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Foreign Exchange and Financial Markets in January 1983

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Exchange market activity during January was largely related to interest rate relativities vis-a-vis the U.S. dollar and changing expectations of potential cuts in official discount rates by the United States, Germany, Japan and the Netherlands. All major currencies ended the month easier against the dollar with the rate movement changing direction several times during the month. The currencies participating in the EMS eased by 2.85-3.65 per cent, while the pound sterling continued to be affected by fears of falling oil export revenues and eased by 6.08 per cent against the dollar; other currencies eased by 0.45-2.62 per cent. The pound was especially vulnerable in the first half of the month and heavy selling pressure was sparked by rumors that the pound would be included in the exchange arrangements of the EMS and the announcement of a large drop in reserves in December. The pound sterling was also affected by the concern that an early general election might be called coupled with the view of the opposition Labour Party that sterling should be substantially devalued and import controls strengthened. The pound plunged in early trading on January 11 but recovered quickly on an increase in major banks' base lending rates from 10 per cent to 11 per cent followed by a similar rise in the Bank of England's intervention rates. Although the pound sterling continued to react to oil market news, the rate movement was confined to a comparatively narrow range during the remainder of the month. Trading volume ranged from quiet to active and was occasionally hectic in London in the first half of the month.

The generally easing trend of the U.S. dollar since mid-November persisted at the beginning of January, as sentiment continued to favor further reductions in U.S. interest rates even though Japan, Germany, and the Netherlands were considered likely to follow suit. As mid-month approached, however, the dollar began firming as hopes of a cut in the Federal Reserve's 8.5 per cent discount rate faded while the Netherlands cut its rate from 5 per cent to 4.5 per cent with the guilder at the top of the narrow band in the EMS parity grid. At this

Volatility of exchange rate movements increased moderately for most currencies during January (see Table 1). The average of daily absolute percentage changes (MAC) increased for all currencies except the Canadian dollar, the Norwegian krone, and the pound sterling, and the most volatile currency continued to be the Swiss franc. The range within which major currencies were traded during January also widened for most currencies, the exceptions being the Japanese yen, the Norwegian krone, and the Swiss franc. The pound sterling experienced the widest trading range (6.8 per cent), reflecting its sharp depreciation against the U.S. dollar over the month.

Within the EMS, the spread in the parity grid, based on New York quotations, narrowed from 2.43 per cent at the end of December to 2.18 per cent at the end of January; the spread was never less than 2.06 per cent and frequently exceeded the bilateral 2.25 per cent margin maintained in EMS member markets. The Belgian franc and the Irish pound periodically swapped places at the bottom and were noticeably isolated from the remaining EMS currencies which clustered at the top (see Chart 1). The Belgian franc was subjected to continuing speculation of devaluation in the EMS in the first half of January. The discount of the financial franc over the commercial franc widened to about 7 per cent toward midmonth but then narrowed and the franc was near to or below the lower threshold of its EMS divergence indicator during this period (see Chart 2). The Netherlands guilder was generally the strongest currency in the narrow band of the EMS parity grid with the Italian lira (which is permitted a 6 per cent margin in the EMS exchange arrangements) occasionally easing sufficiently to move within the narrow band; the lira ended the month as the strongest currency in the EMS with a spread of 2.51 per cent from the Belgian franc. There was a considerable amount of intervention by the Netherlands Central Bank, directed principally at narrowing the spread between the guilder and the Belgian franc; the National Bank of Belgium also intervened, especially in the first half of the month. Of the EMS currencies, the French franc weakened the most against the U.S. dollar (3.65 per cent) closely followed by the Deutsche mark (3.55 per cent) while the Belgian franc eased the least (2.85 per cent) over January (see Table 2.)

point, a surge in covering of short U.S. dollar positions strengthened the dollar sharply, apparently triggered by concern that the German Government may lose the March elections, which precluded the widely-expected Bundesbank discount rate cut. Higher than expected U.S. money supply growth further reduced expectation of an early cut in the U.S. discount rate, and sentiment switched to favor increases in U.S. market interest rates reflecting continuing heavy Treasury borrowing needs. After two weeks of very strong advances by the dollar, a sharp technical correction occurred ahead of President Reagan's State of the Union address but the dollar resumed its firming trend thereafter, assisted by better than expected December trade figures. For the month as a whole, the U.S. dollar firmed by 2.01 per cent in effective (MERM) terms and by 1.53 per cent against the SDR.

Table 1. Intra-Month Variations of Exchange Rates of Major Currencies 1/

	January 2/		High-low spread in per cent 3/		MAC 4/	
	High	Low	Dec.	Jan.	Dec.	Jan.
Belgium	45.870	48.225	4.5	5.1	0.48	0.56
Denmark	8.22625	8.66625	4.5	5.3	0.53	0.60
France	6.6055	6.993	4.5	5.9	0.51	0.60
Germany	2.3315	2.4645	4.5	5.7	0.52	0.60
Ireland	1.4260	1.3515	3.9	5.5	0.52	0.58
Italy	1343.00	1413.00	4.6	5.2	0.45	0.53
Netherlands	2.5765	2.7075	2.7	5.1	0.47	0.54
Austria	16.375	17.385	4.4	6.2	0.54	0.58
Canada	0.82018	0.80870	1.2	1.4	0.20	0.15
Japan	226.70	239.80	7.0	5.6	0.66	0.75
Norway	6.9475	7.18625	3.8	3.4	0.59	0.43
Sweden	7.20625	7.50125	2.5	4.1	0.43	0.46
Switzerland	1.91625	2.0240	6.3	5.6	0.69	0.77
United Kingdom	1.6240	1.5206	2.7	6.8	0.55	0.51

1/ Exchange rates against the U.S. dollar in the New York market.

2/ Domestic currency units per U.S. dollar except for the pound sterling, the Irish pound and the Canadian dollar, which are in U.S. dollars per domestic currency unit.

3/ Intra-month variation in per cent.

4/ Monthly average of absolute daily changes in spot exchange rates in percentage terms.

Table 2. Changes in Exchange Rates in January 1983 1/

(In per cent)

	Monthly exchange rate changes			
	Against U.S. dollar 2/	Against SDR	Effective exchange rate 3/ (In per cent)	Change in effective exchange rate since Jan. 1982 3/
Belgium	-2.85	-0.73	-0.06	-10.3
Denmark	-3.21	-2.38	-0.63	-2.7
France	-3.65	-1.56	-1.03	-8.0
Germany	-3.55	-1.41	-1.21	+4.5
Ireland	-3.21	-1.19	-0.66	-1.9
Italy	-3.04	-1.21	-0.42	-3.9
Netherlands	-3.09	-0.96	-0.67	+3.9
Austria	-2.62	-1.35	-1.10	+2.6
Canada	-0.57	+0.92	+0.22	+1.0
Japan	-2.18	+0.30	+0.10	+3.3
Norway	-1.83	+0.21	+0.56	-9.8
Sweden	-2.62	-0.61	-0.39	-17.0
Switzerland	-0.45	+1.30	+1.51	+0.0
United Kingdom	-6.08	-3.72	-3.55	-11.7
United States	--	+1.53	+2.01	+9.9

1/ Positive sign indicates appreciation of the currency.
2/ Based on New York noon quotations.
3/ Based on the Fund's multilateral exchange rate model (MERM).

Substantial changes in gross foreign exchange reserve levels continued into January (see Table 3). Gains by Germany and the Netherlands added to notable accumulations made over the past 12 months while the opposite was true for the United Kingdom where the loss in foreign exchange reserves widened to $1.516 billion from $941 million in December as the pound continued to be the weakest of the major currencies. Switzerland's reserves fell by $2.757 billion because of normal seasonal liquidity factors, compared with a fall of $3 billion in January 1982. Relatively moderate reserve losses were recorded by Ireland, Austria, Norway, Sweden, and the United States. France recorded a large reserve gain for the second month in a row; over half the gain of $2.975 billion was in ECU assets. In midmonth, France announced the drawing of the remaining $400 million of the $4 billion euro-loan negotiated in October and drawings under other loan arrangements might also have been made. A large portion of the reserve increases for Belgium, Germany, and Italy were in ECU assets while a substantial increase in ECU assets for the Netherlands was partly offset by a moderate reduction in other foreign exchange reserves.

Table 3. Foreign Exchange Reserves in January 1983 1/

(In millions of U.S. dollars)

	Reserve level	Change in January	Change over 12 months
Belgium	3,219	+395	-45
Denmark	2,625	+644	-638
France	17,569	+2,975	-726
Germany	40,643	+1,023	+3,182
Ireland	2,144	-289	-179
Italy	13,800	+1,171	-3,990
Netherlands	9,430	+768	+1,776
Austria	4,345	-420	-208
Canada	2,895	+319	+19
Japan	19,497	+325	-5,082
Norway	5,983	-305	+434
Sweden	2,975	-116	+34
Switzerland	12,184	-2,757	+1,630
United Kingdom	8,158	-1,516	-4,429
United States	9,490	-722	-40

1/ Includes ECU holdings but excludes gold, SDRs and reserve position in the Fund. Foreign exchange reserves are gross and include balances drawn on short-term swap agreements and the proceeds from other official borrowings.

I. Developments in the Spot Exchange Markets

The main features of foreign exchange market developments in January were the reversal near midmonth of the generally easing trend of the U.S. dollar evident since mid-November and continuing weakness of the pound sterling in relation to other major currencies. In effective (MERM) terms, the pound sterling eased 3.55 per cent in January following a decline of 3.11 per cent in December. The U.S. dollar ended January higher against all major currencies; it firmed 2.01 per cent in effective (MERM) terms and 1.53 per cent against the SDR mainly on the expectation that U.S. interest rates were unlikely to fall because of continuing heavy Treasury borrowing needs and economic recovery that would bring expanded private credit demands. There were some signs of a beginning to the economic recovery, inter alia, a drop in the unemployment rate in January to 10.4 per cent from 10.8 per cent in December (including military personnel, a new statistic, the rate was 10.2 per cent). The index of industrial production in January rose 0.9 per cent following a revised increase of 0.1 per cent in December but the index was 3.2 per cent lower than a year earlier. The index of leading economic indicators rose 1.5 per cent in December following an increase of 0.2 per cent in November, revised downwards from 0.8 per cent. The decline in real GNP in the fourth quarter was revised from an annual rate of 2.5 per cent to an annual rate of 1.9 per cent. The trade deficit in December, seasonally adjusted, narrowed to $3.37 billion from $4.09 billion in November. For the year as a whole the trade deficit widened to a record $42.7 billion from $39.7 billion in 1981; the current account deficit was estimated to be about $6 billion in 1982 compared with a surplus of $4.5 billion in 1981. The Government budget deficit for the fourth quarter of 1982 widened to $68 billion from $48 billion a year earlier. The producer price index fell 1.0 per cent in January, largely due to a decline in energy prices, but rose 2.1 per cent year-on-year.

Among the EMS currencies, the Deutsche mark eased by 3.55 per cent against the U.S. dollar and by 1.21 per cent in effective (MERM) terms. The German economy continued to be weak. Industrial production, seasonally adjusted and excluding building, fell 1 per cent in December over an upward-revised level recorded in November. The unemployment rate rose to 10.2 per cent in January from 9.1 per cent in December. Germany's current account surplus widened in December to DM 5.3 billion from DM 4.7 billion in November and DM 5.1 billion in December 1981; for the year as a whole the surplus was DM 7.5 billion compared with a deficit of DM 16.6 billion in 1981. The producer price index was unchanged in January but rose 2.3 per cent over a year earlier while the wholesale price index declined 1.0 per cent and was down 0.2 per cent over a year earlier.

The French franc was the weakest of the EMS currencies against the U.S. dollar over January, easing 3.65 per cent (1.03 per cent in effective (MERM) terms). Early in the month, a stimulatory package was implemented to reduce bank deposit and lending rates and to ease credit for housing and small business. The current account deficit in the fourth quarter narrowed to F 16.3 billion from F 25.6 billion in the third quarter; for the year as a whole the deficit widened to F 85 billion from F 40.6 billion in 1981. Real GDP rose 0.7 per cent in the fourth quarter of 1982 following a decline of 0.5 per cent in the third quarter. The number of unemployed persons, seasonally adjusted, fell 0.4 per cent in January, the third consecutive monthly decline, but was 5 per cent above the level of a year earlier. The index of industrial wholesale prices rose 0.2 per cent in December for an 8.2 per cent year-on-year rise.

The Belgian franc eased the least among the EMS currencies against the U.S. dollar over January, partly because of intervention assistance, but remained at or near the bottom of the EMS parity grid; it eased 2.85 per cent against the dollar and was essentially unchanged in effective (MERM) terms. The currency was subjected to continuing speculation of devaluation within the EMS, especially prior to weekends in the first half of the month; the discount of the financial franc over the commercial franc widened from 2.7 per cent at the end of December to about 7 per cent at midmonth but then narrowed to 3 per cent at the end of January. The franc was frequently below the lower threshold of its EMS divergence indicator until midmonth. The index of industrial production rose 0.6 per cent in December for a 1.7 per cent year-on-year rise. The unemployment rate rose to 11.9 per cent at the end of January from 11.6 per cent at the end of December. The consumer price index rose 1.2 per cent in January for an 8.3 per cent year-on-year rise.

The Netherlands guilder eased by 3.09 per cent against the U.S. dollar and by 0.67 per cent in effective (MERM) terms but remained at the top of the EMS parity grid throughout the month. The trade surplus narrowed in December to f. 300 million from f. 400 million a year earlier; for 1982 as a whole, the surplus widened to f. 9.8 billion from f. 6.8 billion in 1981. The unemployment rate in January, on a new basis including people looking for part-time jobs, rose to 17 per cent from 16.8 per cent in December; the rate on the old basis in December was 13 per cent. Industrial production, seasonally adjusted, rose 1 per cent in December but manufacturing production fell 2.7 per cent; industrial production was down 7 per cent over December 1981. The producer price index for consumer and investment goods was unchanged in November but rose 4.7 per cent year-on-year.

The Danish krone eased 3.21 per cent against the U.S. dollar and 0.63 per cent in effective (MERM) terms. Standard and Poors lowered Denmark's credit rating from triple-A to double-A during the month (the first time the rating agency has awarded a member of the European Community less than an AAA rating), and the terms on a new $1.3 billion euro-credit being negotiated at the time were hardened. The unemployment rate in December, seasonally adjusted, was unchanged at 10 per cent. The trade deficit in 1982 widened to DKr 12.7 billion from DKr 10.3 billion in 1981. The wholesale price index fell 0.5 per cent in January but was up 7.3 per cent year-on-year. The Irish pound eased by 3.21 per cent against the U.S. dollar and 0.66 per cent in effective (MERM) terms; it continued to be noticeably isolated from the remaining EMS currencies along with the Belgian franc at the bottom of the parity grid. A mini-budget was introduced increasing duties on a wide range of consumer products to help reduce the budget deficit. The number of unemployed persons, seasonally adjusted, rose 3.7 per cent in January and the unemployment rate rose to 14.5 per cent.

The Italian lira eased 3.04 per cent against the U.S. dollar and 0.42 per cent in effective (MERM) terms. The lira remained the strongest currency in the EMS relative to ECU central rates at the end of January but it eased at times sufficiently to move within the narrow band in New York. Considerable industrial unrest ensued early in the month over new budget austerity proposals but agreement between employers and unions to reform the wage indexation system, coupled with expected declines in oil prices, aided the lira late in the month. The trade deficit widened in December to Lit 1,135 billion from Lit 942 billion in November and Lit 1,088 billion in December 1981; for the year as a whole, however, the deficit narrowed slightly to Lit 17,000 billion from Lit 17,600 billion in 1981. Industrial production, seasonally adjusted, fell 1.5 per cent in December after rising 3 per cent in November and was down 5.9 per cent over a year earlier. The number of persons employed in large industry in December was 4.7 per cent lower than in December 1981 but the number of hours worked per employee rose 1.9 per cent. The wholesale price index rose 0.4 per cent in December for an 11.9 per cent rise year-on-year.

The pound sterling was especially weak against the U.S. dollar as indicated earlier; it eased 6.08 per cent against the dollar and 3.55 per cent in effective (MERM) terms. Unlike most other major currencies, the pound depreciated steadily against the dollar from the beginning of January, despite a widening of the current account surplus in December to £822 million from £700 million in November; for 1982, however, the surplus narrowed to £4.636 billion from £6.122 billion in 1981. The public sector borrowing requirement, seasonally adjusted, widened in the fourth quarter to £2.515 billion from £1.607 billion in the third quarter. Real GDP, seasonally adjusted, rose 0.2 per cent in the fourth quarter and was up 0.6 per cent from a year earlier. The unemployment rate, seasonally adjusted, rose to 12.8 per cent in January from 12.7 per cent in December. Industrial output, seasonally adjusted, rose 1.5 per cent in December with manufacturing production rising only 0.5 per cent; total industrial output rose 1.3 per cent over December 1981. Wholesale prices of manufactured goods rose 0.5 per cent in January and were up 7.4 per cent year-on-year.

The Swiss franc eased the least of the major currencies against the U.S. dollar (0.45 per cent) and firmed 1.51 per cent in effective (MERM) terms, despite cuts in commercial bank lending and time deposit rates during the month. The target rate of growth for the monetary base was set at 3 per cent for 1983 compared with 2 per cent growth in 1982. The wholesale price index fell 0.4 per cent in January but rose 0.5 per cent year-on-year. The unemployment rate in January rose to 0.9 per cent from 0.8 per cent in December. The trade deficit in January widened to Sw F 634 million from Sw F 242 million a year earlier.

The Japanese yen eased 2.18 per cent against the U.S. dollar and was marginally firmer in effective (MERM) terms. For 1982 the current account surplus widened to $6.896 billion from $4.77 billion in 1981; long-term capital flows posted a record $15 billion deficit in 1982 compared with $9.7 billion in 1981. The trade surplus in January, seasonally adjusted, widened to $1.27 billion from $370 million in December. Industrial production, seasonally adjusted, declined 0.1 per cent in December. The wholesale price index in January fell 0.9 per cent and was down 0.1 per cent from January 1982.

The Canadian dollar eased 0.57 per cent against the U.S. dollar but firmed 0.22 per cent in effective (MERM) terms. The index of leading economic indicators rose 0.7 per cent in November, the second consecutive month of increase following 15 months of decline. The trade surplus in December, seasonally adjusted, widened to Can$1.8 billion from Can$1.56 billion in November; for 1982 the surplus widened to a record Can$17.8 billion from Can$7.3 billion in 1981. The budget deficit widened in December to Can$2.71 billion from Can$978 million a year earlier; for the first nine months of the fiscal year, the deficit widened to Can$16.83 billion from Can$8.15 billion a year earlier. The unemployment rate, seasonally adjusted, declined in January to 12.4 per cent from 12.8 per cent in December. The consumer price index fell 0.3 per cent in January but was up 8.3 per cent year-on-year.

The Austrian schilling, eased 2.62 per cent against the U.S. dollar and 1.10 per cent in effective (MERM) terms. The Norwegian krone eased 1.83 per cent against the U.S. dollar but firmed 0.56 per cent in effective (MERM) terms. The Swedish krona eased 2.62 per cent against the U.S. dollar and 0.39 per cent in effective (MERM) terms.

II. Monetary Developments, Forward Exchange Quotations and Covered Interest Differentials

Monetary and credit conditions in major industrial countries were little changed in January 1983, with the short-term money market rates continuing to decline in most major countries, except in the United Kingdom where interest rates firmed relatively sharply.

In the United States, both the Administration and the Federal Reserve reaffirmed their commitment to the long-run goal of providing money growth at a non-inflationary pace but consistent with a steady and sustainable expansion of economic recovery. The Federal Reserve kept its discount rate unchanged at 8.50 per cent in January after lowering it by 0.50 percentage point on December 15, 1982. Other U.S. short-term interest rates declined at the end of January, except the three-month bond-equivalent yield on U.S. Treasury bills, which firmed marginally from 8.30 per cent at the end of December to 8.37 per cent at the end of January. The federal funds rate and the 90-day CD rate eased by 2.64 and 0.08 percentage points, respectively, to 8.56 per cent each, while the prime lending rate was cut by 0.50 percentage point to 11.00 per cent in January. The U.S. basic money supply M1 rose to a seasonally adjusted average of $487.8 billion in the week ended February 2, up from $481.9 billion in the previous week. M1 averaged $482.2 billion in January, up from $478.3 billion in December, while for the latest 13 weeks, the narrowest aggregate averaged $478.8 billion for a growth rate of 12.7 per cent. The broader measure M2 averaged $2.0057 trillion in January, up from $1.9576 trillion a month ago, while at the same time, M3 averaged $2.3985 trillion, up from $2.3761 trillion in December 1982.

Among the countries in the European Monetary System, the Bundesbank reported that the narrowly defined money supply M1 rose by DM 7.6 billion to a seasonally adjusted DM 265.1 billion in January for a projected annual growth rate of 12.8 per cent. At the same time, the two broader aggregates M2 and M3 rose by DM 8.2 billion and DM 16.5 billion to a seasonally adjusted DM 484.9 billion and DM 814.2 billion, respectively; in terms of annual growth rates, the two aggregates grew at 2.2 per cent and 7.0 per cent, respectively. The monetary authorities in Italy adopted a set of measures designed to yield more effective control over the monetary and credit aggregates. Under these measures, the compulsory reserve ratio was increased as from January 31, 1983, as part of a gradual changeover to a system whereby reserves would be proportionate to the magnitude of funds raised; higher interest was to be paid on reserves pertaining to certain newly issued bank CDs; the securities investment requirement was reduced; the credit ceiling was extended to cover the first six months of 1983 with a 14.0 per cent rise on an annualized basis being permitted.

According to the directive issued by the Swiss Federal Banking Commission, all major Swiss banks as well as foreign banks based in Switzerland that operate internationally were obliged to provide the Banking Commission with detailed information on their exposure to country risks as well as the steps they were taking to cover them in their balance sheets. Covered under this directive were countries to which banks have lent more than 20 per cent of their capital, as well as countries in payments difficulties, and sovereign borrowers considered to be potentially critical cases.

The Japanese Ministry of Finance announced that Japan had decided to join the African Development Bank in order to increase Japan's economic aid to the African countries. Japan's contribution to the AFDB's capital will total ¥ 3.188 billion; this amount is to be committed initially for five years and corresponds to 4.7 per cent of the AFDB's total capital.

The Bank of England reported that sterling M3 rose by a seasonally adjusted £390 million or 0.4 per cent in the banking month ended January 19, 1983; this compared with a rise of £519 million or 0.6 per cent in December. The narrowest aggregate M1 rose by 1.1 per cent during January, compared with a 0.9 per cent rise the previous month, while at the same time, the broadest aggregate, Public Sector Liquidity 2 (PSL2) rose by 0.6 per cent compared with a rise of 0.3 per cent in December 1982. Over the 11-month period since mid-February 1982, sterling M3 grew at an annual rate of 10.50 per cent, M1 grew at a rate of 11.50 per cent, and PSL2 rose at a 8.50 per cent growth rate. The Government's annual growth target range for each of the three monetary aggregates is 8-12 per cent for the 14 months from mid-February 1982 to mid-April 1983.

Among other countries, Sweden's Central Bank lowered its discount rate to 9.0 per cent from 10.0 per cent, effective January 20. The Austrian National Bank announced an increase in the limit on commercial banks' refinancing facilities at the National Bank from 70.0 per cent to 100.0 per cent of the computed ceilings with effect from March 1, 1983.

Short-term money market interest rates in industrial countries were generally easier at the end of January (see Table 4). Interest rates in Germany, France, Japan, Canada, Italy, Switzerland, the Netherlands, and Sweden eased by 0.06-1.00 percentage point, while those in the United States and the United Kingdom firmed by 0.07 and 1.09 percentage points, respectively, at the end of January. Short-term rates in Austria, Denmark, and Norway remained unchanged between the end of December and the end of January.

In the euro-currency market, the three-month euro-dollar interest rate firmed modestly by 0.13 percentage point to 9.38 per cent at the end of January. As a result, the uncovered interest differentials favoring euro-dollar investment widened for Germany and the Netherlands at the end of January. The uncovered interest differentials favoring domestic investment narrowed for France and Italy, while the differential for the United Kingdom widened sharply between the end of December and the end of January.

In the forward exchange market, the premium against the U.S. dollar widened for the Deutsche mark and remained practically unchanged for the Netherlands guilder at the end of January. The discount against the U.S. dollar narrowed for the French franc, the Belgian franc, and the Italian lira, while that for the pound sterling widened substantially between the end of December and the end of January. Consequently, the covered interest differentials favoring domestic investment narrowed for Germany and the Netherlands, while the differential for the United Kingdom switched to favor euro-dollar investment at the end of January. The covered interest differentials favoring euro-dollar investment narrowed sharply for France and Italy between the end of December and the end of January.

Table 4. Inflation Rates and Short-Term Interest Rates

	Month 2/	Inflation Rates 1/ (year-on-year per cent changes) Wholesale price index		Consumer price index 3/		Short-term interest rates 4/ (end-of-month) Dec.	Jan.
Austria	Jan./Dec.	0.0	(-0.2)	4.7	(4.7)	4.75	4.75
Belgium	Dec./Jan.	5.4	(6.4)	8.3	(8.1)	n.a.	n.a.
Canada	January			8.3	(9.3)	9.81	9.60
Denmark	January	7.3	(9.6)	9.1	(9.0)	10.00	10.00
France	Dec./Jan.	8.2	(9.3)	9.6	(9.8)	12.93	12.80
Germany	January	-0.2	(2.6)	3.9	(4.6)	6.54	6.03
Italy	December	11.9	(12.8)	16.3	(16.7)	19.25	19.00
Japan	Jan./Nov.	0.1	(0.8)	2.3	(3.1)	7.15	6.95
Netherlands	December			4.2	(4.3)	5.25	5.19
Norway	January	6.0	(7.2)	10.1	(11.7)	9.00	9.00
Sweden	Dec./Jan.	13.1	(12.3)	10.1	(10.0)	10.00	9.00
Switzerland	January	0.5	(1.1)	4.8	(5.5)	3.38	2.81
United Kingdom	January	7.4	(8.0)	4.9	(5.4)	10.25	11.34
United States	January	2.1	(3.5)	3.8	(3.9)	8.30	8.37

1/ Rates appearing in parentheses are those for the preceding month.

2/ In case of double entry (month/month), the first entry applies to the wholesale price index and the second entry applies to the consumer price index.

3/ Retail price index for France and the United Kingdom, and cost of living index for Germany and the Netherlands.

4/ Three-month rates are: Market yields on Treasury bills for the United States and the United Kingdom; Treasury bill rate for Canada; inter-bank rates for Germany, France, Italy, and the Netherlands; three-month euro-franc rate for Switzerland; four-month certificates of the Government Securities Stabilization Fund for Belgium; discount rate on two-month private bills for Japan; central bank discount rates for Austria, Denmark, Norway and Sweden.

Table 5. Covered Interest Differentials for Three-Month Investments in Europe (End-month)

	Uncovered interest differentials 1/ (1)		Forward exchange quotations 2/ (2)		Covered interest differentials 1/ (3)=(1)-(2)	
	Dec.	Jan.	Dec.	Jan.	Dec.	Jan.
Belgium	n.a.	n.a.	-5.27	-3.78	n.a.	n.a.
France	-3.68	-3.42	-13.07	-10.53	+9.93	+7.11
Germany	+2.71	+3.35	+3.51	+3.75	-0.80	-0.40
Italy	-10.00	-9.62	-15.65	-11.41	+5.65	+1.79
Netherlands	+4.00	+4.19	+4.30	+4.29	-0.30	-0.10
United Kingdom	-1.00	-1.96	-0.94	-2.17	-0.06	+0.22

1/ Positive sign indicates differential in favor of euro-dollar investment relative to domestic investment, while negative sign indicates the reverse. Domestic interest rates for France, Germany, Italy and the Netherlands are interbank rates. For the United Kingdom the Treasury bill rate is used, and for Belgium the rate on four-month certificates of the Government Securities Stabilization Fund.

2/ Positive sign indicates three-month forward premium of domestic currency against the U.S. dollar, while negative sign indicates forward discount.

III. Yields on the SDR and Other SDR-Denominated Assets

For the calendar quarter beginning January 1, 1983, the SDR interest rate declined to 8.47 per cent from 8.90 per cent in the previous quarter, reflecting lower interest rates on all the instruments used to calculate the combined rate, except the yield on U.S. Treasury bills which firmed slightly from 8.12 per cent in September 1982, to 8.17 per cent in December 1982. The rate of remuneration paid on creditor positions in the Fund (85 per cent of the SDR interest rate) decreased from 7.57 per cent in the previous quarter to 7.20 per cent in the current quarter.

As shown in Appendix B, the average short-term interest rates eased by 0.05-0.81 percentage point, except that for the United Kingdom which firmed by 0.42 percentage point during January. As a result, the average combined market interest rate eased modestly by 0.17 percentage point to 8.32 per cent in January.

The combined domestic market interest rates for maturities ranging from three months to five years eased modestly by 0.02-0.14 percentage point at the end of January (see Table 6), reflecting generally lower domestic rates for the five currencies included in the SDR basket. The combined domestic interest rates displayed a rising yield curve moving up from 8.49 per cent on the three-month maturity through 8.51 per cent and 8.64 per cent on the six- and twelve-month maturities, respectively, to 10.03 per cent on the five-year maturity.

The combined euro-market interest rates for the three-, six-, and twelve-month maturities eased by 0.88, 0.66, and 0.18 percentage points to 9.37 per cent, 9.50 per cent, and 9.70 per cent, respectively, at the end of January. This reflected generally lower euro-deposit rates for the five major currencies, except those on euro-sterling deposits which firmed at the end of January.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.39-1.57 percentage points at the end of January. The deposit rates displayed a yield curve moving up from 8.74 per cent on one-month deposits through 9.16 per cent on three-month deposits to 9.28 per cent on six-month deposits, and down to 9.27 per cent on twelve-month deposits. The yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange firmed modestly at the end of January. The current yield ranged from 9.28 per cent to 11.71 per cent, with the average current yield firming slightly by 0.02 percentage point to 10.28 per cent at the end of January, while the yield to maturity ranged from 10.97 per cent to 15.65 per cent, with the average yield to maturity firming modestly by 0.24 percentage point to 12.63 per cent between the end of December and the end of January.

Table 6. Yields on the SDR and Other SDR-Denominated Assets

	1982	1983	
	Dec.	Jan.	Feb.
SDR quarterly rate	8.90	8.47	8.47
Rate of remuneration	7.57	7.20	7.20
Yields on other SDR-denominated assets 1/			
Combined market interest rates 2/			
Based on domestic rates			
3-month maturity (Rule T-1)	8.58	8.49	
6-month maturity	8.65	8.51	
12-month maturity	8.74	8.64	
5-year maturity	10.05	10.03	
Based on euro-currency rates			
3-month maturity	10.25	9.37	
6-month maturity	10.16	9.50	
12 month maturity	9.88	9.70	
Average commercial bank deposit rates 3/			
1-month deposits	10.31	8.74	
3-month deposits	10.11	9.16	
6-month deposits	10.01	9.28	
12-month deposits	9.66	9.27	
Bonds quoted on the Luxembourg Stock Exchange 4/			
Average current yield	10.26	10.28	
Average yield to maturity	12.39	12.63	

1/ Rates pertain to last Wednesday of the month.

2/ As of January 1, 1981, combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instrument by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule O-2(a) and (b). Domestic rates are those used to determine interest rates on the SDR or on borrowings by the Fund. Euro-currency rates are midpoint midmorning rates in London, and for sterling, in Paris.

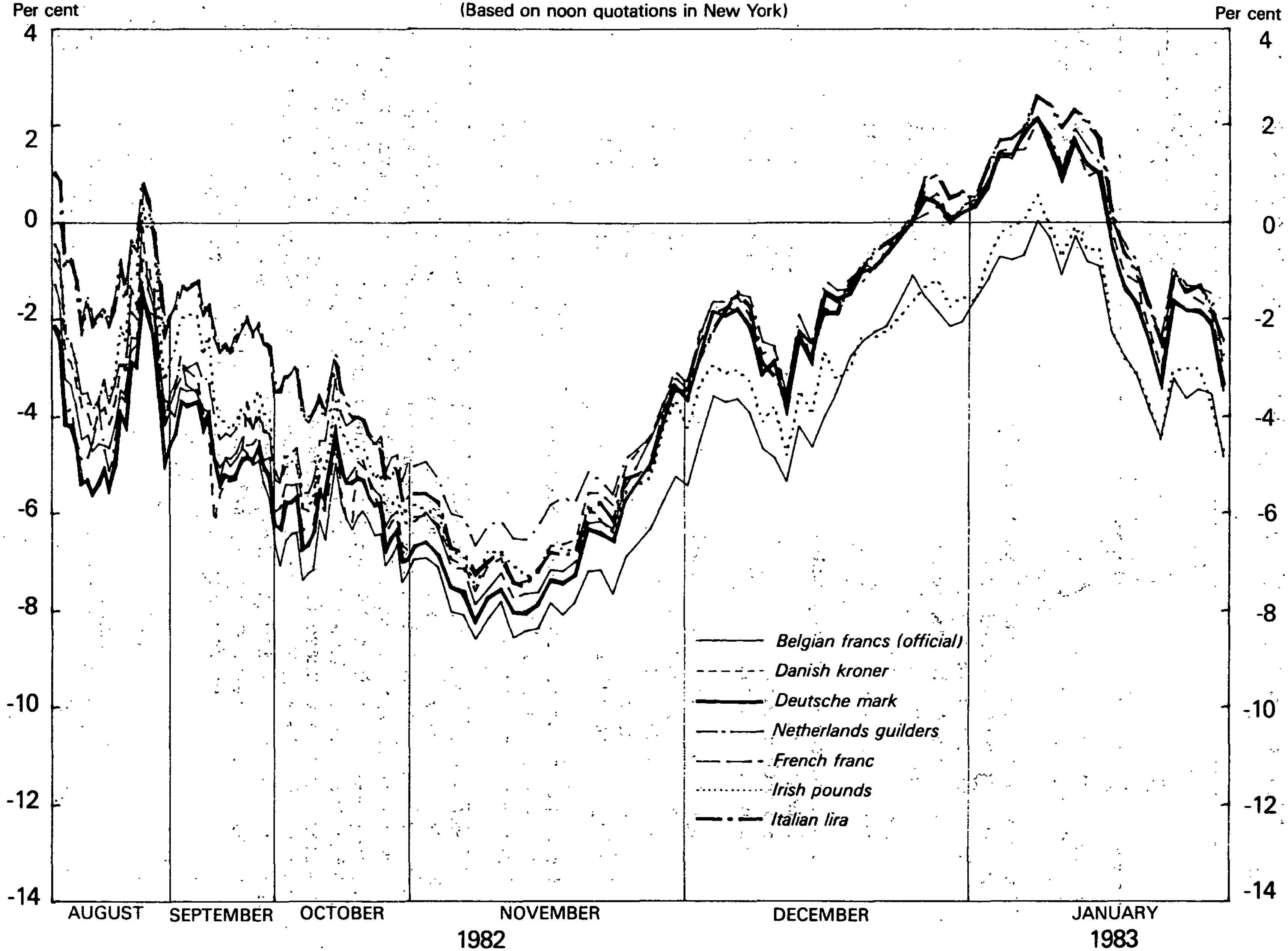
3/ Average of rates quoted by selected commercial banks.

4/ Maturity dates for these issues range from 1983 to 1989.

SPOT EXCHANGE RATES

(DEVIATIONS FROM CENTRAL RATES EXPRESSED IN U.S. DOLLARS)[1]

(Based on noon quotations in New York)



[1] Premia/discounts over declared ECU central rates converted to U.S. dollar terms on the basis of June 14, 1982 rate of 1 ECU=$0.9800.

CHART 2

EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

(Based on noon quotations in London)

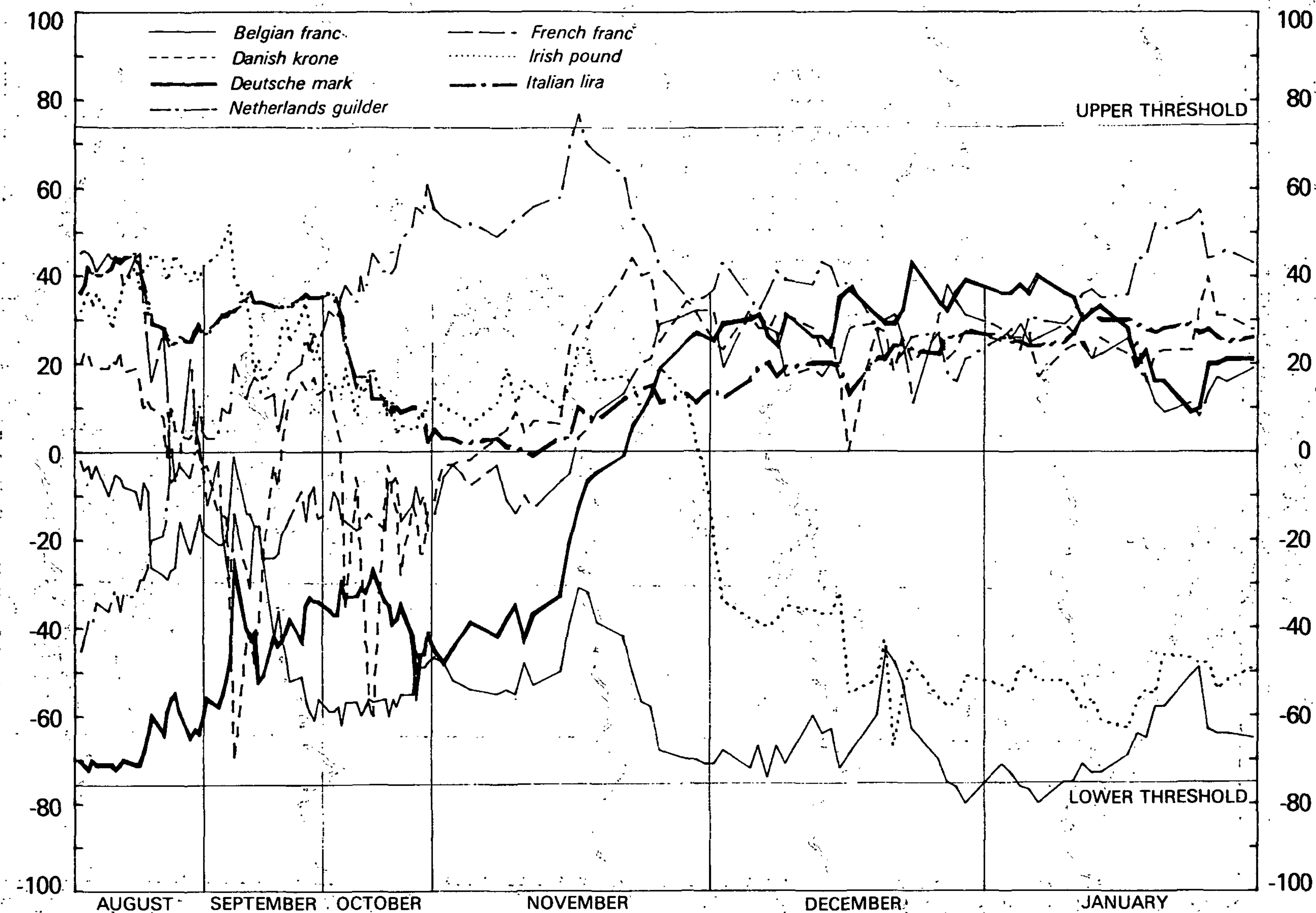


CHART 3

SPOT EXCHANGE RATES

(Noon quotations in New York)

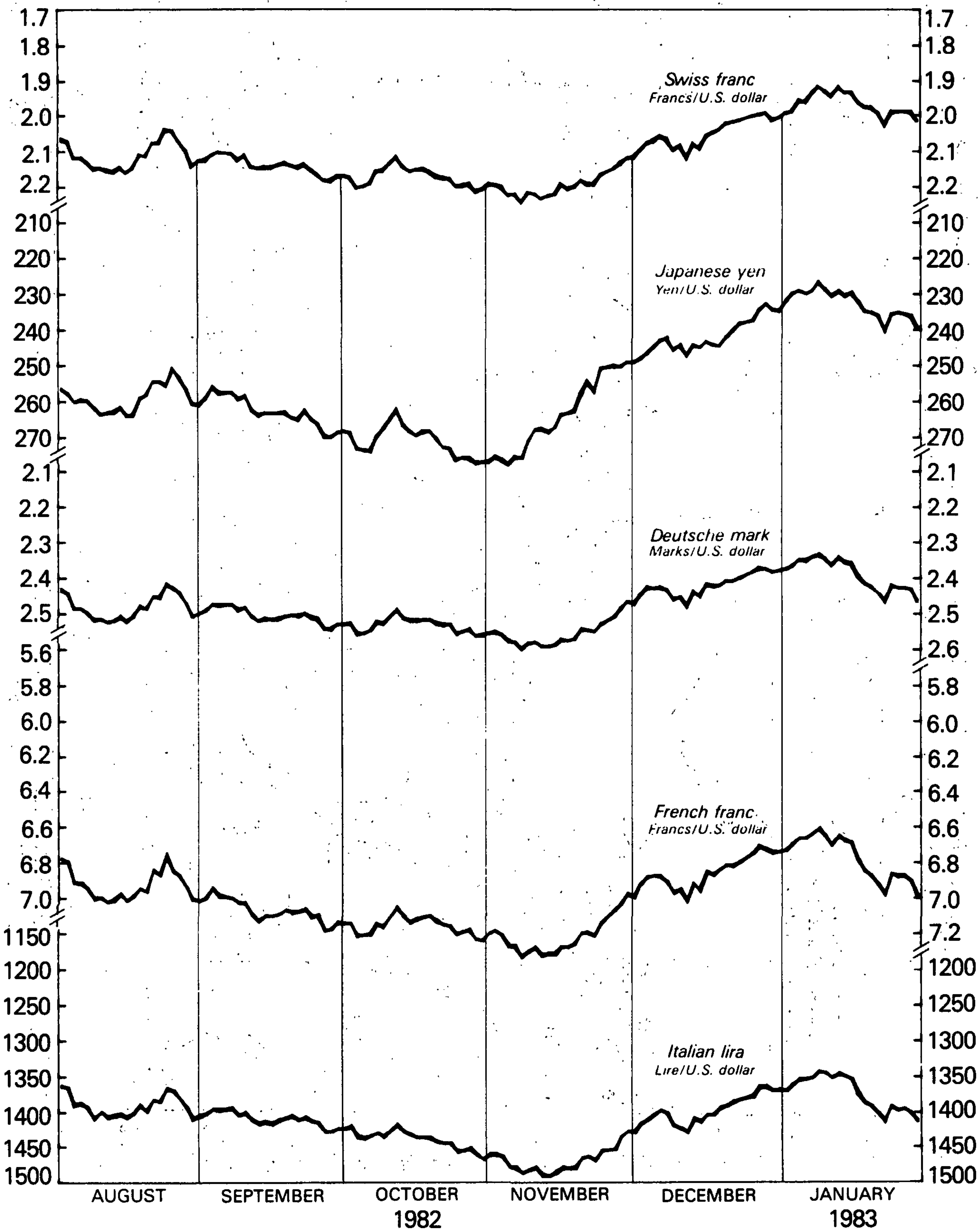


CHART 4
SPOT EXCHANGE RATES
(Noon quotations in New York)

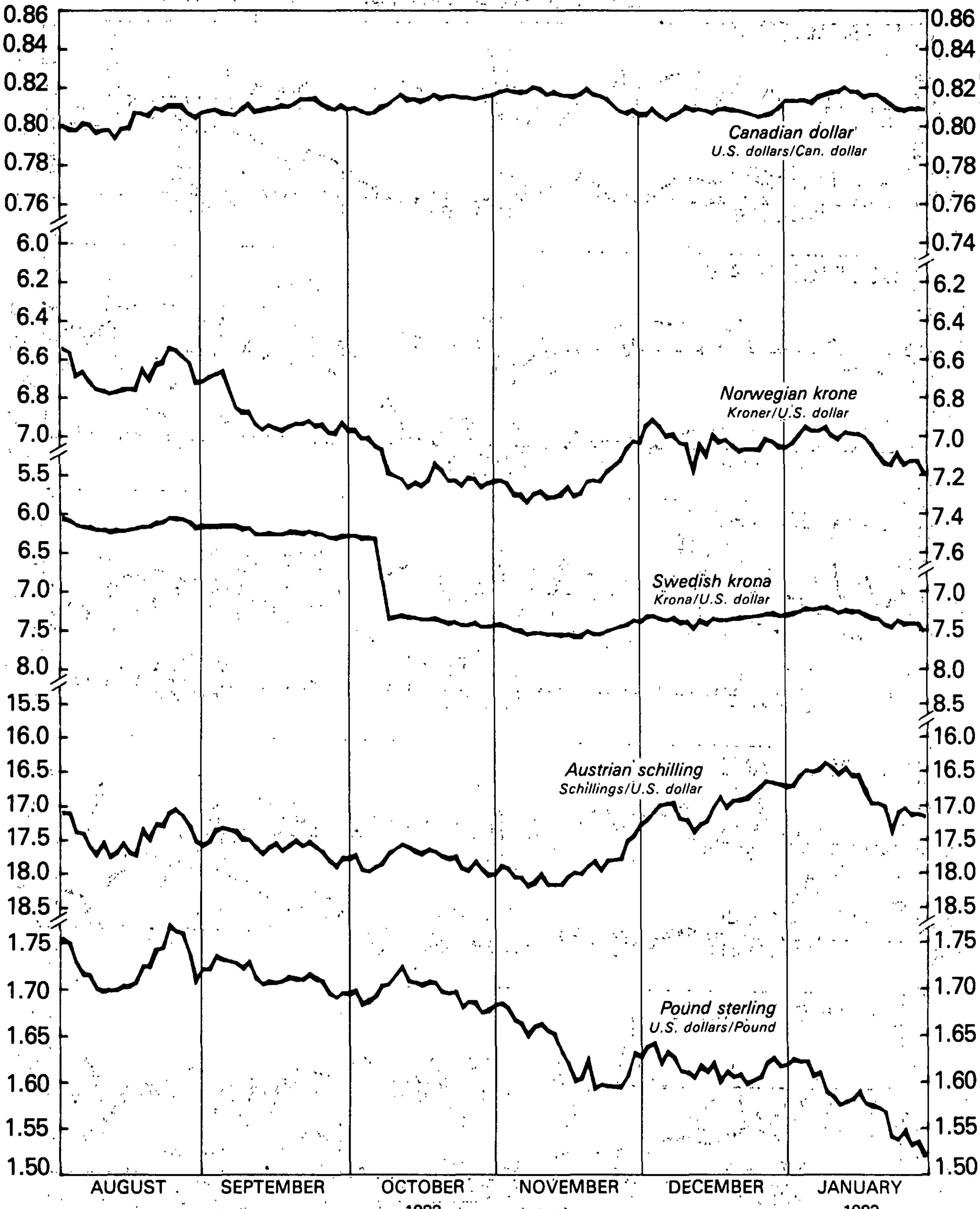
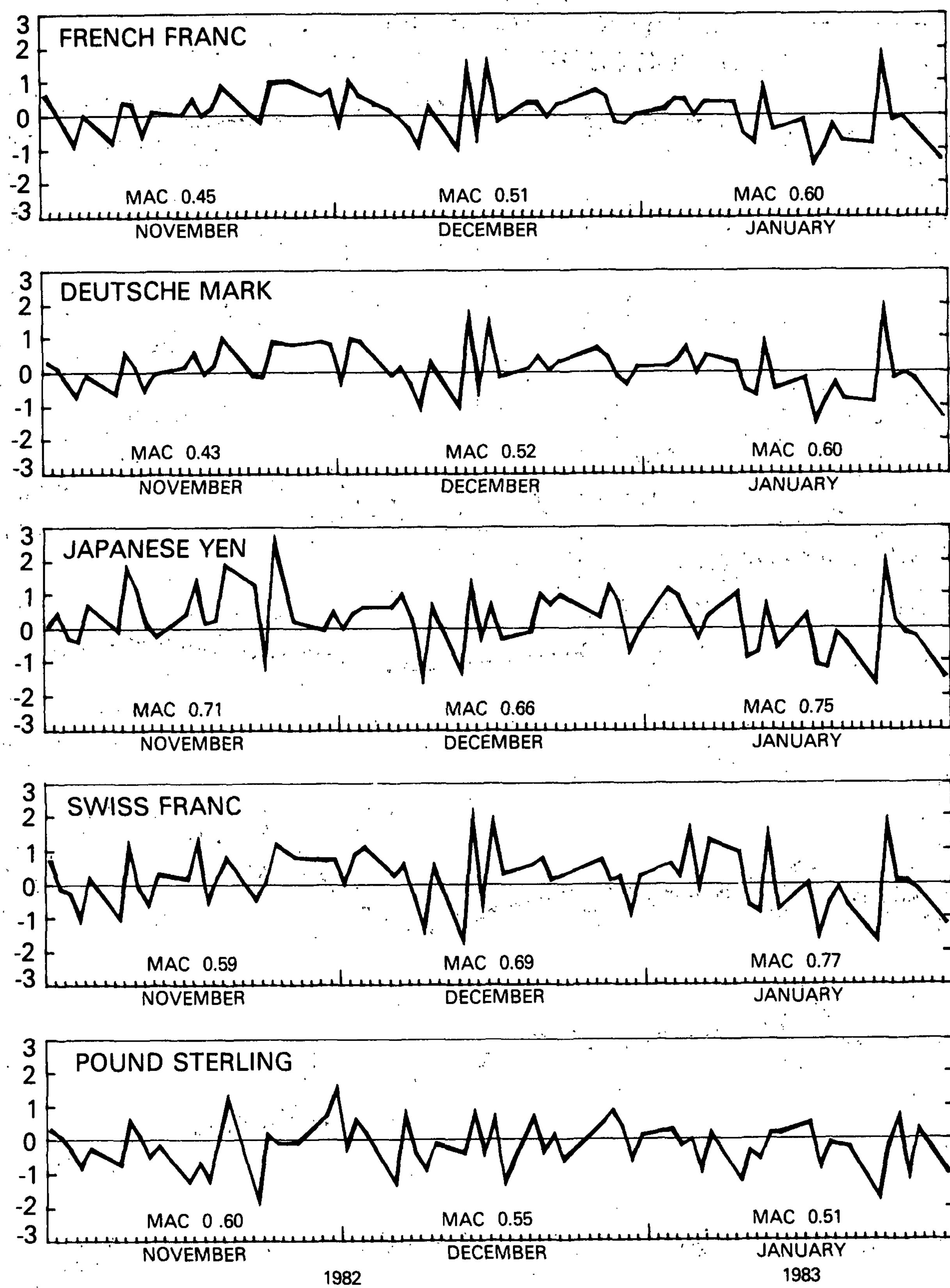


CHART 5

DAILY CHANGES IN SPOT EXCHANGE RATES

(In per cent against the U.S. dollar, based on noon quotations in New York)[1]



[1]Monthly averages of absolute changes (MAC) are also indicated.

CHART 6

INDEXES OF EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JUN. 1974 - JAN. 1983

(June 28, 1974=100)

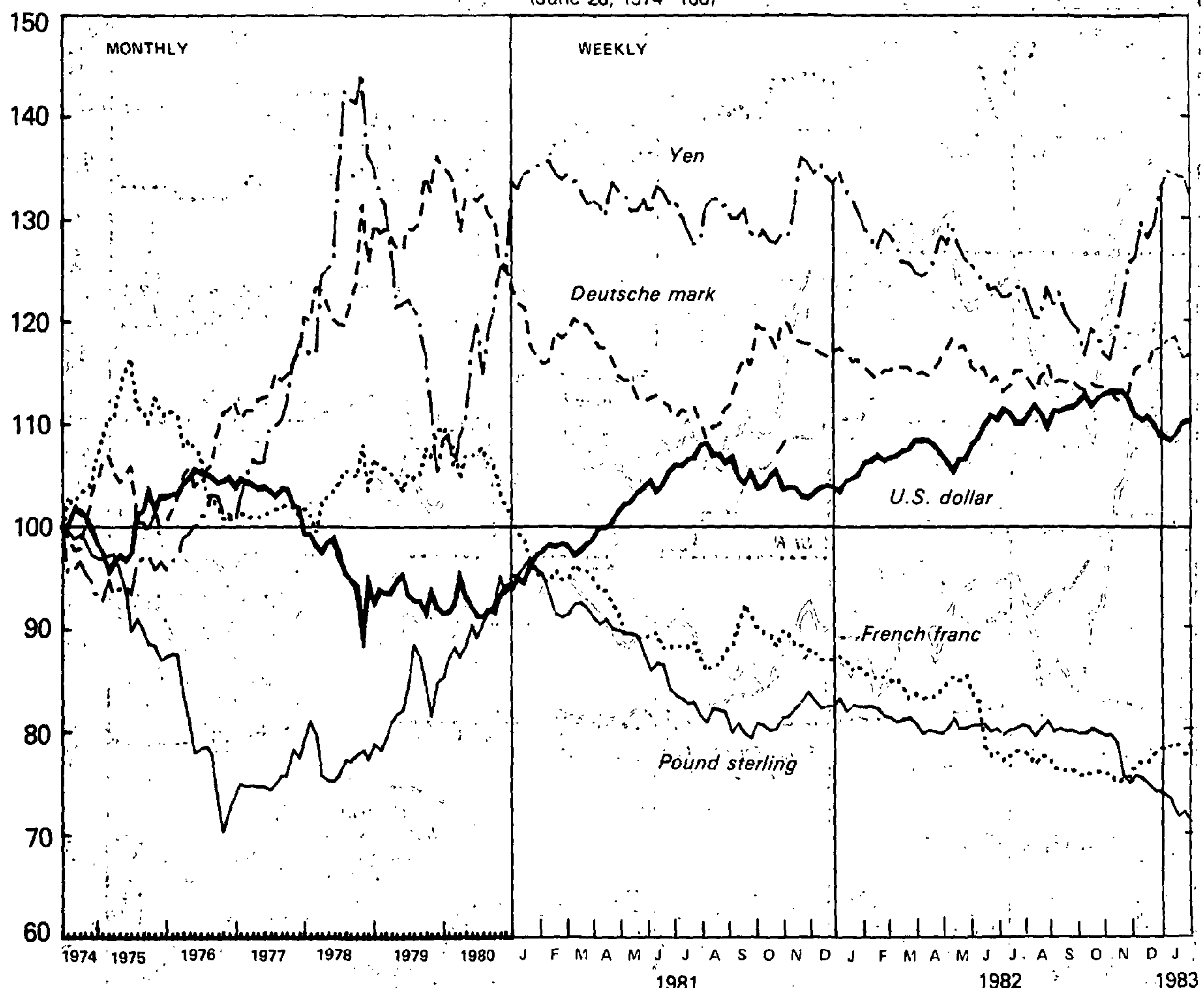
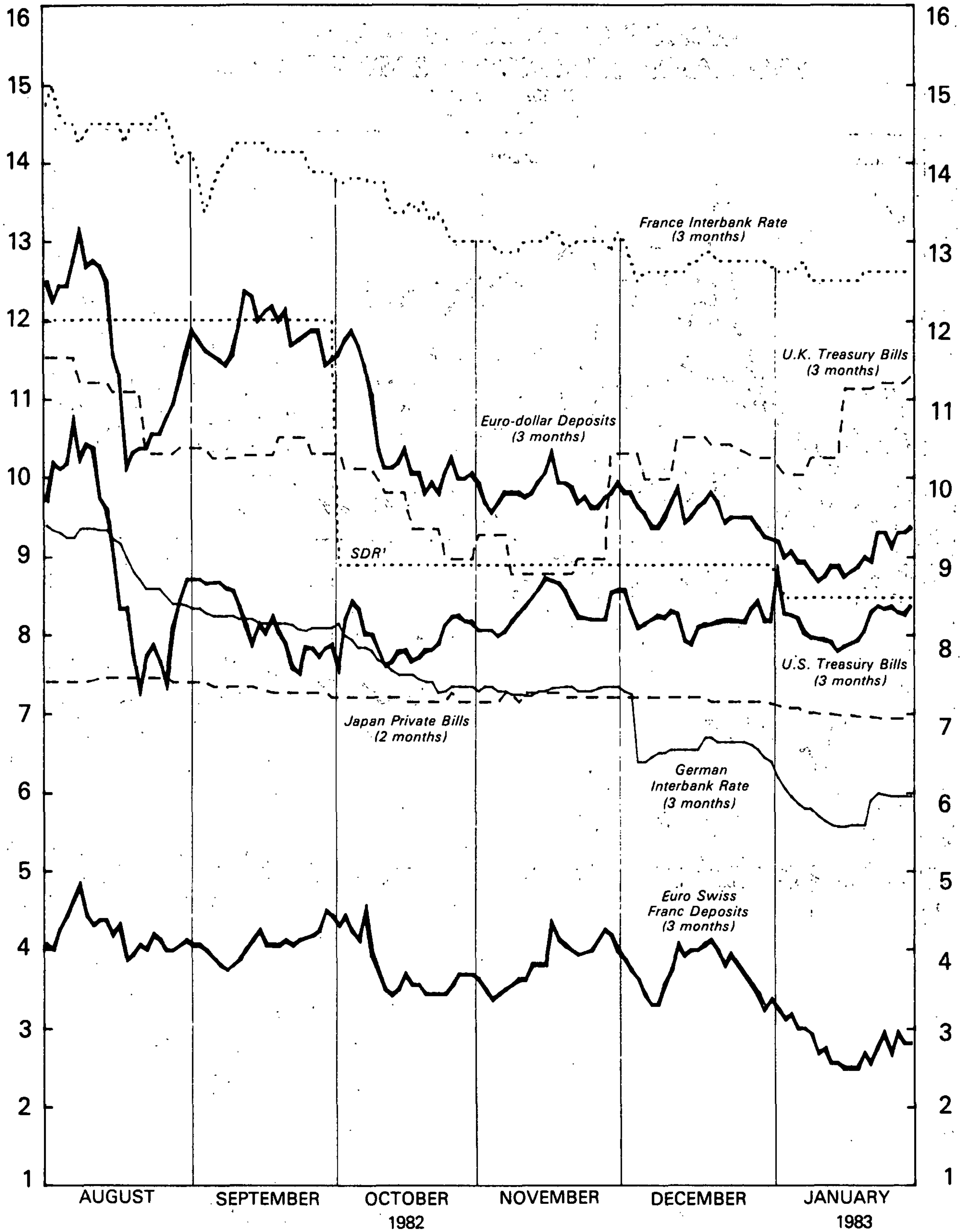


CHART 7

SHORT-TERM MONEY MARKET RATES

(Per cent per annum)



¹The rate of interest on SDR holdings for each quarter, under Rule T-1(b), is based on a combined market rate of interest.

CHART 8

THREE-MONTH FORWARD RATES

Margins from Spot Rates based on noon quotations in New York
(Per cent per annum)

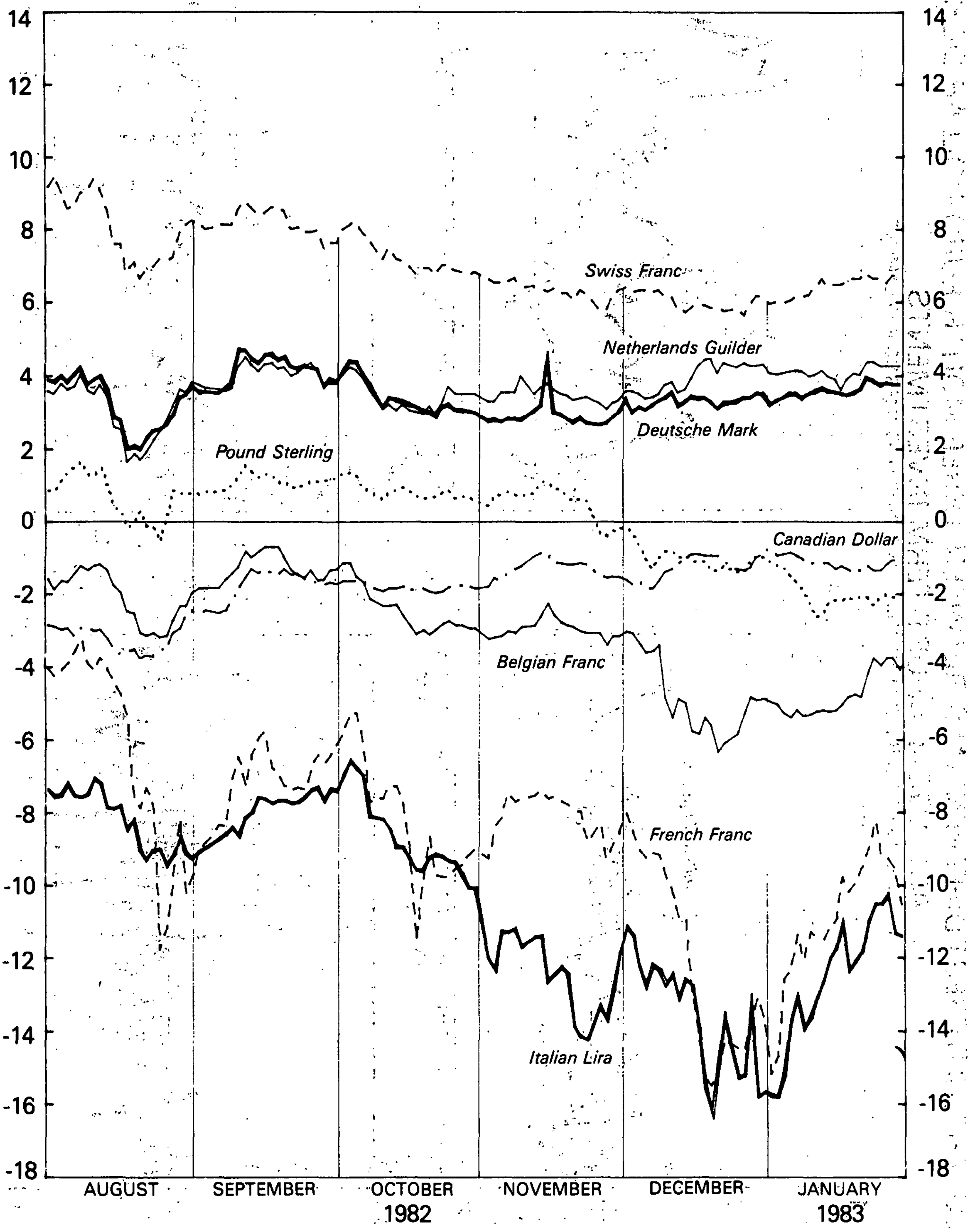
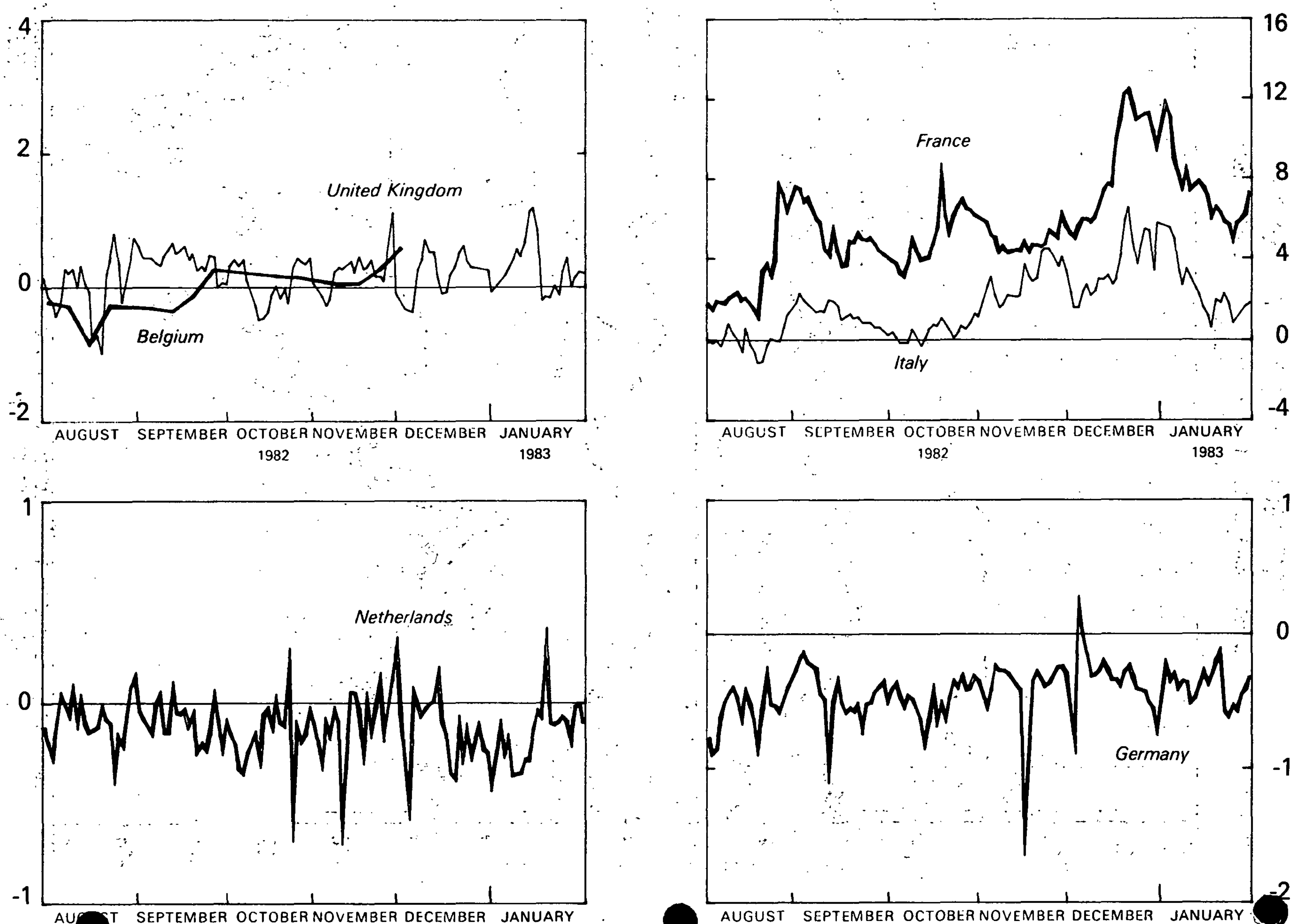


CHART 9

COVERED INTEREST DIFFERENTIALS BETWEEN THREE-MONTH EURO-DOLLAR DEPOSITS AND LOCAL SHORT-TERM INVESTMENTS

(+ IN FAVOR OF EURO-DOLLAR AND — IN FAVOR OF DOMESTIC INVESTMENT)



Foreign Exchange Rates, December 1982-January 1983 1/

	December					January			
	1	8	15	22	29	5	12	19	26
Austrian schilling	17.285	16.955	17.225	16.915	16.665	16.4850	16.5350	16.9750	17.0350
Belgian franc									
Official	48.525	47.755	48.115	46.95	46.735	46.215	46.395	47.200	47.625
Financial	49.235	48.87	49.30	48.925	47.775	48.235	49.050	49.550	49.100
Canadian dollars	0.80606	0.80590	0.80775	0.80811	0.80687	0.81331	0.81776	0.81626	0.80831
Danish kroner	8.6925	8.5650	8.6450	8.4856	8.3525	8.2805	8.3175	8.4925	8.5275
Deutsche mark	2.4715	2.43275	2.4505	2.4045	2.3725	2.34850	2.36025	2.41350	2.42550
French francs	6.9900	6.9000	6.9535	6.8150	6.7225	6.6600	6.6960	6.8445	6.8715
Irish pounds	1.3580	1.3718	1.3620	1.3845	1.4012	1.4150	1.4080	1.3785	1.3755
Italian lire	1428.00	1402.00	1413.00	1386.00	1365.00	1355.000	1351.500	1386.500	1398.000
Japanese yen	249.10	242.075	244.875	240.40	232.75	229.050	230.475	234.875	235.275
Netherlands guilder	2.7210	2.6730	2.7010	2.6565	2.6245	2.5968	2.6043	2.6443	2.6670
Norwegian kroner	7.0300	6.9875	7.0975	7.0750	7.0250	6.9500	7.0125	7.0365	7.1450
Pounds sterling	1.6275	1.6265	1.6110	1.6080	1.6265	1.6215	1.5755	1.5745	1.5485
Swedish kroner	7.3900	7.3400	7.4175	7.3450	7.2850	7.2238	7.2800	7.3450	7.4225
Swiss francs	2.1150	2.0650	2.0910	2.0180	1.9925	1.95700	1.94525	1.97500	1.98825

1/ Wednesday noon spot quotations in New York, expressed in terms of currency units per U.S. dollar, except for the Canadian dollar, the Irish pound, and the pound sterling which are expressed in U.S. dollars per currency unit.

Short- and Medium-Term Interest Rates

APPENDIX B

(Monthly and weekly averages)

	National Money Markets 1/						Euro-currency Markets 2/					Lending Rate		U.S. Treasury 5/ Securities
	United States (1)	Germany (2)	United Kingdom (3)	France (4)	Japan (5)	Weighted average (6)	U.S. dollar (7)	Deutsche mark (8)	Pound sterling (9)	Swiss franc (10)	French franc (11)	LIBOR 3/ (12)	U.S. prime 4/ (13)	(14)
1982														
Feb.	14.12	10.44	14.39	14.75	6.68	12.64	15.88	10.21	14.53	8.28	15.53	15.96	16.56	14.54
Mar.	13.27	10.01	13.34	15.41	6.61	12.11	14.98	9.43	13.67	6.36	19.79	15.08	16.50	13.98
Apr.	13.30	9.46	13.45	16.61	7.15	12.24	15.22	9.04	13.80	4.98	23.12	15.30	16.50	14.00
May	12.66	9.31	13.36	16.39	7.29	11.88	14.61	8.67	13.35	3.93	24.97	14.62	16.50	13.75
June	13.04	9.40	12.86	15.90	7.37	11.99	15.55	8.98	13.05	5.38	18.70	15.75	16.50	14.43
July	11.73	9.58	12.29	14.83	7.40	11.20	14.39	9.00	12.39	4.38	15.77	14.96	16.26	14.07
Aug.	9.00	9.13	10.98	14.68	7.44	9.62	11.65	8.65	11.15	4.22	17.62	12.64	14.39	13.00
Sept.	8.21	8.29	10.36	14.24	7.31	8.94	11.85	7.83	10.93	4.08	19.43	12.75	13.50	12.25
Oct.	7.97	7.68	9.59	13.65	7.19	8.56	10.51	7.19	9.82	3.75	19.01	10.82	12.52	10.80
Nov.	8.34	7.41	9.08	13.16	7.23	8.59	9.82	7.07	9.35	3.83	18.77	10.06	11.85	10.38
Dec.	8.20	6.71	10.30	12.90	7.19	8.49	9.57	6.38	10.55	3.73	22.46	9.84	11.50	10.22
1983														
Jan.	8.15	5.90	10.72	12.76	7.00	8.32	9.01	5.53	11.17	2.80	21.16	9.25	11.16	10.03
1982 Weekly														
Feb. 5	14.29	10.40	14.28	15.40	6.70	12.77	15.71	10.23	14.65	8.54	15.71	15.84	15.96	14.73
12	14.83	10.39	14.35	14.78	6.70	12.98	16.23	10.24	14.65	8.31	15.47	16.31	16.50	14.91
19	14.76	10.54	14.49	14.30	6.70	12.94	16.49	10.29	14.68	8.28	15.32	16.55	16.50	14.58
26	12.88	10.42	14.42	14.52	6.63	12.02	15.08	10.08	14.13	8.01	15.56	15.14	16.86	14.02
Mar. 5	12.82	10.36	14.08	14.19	6.63	11.90	10.75	9.83	13.85	7.13	15.65	14.79	16.50	13.76
12	13.04	10.16	13.18	14.35	6.63	11.89	14.60	9.46	13.43	6.65	15.53	14.67	16.50	13.82
19	13.46	9.98	13.11	15.79	6.58	12.20	15.15	9.38	13.75	6.28	18.96	15.21	16.50	14.04
26	13.32	9.71	13.11	16.68	6.57	12.19	15.09	9.14	13.63	5.83	26.16	15.17	16.50	14.03
Apr. 2	13.97	9.69	13.13	16.58	7.08	12.56	15.43	9.19	13.65	5.44	24.70	15.56	16.50	14.34
9	13.72	9.48	13.09	16.77	7.08	12.43	15.47	9.13	13.69	5.12	24.31	15.53	16.50	14.25
16	13.37	9.48	13.46	16.67	7.15	12.29	15.47	9.18	13.88	5.22	23.12	15.56	16.50	14.00
23	12.96	9.44	13.84	16.32	7.21	12.09	15.10	8.96	13.88	4.94	22.23	15.16	16.50	13.85
30	12.99	9.38	13.56	16.70	7.21	12.09	14.93	8.92	13.83	4.61	21.71	14.98	16.50	13.87
May 7	13.12	9.34	13.59	16.45	7.21	12.12	14.81	8.74	13.48	4.12	22.22	14.80	16.50	13.87
14	12.95	9.33	13.28	16.35	7.27	11.99	14.53	8.53	13.14	3.56	22.47	14.49	16.50	13.69
21	12.43	9.26	13.25	16.35	7.27	11.74	14.63	8.71	13.41	3.76	26.25	14.66	16.50	13.72
28	12.03	9.30	13.32	16.38	7.34	11.58	14.48	8.68	13.41	4.20	27.90	14.54	16.50	13.74
June 4	12.64	9.27	13.18	16.48	7.34	11.87	14.63	8.72	13.22	4.25	27.75	14.75	16.50	13.98
11	12.60	9.31	12.77	16.48	7.34	11.82	14.93	8.98	12.92	5.14	n.a.	15.14	16.50	14.04
18	13.04	9.36	12.77	15.51	7.38	11.93	15.68	8.91	12.91	5.67	17.88	15.86	16.50	14.48
25	13.49	9.50	12.77	15.49	7.40	12.18	16.26	9.12	13.05	6.10	17.69	16.54	16.50	14.90
July 2	13.41	9.60	12.87	15.18	7.40	12.14	16.23	9.21	13.11	5.38	16.55	16.49	16.50	14.73
9	12.78	9.68	12.82	14.73	7.40	11.80	15.72	9.16	12.72	5.00	15.82	15.98	16.50	14.48
16	12.13	9.59	12.32	14.85	7.40	11.41	14.80	9.01	12.44	4.46	15.50	15.13	16.50	14.10
23	10.72	9.55	12.15	14.75	7.40	10.68	13.54	8.86	12.27	3.65	15.71	14.21	16.36	13.66
30	10.94	9.52	11.74	14.93	7.40	10.74	13.13	8.93	11.98	4.27	16.15	14.18	16.00	13.89
Aug. 6	10.18	9.44	11.54	14.88	7.42	10.34	12.48	8.78	11.61	4.28	16.38	13.38	15.29	13.62
13	10.08	9.48	11.22	14.63	7.42	10.23	12.75	9.11	11.38	4.47	16.58	13.75	15.00	13.59
20	8.14	9.10	11.10	14.64	7.47	9.20	10.74	8.56	10.88	4.08	16.44	11.75	14.71	12.53
27	7.75	8.67	10.32	14.73	7.46	8.85	10.64	8.21	10.85	4.06	20.48	11.68	13.79	12.38
Sept. 3	8.65	8.47	10.39	14.09	7.40	9.20	11.71	8.19	10.93	4.06	21.22	12.72	13.50	12.54
10	8.63	8.35	10.25	14.26	7.34	9.16	11.61	7.86	10.91	3.81	20.19	12.66	13.50	12.43
17	8.31	8.28	10.29	14.42	7.32	9.00	12.20	7.79	10.95	4.10	18.65	13.16	13.50	12.47
24	7.78	8.22	10.52	14.32	7.27	8.74	11.88	7.69	11.00	4.10	19.31	12.73	13.50	12.11
Oct. 1	7.77	8.22	10.32	14.04	7.25	8.68	11.65	7.82	10.73	4.34	18.28	12.29	13.50	11.74
8	8.20	8.00	10.12	13.98	7.21	8.82	11.56	7.59	10.50	4.25	17.54	12.00	13.50	11.29
15	7.72	7.65	9.82	13.66	7.21	8.46	10.24	7.05	9.70	3.55	17.88	10.45	12.86	10.46
22	7.78	7.50	9.35	13.59	7.15	8.40	9.94	6.95	9.43	3.49	20.45	10.23	12.00	10.50
29	8.19	7.44	8.96	13.24	7.17	8.52	10.07	7.04	9.50	3.61	20.35	10.35	12.00	10.73
Nov. 5	8.04	7.42	9.28	13.10	7.19	8.46	9.74	6.99	9.29	3.49	19.00	9.93	12.00	10.34
12	8.35	7.35	8.78	13.12	7.25	8.55	9.82	7.07	9.16	3.69	n.a.	9.98	12.00	10.44
19	8.60	7.43	8.78	13.22	7.25	8.70	10.03	7.12	9.20	4.07	18.13	10.28	12.00	10.51
26	8.21	7.41	8.98	13.18	7.21	8.51	9.69	7.08	9.27	4.06	18.46	10.01	11.50	10.21
Dec. 3	8.42	7.23	10.32	13.03	7.21	8.17	9.80	6.88	10.23	3.89	19.35	10.14	11.50	10.31
10	8.23	6.57	9.98	12.80	7.21	8.44	9.50	6.34	10.11	3.47	19.83	9.78	11.50	10.26
17	8.07	6.67	10.52	12.90	7.21	8.45	9.63	6.44	10.66	4.07	22.85	9.93	11.50	10.23
24	8.17	6.76	10.42	12.96	7.15	8.50	9.61	6.44	11.06	3.97	26.50	9.86	11.50	10.22
31	8.28	6.62	10.25	12.93	7.15	8.51	9.41	5.98	10.72	3.36	24.21	9.61	11.50	10.15
1983 Weekly														
Jan. 7	8.32	6.05	10.05	12.83	7.08	8.38	9.03	5.74	10.52	3.11	23.78	9.23	11.50	10.04
14	7.92	5.74	10.25	12.67	7.02	8.12	8.80	5.38	11.33	2.69	21.43	9.00	11.36	9.88
21	8.01	5.73	11.13	12.72	n.a.	n.a.	8.88	5.40	11.14	2.55	20.28	9.10	11.00	9.92
28	8.33	6.05	11.20	12.80	6.95	8.48	9.27	5.57	11.60	2.83	19.35	9.58	11.00	10.22

1/ As of January 1, 1981, the combined market interest rate under the amended Rule T-1 is calculated by multiplying the yield or rate on each of the respective instruments listed below by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule O-2(a) and (b). The interest rates and the respective currency units (shown in parentheses) are as follows: market yield for three-month U.S. Treasury bills (0.54), three-month interbank deposit rate in Germany (0.46), three-month interbank money rate against private paper in France (0.74), discount rate on two-month (private) bills in Japan (34), and market yield for three-month U.K. Treasury bills (0.071).

2/ Euro-currency interest rates are those on three-month deposits for the U.S. dollar, the Deutsche mark, the Swiss franc, and the French franc (in London), and for the pound sterling (in Paris).

3/ LIBOR is six-month euro-dollar offered rate in London.

4/ Prime lending rate of major New York banks.

5/ Yield is adjusted to constant five-year maturity by the U.S. Treasury and is based on only recently issued, actively traded securities. The interest rate paid to lenders and charges on drawings under the Supplementary Financing Facility are based on this rate.