International financial developments

In part because of shortage of finance, the current account deficits of developing countries have been much reduced this year. Oil exporting countries are in approximate balance on current account (and have drawn down assets), and there has been a movement towards balance in some OECD countries—the United States, in growing deficit, being a notable exception. These developments have been accompanied by much lower activity in international financial markets, especially in syndicated bank credits (other than in business arising from debt restructurings). The decline in activity is evident in the international business of banks in the United Kingdom and in the BIS reporting area more generally. Activity in the international bond and floating rate note markets has been less affected.

Sterling has eased on balance in the foreign exchange market. After hints of weakness in the early autumn, the dollar has regained ground. The EMS has been generally calm.

Balance of payments positions

Despite inconsistencies in the statistics,(1) broad developments on current account, summarised in the first table, are clear. The combined deficit of non-oil developing countries, many of which have debt problems, is much lower this year than in 1981 and 1982. They have cut imports sharply, and their terms of trade have improved as a result of higher commodity prices. The smaller OECD countries, too, have enjoyed an improvement on current account. By contrast, the oil exporting countries' surplus of two years ago has vanished, and the deficit of the major OECD countries as a group has widened, with the UK surplus diminished and the US deficit greatly enlarged.

The position of *non-oil developing countries* is shown in the second table. In outline, their current account deficit and capital inflow have both shrunk: official capital flows have been maintained, but other capital inflows have declined. They have borrowed considerably more from the IMF, however, with Argentina, India and Brazil in particular making large drawings. Although developing countries (particularly in Asia) were able to increase their reserves slightly in the first six months of this year, reserves remain low in relation to imports.

Oil exporters' imports have fallen sharply this year, especially in four countries (Iraq, Venezuela, Nigeria and Ecuador, all of which, for different reasons, face financing constraints) where tighter domestic policies have been implemented. Oil exporting countries were nevertheless in deficit in the first half of the year; they moved to approximate balance in the third quarter, following a rise in exports.

Among the *major OECD countries*, the United States' deficit on current account has grown, as also has Japan's surplus. The other changes, however, have been towards balance, with two large deficits last year (France and Italy) virtually eliminated in the third quarter. The improved position of some *smaller OECD countries* also reflects tighter financial policies and rather slow domestic growth.

Current account summary

$ billions; *seasonally adjusted*

	1981	1982	1983		
	Year	Year	Q1	Q2	Q3(a)
Total OECD	−28	− 31	− 5	−10	−11
of which:					
Major countries(b)	*− 2*	*− 6*	*− 1*	*− 4*	*− 7*
Other	*−26*	*− 25*	*− 4*	*− 6*	*− 4*
Oil exporting countries	51	− 13	− 8	− 6	1
Other developing countries	−82	− 67	−14	−11	−12
Other countries(c)	−11	− 3	1	1	—
World discrepancy(d)	−70	−114	−26	−26	−22

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

Developing countries' balance of payments

$ billions; *not seasonally adjusted*

	1981	1982			1983	
	Year	Year	Q3	Q4	Q1(a)	Q2(a)
Current account	−82	−67	−15	−14	−13	−10
Capital account	77	52	11	12	10	9
of which:						
Concessionary and other official flows	*26*	*27*	*7*	*7*	*7*	*7*
Direct investment	*13*	*9*	*2*	*2*	*2*	*2*
Borrowing from banks(b)	*40*	*20*	*− 1*	*6*	*2*	*4*
Borrowing via bond issues	*4*	*3*	*1*	—	—	—
Other capital flows	*− 5*	*− 7*	*2*	*− 3*	*− 1*	*−4*
Official financing balance	5	15	4	2	3	1
of which:						
Use of IMF credit	*6*	*5*	*1*	*1*	*4*	*2*
Liabilities to other CMIs	—	*3*	—	*3*	—	—
Reserves(b) *etc (increase−)*	*− 1*	*7*	*3*	*− 2*	*− 1*	*−1*

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

(1) To judge from the recorded statistics, all the main country groups were in deficit in 1982, in total amounting to over $110 billion. The discrepancy may be only slightly lower this year. It appears that underrecording of service receipts and investment income is the main explanation: the effect is probably to understate the receipts of some OECD and oil exporting countries.

International borrowing and lending

To a considerable extent the reduction in imbalances on current account is a response to financial constraints as doubts about the credit-worthiness of a number of borrowers have induced lenders to rein back. The amount of money raised in international markets has fallen sharply in the last year or so.

Medium-term syndicated bank credits[1]

The largest reductions have been in medium-term credits, which were barely $7 billion in the third quarter and ran at an even lower rate in October and November. Although a number of borrowers are reported to be about to come to the market, announcements are unlikely to exceed $35–40 billion this year, well below the $90 billion recorded in 1982.

These figures relate to 'spontaneous' market credits: in addition, some new money is commonly lent in restructuring packages, though there was no such lending in the third quarter. Further restructuring packages for Brazil and Mexico provide for new money of $10.5 billion, and it may be that the low figures for 'spontaneous' market loans in the second and third quarters reflect banks' actions in anticipation of calls on their resources later this year or early in 1984.

Medium-term credits

$ billions

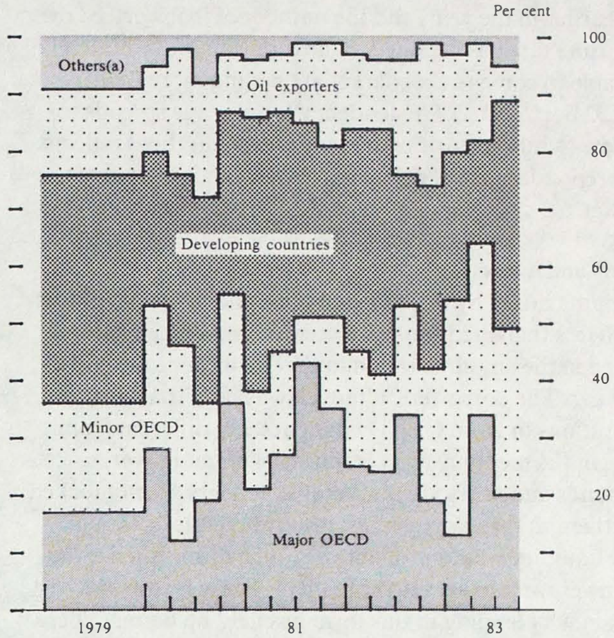
		Major OECD	Minor OECD	Non-OECD	*of which, Latin American*
1982	Q1	6.9	5.5	15.3	*10.9*
	Q2	7.2	5.0	17.0	*9.1*
	Q3	7.9	4.3	10.4	*5.6*
	Q4	2.4	2.5	6.4	*3.4*
1983	Q1	1.8	5.4	5.9	*0.3*
	Q2	2.3	3.0	4.8	*0.3*
	Q3	1.6	2.2	3.5	*0.6*
	Oct.	1.1	0.7	0.3	*0.1*
	Nov.	0.3	0.5	1.2	*0.1*

Among the main groups of borrowers, *developing countries'* 'spontaneous' market borrowing increased slightly in the third quarter—after a particularly low total in the second quarter—but in October and November they raised only $570 million. Asian borrowers have raised considerably more than Latin American borrowers this year, a reversal of the pattern in 1982, although some Latin American borrowers not involved in debt rescheduling have been able to borrow on a small scale.

Borrowing by *oil exporting countries* fell to around $0.5 billion in the third quarter, but a $800 million credit for Algeria was announced in November. Announced credits for *Eastern European* borrowers remain low, at around $0.2 billion a quarter.

Medium-term credits to *OECD countries* fell sharply in the third quarter. Some borrowers' needs had probably been satisfied in the first half of the year. Among the major countries, borrowing was confined to Italy, France, and a number of US corporations. The most notable borrowing by

Share of groups of borrowers in 'spontaneous' medium-term credits

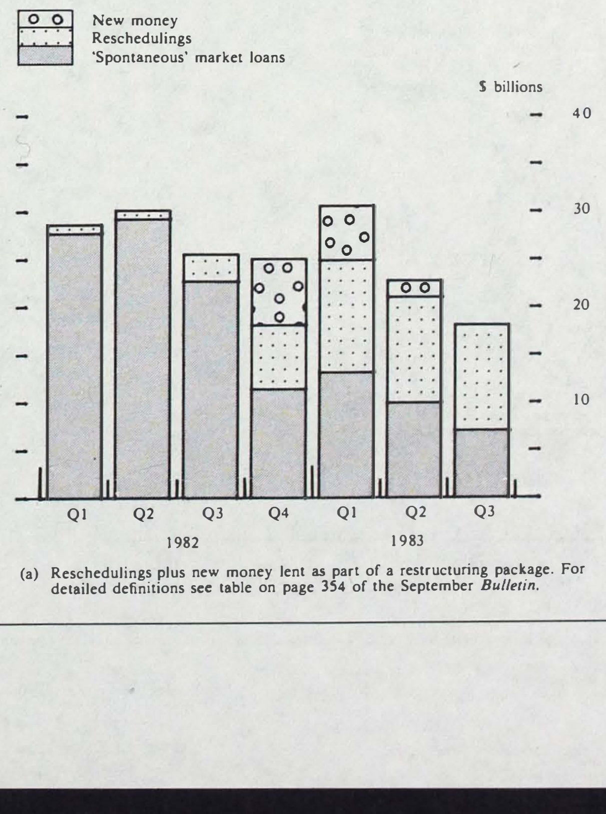


(a) Including Eastern bloc.

the smaller OECD countries was a sterling credit for Sweden, which aroused so much market interest that its size was doubled to £500 million.

Continuing debt difficulties and the second round of financing packages must be discouraging 'spontaneous' market lending by the banks. However, despite the low level of market loans and increasing interest in other forms of lending (such as trade finance) and in fee-earning activities, the banks do not appear to be disenchanted with syndicated loans as such. The reception of the Swedish credit is evidence of this; so too is the competition for mandates to manage loans to the better-rated borrowers, which is

Medium-term credits—restructuring[a] and 'spontaneous' market loans



(a) Reschedulings plus new money lent as part of a restructuring package. For detailed definitions see table on page 354 of the September *Bulletin*.

(1) Figures and comments relate to announcements, not to drawings on credits.

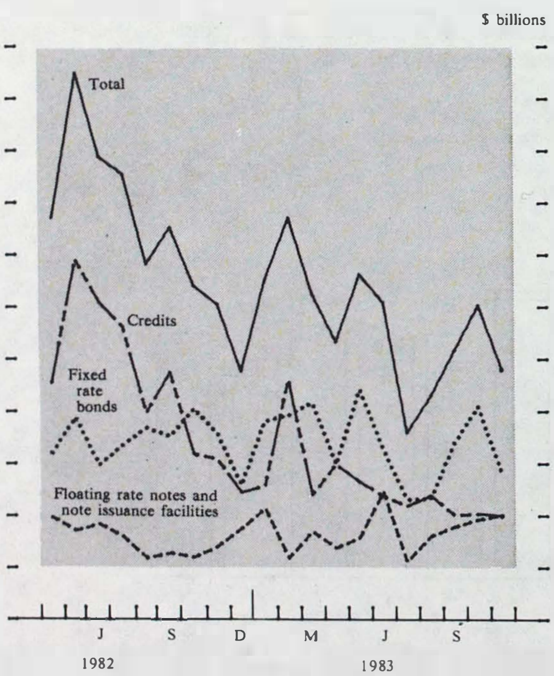
compressing margins—OECD countries are now paying an average margin of about $\frac{1}{2}\%$ over LIBOR, compared with $\frac{3}{4}\%$ earlier in the year, and the number of loans priced over US prime rate has declined. (Those developing countries still able to come to the market are paying more than OECD borrowers.) The tendency for average spreads to narrow (while maturities are tending to lengthen) reflects the preponderance of prime borrowers in all sectors of the market.

Bonds and notes

Amounts raised by the issue of bonds and notes have fallen much less than medium-term credits, and indeed have exceeded the amounts raised in that form since the end of last year. The borrowers, almost always international institutions or from OECD countries, are different from those in the medium-term credit market; moreover, since the bonds and notes are marketable, lenders are not locked into them as they are to medium-term credits (although their liquidity would probably be much diminished if the borrower were to get into difficulty). These factors may explain why lending in this form has held up better. There was, nevertheless, a substantial reduction in issues in the third quarter: interest rates may have been a factor; in addition, instalments due on partly-paid bonds issued earlier in the year may have discouraged new offerings (issues in partly-paid form are recorded in full at the time they are made). Activity picked up during the course of the quarter, however, and has been buoyant in both the bond and note sectors in October and November.

Borrowers from major OECD countries raised substantially less in the third quarter, perhaps because interest rates were thought too high, but also perhaps because corporations' balance sheets are now better structured.

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



Completed international bond issues[a]

$ billions

	1981	1982	1983				
	Quarterly average		Q1	Q2	Q3	Oct.	Nov.
By borrower:							
OECD countries	8.2	14.6	17.8	14.5	8.9	6.5	4.4
International institutions	2.1	2.8	3.6	4.9(b)	2.6	1.4	1.0
Other	1.0	1.1	0.4	0.7	1.4	0.1	0.2
Total	**11.3**	**18.5**	**21.8**	**20.1**	**12.9**	**8.0**	**5.6**
of which:							
Banks	*2.3*	*4.2*	*5.5*	*6.3*	*3.0*	*2.0*	*1.0*
Industrial and commercial companies	*4.2*	*6.1*	*6.1*	*4.9*	*3.0*	*1.8*	*1.9*
State enterprises	*1.3*	*2.6*	*2.8*	*2.2*	*1.8*	*1.2*	*0.2*
Governments	*1.6*	*2.8*	*3.8*	*1.8*	*2.5*	*1.6*	*1.5*
International institutions	*2.1*	*2.8*	*3.6*	*4.9*	*2.6*	*1.4*	*1.0*

(a) Maturities of one year and over. The table includes fixed and floating rate euro and foreign issues, published 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.

Coupons on fixed rate issues rose in the third quarter, and there was a sharp decline in the share of US dollar issues (on which coupons rose by 1%), from 47% in the first half of the year to 31%. The share of sterling and Swiss franc issues increased. There was a resurgence of dollar placements in October, although traditional straight issues were not well received.

Uncertainty about interest rates has tended to make floating rate notes more popular (in relation to fixed coupon issues). In October, Sweden successfully placed $1 billion of twenty-year notes, a maturity not seen in the eurobond markets since the 1960s, and so well received that the initial offer (as in the case of the sterling bank credit) was doubled to meet demand. Six floating rate notes in sterling have been issued since October, the first for over three years.

International banking developments

The international banking statistics throw further light on some of the developments in international borrowing and lending discussed above. Figures are available for external lending by and deposits with banks in the BIS reporting area in the second quarter, and for UK banks' foreign currency and external sterling business in the third quarter.

External business of banks in the BIS reporting area
(second quarter 1983)

The flow of funds from these banks to borrowers outside the BIS reporting area, which had averaged $18 billion a quarter in the first half of 1982, was less than half that rate in the first half of this year. There was virtually no new lending to developed countries outside the area or to oil exporting countries. The flow of loans to non-oil developing countries[1] was better maintained, although Latin America received only $1 billion in the second quarter (compared with $12 billion in 1982 as a whole); the Philippines, Thailand, Egypt and Israel between them took about $3 billion (the last two also adding to deposits). Offshore banking centres took only $1 billion, after $8 billion (about the same rate as in 1982) in the first quarter.

(1) Measures of international bank lending deflated and scaled in various ways are presented in an article on page 557.

Far smaller amounts from outside the reporting area have been placed on deposit. Indeed, deposits from outside the area placed with banks in the BIS reporting area fell by \$4 billion in the second quarter (and barely increased in the first half year, having grown by \$19 billion in 1982). Oil exporting countries continued to draw their deposits down, and did so more sharply than last year. Almost all of the \$3 billion of deposits placed by developing countries came from Latin America (with substantial placements by Brazil and Mexico). New funds from the offshore banking centres dried up completely in the second quarter.

Most of the new external business of banks in the BIS reporting area last year (as in previous years) was with other countries within the BIS area. But this business, too, has considerably diminished. In the second quarter, banks (mostly UK banks) reported a net repayment of \$4 billion of loans made within the area, leaving just \$3 billion of new lending to other countries in the area in the first half year. Last year, such lending amounted to \$95 billion. Deposits from other countries in the reporting area (mostly from US sources), have increased far more slowly than last year. Interbank business within the reporting area has, broadly speaking, ceased to expand.

External business of banks in the BIS reporting area
\$ billions; changes exclude estimated exchange rate effects

	1982	1983		Outstanding end-June
	Year	Q1	Q2	1983
Deposits from:				
Outside area				
Offshore banking centres	+ 31	+13	—	263
Developed countries	− 1	—	−1	47
Eastern Europe	+ 2	—	+1	17
Oil exporting countries	− 18	− 8	−7	120
Non-oil developing countries	+ 4	—	+3	104
of which, Latin America	*+ 2*	—	*+3*	*39*
Sub-total	+ 19	+ 6	−4	551
Inside reporting area	+ 97	+ 7	+9	1,028
Unallocated	+ 8	− 4	+4	41
Total	**+124**	**+ 9**	**+9**	**1,620**
Lending to:				
Outside area				
Offshore banking centres	+ 31	+ 8	+1	276
Developed countries	+ 16	—	+1	112
Eastern Europe	− 5	− 1	—	50
Oil exporting countries	+ 8	—	+1	79
Non-oil developing countries	+ 20	+ 2	+4	251
of which, Latin America	*+ 12*	*+ 3*	*+1*	*172*
Sub-total	+ 70	+ 8	+7	768
Inside reporting area	+ 95	+ 7	−4	885
Unallocated	+ 10	+ 1	+3	36
Total	**+175**	**+16**	**+6**	**1,689**

Eurosterling *(second quarter 1983)*

Some of the activity reported in the BIS statistics is external business in sterling reported by banks outside the United Kingdom. Assets and liabilities in sterling of banks abroad grew moderately during the second quarter, total sterling deposits rising by £0.4 billion and loans by £0.1 billion. Within the total, eurosterling deposits held by UK non-banks remained broadly unchanged. The amount outstanding at end-June was £1.1 billion, equivalent to about 1% of sterling M_3 (in which it is not included); UK non-banks' outstanding borrowing from banks abroad was also unchanged at £0.7 billion. There has been no significant change in either of these figures since end-December 1980, but UK banks have tended to draw funds from the eurosterling market in recent quarters.

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

	1982		1983			
	30 Sept.	31 Dec.	31 Mar.		30 June	30 Sept.
Foreign currency deposit liabilities of UK banks to:						
Other UK banks	159.9	159.3	169.6	172.0	147.0	157.3
Other UK residents	20.9	20.3	20.1	20.5	20.8	21.4
Overseas central monetary institutions	50.5	44.1	43.3	44.6	42.4	46.1
Own offices overseas	71.9	79.0	82.1	83.5	80.7	89.4
Other banks overseas	206.0	204.0	207.4	209.2	210.1	209.5
Other non-residents	120.5	122.0	122.7	123.3	125.5	125.2
Other liabilities(b)	7.7	7.3	8.6	9.2	7.8	10.7
Total liabilities	**637.4**	**636.1**	**653.8**	**662.3**	**634.3**	**659.6**
Foreign currency assets of UK banks with:						
Other UK banks	156.0	155.1	165.8	168.6	143.1	154.4
Other UK residents	26.7	28.5	28.7	28.9	29.9	32.1
Own offices overseas	144.3	141.7	146.5	147.4	145.1	152.4
Other banks overseas	170.3	165.9	165.5	168.5	168.0	168.9
Other non-residents	119.3	123.4	125.3	127.1	127.0	128.3
Other assets(b)	18.7	19.6	21.1	21.0	20.7	23.5
Total assets	**635.3**	**634.3**	**653.0**	**661.5**	**633.8**	**659.6**

(a) The reporting population is broader than the UK monetary sector (see the additional notes to Table 14.1 in the March 1983 *Bulletin*) although data on 'own offices overseas' are available for the UK monetary sector only.

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

Foreign currency and external sterling business of London banks *(third quarter 1983)*

Foreign currency liabilities of UK banks rose by \$25 billion in the third quarter, almost entirely reflecting seasonal borrowing by Japanese banks in London. Most of the money (\$23 billion) was borrowed from other banks, half of it within the London market; and most of it was lent on again in the interbank market. Lending to overseas non-banks increased by nearly \$2 billion after a rise of \$3 billion in the first half of 1983. There was little change in the banks' foreign currency positions with UK non-banks.

Almost all of the foreign currency business with non-residents was with banks in the BIS reporting area or in offshore centres. In the process, banks in the United Kingdom increased their net indebtedness to US sources,

Eurosterling market[(a)]
£ billions

	1981	1982		1983	
	31 Dec.	30 June	31 Dec.	31 Mar.	30 June
Deposits by:					
UK banks	3.3	2.8	3.3	3.4	3.4
UK non-banks	1.0	1.0	1.2	1.2	1.1
Other banks in BIS area	5.2	4.6	4.7	4.8	5.1
Other non-banks in BIS area	0.6	0.6	0.7	0.7	0.8
Oil exporting countries	0.8	0.6	0.6	0.5	0.5
Other	1.4	1.3	1.5	1.7	1.8
Total	**12.3**	**10.9**	**12.0**	**12.3**	**12.7**
of which, CMIs	*0.6*	*0.4*	*0.3*	*0.4*	*0.5*
Lending to:					
UK banks	3.4	3.7	4.0	4.4	4.9
UK non-banks	0.7	0.6	0.6	0.7	0.7
Other banks in BIS area	3.8	3.3	3.6	3.7	3.5
Other non-banks in BIS area	1.5	1.4	1.6	1.8	1.6
Other	0.9	0.8	0.8	0.8	0.8
Total	**10.3**	**9.8**	**10.6**	**11.4**	**11.5**

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.

but on balance supplied funds to the reporting countries in Europe. They also supplied $\$\frac{1}{2}$ billion (net) to oil exporting countries (which have now been net borrowers from London banks for almost two years) but reduced their lending to non-oil developing countries by $\$1\frac{1}{4}$ billion, half of the reduction being in loans to Asia.[1]

A maturity analysis of banks' foreign currency assets and liabilities[2] for the period mid-May to mid-August shows that the net foreign currency liabilities of UK banks with less than one month to maturity fell from \$64.7 billion to \$59.3 billion, whereas net liabilities maturing in one to six months rose from \$47.8 billion to \$51.2 billion. As a percentage of total claims, net liabilities due in under six months fell from 18.7% to 17.9%.

Sterling business of UK banks with non-residents grew fairly strongly in the third quarter. Deposit liabilities to non-residents, official and private, increased by £0.8 billion. The increase compares with a rise of £0.5 billion in the first quarter and a quarterly average of £1.1 billion in 1982. UK banks' sterling lending overseas grew by only £0.2 billion; a fall in claims on banks was offset by a rise in claims on non-banks of \$0.5 billion.

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

£ billions

	1982		1983			
	30 Sept.	31 Dec.	31 Mar.(b)		30 June	30 Sept.
UK banks' sterling liabilities to:						
Overseas central monetary institutions(c)	1.5	1.5	1.7	1.7	1.6	2.0
Own offices overseas	2.1	2.2	2.6	2.6	2.7	2.9
Other banks overseas	5.7	6.3	6.3	6.6	7.0	6.8
Other non-residents	9.3	9.1	9.8	9.9	10.0	10.4
Total liabilities	**18.6**	**19.1**	**20.4**	**20.8**	**21.3**	**22.1**
UK banks' sterling assets:						
Loans and advances to:						
Own offices overseas	1.3	1.4	1.6	1.6	1.6	1.5
Other banks overseas	2.8	3.0	3.0	3.1	3.0	2.8
Other non-residents	3.0	3.7	4.1	4.1	4.1	4.3
Bills	5.2	5.4	5.6	5.6	5.7	5.8
Acceptances	2.5	2.5	2.9	2.9	2.7	2.9
Total assets	**14.8**	**16.0**	**17.2**	**17.3**	**17.1**	**17.3**

(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 at 31 March 1983, see additional notes to Table 16.

(c) Includes international organisations.

Maturity analysis of UK banks' lending outside the BIS reporting area[3] ***(end-June 1983)***

There was some rise in the proportion of short-term claims (with less than six months remaining to maturity, including any amounts reported as overdue) in the first half of 1983. But overall the maturity structure of UK banks' foreign currency and sterling lending to countries outside the BIS area changed little during the year to June 1983, when short-term assets accounted for 43% of total lending.

UK banks' short-term lending outside the BIS area[a] **as a percentage of total lending**[b]

	1980	1981	1982		1983
	31 Dec.	31 Dec.	30 June	31 Dec.	30 June(c)
Western Europe	37.3	39.8	39.5	38.1	39.8
Eastern Europe	32.6	33.9	33.7	31.2	29.6
Australia, New Zealand and South Africa	27.3	34.9	47.1	43.8	42.8
Major oil exporting countries	44.0	48.2	50.9	48.4	52.1
Non-oil developing countries	35.4	36.1	36.2	34.6	37.8
of which:					
Middle East and North Africa	*57.0*	*61.9*	*62.0*	*60.8*	*63.7*
Other Africa	*35.3*	*35.6*	*39.1*	*40.7*	*34.6*
Asia	*47.6*	*46.9*	*52.0*	*46.9*	*53.6*
Latin America	*29.1*	*29.9*	*27.2*	*26.1*	*28.3*
All countries outside BIS area	**39.6**	**41.5**	**43.1**	**41.5**	**43.2**

(a) For the purpose of this table, the BIS area includes the offshore banking centres; hence lending to them is excluded.

(b) Debt due for repayment within six months as a percentage of total outstanding lending (excluding amounts unanalysed by maturity) to each group of countries.

(c) All overdue claims are included in the short-term maturity band from this date.

During the first half of 1983, short-term lending to non-oil developing and to oil exporting countries rose slightly as a percentage of total claims on these countries; by contrast, the proportion of short-term loans to Eastern Europe fell. (Changes in the proportion of short-term loans to some extent reflect the incidence of restructuring agreements.) Total unused credit commitments expressed as a percentage of disbursed loans remained virtually unchanged during the first half of 1983.

Deployment of oil money (Table on page 493)

In the second quarter of 1983, an increase in outstanding credit on oil exports and a current account deficit estimated at \$6.1 billion combined to produce a net cash deficit for the oil exporting countries of \$7.5 billion. Their assets were accordingly drawn down, bank deposits falling by \$8.3 billion; a reduction of \$3 billion in government debt and other investments in the United Kingdom and the United States was, however, offset by an increase in one oil exporting country's reserve position in the IMF.

The combined current account of the oil exporting countries is provisionally estimated to have shown a surplus of \$1.2 billion in the third quarter. Foreign currency deposits with UK banks rose by \$0.6 billion. Bank deposits held in the United States were unchanged, but holdings of other investments in the United States were further reduced by \$2 billion.

Foreign exchange and gold markets

(Three months to end-November)

Sterling eased on balance in a generally inactive market; the effective rate index (ERI) was mainly in a range from 83 to 85. There was a period of downward pressure in expectation of a cut in base rates but, following a reduction by $\frac{1}{2}$% to 9% on 3 October, interest rate expectations became less important. Tensions in the Middle East gave rise to occasional sharp movements but were generally a source of strength for sterling.

(1) See Table 14.1 in the statistical annex for further geographical details.

(2) Details are in Table 14.2 in the statistical annex.

(3) For the purpose of this analysis, the BIS area includes the offshore banking centres.

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

$ billions

	1981 Year	1982 Year	1983 Q1	1983 Q2	1983 Q3(b)	Outstanding end-June 1983
United Kingdom:						
Sterling bank deposits	0.4	1.2	0.3	−0.3	—	6
Eurocurrency bank deposits	7.8	− 9.2	− 3.8	−1.4	0.6	52
British government stocks	0.9	− 0.4	0.1	0.1	—	4
Other investments(c)	0.2	− 0.6	− 0.1	−0.1	−0.2	4
	9.3	− 9.0	− 3.5	−1.7	0.4	66
United States:						
Bank deposits	− 1.9	4.7	− 0.4	−0.4	—	16
Treasury bonds, notes and bills	10.4	7.3	− 1.3	−2.1	−1.4	38
Other investments(c)	6.9	− 1.3	− 1.5	−0.9	−0.6	34
	15.4	10.7	− 3.2	−3.4	−2.0	88
Other industrial countries:						
Bank deposits	− 5.1	−12.7	− 4.3	−6.2	..	49
Other investments(c)	19.4	6.6	− 1.5	−0.1(b)	..	70
IMF and IBRD(d)	2.4	2.1	0.2	2.7	−0.3	19
Loans to developing countries	7.2	3.9	0.4	0.1	..	54
Total identified uses of funds	**48.6**	**1.6**	**−11.9**	**−8.6**	**..**	**346**
External borrowing etc(e)	6.4	13.8	5.7	−1.4	..	
Current balance	50.9	−13.2	−8.0	−6.1	1.2	
Total identified sources of funds	**57.3**	**0.6**	**−2.3**	**−7.5**	**..**	

.. not available.

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

(b) Provisional.

(c) Mainly loans and holdings of equities.

(d) Includes holdings of gold.

(e) Oil exporting countries' liabilities arising from net borrowing and inward direct investment, together with changes in credit given by them for oil exports.

For much of the period, changing prospects for an easing of US monetary policy continued to be pivotal for the markets. In late September and early October operators began to believe that the dollar might at last be starting its long-awaited decline as hopes for an easing of US monetary policy rose: in addition, the widening current account deficit attracted increased comment. However, this hope again proved premature. The US economic recovery remained strong, official policy continued to emphasise the restraint of inflation and thus any policy easing looked increasingly likely to be cautious. Furthermore, increased international tension emphasised the dollar's role as a safe haven. As a result, the dollar had recouped most of its losses by the end of the period.

The EMS remained calm. The deutschemark initially strengthened within the system but, as the dollar recovered, it surrendered some of its gains. The strength of the yen permitted a reduction in the Japanese discount rate from 5½% to 5%.

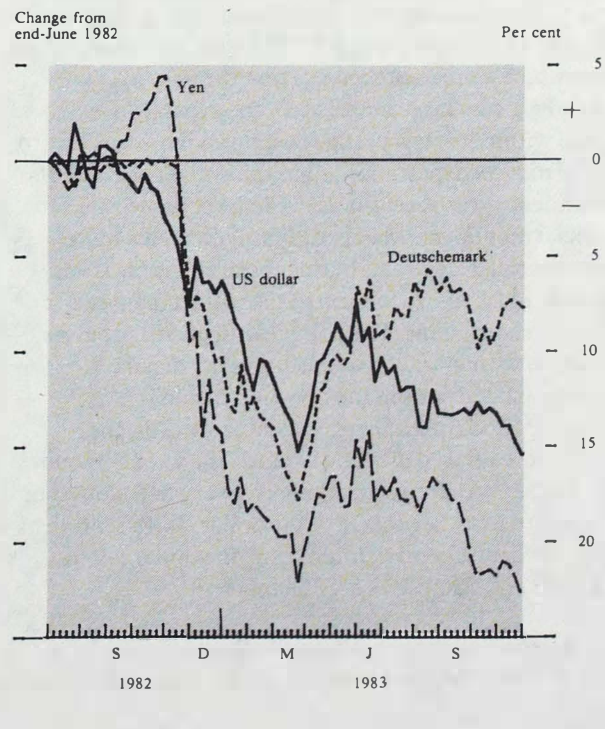
Sterling

Having opened firmly at $1.4978, DM4.03⅜ and ERI 85.4 on 1 September, sterling soon began to ease on comment that German official interest rates might rise shortly and on revived hopes of a cut in UK interest rates after the publication of good provisional money supply figures for August. After falling to $1.4865, DM4.00 and ERI 84.6 on 6 September, the pound firmed the next day when the Bundesbank's interest rate adjustment proved to be limited. Subsequently, sterling traded quietly within a narrow range until press speculation about a possible increase in oil prices and reports of Iran's threats to block the flow of oil from the Gulf caused sterling to strengthen to $1.5134, DM4.02½ and ERI 85.4 on 20 September.

Thereafter, the pound weakened as hopes rose for a cut in base rates. News of the ½% cut to 9% on 3 October initially steadied the exchange rate but, with the market unable to absorb a number of sizable selling orders during the afternoon, the downward pressure resumed and sterling touched $1.4713 early on 4 October, and DM3.85⅛ and ERI 82.4 at the opening on the next day. Professional short-covering at these levels led to a recovery. This continued on 10 October when sterling moved up sharply to $1.5193, DM3.91⅛ and ERI 84.1 at noon in response to events in the Gulf. As the immediacy of the threat to oil supplies diminished, and with speculation that the provisional September money figures published on 11 October would be conducive to a further reduction in base rates, the pound weakened. For more than two weeks thereafter, sterling was an inactive market, trading steadily around $1.50, DM3.90 and ERI 83.5, but firming on the favourable September trade figures on 26 October.

A period of more active trading ensued with developments in the oil market still the main influence. Sterling first eased, but subsequently met some good demand and strengthened sharply against the continental currencies to close in London on 1 November at $1.4942, DM3.95⅞ and ERI 84.1. Later that day the strength of the cross-rate against the deutschemark attracted a brief spell of heavy selling which depressed the ERI to 83.5 at the opening the next morning. However, sterling again firmed, holding steady against the dollar but appreciating against the

Sterling against selected foreign currencies



continental currencies under the impact of increased tensions in the Middle East: in addition, sterling met some demand following the release of the provisional October money figures on 8 November showing a reacceleration of monetary growth. A period of quiet trading thereafter was interrupted by some selling of sterling against an aggressively bought dollar on 18 November. Disappointing October trade figures and a continued slight softening of oil prices gave a weaker tone to the pound, which touched $1.4551 (an eight-month low) on 29 November as the dollar surged upwards. Sterling closed at $1.4664 (−2% over the period), DM3.95⅜ (−2%) and ERI 83.1 (−2¾%).

Official reserves
During the three months to end-November there was an underlying fall in the reserves of $210 million. Net public sector borrowing under the exchange cover scheme totalled $229 million and the valuation gain on the quarterly renewal of the EMCF swap was $71 million. At the end of November, the reserves totalled $18,099 million.

Changes in UK official reserves
$ millions

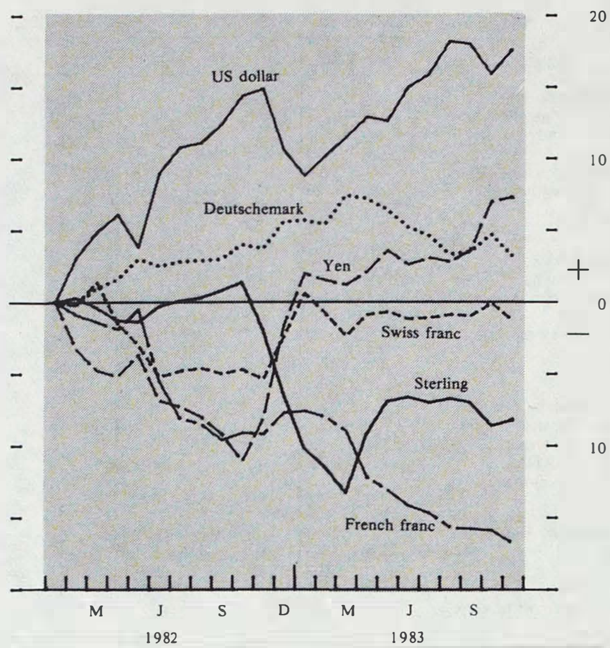
	1983		
	September	October	November
Change in reserves	**−107**	**+200**	**− 3**
of which:			
Net borrowing (+)/ repayment (−) of public debt	− 31	+190	+70
Valuation change on roll-over of EMCF swap	—	+ 71	—
Underlying change in reserves	− 76	− 61	−73
Level of reserves (end of period)	**17,902**	**18,102**	**18,099**

US dollar

The dollar opened in London on 1 September at DM2.6935 and ERI 129.5 and strengthened to reach DM2.7055 the next day on news of the Korean airliner incident. However, the dollar fell to DM2.6521 and ERI 128.3 on 12 September following two successive and unexpected falls in M_1 before edging up, to DM2.6863 and ERI 129.1 on 14 September, in markets which were apprehensive that the next M_1 figure would show a very large increase. In the event, M_1 remained within its target range despite an increase close to the top of market expectations, and the dollar softened. Its easier tendency was accentuated by market perceptions that official money-market operations indicated a more accommodating stance and by an increased visible trade deficit in August which confirmed the worsening trend in the US current account. The dollar's downward progress was uneven, with market reassessments of official operations and tensions in the Lebanon giving rise to occasional periods of firmness. Overall, however, the market's more relaxed attitude towards the weekly money figures and signs that the economic recovery had slowed in August led to a further easing of the dollar. With sentiment towards the deutschemark improving, the dollar fell to DM 2.5642 and ERI 125.1 on 7 October.

Thereafter the dollar strengthened as the prospects for a reduction in interest rates in the short term receded and as

Indices of effective exchange rates



international tensions increased. Publication of the August Federal Open Market Committee meeting's minutes in early October indicating no change in the stance of monetary policy (with market expectations that subsequent meetings came to the same conclusion), the Federal Reserve Chairman's remarks about the primacy of restraining inflation and signs of a resumption in economic growth in September led to a renewed weakening of the US bond market. This change in sentiment, coupled with an increase in international tension (notably in the Middle East), led to a fresh firming of the dollar, to DM 2.6280 and ERI 126.4 on 14 October. Just before the close in New York that day, it was marked down sharply following news of an unexpected fall in M_1, and the dollar declined further during the following week on expectations of another fall.

However, news that M_1 had increased prompted a sharp recovery of the dollar on 21 October. This rise was fuelled by developments in the Lebanon and tension elsewhere, by a reduction in the US trade deficit in September, and by delays to the US Treasury's funding programme which raised fears of congestion in the US bond market and put upward pressure on interest rates. The dollar touched DM 2.7229 and ERI 129.2 on 29 November, but then fell sharply on news of a record US trade deficit in October and as the bond market strengthened: it closed at DM 2.6959 (unchanged over the period) and ERI 128.2 (−1%).

EMS

Conditions within the EMS remained reasonably stable with little tension even though the narrow band was at or close to its maximum width throughout the period. The deutschemark strengthened within the system in early October leaving the Belgian franc isolated at the bottom of the band, with the other currencies grouped closely together at the top.

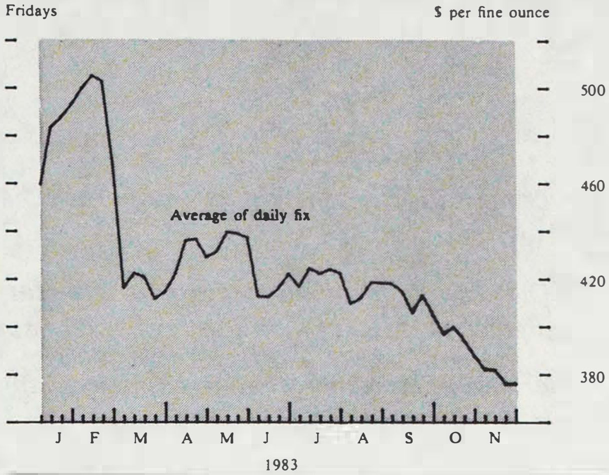
The deutschemark stood close to the bottom of the EMS, just $\frac{1}{4}$% above the Belgian franc, at the beginning of September. The deutschemark strengthened steadily within the EMS after the $\frac{1}{2}$% increase in the German Lombard rate to $5\frac{1}{2}$% on 8 September (with interest rates expected to remain firm against a background of above-target money growth). The markets appeared to pay increased attention to the fundamental strength of the German economy (in spite of disappointing trade figures); and, as the dollar weakened sharply in late September and early October, the deutschemark rose further within the system. However, when the dollar subsequently recovered and reports about German banking problems circulated, the deutschemark eased: it closed $1\frac{1}{4}$% above the Belgian franc. The Belgian franc came under pressure within the system; as a result, Belgian discount rate and Lombard rate were both raised by 1%, to 10% and 11% respectively, on 23 November. The French franc was also affected by the strengthening of the deutschemark in late September and early October. It surrendered top place in the narrow band and weakened to over 3.07 on its cross-rate against the deutschemark on 6 October. However, as the dollar recovered, and with further evidence of the improvement in France's external account, the pressure eased leaving the cross-rate to close at $3.04\frac{1}{4}$ (1% weaker over the period). The French franc again moved to the top of the narrow band, where the Dutch guilder, Danish krone, and Irish pound were also grouped. The guilder's strengthening was assisted by an increase in Dutch official interest rates (discount rate and Lombard rate were both raised by $\frac{1}{2}$%, to 5% and $5\frac{1}{2}$% respectively) at the same time as the German interest rate adjustment in September. The firmness of the krone permitted a $\frac{1}{2}$% cut in the Danish discount rate to 7% on 26 October. The lira remained the strongest currency in the system, closing nearly 5% above the Belgian franc.

Other currencies

More evidence of Japan's favourable trade and inflation performance underpinned a further strengthening of the yen, to nearly ¥230, which in turn renewed expectations of the long-awaited cut in discount rate. When it came, the news of the $\frac{1}{2}$% cut to 5% on 21 October had little effect on the exchanges. As the dollar strengthened thereafter, its rate against the yen continued to move within a narrow range, helped perhaps by the Japanese agreement with the United States to take steps to strengthen the yen. Overall, the yen rose $5\frac{1}{2}$% against the dollar to ¥232.32 and $6\frac{1}{4}$% in effective terms.

In spite of a $\frac{1}{4}$% reduction to $3\frac{1}{2}$% in commercial bank deposit rates on 4 October, the Swiss franc initially

London gold price



continued to strengthen against a background of reduced inflation, its status as a haven currency and a sharply weakening dollar. As the dollar recovered, these gains were largely surrendered. Overall, the Swiss franc rose 1% against the dollar to Sw. Fcs 2.1602, and $\frac{1}{2}$% in effective terms.

Gold

High real interest rates meant that gold reacted little to the increase in international tension; the price slipped below $400 in a generally quiet market but recovered sharply at the end of November. After an initial fixing on 1 September at $415.80, it fell to $401.75 on 14 September following rumours that the latest US M_1 figure would be revised upwards sharply. It then firmed against the background of a weakening dollar and lower carrying costs, reaching $420 in the Far East on 26 September following a large fall in US M_1. Under the impact of silver's bearish influence and stop-loss orders, the price fell below the $400 psychological barrier in New York on 30 September and to $388.75 by 5 October. It improved cautiously to $400.75 on 14 October, but then met heavy selling, when New York markets opened on 17 October, which pushed the price down to $392. Gold showed little reaction to the increase in international tension and, in a thin market, the price weakened to $374.25 (a fifteen-month low) on 21 November as the dollar showed renewed strength. An increase in the price on 28 November triggered heavy stop-loss buying orders in New York which pushed gold to $400 at one point during the afternoon. After falling back, gold surged upwards again on 30 November, helped both by a weakening of the dollar and by the strength of silver, to close the period at $405.