisional figures for first half expressed at annual rate.

(b) Includes net earnings from the activities of UK and foreign oil companies, export credit lending and public and private borrowing and lending overseas.

In 1982, the biggest contribution to the IPD surplus came from UK banks' external foreign currency transactions—their eurocurrency operations—which earned a surplus of £1.5 billion. These net earnings primarily reflect the spread between banks' foreign currency deposit and lending rates which outweighs the effect of UK banks' foreign currency liabilities exceeding their assets. During the seventies earnings tended to decline in real terms (despite a gradual increase in nominal terms). This trend was reversed from 1980—sterling's depreciation since 1981 being partly responsible—until earnings fell back in the first half of 1983.

The next biggest component of the overall IPD surplus in 1982 was net earnings from direct investment. At £0.9 billion this item was much the same in nominal terms as in the seventies but was smaller than 1981's record surplus of £1.5 billion, which reflected, in particular, strong growth in earnings in the United States, boosted further in sterling terms by the fall in the exchange rate. These earnings appear to have fallen further in the first half of 1983. In 'real' terms, net earnings from direct investment have declined since the mid-seventies.

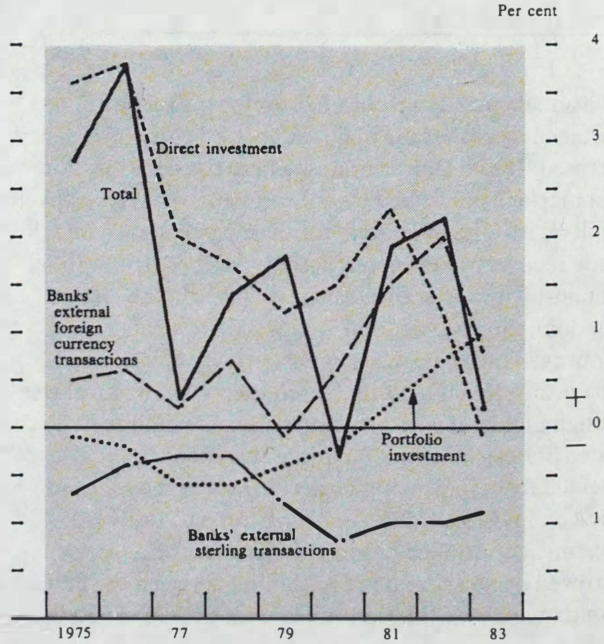
Net portfolio investment earnings moved into surplus in 1982 for the first time since the mid-seventies. Portfolio credits have been increasing gradually in 'real' terms since 1979 as the stock of UK portfolio investments overseas has more than tripled since exchange control abolition, and this has continued in 1983. Earnings too were boosted in 1981 and 1982 by the fall in the exchange rate. Portfolio debits in contrast have not increased at all in real terms as the stock of foreign portfolio investments in the United Kingdom has grown much less than UK assets abroad.

Net earnings from UK banks' external sterling operations (excluding sterling export credit lending) have typically been negative throughout the seventies to date. Although interest rates charged on loans exceed those paid to depositors, the stock of external sterling liabilities on which interest is paid exceeds the stock of loans on which interest is received. This ratio of liabilities to assets has fallen since exchange control abolition, however, as the rate of banks' external sterling lending has outpaced the growth of overseas residents' sterling deposits. But interest rates on lending have fallen faster than those on deposits, reducing the margin between the two and causing the deficit in this item of IPD to widen both in nominal and 'real' terms. Earnings from the UK's export credit activities were about £½ billion last year and have grown over time broadly in line with the value of UK exports.

Net earnings from UK and foreign oil companies' operations have fluctuated widely from year to year and largely account for the IPD deficit in the second quarter of 1983. Oil debits increased sharply in 1979 and 1980 as profits from the North Sea operations of foreign oil companies increased and have continued at a high, though slightly reduced, level since. Oil credits, improved a little last year but before that had been falling since 1979 as the world recession affected UK oil companies' foreign operations.

Interest payments on various public and private sector borrowings have grown in nominal terms, but have remained fairly constant in 'real' terms.

Net IPD in real(a) terms



(a) As a percentage of exports of goods and services.

The small increase in lending during the first quarter was entirely attributable to banks in the United States, whose cross-border lending, including business channelled through the international banking facilities, rose by $19 billion. Sizable changes in gross lending by banks in some other centres mainly reflected seasonal movements in interbank positions, and largely offset each other. Thus increased external lending by banks in the United Kingdom (+ $11 billion—largely Japanese banks) and by banks in Japan (+ $9 billion) mainly reflected seasonal activity prior to the accounting year end for Japanese banks at end-March. On the other hand, lending by banks in France and Italy fell, each by $10 billion, reversing the build-up at the end of their accounting year last December.

International business of banks in the BIS reporting area and offshore centres

$ billions; changes exclude estimated exchange rate effects

	1981 Year	1982 Year	1983 Q1	Outstanding end March 1982
Deposits from non-residents				
Total	**+299**	**+138**	**+ 8**	**1,858**
Placed with banks in:				
Reporting European area	+128	+ 52	− 10	1,016
of which, United Kingdom	*+ 79*	*+ 48*	*+ 12*	*482*
United States	+ 38	+ 68	+ 6	251
Canada and Japan	+ 40	− 2	+ 9	167
Offshore centres:				
US banks	+ 33	+ 2	+ 2	181
Non-reporting banks	+ 60	+ 19	..	243(a)
Source				
Outside reporting area				
Developed countries	+ 3	—	− 1	48
Eastern Europe	—	+ 1	—	16
Oil exporting countries	+ 3	− 18	− 8	126
Non-oil developing countries	+ 10	+ 4	—	100
of which, Latin America	*+ 6*	*− 2*	—	*36*
Sub-total	+ 17	− 12	− 9	290
Inside reporting area(b)				
Banks(c)	+154	+ 97	+ 16	1,077
Non-banks(d)	+ 45	+ 23	+ 1	209
Unallocated(e)	+ 83	+ 31	—	282
Lending to non-residents				
Total	**+329**	**+183**	**+ 18**	**1,945**
Lent by banks in:				
Reporting European area	+136	+ 55	− 15	994
of which, United Kingdom	*+ 80*	*+ 35*	*+ 11*	*464*
United States	+ 76	+107	+ 19	381
Canada and Japan	+ 24	+ 8	+ 10	139
Offshore centres:				
US banks	+ 32	—	+ 3	175
Non-reporting banks	+ 61	+ 13	..	256(a)
Direction				
Outside reporting area				
Developed countries	+ 17	+ 16	—	111
Eastern Europe	+ 5	− 5	− 1	51
Oil exporting countries	+ 4	+ 8	—	78
Non-oil developing countries	+ 42	+ 20	+ 2	247
of which, Latin America	*+ 33*	*+ 12*	*+ 3*	*171*
Sub-total	+ 66	+ 37	+ 1	487
Inside reporting area(b)				
Banks	+152	+101	+ 11	972
Non-banks	+ 31	+ 19	+ 1	197
Unallocated(e)	+ 78	+ 26	+ 5	289
Foreign currency deposits from residents(a)				
From banks	+ 46	+ 40	+ 19	316
From non-banks	+ 8	+ 9	− 1	57
Foreign currency lending to residents(a)				
To banks	+ 41	+ 37	+ 20	300
To non-banks	+ 30	+ 14	+ 3	148

.. not available.

(a) Partly estimated.

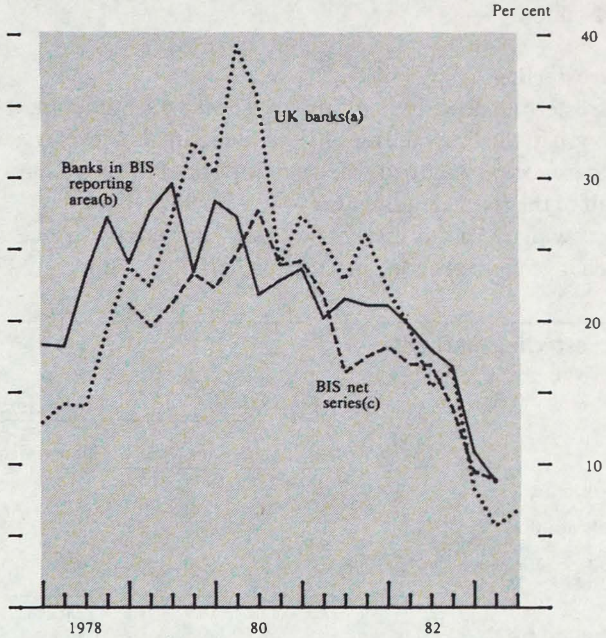
(b) Includes business with the offshore centres; the split between banks and non-banks is partly estimated.

(c) Includes liabilities to CMIs (as well as to commercial banks) and to banks' trustee accounts.

(d) CDs reported by UK banks as held in custody for US banks are believed to be virtually all owned by US non-banks and have been reallocated to non-banks in this table.

(e) 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.

Most of the increase in gross lending during the first quarter was to countries in the reporting area and offshore centres. Outstanding loans to countries outside the BIS area rose by only $1 billion following a rise of $9 billion in the last quarter of 1982. Claims on developed countries rose by only $0.3 billion, having grown by some $4 billion a quarter over the previous two years, and countries in Eastern Europe continued to reduce their borrowing from reporting banks ($1½ billion). Loans to Latin America rose by $3 billion, mostly drawings by Mexico and Brazil on new credits granted by the commercial banks in parallel with drawings by these countries on the International Monetary Fund. Lending to other non-oil developing countries fell by $1 billion, having risen by $6½ billion in the previous quarter, with the reduction evenly spread.

Oil exporting countries continued to run down their placements during this quarter, reducing their deposits with the banks by $8 billion. These deposits have fallen from a peak of $161 billion at end-March 1981 to $126 billion two years later; allowing for their increased borrowing, oil exporting countries took a net $47 billion of funds from the banks. During the same two year period, banks in the United States have supplied $76 billion, net, of new funds to the international banking market.

Foreign currency business with residents within the BIS reporting area—almost entirely with other banks—grew strongly during the first quarter. About two-thirds of the increase represented the seasonal activity of Japanese banks in London.

Eurosterling

Eurosterling deposits continued to show only moderate growth in the first quarter of 1983. Lending, however, rose rather more strongly to reach a new peak of £11.4 billion. Half of the rise in lending was to UK banks, whose borrowing from this market has risen continuously since exchange control ended in October 1979.

Eurosterling market[a]

£ billions

	1981	1982				1983
	31 Dec.	31 Mar.	30 June	30 Sept.	31 Dec.	31 Mar.
Deposits by:						
UK banks	3.3	3.6	2.8	3.2	3.3	3.4
UK non-banks	1.0	0.9	1.0	1.0	1.2	1.2
Other Western Europe	5.5	5.6	5.0	5.3	5.3	5.3
Oil exporting countries	0.8	0.7	0.6	0.6	0.6	0.5
Other	1.7	1.4	1.5	1.4	1.6	1.9
Total	**12.3**	**12.2**	**10.9**	**11.5**	**12.0**	**12.3**
of which, CMIs	*0.6*	*0.4*	*0.4*	*0.3*	*0.3*	*0.4*
Lending to:						
UK banks	3.4	3.6	3.7	3.9	4.0	4.4
UK non-banks	0.7	0.6	0.6	0.6	0.6	0.7
Other Western Europe	5.0	5.0	4.6	5.0	5.1	5.2
Other	1.2	1.0	0.9	0.8	0.9	1.1
Total	**10.3**	**10.2**	**9.8**	**10.3**	**10.6**	**11.4**

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.

BIS half-yearly maturity analysis of lending to individual countries (second half of 1982)[1]

The analysis for the six months to end-December 1982 shows that international bank lending to countries outside the BIS reporting area grew by $23 billion compared with $30 billion in the first half of 1982 and $46 billion in the second half of 1981.[2] This slowdown in growth ran counter to the usual seasonal pattern and reflected the more difficult market climate for borrowing countries. Undisbursed credit commitments expressed as a percentage of total claims showed a further fall to 17% from 21% at end-June 1982.

The overall maturity profile of bank lending lengthened slightly but continued to show a concentration in the shortest maturities. Claims with a remaining maturity of one year or less accounted for 46.8% of the total compared with 47.2% at end-June 1982. The lengthening of maturities may partly reflect rescheduling of claims on countries with debt difficulties.

Lending to Western Europe rose by $4 billion (to $83 billion at end-1982): and by $3 billion to Australia, New Zealand and South Africa—borrowing with less than one year to maturity dropped from 50% to 45% of the total for these three countries.

BIS area banks' short-term lending as a percentage of total lending[a]

	1980	1981		1982	
	31 Dec.	30 June	31 Dec.	30 June	31 Dec.
Western Europe(b)	40.0	40.7	39.9	39.5	41.1
Eastern Europe	39.0	39.4	42.0	39.7	38.5
Australia, New Zealand and South Africa	34.1	42.7	46.3	49.7	45.0
Major oil exporting countries	54.9	56.5	58.4	58.9	58.3
Non-oil developing countries	46.9	46.9	47.0	47.1	46.7
of which:					
Middle East and North Africa	*66.1*	*69.2*	*69.6*	*70.5*	*66.6*
Other Africa	*33.0*	*33.9*	*34.8*	*33.8*	*33.3*
Asia	*56.8*	*55.0*	*55.2*	*53.4*	*53.8*
Latin America	*43.9*	*44.1*	*44.1*	*44.9*	*44.2*
All countries	**45.5**	**46.3**	**47.1**	**47.2**	**46.8**

(a) Debt due for repayment within one year as a percentage of total outstanding lending to each group of countries. Based on the series in Table 13.2 in the statistical annex.

(b) Except BIS area.

Lending to Latin America[3] increased by $5 billion in the second half of 1982 compared with an increase of $12 billion in the preceding six months. Asian countries[3] received $8 billion of new funds in the second half of 1982 with a corresponding fall in unused commitments from 41% of outstanding debt at end-June 1982 to 28% at end-December. The maturity profile of this area's debt was little changed, but South Korean debt of up to one year to maturity rose to 60% of its total debt.

London market

Foreign currency (first half 1983)

Gross foreign currency liabilities of UK banks fell sharply by $22 billion during the second quarter of 1983, reversing growth of similar magnitude during the first quarter. All of this decline, and the rise in the first quarter, was associated with the seasonal activity of Japanese banks immediately before and after the end of their accounting year at end-March. Although the banks' total foreign currency liabilities were little changed in the first half of 1983,

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 +

	1982		1983		
	30 Sept.	31 Dec.	31 Mar.(b)		30 June
BIS reporting area:					
European area	+11.4	+11.1	+10.9	+13.6	+10.1
Canada	+ 1.9	+ 2.5	+ 0.6	+ 0.6	+ 1.1
Japan	+14.4	+14.9	+17.3	+17.3	+18.9
United States	−52.4	−54.9	+59.1	−59.0	−61.5
Offshore banking centres	+ 4.4	+ 2.0	− 3.7	− 4.1	− 5.0
Other Western Europe	+11.7	+14.0	+15.2	+14.1	+15.2
Australia, New Zealand and South Africa	+ 8.8	+ 9.4	+ 9.3	+ 9.3	+ 9.9
Eastern Europe	+ 9.2	+ 8.0	+ 6.8	+ 6.7	+ 6.5
Oil exporting countries	−34.7	−33.6	−30.1	−31.0	−29.7
Non-oil developing countries	+22.2	+21.9	+22.6	+22.5	+21.5
Others(c)	−15.2	−14.9	−10.4	−10.7	− 7.7
Total	**−18.3**	**−19.6**	**−20.6**	**−20.7**	**−20.7**

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

(b) For details of break in series at 31 March 1983, see additional notes to Table 14.1.

(c) Includes international organisations and certain unallocated items.

(1) Information from the BIS half-yearly maturity analysis is reproduced in Table 13.2 of the statistical annex.

(2) The contraction in outside-area lending of $7 billion in the second half of 1982 shown by these statistics is smaller than the $13 billion shown by the quarterly BIS statistics, mainly because of differences in institutional coverage between these series. There appears to have been rebooking of loans by some reporting banks to their affiliates in the offshore banking centres, or elsewhere, that are not covered by the quarterly statistics, and some new lending by those affiliates.

(3) Excluding oil exporting countries.

deposits from other banks in the United Kingdom fell by \$9 billion with a corresponding increase in deposits from overseas residents, mainly US banks (+\$7 billion) and offshore centres (+\$6 billion) but with a fall in oil exporters' deposits (−\$4½ billion).

On the assets side of their balance sheet, UK banks increased lending to Japan (+\$4 billion) but reduced their claims on European centres (−\$3½ billion); their outstanding lending to developing countries was little changed at \$22 billion.

Between mid-February and mid-May, UK banks, mainly the American and Japanese banks in London shortened the maturity of their deposit liabilities. Net short-term foreign currency liabilities of less than one month rose by \$7.2 billion to \$64.8 billion and net liabilities maturing in 1 to 6 months fell by \$7.5 billion to \$47.7 billion.

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

\$ billions

	1982		1983		
	30 Sept.	31 Dec.	31 Mar.(b)		30 June
Foreign currency deposit liabilities of UK banks to:					
Other UK banks	159.9	159.3	169.6	172.0	147.2
Other UK residents	20.9	20.3	20.1	20.6	20.6
Overseas central monetary institutions	50.5	44.1	43.3	43.6	42.2
Own offices overseas(c)	71.9	79.0	82.1	83.5	80.7
Other banks overseas	206.0	204.0	207.4	210.2	208.2
Other non-residents	120.5	122.0	122.7	123.3	127.2
Other liabilities(d)	7.7	7.3	8.6	9.2	8.8
Total liabilities	**637.4**	**636.1**	**653.8**	**662.3**	**634.8**
Foreign currency assets of UK banks with:					
Other UK banks	156.0	155.1	165.8	168.6	143.3
Other UK residents	26.7	28.5	28.7	28.9	29.8
Own offices overseas(c)	144.3	141.7	146.5	147.4	145.1
Other banks overseas	170.3	165.9	165.5	168.5	168.3
Other non-residents	119.3	123.4	125.3	127.2	127.1
Other assets(d)	18.7	19.6	21.1	20.8	20.9
Total assets	**635.3**	**634.3**	**653.0**	**661.5**	**634.4**

(a) The reporting population is broader than the UK monetary sector (see the additional notes to Table 14.1 in the March 1983 *Bulletin*). The split between 'UK banks' and 'Other UK residents' in the table is consistent with this broader definition.

(b) For details of break in series at 31 March 1983, see additional notes to Table 14.1.

(c) Data available from UK monetary sector only.

(d) Mainly capital and other internal funds on the liabilities side and investments on the assets side.

Sterling (second quarter 1983)

During the second quarter of 1983, UK banks' sterling deposit liabilities to non-residents (official and private) increased by only £0.5 billion, almost all from banks overseas. The increase compares with £1.2 billion in the first quarter and a quarterly average increase of £1.1 billion during 1982. After three quarters of strong growth, UK banks' sterling lending overseas fell by £0.2 billion in the second quarter of 1983.

International bank credits

In the first eight months of 1983, new syndicated eurocurrency credits of just \$28 billion were announced, compared with \$72 billion for the corresponding period of 1982. And the downward trend is continuing. The total

UK banks' external sterling liabilities and assets by customer(a)

£ billions

	1982		1983		
	30 Sept.	31 Dec.	31 Mar.(b)		30 June
UK banks' sterling liabilities to:					
Overseas central monetary institutions(c)	1.5	1.5	1.7	1.7	1.5
Own offices overseas	2.1	2.2	2.6	2.6	2.6
Other banks overseas	5.7	6.3	6.3	6.6	7.1
Other non-residents	9.3	9.1	9.7	9.7	9.9
Total liabilities	**18.6**	**19.1**	**20.3**	**20.6**	**21.1**
UK banks' sterling assets:					
Loans and advances to:					
Own offices overseas	1.3	1.3	1.6	1.6	1.6
Other banks overseas	2.8	3.1	3.0	3.1	3.0
Other non-residents	3.0	3.7	4.1	4.1	4.1
Bills	5.2	5.4	5.5	5.6	5.7
Acceptances	2.5	2.5	2.9	2.9	2.7
Total assets	**14.8**	**16.0**	**17.1**	**17.3**	**17.1**

(a) The reporting population is broader than the UK monetary sector (see the additional notes to Tables 16.1 and 16.2 in the March 1983 *Bulletin*).

(b) For details of break in series of 31 March 1983, see additional notes to Tables 16.1 and 16.2.

(c) Includes international organisations.

of new announcements for the second quarter—\$10 billion—was less than the first quarter and in July and August, the total dropped to \$4.6 billion.

Within the weak market there has been intense competition among lenders for credits regarded as a good risk—for example, loans for the Republic of Ireland and Spain were increased after their initial announcement.

The importance of large individual credits is evident from the fact that six credits accounted for 40% of the total in the second quarter; in June, a \$1.24 billion credit raised by the European Community as part of a ECU 4 billion package to support France, accounted for nearly half of the months' figure.

Though the contraction of the market has been most evident for ldcs, the reduction in activity has been widespread, affecting even OECD borrowers. There were signs of a recovery in the second quarter but this did not produce a sustained upturn. Total borrowing by major OECD nations (including the European Community) and

Announced new medium-term eurocurrency credits(a)

\$ billions

	1981	1982	1983			
	Quarterly average		Q1	Q2	July	Aug.
Major OECD countries	17.7(b)	6.1	1.8	3.4(c)	0.2	0.8
Minor OECD countries	3.5	4.3	5.4	3.0	0.5	0.9
Oil exporting countries	3.2	3.7	2.3	1.7	0.2	—
Developing countries	8.9	8.1	3.3	1.8	1.1	0.6
of which:						
Newly industrialised(d)	*3.5*	*3.1*	*1.0*	*0.9*	*0.1*	*0.3*
Net oil exporting(e)	*2.5*	*3.2*	*0.6*	*0.3*	*0.1*	—
Other developing	*2.9*	*1.8*	*1.7*	*0.6*	*0.9*	*0.3*
Other borrowers	0.4	0.5	0.4	0.1	0.3	—
Total	**33.7(b)**	**22.7**	**13.2**	**10.0**	**2.3**	**2.3**

(a) Data cover original maturities of one year and over.

(b) Includes \$10 billion (quarterly average) relating to takeover activity in North America.

(c) Includes \$1.24 billion raised by the EEC on behalf of France.

(d) Mainly Argentina, Brazil and South Korea.

(e) Mainly Mexico and Malaysia.

Total syndicated lending, including rescheduling and new money packages

$ billions

	1982				1983	
	Q1	Q2	Q3	Q4	Q1	Q2
Reschedulings(a)	0.9	0.9	2.8	6.7	11.7	11.1
New money(b)	—	—	—	6.9	5.7	1.7
'Market' loans(c)	27.7	29.2	22.7	11.4	13.2	10.0
Total	**28.6**	**30.1**	**25.5**	**25.0**	**30.6**	**22.8**
Reschedulings and new money as percentage of total	*3*	*3*	*11*	*54*	*57*	*56*

(a) Rescheduled amounts are allocated on a straight line basis over the period when the postponed amortisation payments were originally due, when these periods are longer than one quarter. Bank of England estimates.

(b) Additional loans arranged as part of rescheduling packages, taking the form of a credit syndicated among a group of banks, with both the amounts and participation determined on the basis of existing exposures. Loans are recorded in the period in which details of terms were first announced and may not have been completed or drawn down.

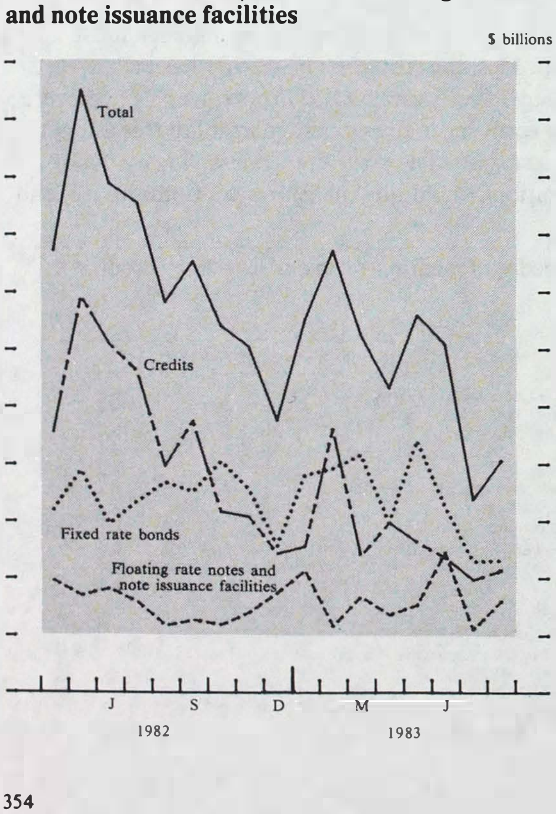
(c) Credits freely syndicated in the market.

minor OECD countries in the first eight months of the year was $4.8 billion and $9.6 billion respectively, compared to $16.6 billion and $14.5 billion over the same period in 1982.

Despite the low level of market activity, however, banks are still committing substantial amounts in syndicated lending, often by rescheduling existing loans or through additional loans accompanying rescheduling packages. In the first half of 1983, such lending has totalled slightly more than market lending; $22.8 billion has been committed through rescheduled loans, and a further $7.4 billion in accompanying new money.

Spreads have continued to drift upwards for all borrowers and in the second quarter no loan outside the major OECD countries carried a spread of less than $\frac{1}{2}$% over LIBOR. The EC was unable to borrow at $\frac{3}{8}$% throughout and conceded a spread of $\frac{1}{2}$% over part of its loan.

Medium-term credits, bonds and floating rate notes and note issuance facilities



International bonds and notes

Activity in the bond markets fell off sharply after a very buoyant period in the first half of the year, when completions were running at an annual rate of $84 billion.

From mid-May, US short-term interest rates firmed, shaking the confidence of investors, and conditions for issuing new *fixed rate paper* became less favourable. Of the few new issues which came to the market in July and August, most fell to substantial discounts. Lack of investor interest has also reduced secondary market activity. In both the Euroclear and CEDEL systems, which cleared a record volume of deals in 1982, turnover has been declining since April.

Issues of *floating rate paper* were at their highest ever level in June but fell away sharply in July. Nevertheless in early August, the Federation of Malaysia issued a $500 million note, the first part of a $850 million tap issue. And banks, which have been heavy fund raisers in the fixed rate bond markets over the last year, are now issuing floating rate notes rather than swapping fixed for floating rate liabilities.

Completed international bond issues[a]

$ billions

	1981	1982	1983			
	Quarterly average		Q1	Q2	July	Aug.
By borrower:						
OECD countries	8.2	14.6	17.8	14.5	2.1	2.5
International institutions	2.1	2.8	3.6	4.9(b)	0.6	0.6
Other	1.0	1.1	0.4	0.7	0.1	0.8
Total	**11.3**	**18.5**	**21.8**	**20.1**	**2.8**	**3.9**
of which:						
Banks	*2.3*	*4.2*	*5.5*	*6.3*	*0.7*	*1.0*
Industrial and commercial companies	*4.2*	*6.1*	*6.1*	*4.9*	*1.0*	*0.8*
State enterprises	*1.3*	*2.6*	*2.8*	*2.2*	*0.4*	*0.4*
Governments	*1.6*	*2.8*	*3.8*	*1.8*	*0.1*	*1.1*
International institutions	*2.1*	*2.8*	*3.6*	*4.9*	*0.6*	*0.6*

(a) Maturities of one year and over. The table includes fixed and floating rate euro and foreign issues, publicised private placements, and note issuance facilities. It excludes Canadian borrowing in New York.

(b) Includes $2.4 billion raised by the EEC on behalf of France.

International interest rates and equity prices

Short-term interest rates were remarkably stable in most countries other than the United States in the three months to end-August. US short-term rates, after hovering around $8\frac{1}{2}$% in the previous three months, began to harden, and in the latter half of August traded in the $9\frac{1}{2}$%–10% range. With the economic recovery well established, this rise in short-term rates owed much to the persistent concern about the inflationary impact of the budget deficit and the stance of monetary policy. The decision of the Federal Reserve in July to rebase and retarget M_1 did little to allay these fears although it did offer reassurance that there would not be any dramatic monetary tightening in the next few months.

With the hardening of US rates, the dollar strengthened considerably over the period. In response, however, European authorities chose rather to allow exchange rates to weaken, and European interest rates have been stable, although during August they began to edge up slightly.

Equity prices in most countries have risen, but the hardening of US prime rates at the beginning of August checked the rises. Subsequently, there has been some recovery, notably in Japan.

Foreign exchange and gold markets

(Three months to end-August)

After appreciating in April and May, sterling continued in demand in early June ahead of the general election. It then weakened on profit-taking and market expectations of a reduction in UK interest rates (base rates fell by $\frac{1}{2}$% to $9\frac{1}{2}$% on 14 June). As expectations of a further cut receded, sterling entered a quiet period in which it traded within a narrow range in effective terms.

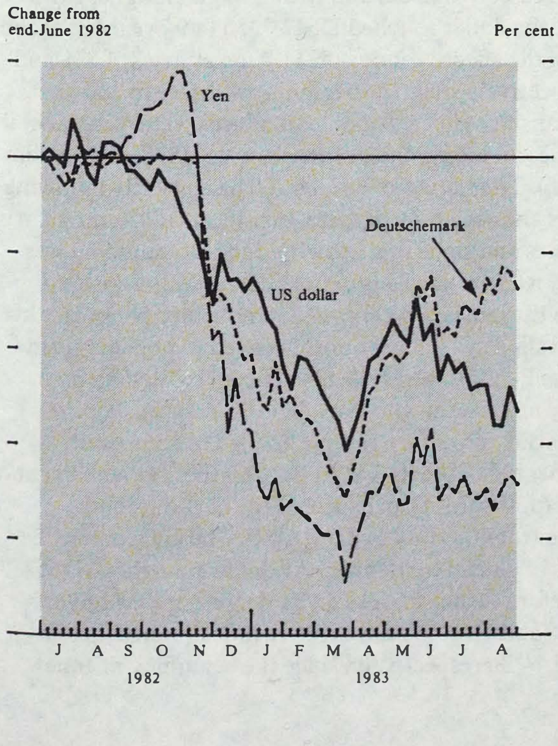
After trading fairly stably earlier in the year, the dollar strengthened from July and advanced particularly sharply in early August as US interest rates firmed and the markets foresaw a further tightening of monetary policy in the face of rapid growth of M_1 and the strong recovery of the US economy: concerted intervention by the Federal Reserve and other central banks was undertaken to calm the markets. Trading within EMS was quiet, although the system was fully stretched for much of the period.

Sterling

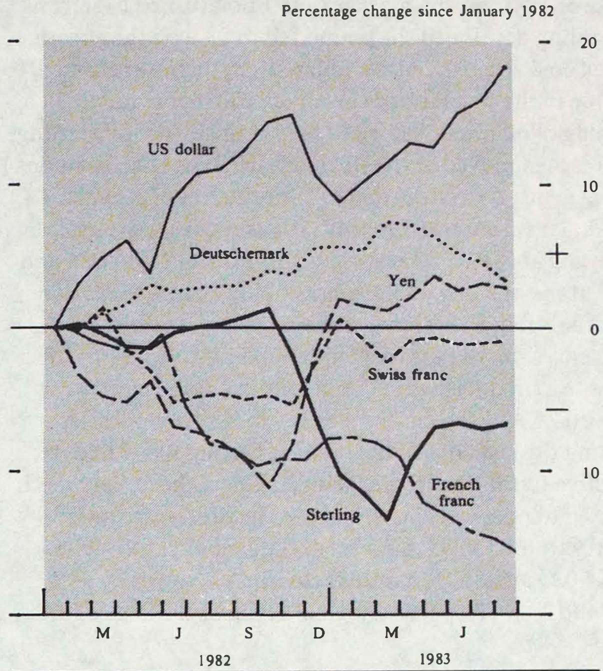
Sterling opened at \$1.5985, DM $4.05\frac{1}{4}$ and 87.2 on the effective index on 1 June, a recovery of 12% on the effective index since its low in late March. On 3 June sterling fell to \$1.5535 on an unfounded rumour of a cut in Nigerian oil prices, but recovered following forecasts of a decisive Conservative victory in the general election to close on 9 June at \$1.5830, DM 4.05 and 87.4 on the effective index.

The Government's re-election appeared to be fully discounted: although sterling was in heavy demand in New

Sterling against selected foreign currencies



Indices of effective exchange rates



York and reached \$1.5950 in the Far East, profit-taking soon emerged and the rate fell to \$1.5710 early on 10 June. After the weekend, sterling encountered widespread and heavy selling. Besides post-election profit-taking, there was a feeling in the market that the Government would prefer lower interest rates. On 14 June base rates were cut $\frac{1}{2}$% to $9\frac{1}{2}$%, but the market thought the Government wished to see still lower interest rates and the pound touched \$1.5117, DM $3.89\frac{1}{4}$ and 83.5 on the effective index on 15 June. However, when no further cut in the Bank's money-market dealing rates came, and a $1\frac{1}{4}$% increase in mortgage rates was announced on 22 June, expectations of a further decline in UK interest rates diminished. And coupled with the continuing firmness of oil prices (an increase in Soviet oil prices was reported on 23 June), sterling strengthened to \$1.5510 on 24 June, although it declined later in the day following the disappointing May trade figures.

Market expectations that interest rates would fall no further in the immediate future were strengthened by the unexpectedly large rise in the June money supply figures announced on 5 July. Indeed, with the market expecting measures to restrain monetary growth, sterling advanced to \$1.5483 and 85.5 on the effective index on 7 July before easing on profit-taking, which increased on news of the Government's measures to reduce the public sector borrowing requirement. Sterling traded quietly for most of the rest of July when it firmed against the continental currencies but eased against the dollar, with the effective rate trading in a narrow range between 84 and 85. Sterling became a more active market again in late July, firming on oil developments and more favourable June trade figures. It strengthened to close at 85.6 on the effective index on 1 August. In early August, the concerted intervention by some central banks temporarily brought a pause in the dollar's rise against continental currencies and the yen and, with the United Kingdom not participating in these operations, the market's attention turned to sterling. As selling developed the pound fell to 83.9 on the effective index on 4 August and, as dollar strengthening resumed, to \$1.466 in the Far East the next day. Further evidence of a firming of oil prices helped to take the pressure off sterling which then moved to the sidelines, with the effective index rising gently to trade around 85 for the rest of August. As the dollar eased from its early August peaks, sterling returned above \$1.50 and reached \$1.5373, DM4.02$\frac{3}{8}$ and 85.9 at the opening on 23 August. However, speculation that the strength of the pound against continental currencies might permit a reduction in UK interest rates, and the announcement of unfavourable trade figures for July on 24 August, caused sterling to ease temporarily. During the last days of the month, sterling recovered in effective terms despite weakening against the dollar which reacted to renewed concern about the prospects for US interest rates. On 31 August, sterling closed at \$1.4936, DM4.02$\frac{3}{4}$ and 85.2 on the effective index, lower by 6$\frac{1}{2}$%, $\frac{1}{2}$% and 2$\frac{1}{2}$%, respectively, than at the beginning of June.

Official reserves
During the three months to end-August, there was an underlying fall in the reserves of \$78 million. Net public sector borrowing totalled \$63 million and the valuation gain on the quarterly renewal of the EMCF swap was \$102 million. At the end of August, the reserves totalled \$18,009 million.

Changes in UK official reserves
\$ millions

	1983		
	June	July	August
Change in reserves	**−211**	**+227**	**+71**
of which:			
Net borrowing (+)/ repayment (−) of public debt	− 32	+ 54	+41
Valuation change on roll-over of EMCF swap	—	+102	—
Underlying change in reserves	−179	+ 71	+30
Level of reserves (end of period)	**17,711**	**17,938**	**18,009**

US dollar
The dollar opened in London on 1 June at DM 2.5353, ¥239.45 and 124.0 on its effective index, having risen to record levels against a number of currencies during May. With the markets pre-occupied by the implications for monetary policy of growth of M_1 far in excess of the announced target range, and the recurring release of statistics indicating a stronger economic recovery than previously expected, the dollar strengthened further. It touched DM 2.5765 on 15 June, following Treasury Secretary Regan's remarks that US monetary policy might need to be tightened unless excess monetary growth was shown to be seasonal. However, the dollar began to ease, to DM 2.5175 on 22 June, as the market's attention turned temporarily away from interest rates, perhaps partly because of a feeling that seasonal and technical factors had contributed to the rise in US rates. In addition, comment about the US trade deficit increased although, with concern about the direction of monetary policy resurfacing, the actual announcement of a record deficit in May caused only a ripple.

Following an unexpected rise in M_1 on 1 July, the dollar rose sharply amid expectations of higher interest rates, further fuelled by newspaper reports of some official support for a higher discount rate. Concern about the possibility of restrictive measures following the Federal Open Market Committee meeting on 12–13 July and expectations of a surge in monetary growth in mid-July, together with rumours of a Brazilian default, led to a fresh strengthening of the dollar. It reached a seven year high of DM 2.6070 on 15 July after the Federal Reserve Chairman told the Senate that monetary policy had been more restrictive recently. The dollar then eased on profit-taking and, more importantly, on expectations, later confirmed, that the Federal Reserve was adjusting the M_1 target to allow for the overshoot during the first half of the year. The newly-announced M_1 target only temporarily relieved concern about higher US interest rates.

The dollar's rise accelerated in the last week of July on the Federal Reserve Chairman's renewed warning of a growing conflict between public and private demands for credit, and influential market commentators' predictions of higher interest rates. In an attempt to calm the markets, the US and Japanese authorities sold dollars for the first time in several months on 29 July. The dollar's advance continued in nervous trading until 2 August when the revelation that concerted intervention by the Americans, West Germans, Swiss and Japanese had been initiated the previous day, plus dollar sales by other European central banks, caused the dollar to ease. But the prospect of higher US interest rates quickly reasserted itself, and with no sign of higher rates in Europe, the dollar touched DM2.7435 (a 9$\frac{1}{2}$ year high) and 130.5 on the effective index on 11 August, rises of 8% and 5% respectively since the beginning of June. In addition, the dollar set fresh record highs against several continental currencies including the French franc (8.2525) and the lira (1623.25). Thereafter, the dollar fell back swiftly following statistics showing only moderate increases in the monetary aggregates and signs that growth in the US economy was slowing, while reductions in the Federal Funds rate led many in the market to believe that monetary policy might be eased slightly. This optimism proved to be short-lived when the Federal Reserve's unexpected tightening of liquidity in the domestic market on 25 August sent the bond market into sharp reverse and led to a renewed strengthening of the dollar. Following the announcement of a smaller fall in M_1 than expected the next day, and evidence from the July Federal Open Market Committee's minutes of official tightening, the dollar rose above DM2.70 again before easing to close on 31 August at DM2.6965, ¥246.45 and 129.5 on the effective index (increases of 6$\frac{1}{2}$%, 3% and 4$\frac{1}{2}$%, respectively, since the beginning of June).

EMS

The narrow band of the EMS was fully stretched for much of the period but even then, with the market's focus firmly on the dollar, the tensions were not great enough to call for more than modest intervention.

The deutschemark remained at the bottom of the narrow band for most of the period until mid-August but strengthened within the system thereafter. In spite of periodic speculation that the weakness of the deutschemark against the dollar, combined with above-target monetary growth, might lead the Deutsche Bundesbank to raise official interest rates, no move was made during the period under review: in the meantime, interest rates elsewhere in the EMS were quite stable. The Belgian franc mainly traded just above the bottom of the narrow band, although it weakened following a further $\frac{1}{2}$% reduction in discount rate to 9% on 23 June (after cuts totalling $4\frac{1}{2}$% in the previous three months) and became firmly established as the weakest currency in the latter part of August. However, pressure on the currency was not severe. The Irish pound traded at the top of the narrow band for much of the time, but was periodically displaced by the French franc which drew strength from a narrowing of the current account deficit and the Government's reaffirmation of its policy to reduce inflation. The lira traded strongly within the EMS, close to the top of its wider exchange rate band.

Other currencies

Although easing against the dollar, the yen strengthened against most major currencies and as a result fell just $1\frac{1}{4}$% in effective terms. Its strength reflected a sharp increase in the current account surplus, and official comment that concern about the yen precluded the long-awaited cut in the discount rate.

A $\frac{1}{4}$% increase in commercial bank deposit rates on 17 June underpinned a firming of the Swiss franc against the deutschemark and, although these rates were subsequently reduced by $\frac{1}{4}$% on both 4 July and 17 August, the franc drew strength from the favourable inflation rate and concern about a possible Brazilian default. The Swiss franc strengthened by $2\frac{1}{4}$% against the deutschemark (to Sw. Fcs 0.810), although easing by 4% against the dollar to Sw. Fcs 2.1855 .

Gold

During the period gold traded within a band of $397 to $435 influenced mainly by movements in the dollar but also reacting sharply to the progress of talks on Brazilian debt reschedulings. Gold opened the period sharply down as failure to hold a chart point in New York on 30 May produced heavy selling but then settled around $410. The price then fell to $397 on 6 June as the dollar strengthened, but after a period of quiet trading it recovered on speculative buying as the dollar eased. It reached $425 on 27 June and rose further to $435 in New York on 7 July on rumours of a default by Brazil before slipping back in thin and nervous trading the following day. A news report on 15 July that the BIS had refused to extend its credit to Brazil caused another surge in the price to $430 but thereafter gold traded quietly in a range between $420 and $430, until the strengthening of the dollar and higher carrying costs at the end of July caused it to fall to $406.75 on 1 August. Although gold subsequently recovered to the $425 level as the dollar eased temporarily, by the end of August it had slipped back to $414.25.