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INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in July 1985

Prepared by Edgardo Decarli and Robert A. Feldman

Approved by Muhammad N. Bhuiyan

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The U.S. dollar depreciated sharply in July, falling to its lowest level since June 1984 against most leading currencies. Trading in July was at times very active, and exchange rates were more volatile than in June with a steady depreciation of the dollar during the first half of the month and large exchange rate fluctuations thereafter. Market participants revised their expectations about the prospects of the U.S. economy and the stance of U.S. monetary policy in light of information indicating that economic growth in the second quarter had remained sluggish and the expansion of money supply had exceeded the target by a substantial margin. Market sentiment became bearish toward the dollar despite a firming of short-term interest rates in the United States contrasted with declines in most other major industrial countries (see Section II). Over the month, leading currencies firmed against the U.S. dollar by 0.36-10.46 percent. Since late February, when the dollar reached its peak level, the pound sterling firmed by 33 percent against the U.S. dollar, the Deutsche mark and the French franc firmed by about 23 percent each, and the Japanese yen strengthened by 11 percent. The dollar eased by 3.77 percent in July against the SDR and by 5.87 percent in effective (MERM) terms with its 12-month effective appreciation of 7.7 percent in June turning into an effective depreciation of 1.2 percent in July. The pound sterling strengthened significantly in July which was attributed in part to favorable interest rate differential which remained large despite significant decline during the month. The pound sterling firmed by 7.5 percent against the dollar over the month and by 7.3 percent in effective terms over the year. The 12-month effective changes for most other leading currencies became positive, exceptions being the Italian lira and the Canadian dollar (see Table 1 and Charts 1, 3 and 4).

Table 1. Changes in Exchange Rates in July 1985 1/

(In percent)

	<u>Monthly exchange rate changes</u>			Changes in effective exchange rate since July 1984
	Against U.S. dollar <u>2/</u>	Against SDR <u>3/</u>	Effective exchange rate <u>4/</u>	
Belgium	+7.33	+5.17	+2.11	+1.60
Denmark	+7.51	+4.90	+3.22	+3.93
France	+7.93	+5.49	+3.72	+3.27
Germany	+7.89	+5.63	+3.56	+1.83
Ireland	+8.08	+5.25	+3.23	+3.12
Italy	+2.44	+0.28	-2.47	-7.74
Netherlands	+8.29	+5.86	+3.45	+2.96
Austria	+7.83	+5.41	+3.61	+2.08
Canada	+0.36	-3.45	-2.38	-3.64
Japan	+4.94	+1.23	+1.06	+2.59
Norway	+6.39	+3.53	+1.87	+0.05
Sweden	+5.40	+2.76	+0.93	+0.15
Switzerland	+10.46	+8.11	+6.53	+6.67
United Kingdom	+7.46	+6.16	+4.15	+7.34
United States	--	-3.77	-5.87	-1.15

1/ Positive sign indicates appreciation of the currency.

2/ Based on New York noon quotations.

3/ SDR rates are derived from representative exchange rates advised to the Fund by members and the daily valuation of the SDR against the U.S. dollar.

4/ Based on the Fund's multilateral exchange rate model (MERM). Effective rates are based on representative exchange rates in the domestic markets, as officially advised to the Fund.

The European Monetary System announced a realignment of exchange rates effective July 22, 1985 involving a 7.8 percent depreciation of the lira's central rates in relation to each of the other EMS currencies. 1/ The realignment followed more than two years of exchange stability within the EMS (the previous adjustment was made on May 18, 1983). Spreads in the narrow band of the parity grid remained within

1/ The official communiqué issued on July 20 set out the following percentage changes in central rates: +2 percent for the Irish pound, the French franc, the Danish krone, the Netherlands guilder, the Deutsche mark, the Belgian franc, and the Luxembourg franc; and -6 percent for the Italian lira.

the permitted 2.25 percent margin throughout July, except once at the end of the month, but the spread of the Italian lira from the strongest currency in the system widened from 3.24 percent at the end of June to 5.16 percent by July 19. ^{1/} In the absence of intervention by the Bank of Italy, the lira depreciated further, and the market was closed early that afternoon when lira quotations against the U.S. dollar fell about 16 percent below those on the previous day. Following the realignment during the weekend, the lira was occasionally the strongest currency in the EMS, with its spread above the weakest currency fluctuating around 2 percent. The Bank of Italy was a net seller of some \$40 million and DM 50 million in July, with most sales taking place in the week before the realignment. The Belgian franc remained the weakest currency in the narrow band and the Irish pound was the strongest throughout the month. Toward the end of the month, there were speculations that the Belgian franc and the French franc might be devalued against the other EMS currencies in the context of a new currency realignment; forward discounts on the two currencies rose substantially as a consequence, and the respective central banks intervened to support their currencies on the exchange market. The divergence indicators for all the currencies in the EMS remained well within their thresholds throughout the month (Chart 2).

The volatility of exchange rates for major currencies against the U.S. dollar, as indicated by certain measures given in Table 2, rose for most currencies in July after having declined in the preceding month. The high-low spreads rose sharply to 5.6-9.2 percent for the EMS currencies in July from 2.2-2.7 percent in June. For the other currencies this measure rose similarly to 5.0-11.3 percent from 1.2-4.2 percent, except for the Canadian dollar for which the spread actually declined. The averages of absolute daily percentage changes of major currencies (MAC in Table 2 and Chart 5) against the U.S. dollar also rose significantly. For the EMS currencies they rose to an average of 0.76 percent from an average of 0.56 percent in June, while for the other currencies they averaged 0.59 percent, compared with 0.49 percent in June. The Canadian dollar and the Japanese yen continued to be the least volatile currencies against the U.S. dollar, although the volatility of the Japanese yen increased substantially in July. The Swiss franc and the pound sterling continued to be among the most volatile currencies.

^{1/} The Italian lira is permitted a spread of 6 percent above (below) the weakest (strongest) currency in the EMS.

Table 2. Intra-Month Variations of Exchange Rates of Major Currencies 1/

	July <u>2/</u>		High-low spread in percent <u>3/</u>		MAC <u>4/</u>	
	High	Low	June	July	June	July
Belgium	56.715	61.315	2.7	8.1	0.58	0.76
Denmark	10.11200	10.92900	2.2	8.1	0.54	0.68
France	8.5588	9.2720	2.3	8.3	0.56	0.77
Germany	2.8070	3.0450	2.4	8.5	0.60	0.74
Ireland	1.11700	1.03015	2.5	8.4	0.56	0.77
Italy	1,841.0	1,944.5	2.2	5.6	0.53	0.82
Netherlands	3.15325	3.44250	2.4	9.2	0.58	0.76
Austria	19.7350	21.4575	2.5	8.7	0.67	0.80
Canada	0.7421	0.7368	1.1	0.7	0.18	0.14
Japan	236.450	248.325	1.2	5.0	0.30	0.47
Norway	8.2150	8.7660	2.0	6.7	0.41	0.54
Sweden	8.2850	8.7550	2.4	5.7	0.38	0.55
Switzerland	2.2890	2.5483	2.9	11.3	0.69	0.81
United Kingdom	1.4283	1.3045	4.2	9.5	0.82	0.79

1/ Exchange rates against the U.S. dollar at noon 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 percent.

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

Most major industrial countries registered large gross reserve increases in July, particularly Germany and Norway. Belgium's gross reserves fell marginally, while Switzerland recorded the only significant decline. Over the last 12 months, most major industrial countries registered substantial gross reserve increases. Germany, however, still showed a large 12-month decline despite its recent reserve accumulation. Other countries showing 12-month gross reserve declines were the Netherlands, Austria and Canada (see Table 3).

Table 3. Gross Foreign Exchange Reserves in July 1985 ^{1/}

(In millions of U.S. dollars)

	End-month reserve level	Change in July	Change over 12 months
Belgium	4,051	-30	+915
Denmark	4,632	+416	+1,719
France (June)	21,685	+717	+2,266
Germany	35,939	+1,527	-2,483
Ireland	3,570	+325	+1,407
Italy	19,535	+836	+1,003
Netherlands	8,050	+513	-458
Austria	3,519	+402	-169
Canada	2,039	+462	-655
Japan	23,787	+408	+2,794
Norway	12,606	+1,338	+5,343
Sweden	4,437	+338	+670
Switzerland	12,627	-631	+622
United Kingdom	8,109	+282	+1,108
United States	7,958	+551	+1,853

^{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 proceeds from other official borrowings.

I. Developments in Major Factors Affecting the Exchange Market in July

The U.S. dollar eased sharply in July against other major currencies, except the Canadian dollar; it eased by 3.77 percent against the SDR and 5.87 percent in effective (MERM) terms. Most of the depreciation took place during the first half of the month as economic indicators generally pointed to a continued slowdown of the U.S. economy in the second quarter while the Federal reserve appeared reluctant to tighten its monetary policy stance. The current account deficit of the balance of payments rose to a record \$33.42 billion in the second quarter from a revised \$29.56 billion in the first quarter and \$25.65 billion in the second quarter of 1984. Real GNP rose at an annual rate of 1.7 percent in the second quarter (compared with a 3.1 percent "flash" estimate), after growing at an annual rate of only 0.3 percent in the first quarter; industrial production, seasonally adjusted, rose 0.1 percent in June and 1.8 percent year-on-year, while the civilian

unemployment rate was at 7.3 percent for the sixth consecutive month. In light of the performance of the economy in the first half of the year (an average one percent annual growth rate), the U.S. Administration scaled down its target for annual rate of economic growth in the fourth quarter from 3.9 percent to 3 percent. The index of leading economic indicators rose by 1.0 percent in June, after a 0.1 percent revised increase in May. During July the Federal Reserve announced new target growth rates of 3-8 percent for the M1 concept of money supply from a new base period compared with the previous target of 4-7 percent from the fourth quarter of 1984 (see Section II). The new targets effectively incorporated the higher-than-targeted growth of M1 to the base and raised by 2 1/2 percent the target growth for 1985. The inflation rate continued to be low with producer prices, seasonally adjusted, rising 0.3 percent in July and 0.9 percent year-on-year and the (revised) GNP deflator rising at an annual rate of 2.8 percent in the second quarter, compared with 5.4 percent in the first quarter.

The Deutsche mark firmed by 7.89 percent against the U.S. dollar and by 3.56 percent in effective terms. Germany's current account recorded a DM 600 million surplus in June, compared to a DM 6.1 billion surplus in May. Industrial production, seasonally adjusted, rose 2 percent in June and 7 percent year-on-year while the unemployment rate rose to 9 percent in July from 8.7 percent in June. The inflation rate remained very low with consumer prices falling by 0.2 percent in July but rising 2.3 percent year-on-year; producer prices fell 1.2 percent in June and were little changed (0.1 percent rise) year-on-year.

The French franc firmed by 7.93 percent against the U.S. dollar and by 3.72 percent in effective terms. Speculation against the franc toward the end of July caused forward discounts and euro-French franc interest rates to increase significantly. France's trade balance, seasonally adjusted, switched to a F 1.99 billion surplus in June from a F 1.24 billion deficit in May, with the surplus for the first half of 1985 reaching F 14.40 billion, substantially below the F 18.96 billion surplus for the same period a year earlier. Its industrial production, seasonally adjusted, rose a provisional 1.5 percent in May after a 2.2 percent decline in April, and remained at the same level as a year earlier. The number of persons unemployed, seasonally adjusted, fell 0.2 percent in June after rising 0.5 percent in May and stood at 1.5 percent below the high level recorded in January. Industrial wholesale prices, seasonally adjusted, rose 0.1 percent in June and 6 percent year-on-year.

The Belgian franc firmed by 7.33 percent against the U.S. dollar and by 2.11 percent in effective terms. The Belgian franc remained the weakest currency in the narrow band of the EMS parity grid in July and was subject to speculative pressures at the time of the currency realignment of July 20. To support the franc, the Banque Nationale de Belgique raised key interest rates and intervened by selling other currencies. Industrial production rose 0.4 percent in May and 2.6 percent year-on-year. The unemployment rate rose to 13.2 percent at end-July from 12.0 percent at end-June. Wholesale

prices, seasonally adjusted, rose 0.4 percent in June and 0.2 percent year-on-year. The trade deficit of the Belgo-Luxembourg Economic Union narrowed slightly to BF 16.2 billion in April from BF 17.6 billion a year earlier.

The Netherlands guilder firmed by 8.29 percent against the U.S. dollar and by 3.45 percent in effective terms. The Netherlands' trade surplus widened to f. 600 million in June from f. 500 million in May, and reached f. 5.7 billion in the first half of 1985, compared with f. 8.6 billion in the same period a year earlier. Industrial production rose 1.0 percent in May, reversing a three-month declining trend, and stood at about the same level a year earlier. The number of unemployed persons, seasonally adjusted, rose 1.0 percent in July but was down 7.2 percent year-on-year. Consumer prices declined 0.2 percent in July (after easing 0.1 percent in June) but were 2.3 percent higher year-on-year.

The Danish krone firmed by 7.51 percent against the U.S. dollar and by 3.22 percent in effective terms. Denmark recorded a DKr 4.9 billion current account deficit in the second quarter bringing the deficit to DKr 12.7 billion in the first half of 1985, compared with the deficit of DKr 9.3 billion in the corresponding period of the preceding year. Consumer prices were unchanged in June but rose 4.8 percent year-on-year.

The Irish pound firmed by 8.08 percent against the U.S. dollar and by 3.23 percent in effective terms. The Irish pound remained the strongest currency in the EMS narrow band throughout July. The trade balance, seasonally adjusted, recorded a surplus of £Ir 100.4 million in June, compared with the surpluses of £Ir 60.6 million in May and £Ir 79.6 million a year earlier. The unemployment rate rose to 17 percent in June from 16.7 percent in May and 15.9 percent a year earlier.

The Italian lira firmed by 2.44 percent against the U.S. dollar but eased by 2.47 percent in effective terms, reflecting mainly the effect of the devaluation of the lira in the EMS in late July. The lira was the weakest currency in the EMS before the realignment but was among the strongest after it. Italy's trade deficit narrowed to Lit 3,010 billion in May from Lit 3,345 billion in April and Lit 3,041 billion a year earlier. However, the trade deficit for the first five months of 1985 was about 60 percent above the level in the same period a year earlier. Industrial production declined 1.1 percent year-on-year in June after a 0.5 percent year-on-year rise in May. The unemployment rate fell to 10.2 percent in the quarter ended April from 10.8 percent in the quarter ended January and 10.3 percent a year earlier. Consumer prices rose 0.3 percent in July and 8.7 percent year-on-year.

The pound sterling firmed by 7.46 percent against the U.S. dollar and by 4.15 percent in effective terms mainly because of relatively high interest rates on short-term instruments. The U.K. current account surplus narrowed sharply to £257 million in June from £724 million in

May, but was substantially above that of £34 million a year earlier. Industrial production, seasonally adjusted, rose a provisional 1.2 percent in May and was up 6 percent year-on-year. The volume of retail sales rose by 1.3 percent in June and 5 percent year-on-year, while the unemployment rate was 13.1 percent for the fourth consecutive month in July. Producer output prices rose 0.3 percent in July and 5.7 percent year-on-year while input costs fell 2.0 percent in July and were unchanged year-on-year for the first time in over seven years.

The Swiss franc strengthened the most in July, firming by 10.46 percent against the U.S. dollar and by 6.53 percent in effective terms. Switzerland's trade deficit narrowed marginally to Sw F 636 million in June from Sw F 660 million in May, with the cumulative deficit for the first half of 1985 reaching Sw F 4.60 billion, roughly unchanged from the same period a year earlier. Wholesale prices fell by 0.7 percent in July but were up 1.8 percent year-on-year.

The Japanese yen firmed by 4.94 percent against the U.S. dollar and by 1.06 percent in effective terms. Japan's merchandise trade surplus narrowed to \$4.60 billion in July from \$5.02 billion in June but widened from \$3.17 billion a year earlier. Real consumer spending rose 0.1 percent in May from a year earlier, slowing down from the growth of 2 percent in April and 3.5 percent in March. The unemployment rate, seasonally adjusted, rose to 2.6 percent in June from 2.5 percent in May with the average rate for the first half of 1985 standing at 2.7 percent, marginally below the 2.8 percent level for the same period a year earlier. Japan's wholesale prices fell 0.4 percent in July and 1.2 percent year-on-year.

The Canadian dollar firmed marginally against the U.S. dollar (by 0.36 percent) but depreciated against other leading currencies, so that its effective exchange rate recorded a depreciation of 2.38 percent. Canada's trade surplus, seasonally adjusted, narrowed to Can\$1.20 billion in June from Can\$1.80 billion in May. Real GDP, seasonally adjusted, rose 0.4 percent in May and 4.4 percent year-on-year. Industrial production, seasonally adjusted, fell 0.1 percent in May but rose 3.9 percent year-on-year while the unemployment rate stood at 10.4 percent in July, marginally below the 10.5 percent rate in June. Canada's index of leading economic indicators fell by 0.2 percent in April. The consumer price index rose 0.6 percent in June and 4.1 percent year-on-year.

The Austrian schilling firmed by 7.83 percent against the U.S. dollar and by 3.61 percent in effective terms. Austria's current account registered a S 1.0 billion deficit in June after a S 4.2 billion deficit in May for a cumulative surplus of S 1.2 billion for the first half of 1985, compared with a S 2.8 billion deficit in the same period a year earlier. The unemployment rate remained unchanged at 3.4 percent in July (it had declined to that level from 4.0 percent in May). Consumer prices rose 0.1 percent in July and 3.5 percent year-on-year.

The Norwegian krone firmed by 6.39 percent against the U.S. dollar and by 1.87 percent in effective terms. Norway's trade surplus narrowed to Nkr 1.6 billion in June from a revised Nkr 2.4 billion surplus in May with the cumulative surplus reaching Nkr 18.5 billion in the first half of 1985, compared with the Nkr 19.6 billion surplus in the same period a year earlier. The unemployment rate was 2.9 percent in July, compared with 2.7 percent in June and 3.8 percent a year earlier. The consumer price index rose 0.4 percent from mid-June to mid-July for a 5.8 percent year-on-year rise.

The Swedish krona firmed by 5.40 percent against the U.S. dollar and by 0.93 percent in effective terms. Sweden's trade surplus widened to SKr 3.2 billion in June from SKr 1.1 billion in May with the surplus for the first half of 1985 standing at SKr 5.6 billion, substantially below the SKr 15.3 billion for the same period a year earlier. Currency inflows continued to be strong in the earlier part of July, attributed to the interest rate hike in early May together with other corrective measures; but they diminished later on as the Bank of Sweden cut back interest rates, following similar actions adopted by other European central banks. Real GDP growth slowed down to an annual rate of 1.5 percent in the first quarter from 3.0 percent in the last quarter of the preceding year. Consumer prices fell 0.1 percent in July but were up 7.8 percent year-on-year.

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

Money market conditions tended to ease in July, with short-term interest rates declining in most major industrial countries, the principal exception being the United States where short-term interest rates firmed markedly. Considerations pertaining to an easing U.S. dollar appeared to have played an important role in this regard, notably in France, Germany, the United Kingdom, and Canada where the interest rate declines were partly policy-induced.

After easing for four consecutive months, domestic interest rates in the United States firmed in July despite continuing signs of weakness in the U.S. economy. The upward pressure on interest rates appeared to stem mainly from a breakdown in Congressional negotiations aimed at cutting the Federal budget deficit and from expectations of a very large upcoming Treasury quarterly refunding; at times, well-above target growth in the M1 measure of the money supply affected the market sentiment. A firming Federal funds rate appeared to have reinforced the impact of other factors on other short-term interest rates. The Federal funds rate firmed from 7.46 percent for the week ended June 28 to 7.64 percent for the week ended July 31; for July as a whole the Federal funds rate averaged 7.88 percent, 0.35 percentage point above the average for the previous month. Under these circumstances, the yield on three-month U.S. Treasury bills rose from 7.04 percent at the end of June to 7.52 percent at the end of July, and the 90-day CD rate rose by 0.32 percentage point over the same period

Table 4. Inflation Rates and Short-Term Interest Rates

	Month <u>2/</u>	Inflation rates <u>1/</u> (year-on-year percent changes)				Short-term interest rates <u>4/</u> (end-of-month)	
		Wholesale price index		Consumer price index <u>3/</u>		June	July
Austria	July	1.4	(4.5)	3.5	(3.2)	4.50	4.50
Belgium	June/July	0.2	(0.1)	5.1	(5.1)	8.90	8.90
Canada	May/June	2.6	(2.4)	4.1	(3.9)	9.32	9.05
Denmark	June	3.6	(3.3)	4.8	(5.5)	7.00	7.00
France	June/July	6.0	(5.7)	6.1	(6.4)	10.39	10.01
Germany	July	0.1	(0.3)	2.3	(2.3)	5.76	5.17
Italy	June/July	8.0	(8.3)	8.7	(8.7)	15.06	14.69
Japan	July/June	-1.2	(-0.2)	2.5	(1.6)	6.31	6.38
Netherlands	Apr./July	2.5	(2.1)	2.3	(2.5)	6.69	6.06
Norway	Apr./July	6.3	(6.0)	5.8	(5.9)	8.00	8.00
Sweden	Apr./July	6.9	(7.3)	7.8	(8.2)	11.50	10.50
Switzerland	July	1.8	(2.8)	3.4	(3.4)	5.25	4.69
United Kingdom	July/June	5.7	(5.6)	7.0	(7.0)	12.27	11.23
United States	July/June	0.9	(1.1)	3.7	(3.7)	7.04	7.52

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 Belgium, France and the United Kingdom, and cost of living index for Germany, the Netherlands, and Switzerland.

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; discount rate on two-month private bills for Japan; four-month certificates of the Government Securities Stabilization Fund for Belgium; central bank discount rates for Austria, Denmark, Norway and Sweden.

to 7.87 percent. Longer-term interest rates firmed as well; yields on U.S. Treasury securities with maturities from one year to 30 years firmed by 0.23-0.41 percentage point with the five-year constant maturity rate rising from 9.65 percent at end-June to 9.98 percent at end-July. The U.S. Federal Reserve Board rebased its M1 money supply growth target to run from the second to the fourth quarter of 1985, replacing the previous fourth quarter 1984 base. The new M1 growth target calls for growth of 3-8 percent at an annual rate using the second quarter average as a base, compared with the previous target growth (Q4/Q4) of 4-7 percent. The M1 measure of the money supply, seasonally adjusted, averaged \$596.7 billion in the week ended July 29, compared with \$592.1 billion in the week ended June 24, and stood \$4.9 billion over the upper limit of the new target range.

Among the countries participating in the European Monetary System, short-term interest rates in July eased in Germany and France but firmed in Belgium. The three-month interbank money rate in France eased from 10.39 percent at the end of June to 10.01 percent at the end of July. The Bank of France cut its money market intervention rate twice in July, first from 10.125 percent to 9.875 percent on July 11 and then to 9.625 percent on July 18. Major French banks later cut their base lending rate from 11.25 percent to 10.85 percent. In Germany, the three-month interbank deposit rate fell by 0.59 percentage point in July to close the month at 5.17 percent, thereby bringing its cumulative decline since end-May to 1.22 percentage points. The Bundesbank took measures aimed at easing money market conditions when it announced around midmonth that it was raising by DM 3 billion the total rediscount quotas offered to banks with effect from August 1. The rediscount quota is a limit on the amount of 90-day bills that eligible banks can discount at the Bundesbank. The Bundesbank also cut the rate at which it offers three-day Treasury bills from 4.8 percent to 4.5 percent on July 19, and it accepted tenders for 30-day securities repurchase agreements at a 4.85 percent rate, the lowest accepted rate since the central bank began executing securities repurchase agreements in 1979. Germany's central bank money stock, seasonally adjusted, grew at a 3.8 percent annual rate through July from the fourth quarter of 1984 base period, compared with 3.7 percent growth through June and a 3-5 percent target range through the fourth quarter of 1985. The National Bank of Belgium, by contrast, raised by one-quarter percentage point on July 9 its discount and Lombard rates to 9.5 percent and 10 percent, respectively, and increased these rates again on July 31 by one-half percentage point to 10 percent and 10.5 percent. Interest rates on some Belgian Treasury certificates were also increased, by 0.5 percentage point to 9.25 percent for one-month certificates, by 0.35 percentage point to 9.25 percent for two-month certificates, and by 0.6 percentage point to 9.50 percent for three-month certificates.

Among the other major countries, short-term interest rates firmed in Japan, but eased moderately in Canada and very sharply in the United Kingdom. The rate for two-month (private) bills in Japan firmed from 6.31 percent at the end of June to 6.38 percent at the end of July.

Japan's long-term credit banks cut, however, their long-term prime lending rate by 0.3 percentage point to 7.2 percent, effective July 29. The long-term prime rate, which the Japanese lending institutions charge on loans of more than a one-year maturity, had been at 7.5 percent since May 28. Japan's broadly defined money supply M2+CDs rose 8.2 percent in June from its year-earlier level, after an 8.3 percent year-on-year rise in May. In Canada, the three-month Treasury bill rate fell from 9.32 percent at the end of June to 9.05 percent at the end of July, the fifth consecutive monthly fall in this rate. The three-month Treasury bill rate in the United Kingdom eased very sharply in July by 1.04 percentage points to close the month at 11.23 percent. The three-month U.K. inter-bank rate eased even more sharply, declining by 1.47 percentage points to 11.16 percent in July. The Bank of England lowered its money market dealing rates by 0.50 percentage point on July 11 and then again by the same margin on July 26, and the major U.K. clearing banks cut their base lending rate twice during the month, first from 12.5 percent to 12 percent, effective July 16, then to 11.5 percent, effective July 30. The latest Bank of England data (released in August) show that sterling M3, seasonally adjusted, fell by 0.70 percent in the four weeks to July 17, following an upward-revised 2.25 percent increase in the five weeks to June 19; the year-on-year growth rate was 12.1 percent in banking July, compared with 12.2 percent growth in banking June and the year-on-year target for the year ending in March 1986 of 5-9 percent.

In other industrial countries, Ireland's Central Bank cut its short-term lending rate by 0.5 percentage point to 11.5 percent on July 16, and then to 11.25 percent on July 30. Major Swiss banks cut their time deposit rate by 0.25 percentage point to 4.25 percent, effective July 31. The Swiss rate was last cut by 0.25 percentage point on May 10. The Bank of Sweden cut its discount rate from 11.5 percent to 10.5 percent and its penalty rate from 16 percent to 15 percent, effective July 12. The last change in these Swedish rates was on May 13, when the discount rate was raised to 11.5 percent from 9.5 percent and the penalty rate was raised from 13.5 percent to 16 percent.

Three-month interest rates in the eurocurrency markets were mixed in July, with rates on most European currencies easier. The euro-sterling rate eased by 1.50 percentage points to 11.06 percent and the euro-Deutsche mark and euro-Swiss franc rates eased by 0.69 percentage point and 0.56 percentage point, respectively, to 4.81 percent and 4.69 percent. The euro-French franc rate firmed sharply, however, by 1.44 percentage points to 12.44 percent. The eurodollar rate also firmed, rising by 0.38 percentage point to 8.19 percent, and the euro-yen rate firmed by 0.03 percentage point to 6.34 percent.

As a result of the movements of eurodollar and domestic interest rates from the end of June to the end of July, the uncovered interest differentials favoring eurodollar investment widened for Germany, Japan and the Netherlands. Those favoring domestic investments narrowed for Belgium, France, Italy, and the United Kingdom (see Table 5).

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

	Uncovered interest differentials <u>1/</u> (1)		Forward exchange quotations <u>2/</u> (2)		Covered interest differentials <u>1/</u> (3) = (1)-(2)	
	June	July	June	July	June	July
	Belgium	-1.09	-0.71	-0.87	-2.12	-0.22
France	-2.58	-1.82	-2.98	-5.54	+0.40	+3.72
Germany	+2.05	+3.02	+2.35	+3.64	-0.30	-0.62
Italy	-7.25	-6.50	-5.80	-4.44	-1.45	-2.06
Japan	+1.50	+1.81	+1.50	+1.99	--	-0.18
Netherlands	+1.12	+2.13	+1.09	+2.28	+0.03	-0.15
United Kingdom	-4.46	-3.04	-4.47	-2.89	+0.01	-0.15

1/ Positive sign indicates differential in favor of eurodollar 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 Japan the discount rate for two-month private bills is used, for the United Kingdom the three-month Treasury bill rate, 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.

In the forward exchange market, the premia against the U.S. dollar widened for the Deutsche mark, the Japanese yen, and the Netherlands guilder. The discounts against the U.S. dollar widened for the Belgian franc and the French franc but narrowed for the Italian lira and the pound sterling. As a result of the above-mentioned movements in interest differentials and forward exchange quotations, the covered interest differential favoring domestic investments widened for Germany and Italy, and switched in July to favor eurodollar investment in Belgium. The covered interest differential favoring eurodollar investment widened for France and switched in July to favor domestic investments in the Netherlands and the United Kingdom. The covered interest differential for Japan changed from a neutral position in June to favor domestic investment in July.

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

The SDR interest rate fell to 7.51 percent for the week beginning July 29 from 7.60 percent for the week beginning June 24 (see Table 6). The yield on three-month U.K. Treasury bills posted a sharp decline of 1.01 percentage points and yields on the relevant instruments for France and Germany fell markedly, each easing by 0.51 percentage point. Yields on the relevant instruments for the United States and Japan firmed, however, by 0.16 percentage point and 0.07 percentage point respectively, thus partially offsetting the effect of declining yields on the other component instruments. The rate of remuneration paid on creditor positions in the Fund (91.66 percent of the SDR interest rate) fell to 6.88 percent in the last three days of July from 6.97 percent in the last week of June.

Table 6. The SDR Interest Rate and the Rate of Remuneration ^{1/}

	June 24	July				
		1	8	15	22	29
SDR interest rate	7.60	7.50	7.44	7.55	7.52	7.51
Rate of remuneration	6.97	6.87	6.82	6.92	6.89	6.88 ^{2/}

^{1/} The rates apply to the weeks beginning with the dates indicated above.

^{2/} Rate applies through the end of July only.

Combined domestic interest rates for the various maturities eased by 0.03-0.12 percentage point (see Table 7). Yields on the relevant instruments in the United Kingdom eased by 0.51-1.38 percentage points while those in France and Germany eased by 0.14-0.81 percentage point and 0.25-0.59 percentage point, respectively. Yields on the relevant instruments in the United States firmed, however, by 0.01-0.31 percentage point while those for Japan were narrowly mixed, moving within a range of -0.05 percentage point to +0.07 percentage point.

Combined eurocurrency offered rates for the various maturities firmed by 0.13-0.25 percentage point. The euro-French franc rates firmed very sharply by 2.44-2.81 percentage points and the eurodollar rates firmed by 0.31-0.38 percentage point while the euro-sterling and the euro-Deutsche mark rates eased by 1.31-2.31 percentage points and 0.56-0.69 percentage point respectively; euro-yen rates were unchanged.

Average interest rates on SDR-denominated deposits of selected commercial banks firmed by 0.01-0.14 percentage point. Average deposit rates in July ranged from 7.80 percent for one-month deposits to 8.22 percent for 12-month deposits.

Table 7. Yields on Selected SDR-Denominated Assets 1/

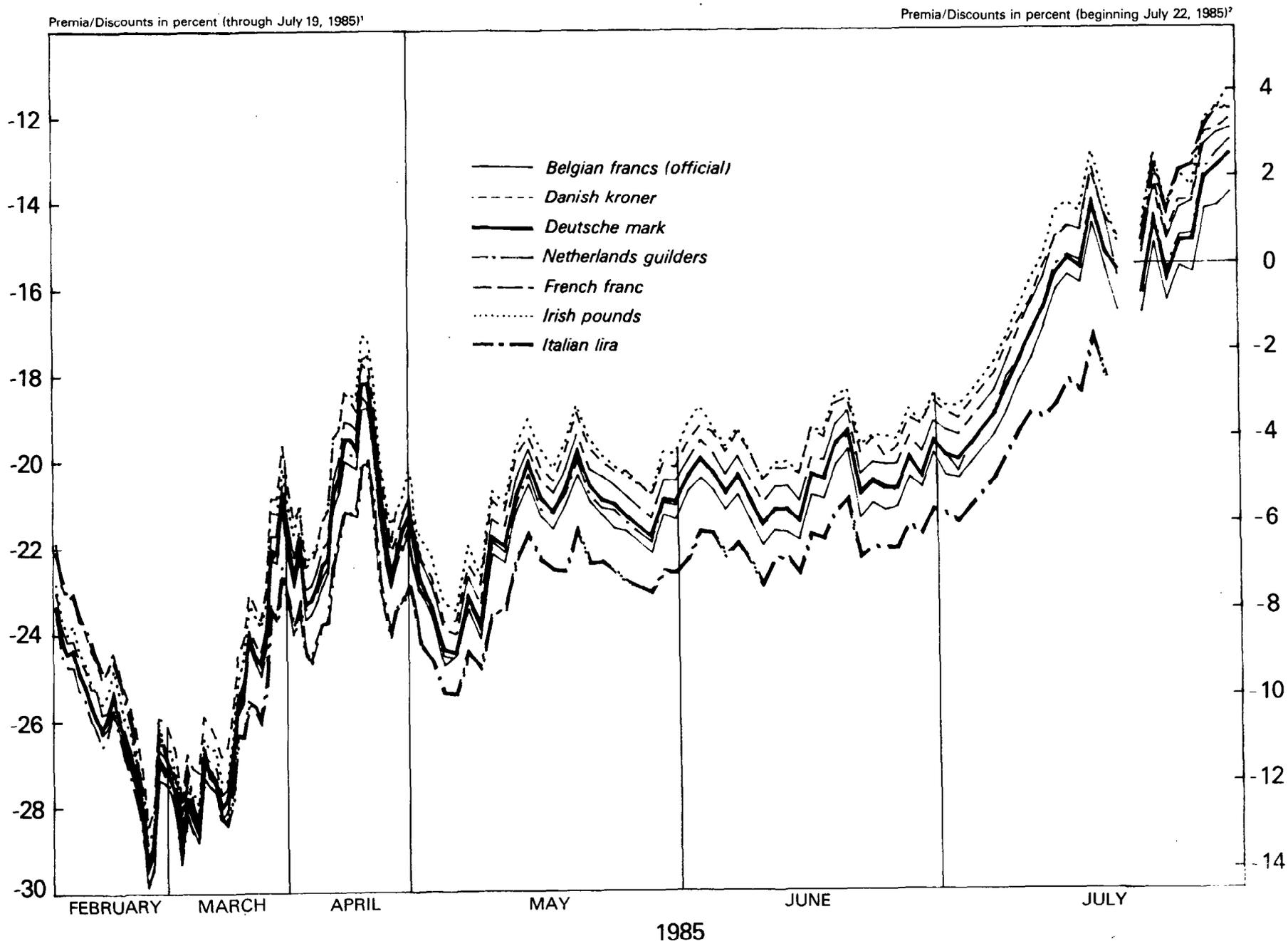
	June	July
Combined market interest rates: <u>2/</u>		
a. Based on domestic rates		
3-month maturity (Rule T-1)	7.59	7.56
6-month maturity	7.81	7.69
12-month maturity	7.94	7.88
2-1/2 year maturity	8.75	8.63
5-year maturity	9.25	9.13
b. Based on eurocurrency offered rates		
3-month maturity	8.00	8.25
6-month maturity	8.25	8.38
Average commercial bank deposit rates <u>3/</u>		
1-month deposits	7.75	7.80
3-month deposits	7.81	7.95
6-month deposits	7.94	8.03
12-month deposits	8.21	8.22

1/ Rates pertain to last Wednesday of the month.

2/ Combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instruments by the number of units of the corresponding currency listed in Rule 0-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule 0-2(a) and (b). Combined interest rates are those that are applicable to Fund-related assets, appropriately rounded.

3/ Average of rates quoted by selected commercial banks.

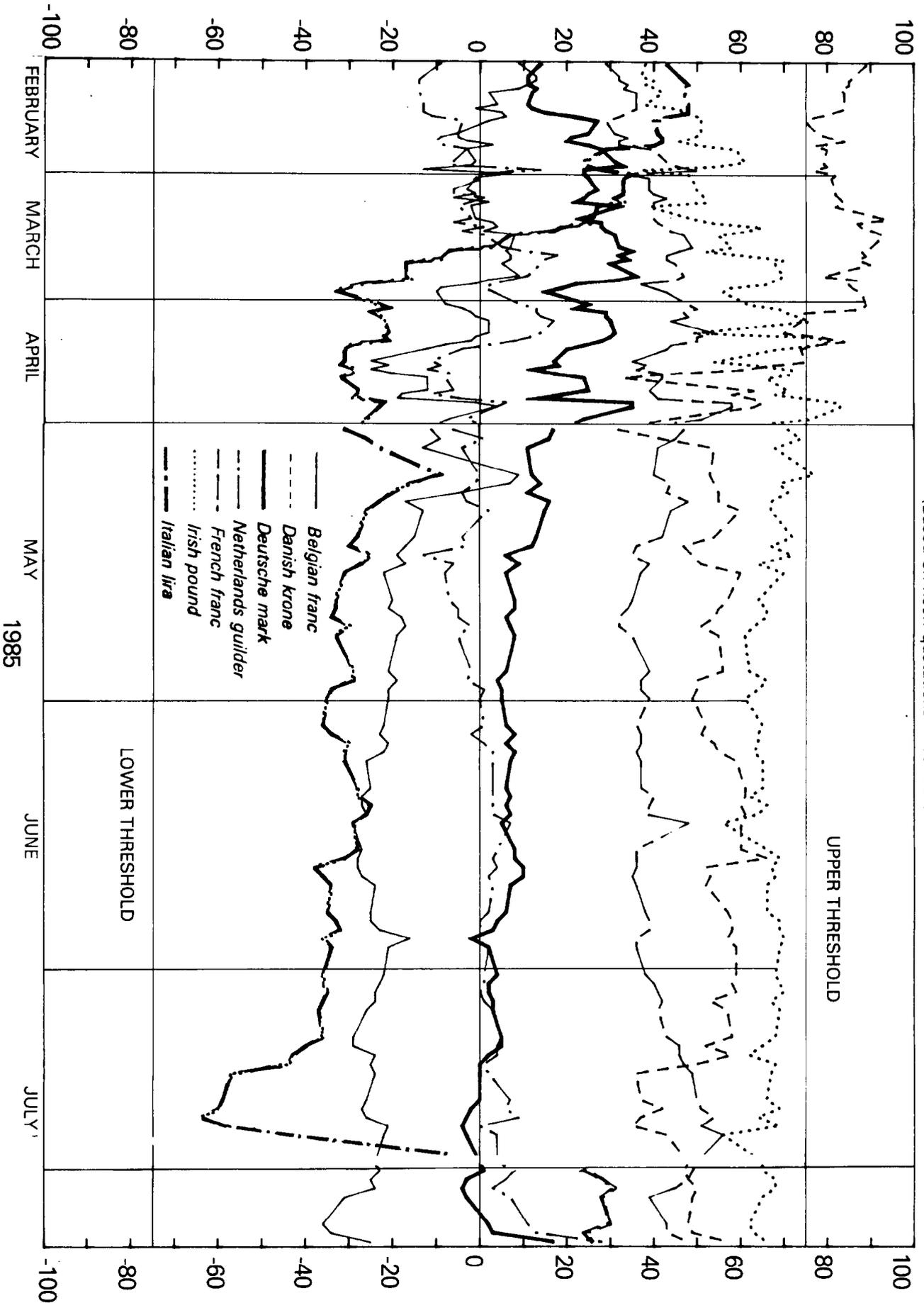
CHART 1
SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM
 (Based on noon quotations in New York)



¹Premia/Discounts over declared ECU central rates converted to U.S. dollar terms on the basis of 1 ECU=\$0.920041 effective May 18, 1983.
²Effective July 22, 1985, the Italian lira was devalued by 6 percent while the other currencies were revalued by 2 percent. Consequently, the premia/discounts over declared ECU central rates are calculated on the basis of the rate as of July 22, 1985 of 1 ECU=\$0.777846.

CHART 2 EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

(Based on noon quotations in London)



On July 22, 1985, the Italian lira was devalued by 6 percent while the other currencies were revalued by 2 percent.

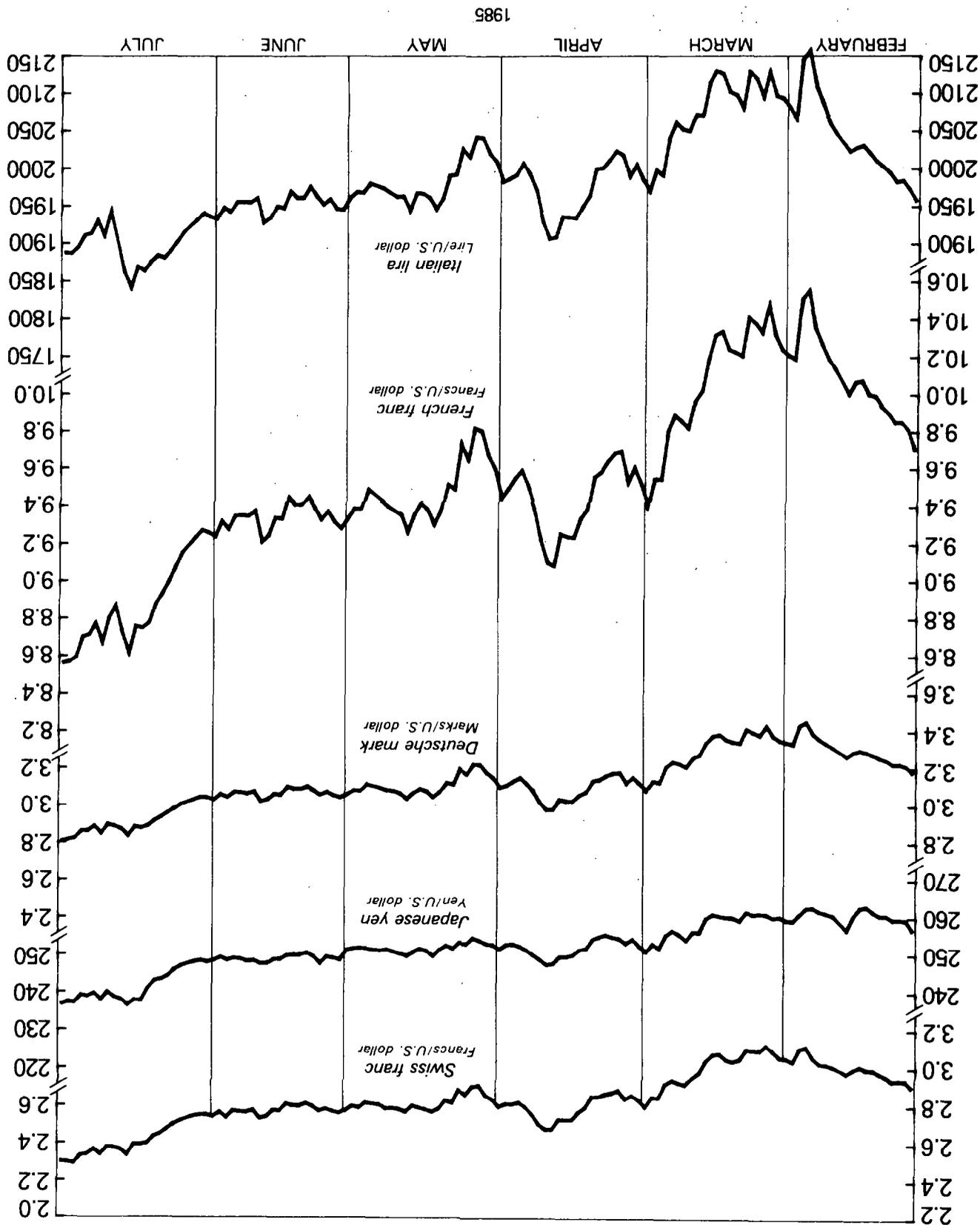
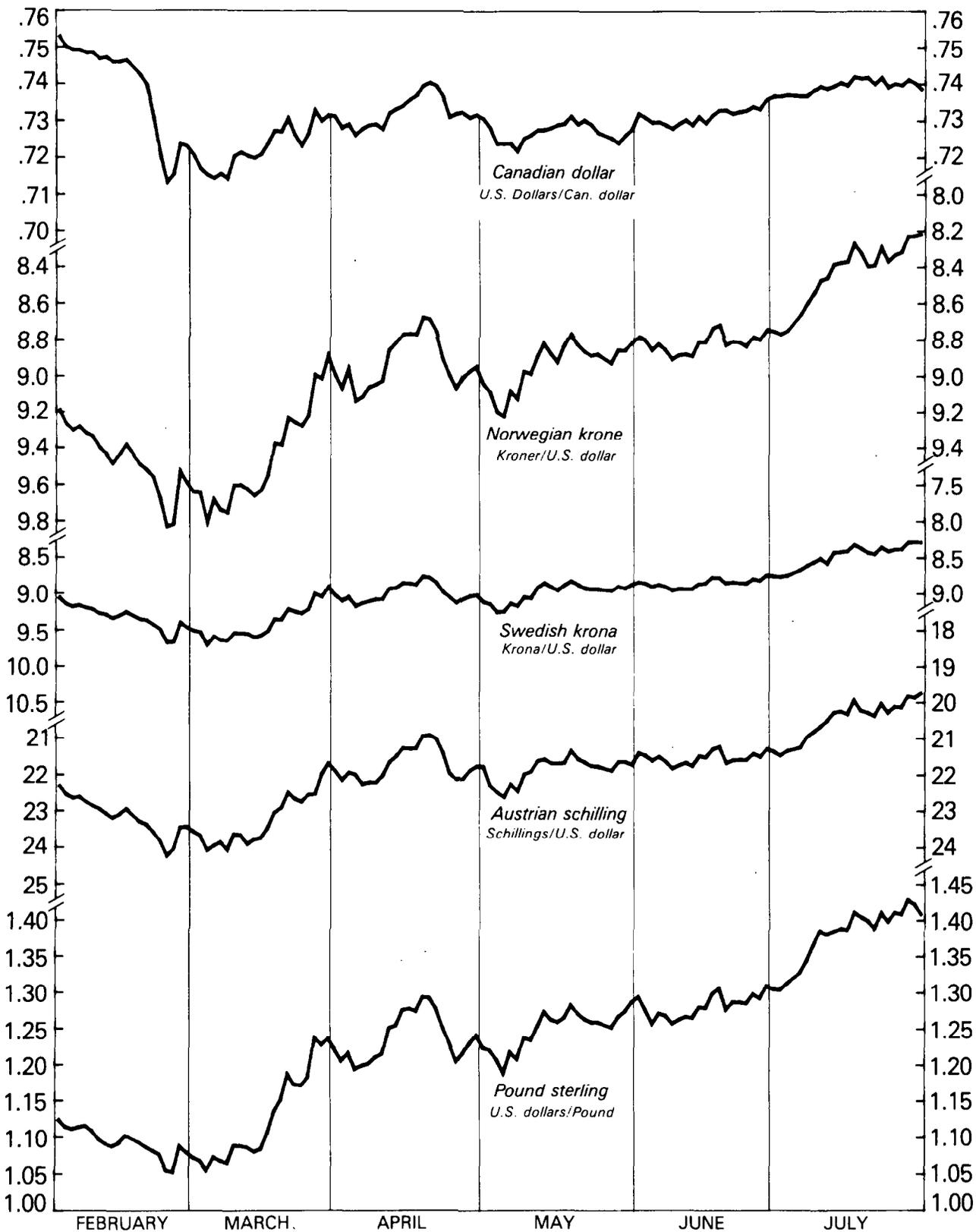


CHART 3
SPOT EXCHANGE RATES
 (Noon quotations in New York)

CHART 4 SPOT EXCHANGE RATES

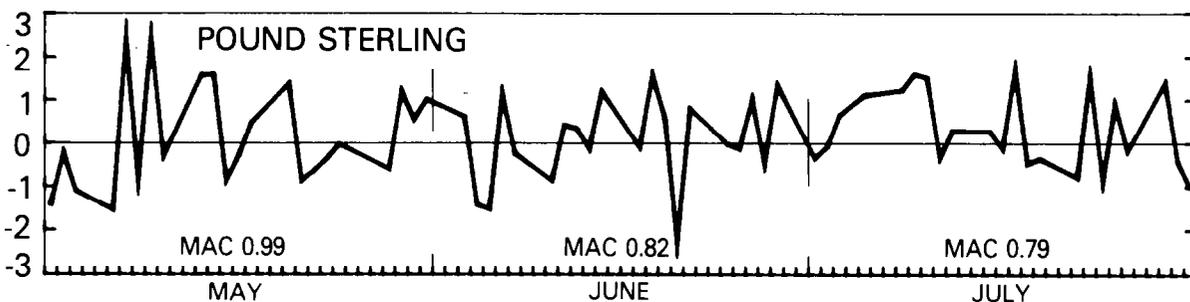
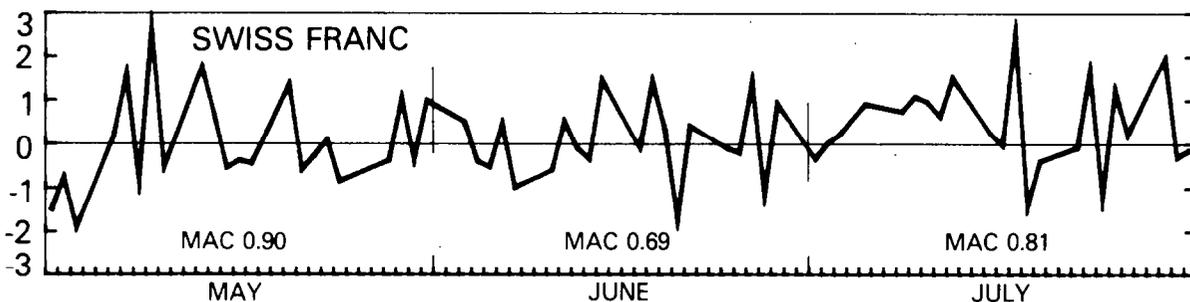
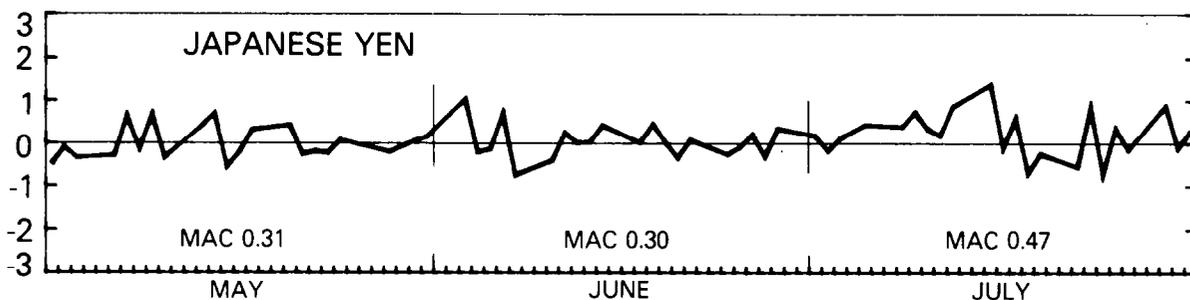
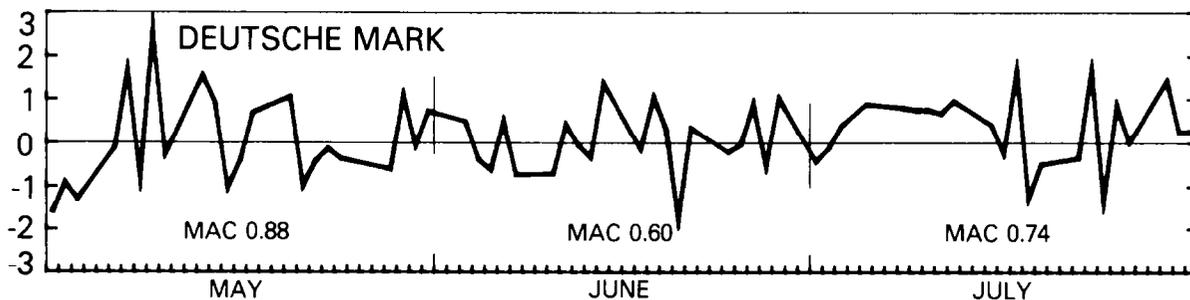
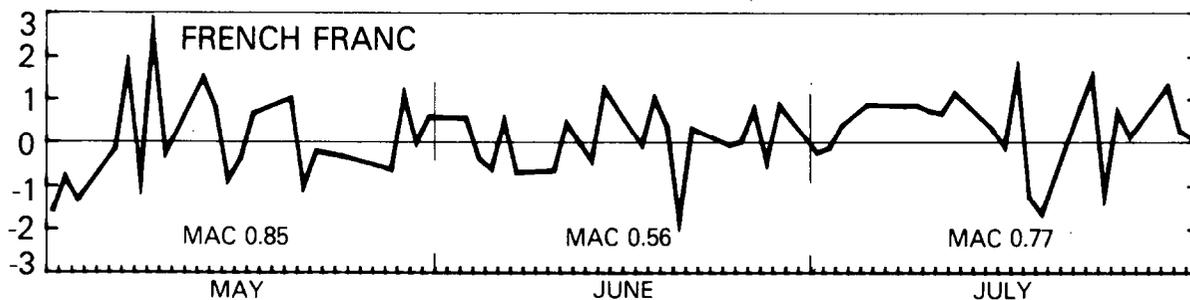
(Noon quotations in New York)



1985

DAILY CHANGES IN SPOT EXCHANGE RATES

(In percent against the U.S. dollar, based on noon quotations in New York)¹



1985

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

CHART 6
INDEXES OF EXCHANGE RATES OF
FIVE MAJOR CURRENCIES AGAINST THE SDR

JUNE 1974 - JULY 1985
(June 28, 1974=100)

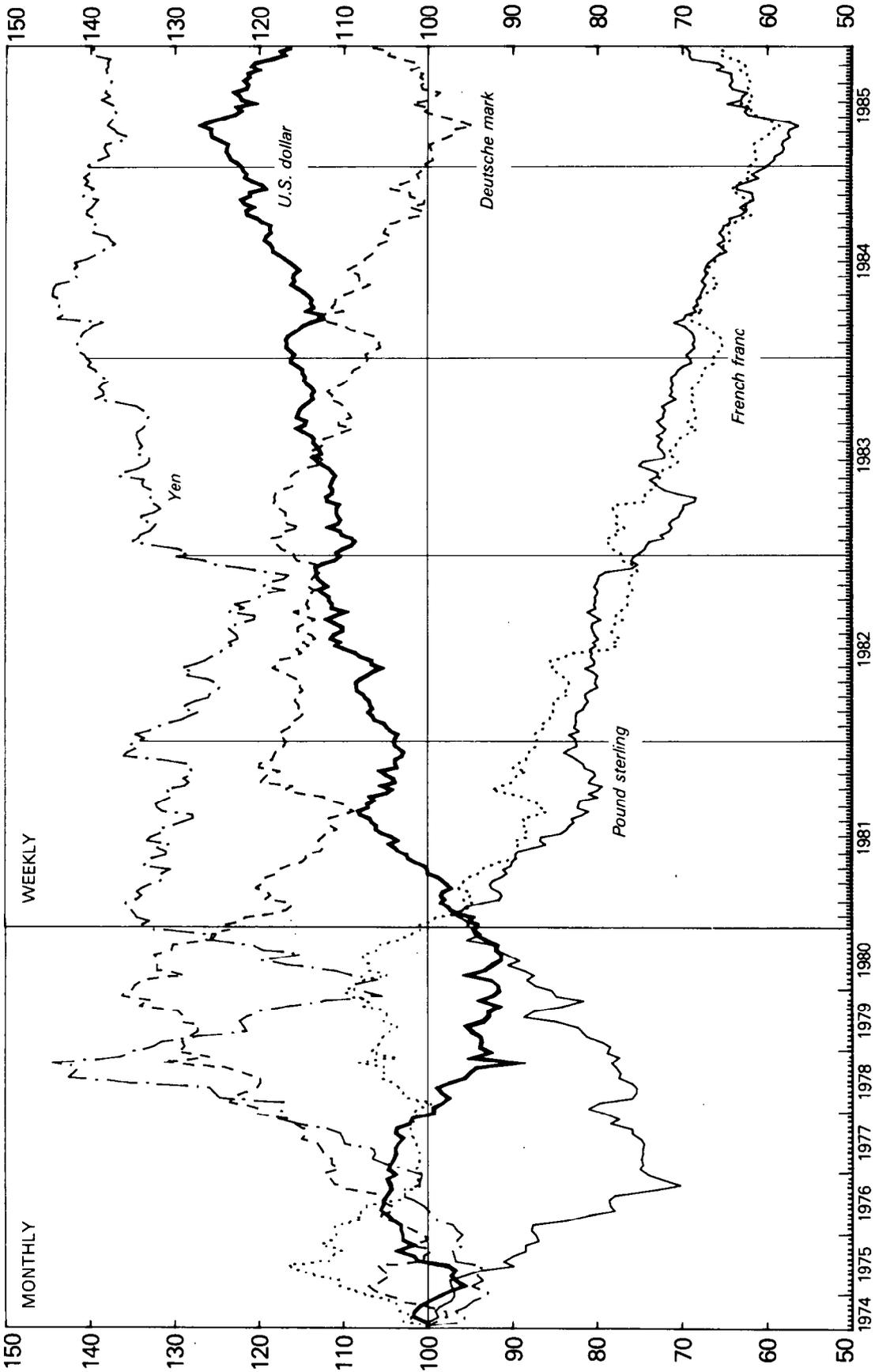
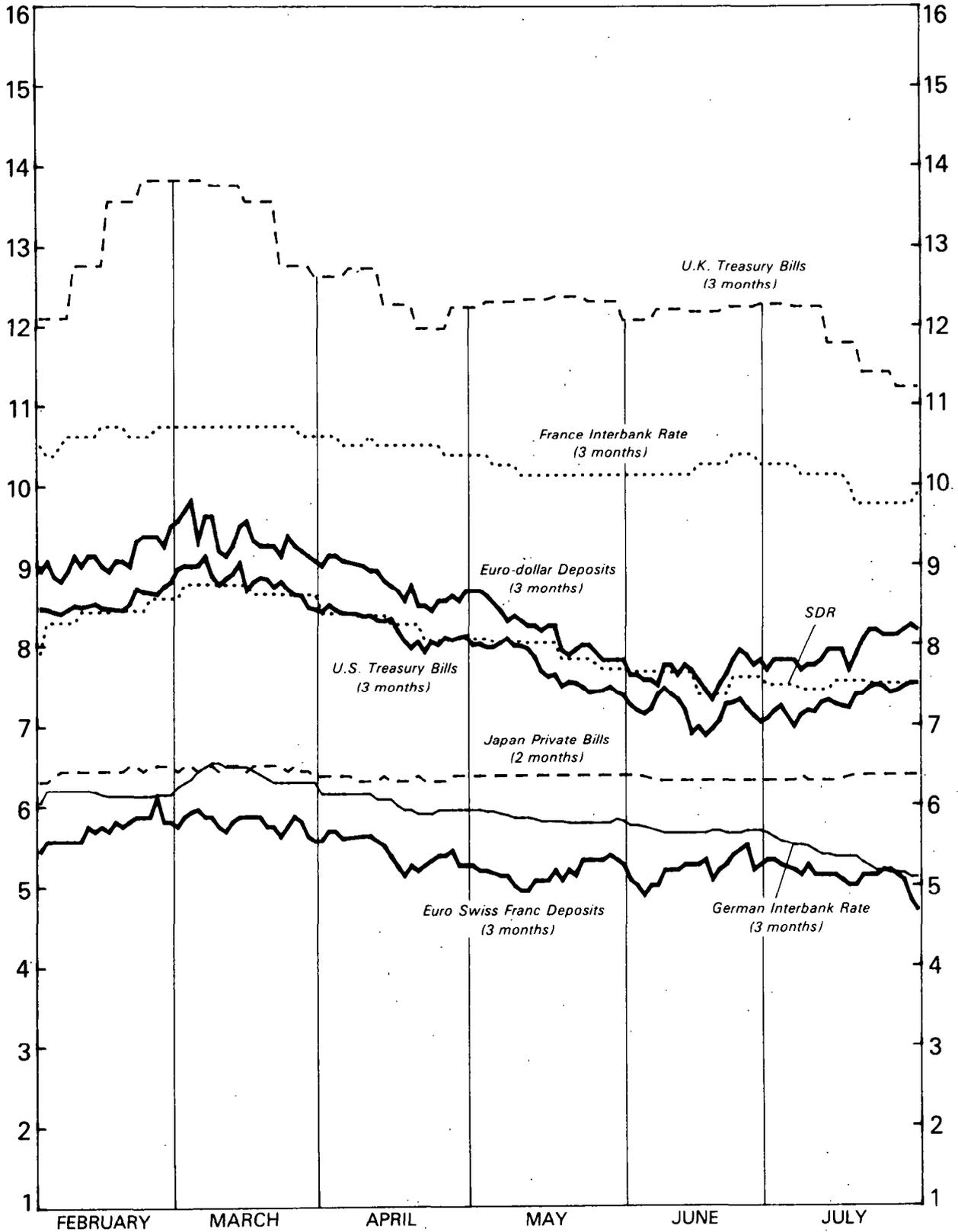


CHART 7 SHORT-TERM MONEY MARKET RATES

(Percent per annum)

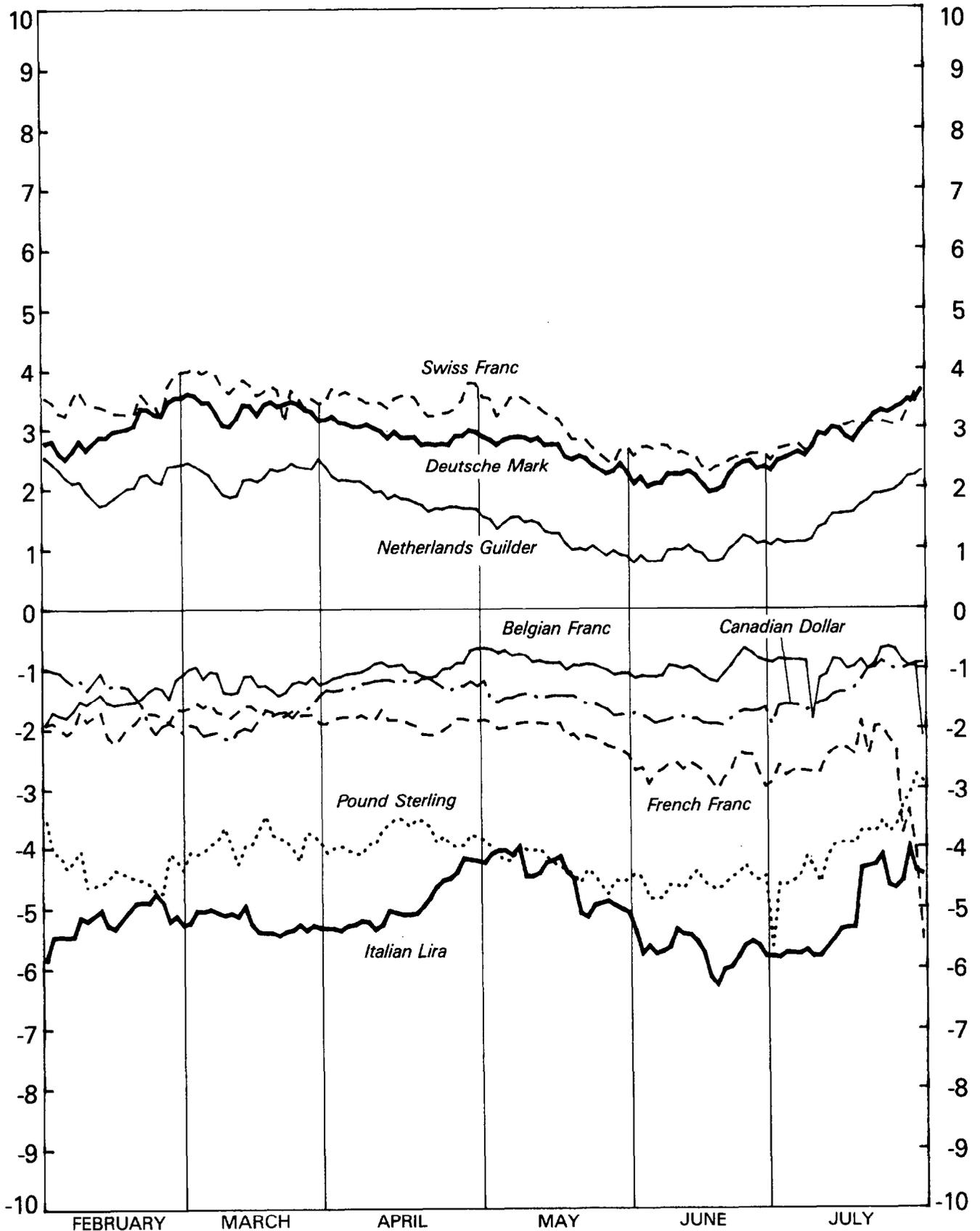


1985

CHART 8

THREE-MONTH FORWARD RATES

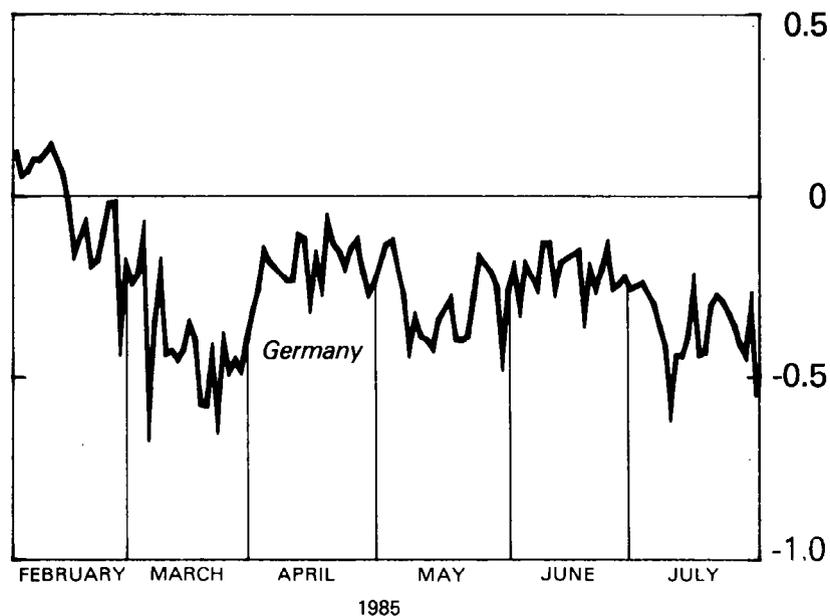
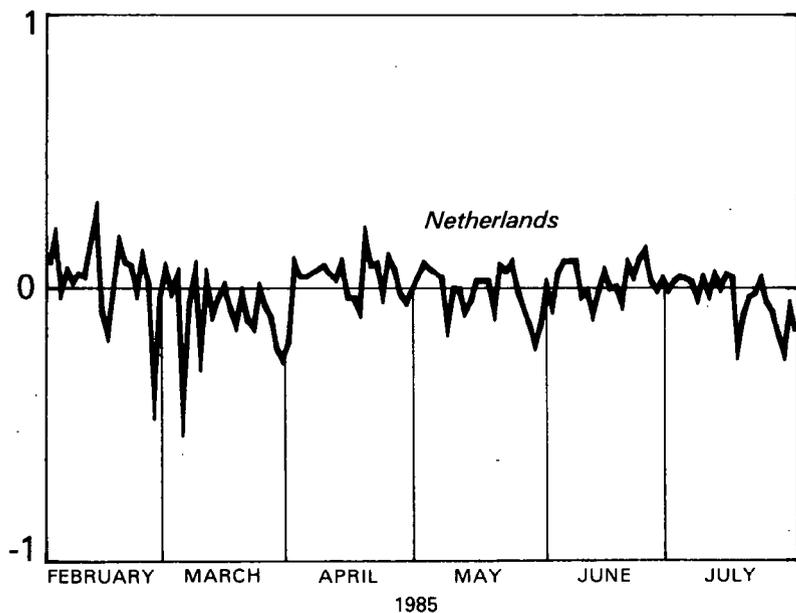
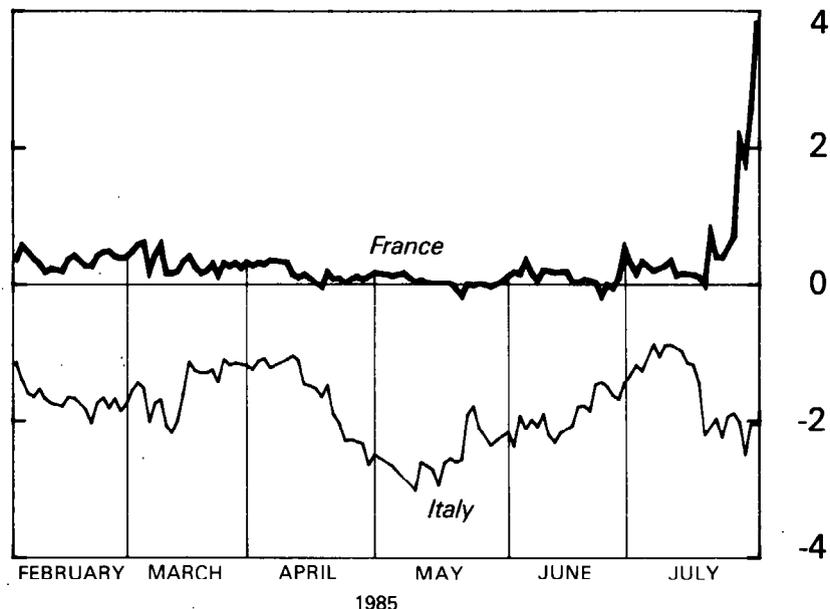
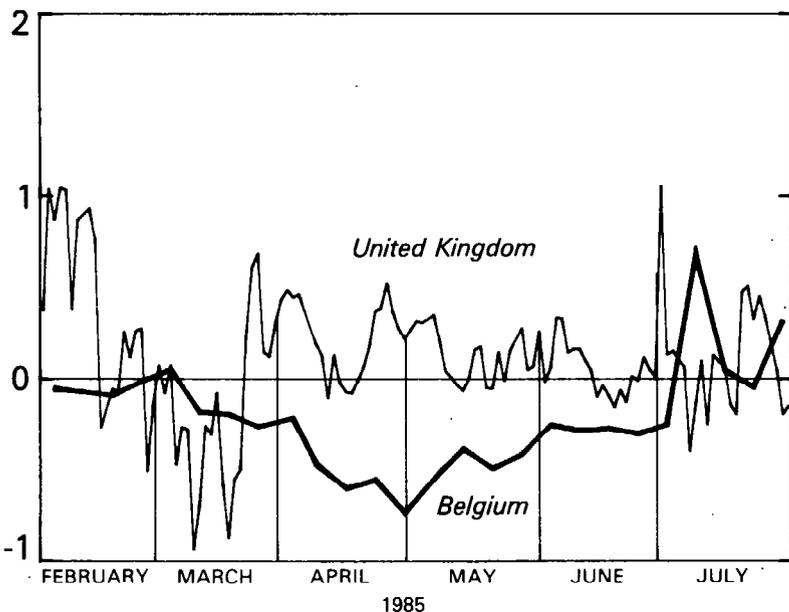
Margins from Spot Rates based on noon quotations in New York
(Percent per annum)



1985

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, June-July 1985 1/

	J u n e				J u l y				
	5	12	19	26	3	10	17	24	31
Austrian schilling	21.5950	21.6550	21.2150	21.4050	21.3325	20.6550	19.9250	20.2750	19.7350
Belgian franc									
Official	61.845	62.285	60.805	61.300	61.075	59.265	57.100	58.135	56.715
Financial	62.125	62.455	61.065	61.650	61.400	59.600	57.535	58.625	57.550
Canadian dollars	0.72969	0.73033	0.73298	0.73392	0.73711	0.73945	0.74212	0.73918	0.73847
Danish kroner	11.0280	11.0840	10.8600	10.9270	10.8825	10.5725	10.2145	10.3800	10.1120
Deutsche mark	3.07300	3.08900	3.01950	3.04300	3.03300	2.93750	2.83650	2.88775	2.80700
French francs	9.3725	9.4075	9.2075	9.2755	9.2350	8.9350	8.6135	8.7750	8.5588
Irish pounds	1.0190	1.0141	1.0355	1.0294	1.0335	1.0670	1.1045	1.0874	1.1170
Italian lire	1960.000	1961.500	1928.000	1943.000	1933.000	1881.500	1841.000	1931.500	1888.000
Japanese yen	249.400	249.810	247.450	248.425	248.010	243.400	236.450	239.700	236.650
Netherlands guilder	3.4633	3.4785	3.4070	3.4288	3.4160	3.3090	3.1915	3.2470	3.1533
Norwegian kroner	8.8525	8.8750	8.7140	8.7810	8.7475	8.4700	8.2675	8.3675	8.2150
Pounds sterling	1.2570	1.2670	1.3070	1.2988	1.3131	1.3862	1.4116	1.3982	1.4077
Swedish kronor	8.8980	8.9290	8.7660	8.7900	8.7425	8.5050	8.3160	8.4150	8.2895
Swiss francs	2.58300	2.60025	2.52900	2.53350	2.54150	2.44975	2.33350	2.36800	2.29900

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)

	Domestic Money Markets 1/ (three-month)						Eurocurrency Markets 2/ (three-month)						Lending Rates		U.S. Treasury Securities (five-year) 5/
	United States (1)	Germany (2)	Kingdom (3)	France (4)	Japan (5)	Combined rate (6)	U.S. dollar (7)	Deutsche mark (8)	Pound sterling (9)	French franc (10)	Japanese yen (11)	Swiss franc (12)	LIBOR 3/ (13)	U.S. prime 4/ (14)	
1984															
July	10.52	6.21	10.84	11.87	6.26	9.39	12.07	5.83	11.38	12.13	6.31	4.75	12.73	13.00	13.27
Aug.	10.89	6.10	10.65	11.57	6.36	9.15	11.87	5.63	11.11	11.62	6.37	4.83	12.21	13.00	12.68
Sept.	10.79	5.90	10.25	11.21	6.39	9.42	11.73	5.58	10.87	11.35	6.39	5.11	12.01	12.97	12.53
Oct.	10.12	6.16	10.10	10.96	6.32	9.16	10.83	5.87	10.65	11.32	6.32	5.29	11.18	12.58	12.06
Nov.	8.92	6.04	9.50	10.69	6.43	8.32	9.56	5.76	9.91	11.12	6.42	5.07	9.90	11.77	11.33
Dec.	8.34	5.91	9.29	10.83	6.41	7.98	9.04	5.65	9.80	10.81	6.31	4.97	9.51	11.06	11.07
1985															
Jan.	8.02	5.95	10.61	10.60	6.29	7.89	8.44	5.77	11.64	10.71	6.31	5.12	8.91	10.61	10.93
Feb.	8.55	6.24	13.07	10.79	6.45	8.47	9.11	6.19	13.78	11.06	6.42	5.72	9.57	10.50	11.13
Mar.	8.62	6.48	13.45	10.88	6.48	8.70	9.36	6.18	13.62	11.11	6.41	5.80	10.04	10.50	11.52
Apr.	8.22	6.11	12.33	10.65	6.34	8.21	8.76	5.89	12.80	10.70	6.33	5.42	9.16	10.50	11.01
May	7.73	5.92	12.31	10.31	6.38	7.89	8.17	5.61	12.65	10.28	6.32	5.16	8.54	10.31	10.34
June	7.17	5.75	12.18	10.35	6.32	7.55	7.65	5.51	12.44	10.37	6.28	5.19	7.95	9.78	9.60
July	7.31	5.42	11.79	10.12	6.35	7.54	7.95	5.13	12.08	10.51	6.33	5.11	8.18	9.50	9.70
1984 Week ending:															
July 6	10.51	6.24	9.29	12.10	6.24	9.15	12.30	5.93	9.65	12.36	6.25	4.54	13.00	13.00	13.67
13	10.44	6.20	10.39	11.75	6.21	9.29	12.14	5.89	11.34	12.08	6.27	4.71	12.84	13.00	13.19
20	10.52	6.22	11.47	11.79	6.25	9.44	12.05	5.81	12.16	12.10	6.31	4.74	12.70	13.00	13.73
27	10.67	6.20	11.58	11.84	6.31	9.55	11.89	5.73	12.14	12.05	6.40	4.90	12.53	13.00	13.03
Aug. 3	10.84	6.19	11.63	11.89	6.31	9.65	11.79	5.76	12.28	11.88	6.34	4.84	12.24	13.00	12.77
10	10.90	6.21	11.42	11.76	6.34	9.66	11.85	5.71	11.42	11.79	6.35	4.71	11.18	13.00	12.63
17	10.72	6.09	10.22	11.58	6.36	9.42	11.87	5.64	10.58	11.64	6.38	4.74	12.17	13.00	12.67
24	10.64	6.05	10.09	11.41	6.38	9.45	11.89	5.55	10.79	11.51	6.38	4.95	12.25	13.00	12.66
31	11.09	6.02	10.18	11.36	6.38	9.59	11.94	5.52	10.87	11.33	6.40	5.00	12.25	13.00	12.79
Sept. 7	11.05	5.92	10.20	11.28	6.37	9.55	12.01	5.50	10.95	11.36	6.38	4.79	12.35	13.00	12.84
14	10.90	5.92	10.34	11.33	6.35	9.44	11.82	5.56	10.78	11.34	6.38	5.02	12.13	13.00	12.55
21	10.71	5.86	10.19	11.13	6.40	9.37	11.60	5.62	10.91	11.34	6.40	5.33	11.83	13.00	12.34
28	10.65	5.90	10.28	11.10	6.44	9.35	11.46	5.65	10.85	11.36	6.41	5.33	11.75	13.00	12.46
Oct. 5	10.60	6.17	10.14	11.25	6.31	9.35	11.49	5.84	10.71	11.67	6.35	5.18	11.76	12.75	12.46
12	10.40	6.13	9.96	11.28	6.31	9.22	11.23	5.88	10.59	11.61	6.32	5.23	11.55	12.75	12.26
19	10.20	6.18	10.03	11.15	6.29	9.12	10.80	5.95	10.79	11.35	6.29	5.48	11.15	12.75	12.10
26	9.69	6.15	10.26	10.39	6.35	8.79	10.19	5.82	10.56	10.86	6.30	5.36	10.59	12.50	11.69
Nov. 2	9.44	6.13	10.06	10.39	6.38	8.64	10.09	5.85	10.53	10.97	6.34	5.11	10.43	12.29	11.98
9	8.96	6.10	9.77	10.54	6.38	8.36	9.75	5.76	10.03	11.05	6.43	4.88	10.03	12.00	11.47
16	8.99	6.08	9.59	10.75	6.41	8.37	9.66	5.85	9.91	11.14	6.41	5.10	9.99	11.79	11.53
23	8.85	5.99	9.26	10.77	6.46	8.27	9.51	5.77	9.74	11.30	6.46	5.24	9.88	11.75	11.21
30	6.71	5.93	9.21	10.77	6.51	8.19	9.16	5.64	9.77	11.08	6.40	5.06	9.60	11.68	11.09
Dec. 7	8.74	5.94	9.25	10.82	6.49	8.21	9.29	5.73	9.74	10.93	6.34	4.99	9.71	11.25	11.21
14	8.56	5.93	9.30	10.75	6.44	8.11	9.20	5.73	9.72	10.77	6.36	5.05	9.71	11.25	11.19
21	8.08	5.88	9.30	10.47	6.39	7.84	8.70	5.55	9.86	10.77	6.29	5.01	9.30	11.25	10.90
28	7.93	5.88	9.29	10.90	6.36	7.75	9.02	5.58	9.96	10.79	6.27	4.83	9.27	10.75	10.96
1985 Week ending:															
Jan. 4	8.09	5.86	9.33	10.81	6.31	7.83	8.73	5.61	10.27	10.72	6.19	4.77	9.27	10.75	11.16
11	8.01	5.85	9.57	10.67	6.25	7.79	8.39	5.60	10.23	10.60	6.22	4.75	8.94	10.75	11.07
18	7.99	6.02	10.52	10.52	6.31	7.87	8.41	5.90	12.05	10.81	6.33	5.28	8.93	10.68	11.01
25	7.91	5.96	11.74	10.52	6.31	7.91	8.31	5.77	12.17	10.77	6.39	5.35	8.75	10.50	10.70
Feb. 1	6.19	6.07	11.89	10.57	6.31	6.11	8.55	5.99	13.28	10.69	6.38	5.41	8.86	10.50	10.76
8	8.45	6.29	12.24	10.65	6.40	8.34	8.96	6.29	13.41	11.03	6.40	5.56	9.26	10.50	11.99
15	8.49	6.26	12.93	10.82	6.44	8.42	9.04	6.24	13.91	10.98	6.44	5.69	9.53	10.50	11.00
22	8.60	6.22	13.62	10.82	6.47	8.54	9.16	6.08	13.96	11.18	6.44	5.83	9.69	10.50	11.17
Mar. 1	8.77	6.26	13.84	10.87	6.50	8.66	9.41	6.15	14.07	11.14	6.43	5.88	10.02	10.50	11.47
8	9.00	6.52	13.82	10.90	6.50	8.83	8.61	6.31	14.01	11.33	6.43	5.91	10.40	10.50	11.51
15	8.25	6.60	13.73	10.90	6.48	8.75	9.33	6.31	13.59	11.15	6.43	5.80	10.01	10.50	11.54
22	8.61	6.45	13.41	10.90	6.51	8.70	9.24	6.09	13.32	11.01	6.42	5.78	9.93	10.50	11.60
29	8.58	6.39	12.74	10.82	6.44	8.50	9.20	6.00	13.47	10.95	6.38	5.73	9.76	10.50	11.43
Apr. 5	8.45	6.24	12.64	10.74	6.38	8.39	9.08	5.99	13.27	10.97	6.39	5.63	9.56	10.50	11.33
12	8.36	6.20	12.62	10.68	6.33	8.32	8.92	5.99	13.03	10.80	6.31	5.58	9.38	10.50	11.19
19	8.12	6.06	12.21	10.65	6.32	8.14	8.65	5.80	12.43	10.63	6.32	5.24	8.99	10.50	10.81
26	8.03	6.01	12.03	10.60	6.32	8.05	8.54	5.81	12.61	10.56	6.30	5.35	8.93	10.50	10.79
May 3	8.05	6.03	12.25	10.52	6.38	8.08	8.65	5.83	12.72	10.50	6.32	5.23	9.04	10.50	10.65
10	8.02	5.96	12.31	10.36	6.38	8.05	8.36	5.66	12.72	10.38	6.31	5.05	8.74	10.50	10.68
17	7.75	5.90	12.34	10.27	6.38	8.00	8.24	5.56	12.63	10.24	6.32	5.06	8.63	10.50	10.39
24	7.49	5.86	12.36	10.27	6.38	7.76	7.95	5.54	12.60	10.19	6.34	5.20	8.31	10.29	10.06
31	7.42	5.88	12.25	10.27	6.38	7.71	7.81	5.58	12.65	10.20	6.33	5.31	8.16	10.00	9.84
June 7	7.23	5.81	12.10	10.27	6.36	7.58	7.58	5.49	12.40	10.34	6.30	4.99	7.83	10.00	9.45
14	7.25	5.73	12.20	10.27	6.31	7.58	7.71	5.54	12.52	10.35	6.26	5.21	7.99	10.00	9.60
21	7.02	5.74	12.18	10.39	6.31	7.47	7.49	5.50	12.30	10.34	6.28	5.21	7.79	9.86	9.50
28	7.19	5.75	12.24	10.49	6.31	7.58	7.84	5.51	12.54	10.46	6.30	5.35	8.18	9.50	9.85
July 5	7.12	5.64	12.26	10.39	6.31	7.52	7.78	5.41	12.54	10.62	6.32	5.27	8.00	9.50	9.53
12	7.21	5.51	12.14	10.27	6.32	7.55	7.79	5.20	12.42	10.42	6.33	5.15	7.95	9.50	9.50
19	7.29	5.41	11.70	10.04	6.36	7.52	7.90	5.13	11.95	10.12	6.34	5.06	8.11	9.50	9.64
25	7.45	5.25	11.37	9.89	6.38	7.54	8.15	5.02	11.92	10.24	6.32	5.15	8.39	9.50	9.91

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 U-1 and the value in terms of the \$UK of a unit of that currency as determined by the Fund under Rule 0-2(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 inter-bank money market 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.