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DM/85/64 INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in September 1985

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Exchange market developments in September were strongly affected by the agreement reached by the G-5 1/ Ministers, announced on September 22, on increased official intervention in foreign exchange markets. The U.S. dollar had been fluctuating in the earlier part of the month but depreciated sharply on the G-5 announcement and the concerted intervention by seven central banks that followed, which totaled an estimated $3.0 billion to $3.5 billion from September 23 to September 30. The U.S. dollar fell to its lowest level since end-1981 against the Japanese yen and since April 1984 against most other leading currencies. Trading was generally active and exchange rates were much more volatile than in the previous month, with a record one-day decline of more than 3 percent in the value of the U.S. dollar against most other currencies immediately following the G-5 announcement. After September 22, news on the performance of the U.S. economy ceased to have much impact on the value of the U.S. dollar, with speculation centering on the likelihood and extent of market intervention. Over the month, the U.S. dollar depreciated by 3.56 percent in effective (MERM) terms and by 2.27 percent against the SDR; its 12-month effective depreciation was 6.44 percent (Table 1).

The G-5 Ministers agreed in their September 22 meeting that exchange rates should better reflect fundamental economic conditions than had been the case, and announced that they stood ready to cooperate closely to encourage a lower U.S. dollar. In acknowledged shared responsibilities to ensure the mutual consistency of their individual policies, they singled out as imbalances to be corrected the United States' large and growing current account deficit as well as the large and growing current account surpluses of Japan and Germany. Among policy intentions, they emphasized the implementation of measures to reduce the public sector deficit in the United States and to liberalize financial markets in Japan, and also their resolve to avoid protectionist measures.

1/ France, Germany, Japan, the United Kingdom, and the United States.

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

(In percent)

	Monthly exchange rate changes			
	Against U.S. dollar 2/	Against SDR 3/	Effective exchange rate 4/	Changes in effective exchange rate since September 1984
Belgium	+4.71	+1.63	+0.52	+3.67
Denmark	+4.49	+1.64	+1.29	+5.78
France	+5.08	+1.90	+1.13	+6.30
Germany	+4.93	+1.83	+0.86	+4.89
Ireland	+4.14	+0.92	+0.95	+5.57
Italy	+4.29	+1.16	+0.14	-4.49
Netherlands	+4.79	+1.46	+0.72	+5.10
Austria	+5.03	+1.85	+1.09	+5.80
Canada	-0.36	-2.63	-1.85	-6.55
Japan	+10.39	+6.85	+7.71	+8.37
Norway	+3.51	+0.73	+0.19	+2.78
Sweden	+3.42	+0.42	-0.19	-0.56
Switzerland	+5.24	+2.27	+1.28	+7.01
United Kingdom	+1.26	-2.20	-3.25	+4.11
United States	--	-2.27	-3.56	-6.44

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 Japanese yen firmed the most against the U.S. dollar in September, helped by strong concerted intervention; it firmed by 10.39 percent against the U.S. dollar and by 7.71 percent in effective (MERM) terms, and it was also the currency with the largest 12-month effective appreciation (8.37 percent). The yen's large movement against the U.S. dollar marked a break from previous trends under which the Japanese yen would narrowly follow the fluctuations of the U.S. dollar in relation to other currencies. In September most other leading currencies also firmed against the U.S. dollar, but much more moderately than the Japanese yen: they firmed by 3.42-5.24 percent except for the pound sterling which firmed even less markedly and the Canadian dollar which eased slightly. The pound sterling firmed by only 1.26 percent against the U.S. dollar and depreciated by 3.25 percent in effective (MERM) terms, with its weakness mainly attributed to prospects of declines in oil prices; however, its 12-month effective appreciation remained substantial (4.11 percent). The Canadian dollar continued to follow the U.S. dollar in its movement against other currencies: in September it eased by 0.36 percent against the U.S. dollar and by 1.85 percent in effective (MERM) terms; its 12-month percentage depreciation rose to 6.55 percent. (See Table 1 and Charts 1, 3, and 4.)

The currencies participating in the European Monetary System (EMS) firmed by 4.14-5.08 percent against the U.S. dollar in September. The spread in the narrow band of the EMS parity grid remained well below the permitted maximum 2.25 percent margin and the divergence indicators for all the currencies in the system remained well within their thresholds throughout the month (Chart 2). The Italian lira was the strongest currency in the EMS throughout the month, except on one occasion, but its spread from the weakest currency declined from around 3 percent in early September to less than 2 percent by the end of the month. 1/ The Belgian franc remained the weakest currency in the narrow band throughout the month, while the Irish pound was the strongest during most of the first three weeks but was replaced thereafter by the French franc.

The volatility of exchange rates for major currencies against the U.S. dollar, as indicated by the measures given in Table 2, rose sharply in September after having declined for most currencies in the preceding month. For the EMS currencies, the high-low spreads rose to 9.3-11.2 percent in September from 3.0-4.2 percent in August. For other currencies this measure rose similarly to 8.2-11.5 percent from 2.5-5.3 percent, except for the Japanese yen which spread was extraordinarily large in September (rising to 12.5 percent from 1.3 percent in the preceding month) and for the Canadian dollar which spread remained low (rising only to 1.6 percent from 1.0 percent). The average of absolute daily percentage changes of major currencies (MAC in Table 2 and Chart 5) against the U.S. dollar also rose sharply. For the EMS currencies this measure rose to an average of 0.90 percent from an average of 0.47 percent in August, while for the other currencies it averaged 0.76 percent, compared with 0.45 percent in August. The Canadian dollar remained the least volatile currency against the U.S. dollar while the pound sterling was the most volatile. The Japanese yen showed the largest increase in volatility in September.

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/

	September 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Aug.	Sept.	Aug.	Sept.
Belgium	53.970	59.745	4.2	10.7	0.45	0.90
Denmark	9.68	10.72	3.0	10.7	0.47	0.89
France	8.1175	9.0225	3.8	11.2	0.49	0.91
Germany	2.6625	2.9600	3.9	11.2	0.51	0.94
Ireland	1.16275	1.05050	3.4	10.7	0.50	0.92
Italy	1,800.0	1,966.5	3.2	9.3	0.36	0.82
Netherlands	3.00100	3.32475	3.9	10.8	0.52	0.93
Austria	18.705	20.855	4.1	11.5	0.51	0.97
Canada	0.7360	0.7247	1.0	1.6	0.12	0.19
Japan	216.45	243.50	1.3	12.5	0.22	0.76
Norway	7.925	8.605	2.7	8.6	0.51	0.77
Sweden	8.000	8.655	2.5	8.2	0.43	0.71
Switzerland	2.190	2.439	5.3	11.4	0.69	0.90
United Kingdom	1.438	1.309	4.7	9.9	0.66	1.05

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.

In September, some industrial countries registered large gross reserve losses, the largest being those of Japan and Italy (Table 3). The U.K. registered the largest increase, a movement which reflected the proceeds of a $2.5 billion issuance of floating rate seven-year notes placed on international markets for the purpose of boosting its international reserves. Most changes in gross reserves in September resulted from intervention. Japan, the United States, and Germany intervened in foreign markets starting September 23 in a concerted effort to reduce the value of the U.S. dollar. This was the first time that the United States and Germany intervened since last February-March when the U.S. dollar reached a peak. The Bank of Japan sold large amounts of U.S. dollars variously estimated at $1.0 billion to $1.5 billion. The Federal Reserve bought the equivalent of some

$250 million in yen and Deutsche mark, while the Bundesbank sold U.S. dollars at the fixing in Frankfurt for a total of some $250 million, although it was not reported to have operated in the open market. The Bank of France and the Bank of England were also reported to have intervened selling U.S. dollars. During the month, the Bank of Italy sold some $160 million and about DM 180 million at the fixing in Milan, mostly after September 22, and it was also reported to have operated in the open market after that date, with total sales of foreign exchange estimated at the equivalent of $1 billion. The National Bank of Belgium was reported to have intervened in foreign markets in the week ended September 30, in concert with other central banks, by selling foreign currencies for the equivalent of BF 14.3 billion.

Table 3. Gross Foreign Exchange Reserves in September 1985 1/

(In millions of U.S. dollars)

	End-month reserve level	Change in August	Change over 12 months
Belgium	3,800	-43	+108
Denmark	4,550	+457	+1,172
France (August)	20,536	-1,011	+321
Germany	37,560	+690	+1,838
Ireland	3,425	+24	+1,328
Italy	18,410	-789	+81
Netherlands	8,933	+497	+780
Austria	3,659	+98	+256
Canada	1,627	-112	-246
Japan	23,106	-1,000	+1,670
Norway	12,660	+351	+4,970
Sweden	3,551	-342	-345
Switzerland	14,009	+514	+1,237
United Kingdom	9,426	+1,288	+2,804
United States (August)	7,894	-64	+1,704

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 September

The U.S. dollar eased sharply in September against most other currencies, depreciating by 3.56 percent in effective (MERM) terms and by 2.27 percent against the SDR. During the first three weeks of the month, quotations fluctuated in response mainly to the release of data on the performance of the U.S. economy. The U.S. dollar appreciated during most of the first two weeks (by about 5 percent against the Deutsche mark and by similar percentages against other currencies) on indications of a strong recovery during the second half of the year and a reduced trade deficit in the third quarter. However, the August data on industrial production and retail sales, released by the end of the second week, and the "flash" GNP estimate for the third quarter, released a week later, were well below market expectations. As a consequence, market trends had already started to reverse when the U.S. Government called a special G-5 Meeting in New York on September 22. An immediate objective of the meeting was to head off protectionist pressures in the United States by encouraging a lower dollar. The sharp depreciation of the U.S. dollar which followed more than offset the appreciation which had taken place earlier in the month. Regarding the U.S. external accounts, its current account deficit, seasonally adjusted, widened to $31.81 billion in the second quarter from $30.33 billion in the first quarter and $24.49 billion a year earlier. In August, its trade deficit amounted to $9.9 billion, compared with $10.51 billion in July and an average of $11.79 billion in the preceding six months. Retail sales rose 1.9 percent in August following a revised increase of 0.2 percent in July; however, unusually large auto sales under special schemes explained most of the increase in August, which amounted to only 0.4 percent excluding auto sales (compared with a 0.2 percent in July). Industrial production rose by 0.3 percent in August, after being unchanged in July, while the civilian unemployment rate was 7.1 percent in September compared with 7.0 percent in August and 7.3 percent in each of the preceding seven months. The GNP grew at a seasonally adjusted annual rate of 2.8 percent in the second quarter (according to the "flash" estimate), following a slightly downward revised rate of 1.9 percent in the second quarter. The index of leading economic indicators rose 0.7 percent in August, the same percentage as in July. The Federal Budget was in deficit for $27.85 billion in August, with the deficit for the first 11 months of this fiscal year reaching $203.4 billion, 6 percent above that for the same period of the preceding fiscal year. The inflation rate continued to be very low, with producer prices falling 0.6 percent in September and being only 0.2 percent above a year earlier.

The Deutsche mark firmed by 4.93 percent against the U.S. dollar and by 0.86 percent in effective (MERM) terms. Germany's external current account shifted into a (provisional) DM 800 million deficit in August from a (revised) DM 2.4 million surplus in July, with the current account surplus for the first eight months of 1985 amounting to DM 17.1 billion, compared with DM 2.3 billion for the same period last year. Its trade balance is currently projected to reach DM 75 billion in 1985 (DM 42.2 billion in the first eight months), well above the preceding year post-war record of DM 54 billion. Real GNP grew at a 1.7 percent annual rate in the second quarter of 1985, resulting from a 0.1 percent annual growth rate in the first quarter and a 3.2 percent annual growth rate in the second quarter (output in the second quarter of 1984 had been disrupted by labor disputes). Industrial production dropped 2.8 percent in August, following a revised 2.4 percent increase in July, while the unemployment rate declined to 8.7 percent in September from 8.9 percent in the preceding month. The inflation rate remained moderate, with consumer prices rising by 0.2 percent in September and by 2.3 percent year-on-year; producer prices fell by 0.2 percent in August but rose by 2.2 percent year-on-year.

The French franc firmed by 5.08 percent against the U.S. dollar and by 1.13 percent in effective (MERM) terms, and was among the strongest currencies in the narrow EMS band. France's trade account, seasonally adjusted, was marginally in surplus (F 4 million) in August following a F 3.84 billion deficit in July, with the surplus for the first eight months of 1985 rising to F 18.23 billion, 19 percent above that for the same period a year earlier. The number of persons unemployed, seasonally adjusted, rose 0.4 percent in August and 3.1 percent year-on-year. Retail prices rose marginally in September and were up 5.3 percent year-on-year. According to the budget draft presented to Congress in September, the government deficit will rise by about 3.4 percent to F 145 billion in 1986 with expenditures rising by just 3.9 percent and the personal and corporate taxes being marginally reduced.

The Belgian franc firmed by 4.71 percent against the U.S. dollar and by 0.52 percent in effective (MERM) terms, but it remained the weakest currency in the EMS throughout September. Belgian's industrial production rose 2.6 percent in June and 6.7 percent year-on-year. The unemployment rate declined marginally to 13.4 percent at end-September. Consumer prices rose a provisional 0.2 percent in September and 4.6 percent year-on-year. The trade account of the Belgium-Luxembourg Economic Union (BLEU) was in surplus for BF 9.4 billion in July, compared with a BF 251 million deficit a year earlier; the account was in deficit for BF 94 million in the first seven months of 1985, compared with a BF 879 million surplus in the same period a year earlier.

The Netherlands guilder firmed by 4.79 percent against the U.S. dollar and by 0.72 percent in effective (MERM) terms. The Netherlands' current account surplus, on a transaction basis and seasonally adjusted, rose to f. 4.95 billion in the second quarter from f. 4.28 billion in the first quarter. In July, the trade surplus narrowed to f. 400 million from f. 700 million in the preceding month, with the surplus for the first seven months of 1985 amounting to f. 6.2 billion compared with f. 6.7 billion in the same period a year earlier. The number of persons unemployed, seasonally adjusted, declined marginally in August and was 9.2 percent lower than a year earlier. Industrial,production fell 3.8 percent in July and was unchanged from a year earlier, while consumer spending rose by 1.8 percent in that month and by

4.6 percent from a year earlier. Consumer prices rose 2.3 percent in the year to mid-September, the same increase as in the year to mid-August. The national budget presented to Parliament in September projects a slight reduction in the financing deficit in 1986 to f. 26.5 billion; the budget includes expenditure cuts for f. 8 billion, as well as reductions in social security contributions and in the corporate tax.

The Danish krone firmed by 4.49 percent against the U.S. dollar and by 1.29 percent in effective (MERM) terms. Denmark's current account deficit reached DKr 12.7 billion in the first half of this year, compared with a DKr 16.8 billion deficit for the whole of last year. Its trade deficit narrowed to DKr 650 million in August from DKr 1.34 billion in July, with the trade deficit for the first eight months of this year reaching DKr 7.94 billion compared with DKr 4.75 billion in the same period last year. Consumer prices fell by 0.1 percent in August but rose 4.1 percent year-on-year.

The Irish pound firmed by 4.14 percent against the U.S. dollar and by 0.95 percent in effective (MERM) terms. As in recent months, the Irish pound continued to be the strongest currency in the EMS narrow band during most of the first three weeks of September, but it was replaced thereafter by the French franc; the Irish pound remained, however, among the strongest currencies in the EMS narrow band. Its trade balance, seasonally adjusted, switched into a £Ir 72.9 million surplus in August, from a £Ir 12.2 million deficit in July, mainly because of a fall in imports. The number of unemployed persons fell by 2.1 percent in September, the largest monthly decline in over a year, with the unemployment rate declining to 17.3 percent from 17.7 percent in August. Retail prices rose by 5.5 percent in the year to mid-August, compared with 5.2 percent in the year to mid-May.

The Italian lira appreciated by 4.29 percent against the U.S. dollar but only marginally in effective (MERM) terms. As in the preceding month, the Italian lira was the strongest currency in the EMS during most of September. Italy's external current account widened to Lit 4,555 billion in this year's first quarter from Lit 3,635 billion in the year earlier first quarter. Industrial production rose 4.1 percent in July and 4.4 percent year-on-year. Price increases have remained moderate in recent months: wholesale prices fell 0.3 percent in July (but were up 7.5 percent year-on-year), while consumer prices rose 0.4 percent in September (and were up 8.3 percent year-on-year).

The pound sterling firmed by 1.26 percent against the U.S. dollar (much less than most other currencies) and consequently eased by 3.25 percent in effective (MERM) terms. The U.K. external current account surplus, seasonally adjusted, narrowed to £206 million in August from £344 million in July (downward-revised), with the surplus for the first eight months of 1985 amounting to £1.2 billion, compared with £935 million for the whole of 1984. Real GDP calculated on the average basis grew at an annual rate of 4.8 percent in the second quarter. Industrial output, seasonally adjusted, fell by 1.0 percent in July but was up 4.5 percent from a year earlier. The level of retail sales, seasonally adjusted, increased by 0.4 percent in August and by 6.3 percent year-on-year, while the unemployment rate, also seasonally adjusted, declined marginally in September to 13.1 percent (from 13.2 percent in August). The public sector borrowing requirement amounted to £1.1 billion in August, bringing the total for the first five months of the 1985/1986 fiscal year to £4.4 billion, down from £6.8 billion for the same period a year earlier. Producer prices rose 0.3 percent in September and 5.5 percent year-on-year, while input costs rose 0.2 percent in August but were down 1.5 percent year-on-year.

The Swiss franc firmed by 5.24 percent against the U.S. dollar and by 1.28 percent in effective (MERM) terms. Switzerland's trade deficit amounted to Sw F 863.9 million in August compared with Sw F 895.9 million (revised) in July, with the cumulative deficit for the first eight months of 1985 reaching Sw F 6.37 billion, virtually the same as that for the same period last year. Its real GDP grew at an annual rate of 3 percent in the second quarter, compared with 2 percent in the first quarter. Industrial production rose 6 percent in the second quarter after declining by 7.4 percent in the first, while the unemployment rate fell to 0.8 percent in August from 0.9 percent in July. Consumer prices rose 0.3 percent in September and 3.3 percent year-on-year.

The Japanese yen firmed by 10.39 percent against the U.S. dollar and by 7.71 percent in effective (MERM) terms, benefitting from substantial intervention by the Bank of Japan in late September. Japan's current account surplus, seasonally adjusted stood at $3.94 billion in August, marginally below $4.06 billion in July, while its trade surplus, seasonally adjusted, rose to $4.83 billion in August from $4.51 billion in July. Its real GNP grew at an annual rate of 7.9 percent in the second quarter compared with 0.8 percent in the first quarter. Retail sales rose 3.6 percent in August from a year earlier, up from the third consecutive month. In August, industrial production was 4.7 percent larger than a year earlier while the unemployment rate was 2.6 percent, the same as in the two preceding months.

The Canadian dollar remained little changed against the U.S. dollar and consequently eased by 1.85 percent in effective (MERM) terms. Canada's trade surplus narrowed to Can$148 million in July from Can$1.0 billion in June; the sharp reduction in the surplus was attributed to a fall in exports, mainly those shipped to the United States. Real GDP, seasonally adjusted, grew at an annual rate of 3.8 percent in July, compared with 4.0 percent in June, while the index of leading economic indicators showed a slight increase in June following declines for several consecutive months.

The Austrian schilling firmed by 5.03 percent against the U.S. dollar and by 1.09 percent in effective (MERM) terms. Austria's unemployment rate rose to 3.5 percent in September from 3.3 percent in August. Its wholesale prices increased marginally in September and 3.1 percent year-on-year.

The Norwegian krone firmed by 3.51 percent against the U.S. dollar and only marginally in effective (MERM) terms. Norway's trade surplus narrowed slightly to NKr 1.68 billion in August from NKr 1.74 billion a year earlier, with the surplus for the first eight months of 1985 rising to NKr 23.7 billion compared with NKr 25.7 billion in the same period a year earlier. Its unemployment rate rose to 3.2 percent in September from 3.0 percent in August but remained unchanged from a year earlier.

The Swedish krona firmed by 3.42 percent against the U.S. dollar but eased marginally in effective (MERM) terms. Sweden's external current account shifted into a SKr 1.7 billion deficit in July from a SKr 1.4 billion surplus in June; in August its trade account was in deficit for SKr 200 million, compared with a surplus of SKr 500 million in July. Real GDP grew at a 2.0 percent annual rate in the second quarter, after growing at 2.1 percent in the first quarter. Consumer prices rose 0.4 percent in September and 6.7 percent year-on-year.

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

Short-term interest rates continued to ease in a number of major industrial countries in September, while in most others they posted comparatively small changes (see Table 4). In France, Belgium, and Ireland, official interest rates were lowered. Inflation also remained fairly subdued, with year-over-year price increases around five percent or less in most countries.

Interest rates in the United States in September continued to post relatively small changes. Short-term rates tended to rise through about midmonth, under the influence of above-target money supply growth and stronger economic data which some market participants interpreted as lessening the chance of the Federal Reserve easing policy. Shifting expectations later in the month tended to lower these rates after the release of a somewhat weaker-than-expected "flash" estimate of U.S. real GNP in the third quarter and the announcement that the G-5 nations would act together to weaken the dollar. Over the month, however, the yield on three-month U.S. Treasury bills eased by only 0.11 percentage point to 7.26 percent at the end of September, while the 90-day CD rate firmed by 0.11 percentage point over the same period and closed the month at 7.89 percent. The Federal Funds rate averaged 7.92 percent for September as a whole compared with 7.90 percent for August, and for the week ended September 27 it averaged 7.96 percent compared with 7.78 percent for the week ended August 30. Longer-term interest rates firmed fairly moderately and by progressively larger margins as maturities lengthened, with yields on U.S. Treasury securities with maturities from one year to 30 years rising by 0.02-0.16 percentage point; the five-year constant maturity rate rose from 9.66 percent at end-August to 9.73 percent at end-September. The M1 measure of the U.S. money supply, seasonally adjusted, averaged $615.0 billion in the week ended September 30, compared with $608.3 billion in

Table 4. Inflation Rates and Short-Term Interest Rates

	Month 2/	Inflation rates 1/ (year-on-year percent changes): Wholesale price index		Consumer price index 3/		Short-term interest rates 4/ (end-of-month): August	September
Austria	Sept./Aug.	3.1	(2.0)	2.6	(3.5)	4.00	4.00
Belgium	Aug./Sept.	-1.0	(-0.2)	4.6	(4.7)	9.60	9.35
Canada	August	2.0	(1.9)	4.0	(3.8)	8.96	8.78
Denmark	August	2.1	(3.3)	4.1	(4.6)	7.00	7.00
France	Aug./Sept.	3.6	(4.1)	5.4	(5.6)	9.89	9.63
Germany	September	0.3	(0.2)	2.2	(2.1)	4.72	4.72
Italy	July/Sept.	7.5	(8.0)	8.3	(8.6)	14.31	14.06
Japan	August	-1.6	(-1.2)	2.3	(2.4)	6.44	6.44
Netherlands	June/Sept.	2.0	(--)	2.3	(2.3)	5.78	6.25
Norway	July/Aug.	5.2	(5.7)	5.6	(5.8)	8.00	8.00
Sweden	July/Sept.	5.3	(--)	6.7	(7.0)	10.50	10.50
Switzerland	Aug./Sept.	1.2	(1.8)	3.3	(3.0)	4.63	4.69
United Kingdom	September	5.5	(5.7)	5.9	(6.2)	11.28	11.33
United States	Sept./Aug.	0.2	(0.8)	3.4	(3.6)	7.37	7.26

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; interbank 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.

the week ended August 26. Thus M1 at the end of September remained well above (by $14.5 billion) the upper limit of the Federal Reserve's target range which is based on 3-8 percent growth at an annual rate from the second to the fourth quarter of 1985.

Among the countries participating in the exchange arrangements of the European Monetary System, short-term interest rates in September eased in France, Italy, and Belgium but were unchanged in Germany. The Bank of France cut its money market intervention rate by 0.25 percentage point on September 19 to 9.38 percent. The rate had stood at 9.63 percent since July 17 when it was also reduced by 0.25 percentage point. Prior to the intervention rate cut, the French call money rate fell to 9.38 percent, its lowest level since late July 1979. The three-month interbank money rate in France fell from 9.89 percent at the end of August to 9.63 percent at the end of September. The three-month interbank money rate in Italy also eased over the same period, falling from 14.31 percent to 14.06 percent. In Belgium, the discount rate was cut to 9.5 percent from 10 percent and the Lombard rate to 10 percent from 10.5 percent, effective September 9. The rate on four-month Fonds des Rentes certificates was reduced in the second week of September by 0.10 percentage point to 9.50 percent, and again in the fourth week of the month to 9.35 percent; interest rates on the shorter-term Treasury certificates were also reduced, by similar margins. In Germany, the three-month interbank deposit rate moved within a very narrow range and closed September at 4.72 percent, unchanged from its level at the end of the previous month; this interbank rate had, however, declined in each of the preceding three months to record a cumulative decline of 1.68 percentage points. Germany's central bank money stock, seasonally adjusted, rose by just over DM 1 billion in August, leaving its growth just above the middle of its 3-5 percent target range from the fourth quarter of 1984 through the fourth quarter of 1985.

Among the other major countries, short-term interest rates eased in Canada but were little or unchanged in the United Kingdom and Japan. The three-month Treasury bill rate in Canada eased from 8.96 percent at the end of August to 8.78 percent at the end of September. In Japan, the rate for two-month (private) bills was 6.44 percent at the end of September, unchanged from its level at the end of the previous month. Japan's broadly defined money supply M2+CDs rose 8.3 percent in August from its year-earlier level, after a 8.2 percent year-on-year increase in July. In the United Kingdom, the three-month Treasury bill rate was little changed, rising slightly from 11.28 percent at end-August to 11.33 percent at end-September, while the interbank rate moved by a somewhat wider margin, easing from 11.66 percent to 11.56 percent over the same period. The latest Bank of England data (released in October) showed that sterling M3, seasonally adjusted, rose by a provisional 1.75 percent in the four weeks to September 18, following a 2.0 percent rise in the five weeks to August 21. The year-on-year growth rate was 14.5 percent in banking September, compared with 13.5 percent growth in banking August and the year-on-year target for the year ending in March 1986 of 5-9 percent.

In other industrial countries, the Bank of Ireland reduced on September 3 its short-term lending facility rate at which it offers to lend to commercial banks for up to one week by one-half percentage point to 10.75 percent. The Bank of Ireland also cut its prime overdraft rate by one percentage point to 10.5 percent on September 10. The Austrian National Bank cut its open market operation rate to 4.75 percent from 5 percent, effective September 19. Major Swiss banks cut their customer time deposit rates by one-quarter percentage point to four percent in maturities from three to eight months, effective September 25. Norway announced that it was abolishing interest rate ceilings for banks and insurance companies, and that it would set lending rates, with effect during the week beginning September 22, through Government bond and Treasury bill issues.

Three-month interest rates in the eurocurrency markets in September were narrowly mixed, except for the euro-French franc rate which recorded the largest change, easing by 0.25 percentage point to 10.50 percent. The euro-Deutsche mark rate was unchanged at 4.56 percent while the euro-yen and euro-Swiss franc rates firmed by 0.03 percentage point and 0.06 percentage point, respectively, to 6.44 percent and 4.69 percent. The eurodollar rate firmed by 0.13 percentage point to 8.13 percent while the euro-sterling rate eased by 0.13 percentage point to 11.50 percent.

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

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 narrowed for the Belgian franc, the French franc, and the pound sterling but widened for the Italian lira. As a result of the above-mentioned movements in interest differentials and forward exchange quotations, the covered interest differential favoring eurodollar investment widened for France but narrowed for the United Kingdom. The covered interest differential favoring domestic investments widened for Belgium, Germany, Japan, and the Netherlands but narrowed for Italy.

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

	Uncovered interest differentials 1/ (1)		Forward exchange quotations 2/ (2)		Covered interest differentials 1/ (3) = (1)-(2)	
	August	September	August	September	August	September
Belgium	-1.60	-1.22	-1.51	-1.09	-0.09	-0.13
France	-1.89	-1.50	-2.71	-2.51	+0.82	+1.01
Germany	+3.29	+3.42	+3.58	+3.72	-0.29	-0.30
Italy	-6.31	-5.93	-4.82	-4.97	-1.49	-0.96
Japan	+1.56	+1.69	+1.68	+1.86	-0.12	-0.17
Netherlands	+2.22	+1.88	+2.30	+2.44	-0.08	-0.56
United Kingdom	-3.28	-3.20	-3.45	-3.23	+0.17	+0.03

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.

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

The SDR interest rate fell to 7.24 percent for the week beginning September 30 from 7.35 percent for the week beginning August 26 (see Table 6). The three-month interbank money rate in France eased by 0.25 percentage point while the three-month U.S. Treasury bill rate eased by 0.10 percentage point. Yields on the other instruments in the interest rate basket were little or unchanged. The yield on the relevant U.K. instrument firmed by 0.02 percentage point and the yields on the relevant German and Japanese instruments were unchanged. The rate of remuneration paid on creditor positions in the Fund (93 percent of the SDR interest rate) fell to 6.73 percent on the last week of September from 6.84 percent in the last week of August.

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

	August 26	September 2	9	16	23	30
SDR interest rate	7.35	7.40	7.48	7.44	7.31	7.24
Rate of remuneration	6.84	6.88	6.96	6.92	6.80	6.73

1/ The rates apply to the weeks beginning with the dates indicated.

Combined domestic interest rates for the various maturities eased by 0.11-0.19 percentage point, except for the five-year combined rate which was unchanged (see Table 7). For the maturities shorter than five years, yields on the relevant instruments in the United States and France eased by 0.13-0.33 percentage point and 0.05-0.44 percentage point, respectively, and those in the United Kingdom eased by 0.01-0.22 percentage point. Yields for the shorter than five-year maturities were, however, mixed in Japan, moving within a range of -0.07 to +0.12 percentage point, and little changed in Germany. For the five-year maturity, yields on the relevant instruments eased by 0.21 percentage point in Japan but firmed by 0.36 percentage point in France, while staying unchanged in Germany and easing slightly in the United Kingdom and the United States.

Combined eurocurrency offered rates for the three- and six-month maturities eased by 0.12-0.13 percentage point. The euro-French franc rates eased by 0.31-0.38 percentage point while the euro-sterling and euro-Deutsche mark rates eased by 0.19-0.25 percentage point and 0.06-0.13 percentage point, respectively. The eurodollar and euro-yen rates were unchanged.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.06-0.08 percentage point. Average deposit rates in September ranged from 7.54 percent for one-month deposits to 7.90 percent for 12-month deposits.

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

	August	September
Combined market interest rates: 2/		
a. Based on domestic rates		
3-month maturity (Rule T-1)	7.36	7.25
6-month maturity	7.50	7.31
12-month maturity	7.69	7.56
2-1/2 year maturity	8.50	8.38
5-year maturity	8.81	8.81
b. Based on eurocurrency offered rates		
3-month maturity	8.00	7.88
6-month maturity	8.13	8.00
Average commercial bank deposit rates 3/		
1-month deposits	7.62	7.54
3-month deposits	7.67	7.60
6-month deposits	7.79	7.73
12-month deposits	7.98	7.90

1/ Rates pertain to last Wednesday of the month.

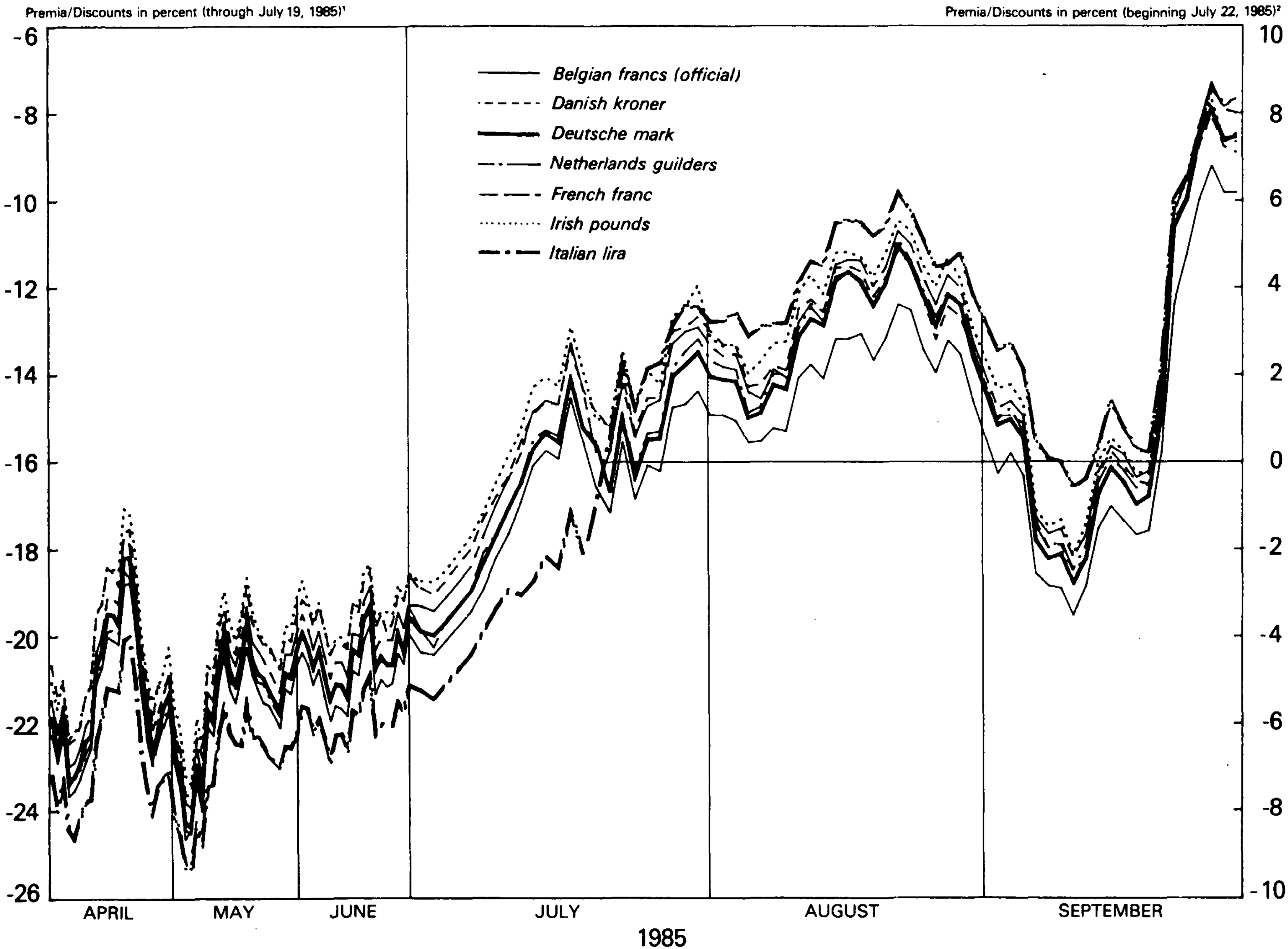
2/ Combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instruments by the number of units of the corresponding currency listed in Rule 0-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under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

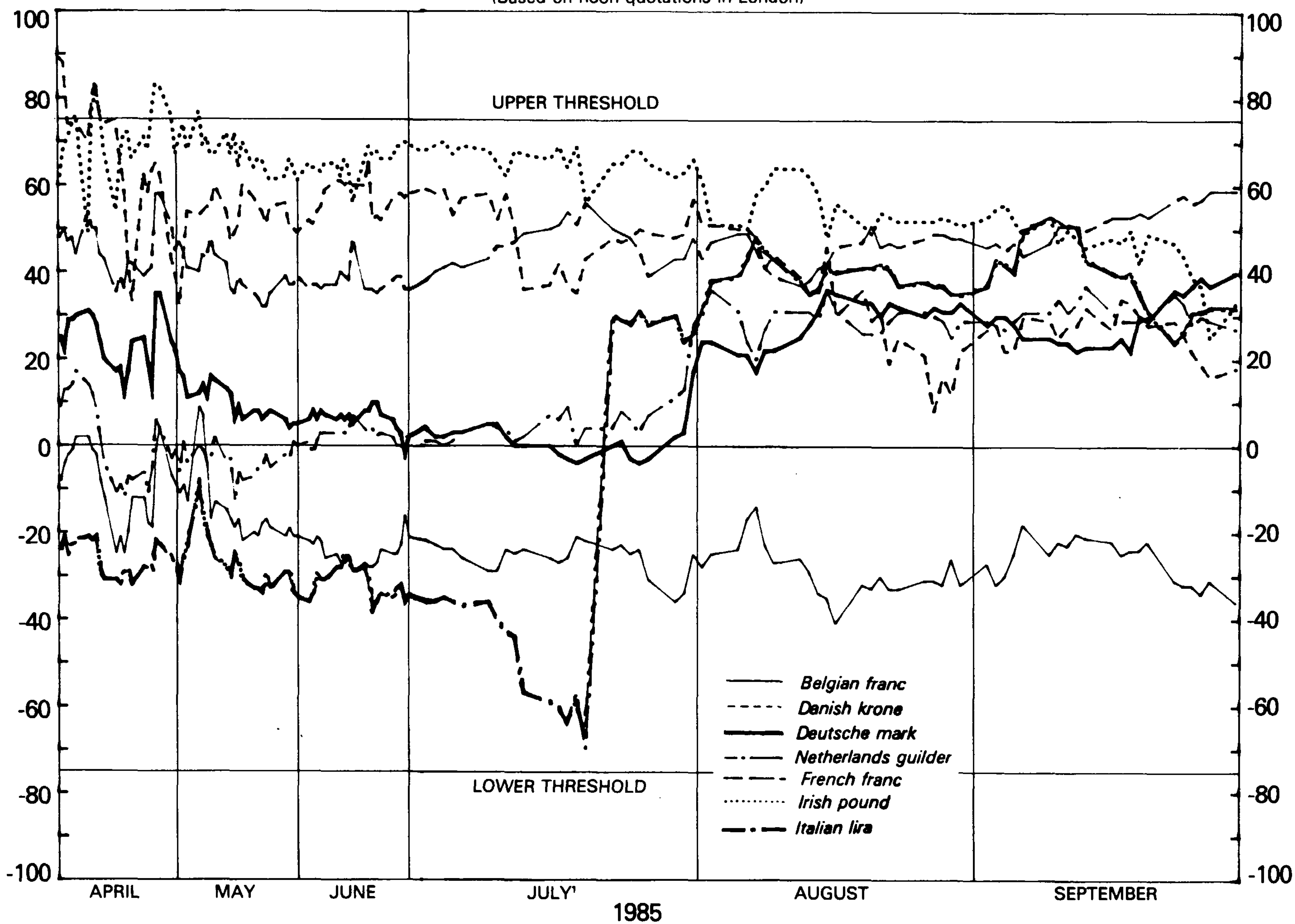


[1]Premia/Discounts over declared ECU central rates converted to U.S. dollar terms on the basis of 1 ECU=$0.920041 effective May 18, 1983.
[2]Effective July 22, 1985, the Italian lira was devalued by 6 percent while the other currencies were revalued by 2 percent. Consequently, the premia/discounts over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



[1]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)

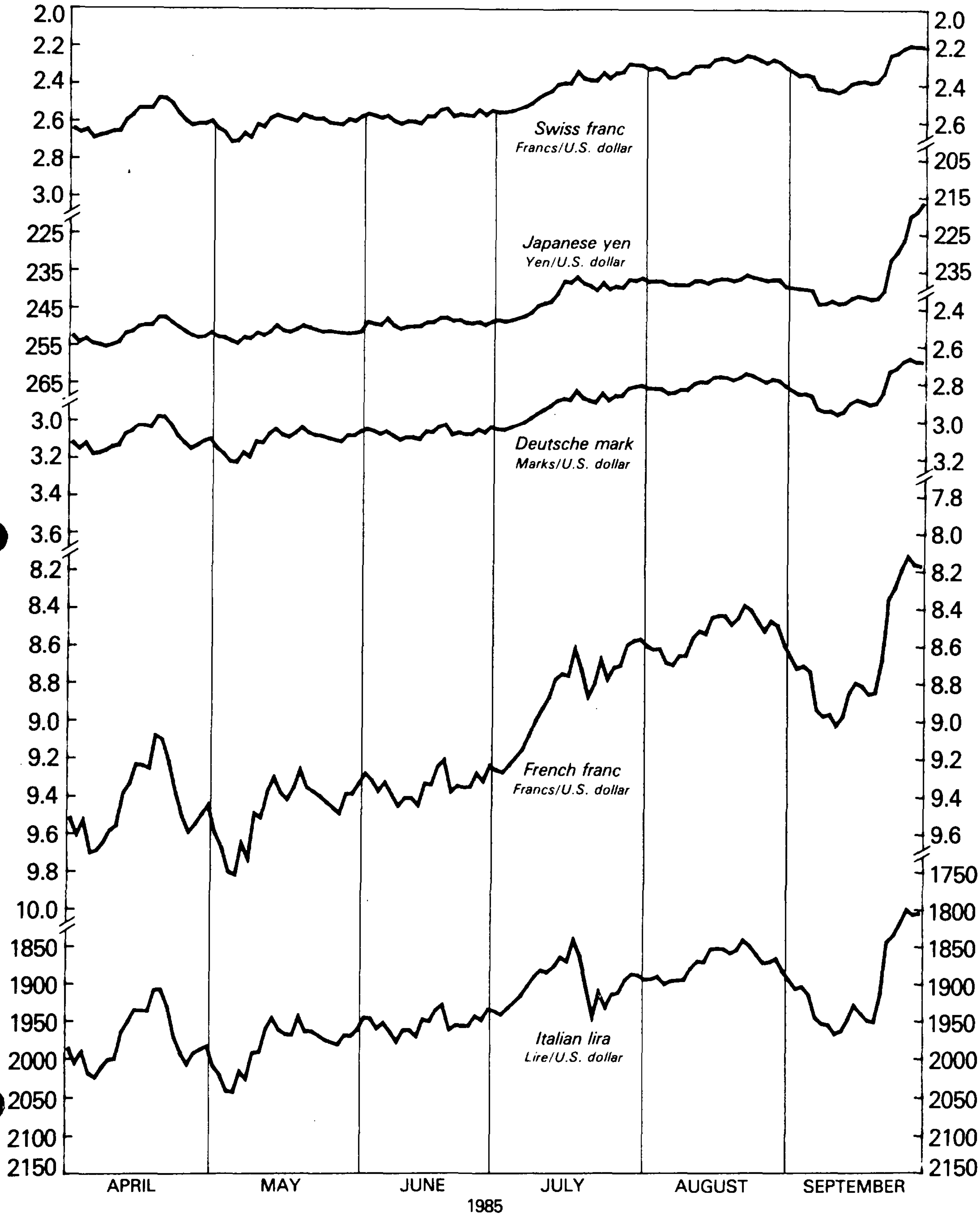


CHART 4

SPOT EXCHANGE RATES

(Noon quotations in New York)

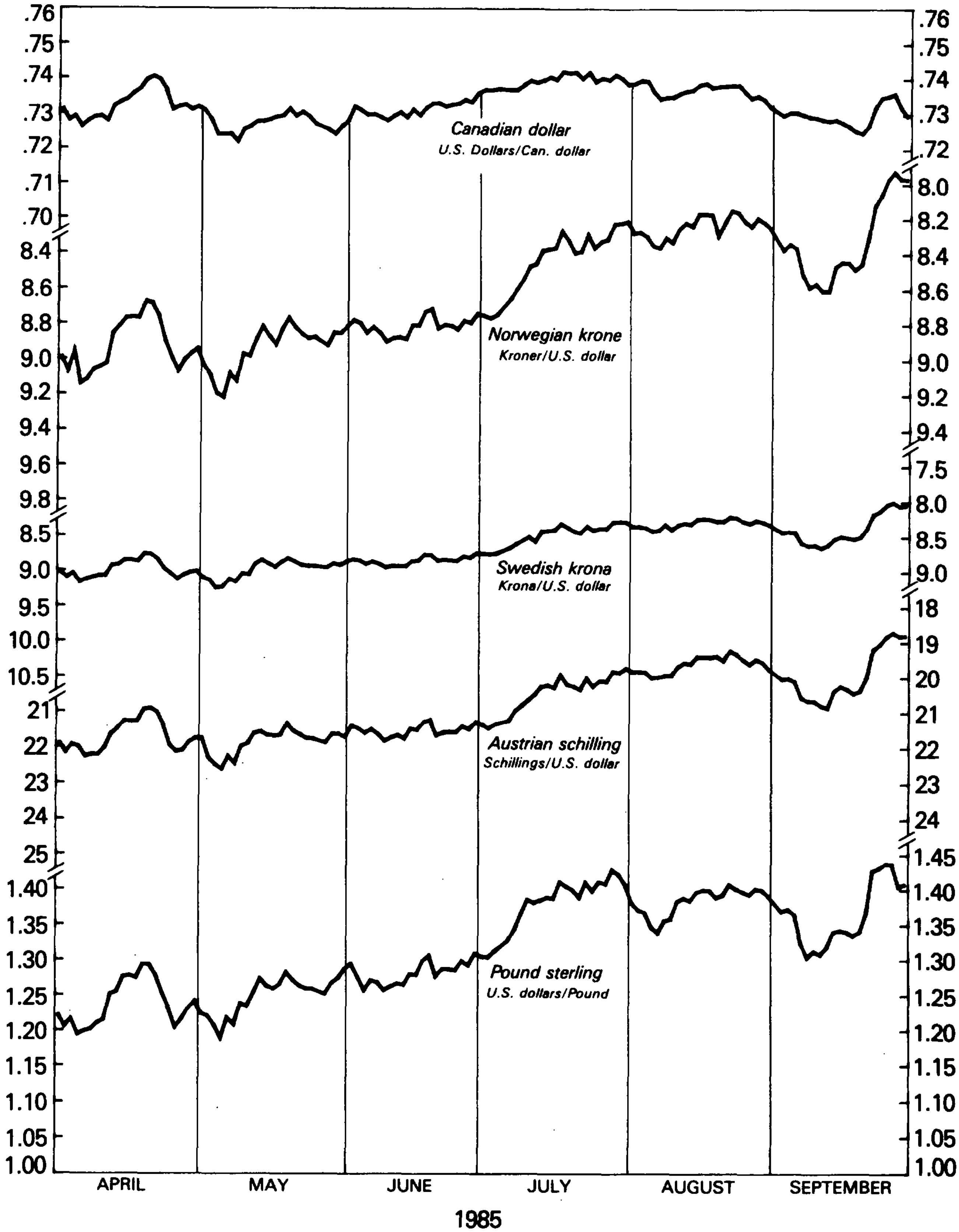
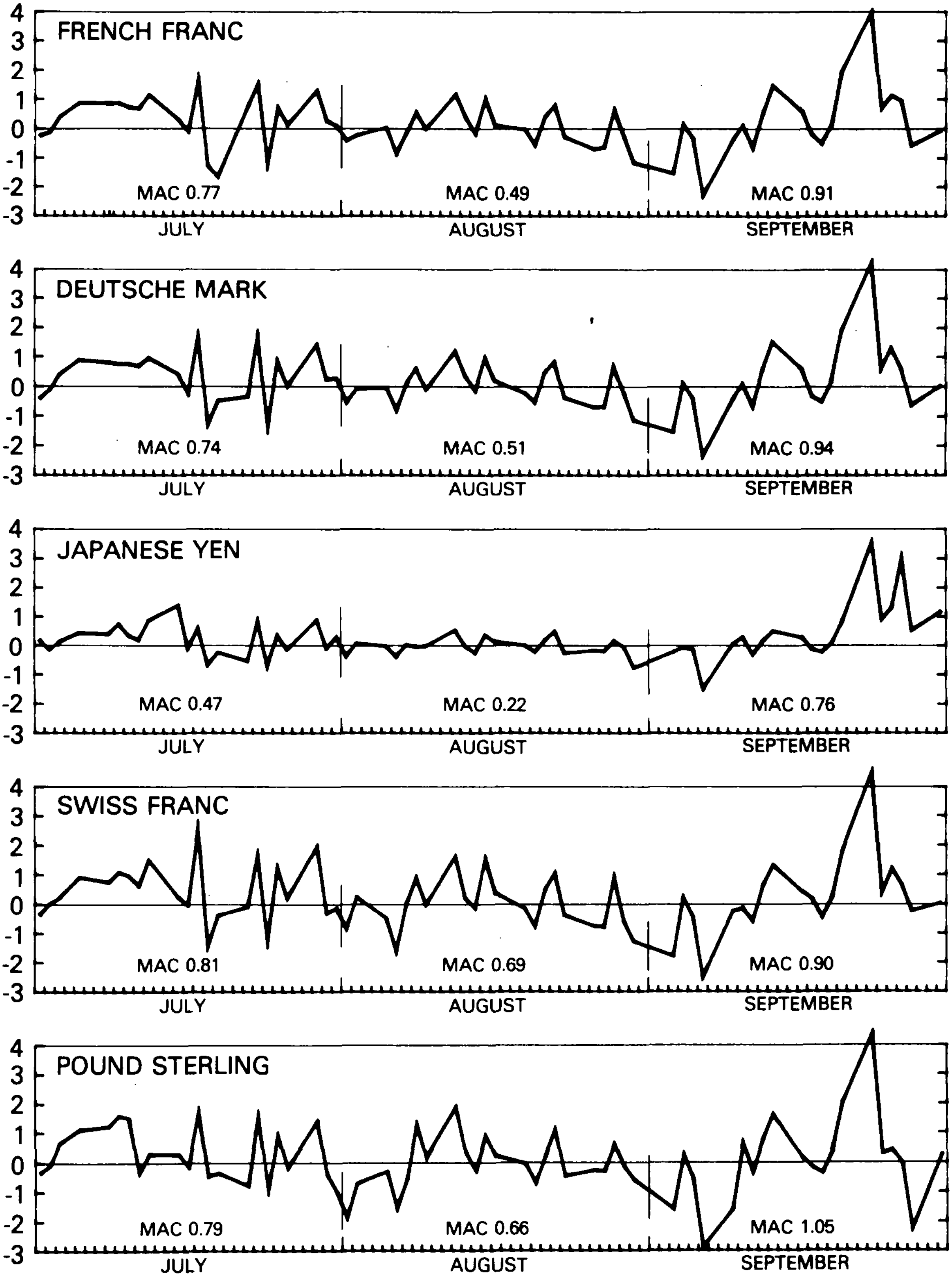


CHART 5

DAILY CHANGES IN SPOT EXCHANGE RATES

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



1985

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

CHART 6

INDEXES OF EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JUNE 1974 - SEPTEMBER 1985

(June 28, 1974=100)

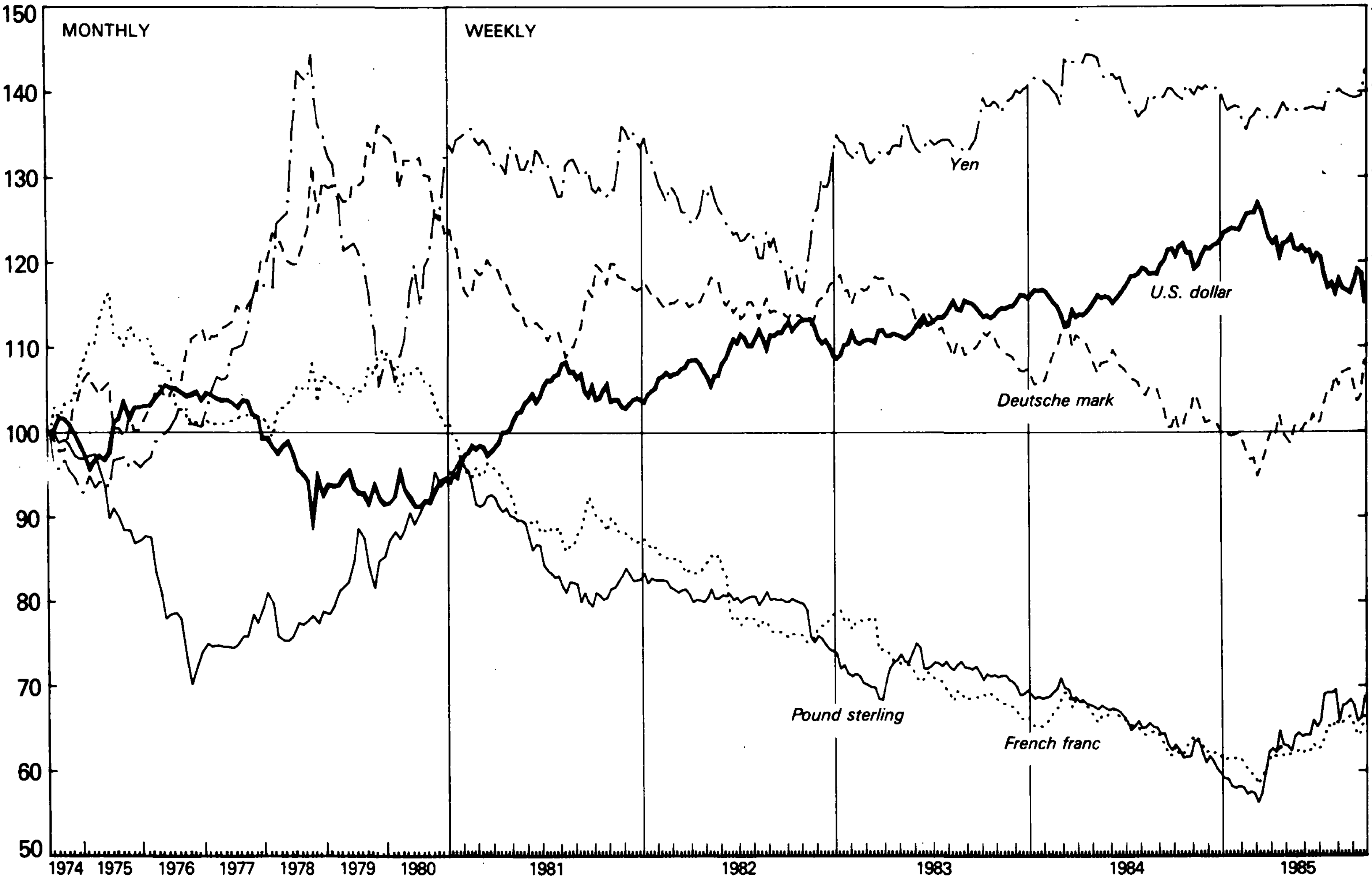


CHART 7

SHORT-TERM MONEY MARKET RATES

(Percent per annum)

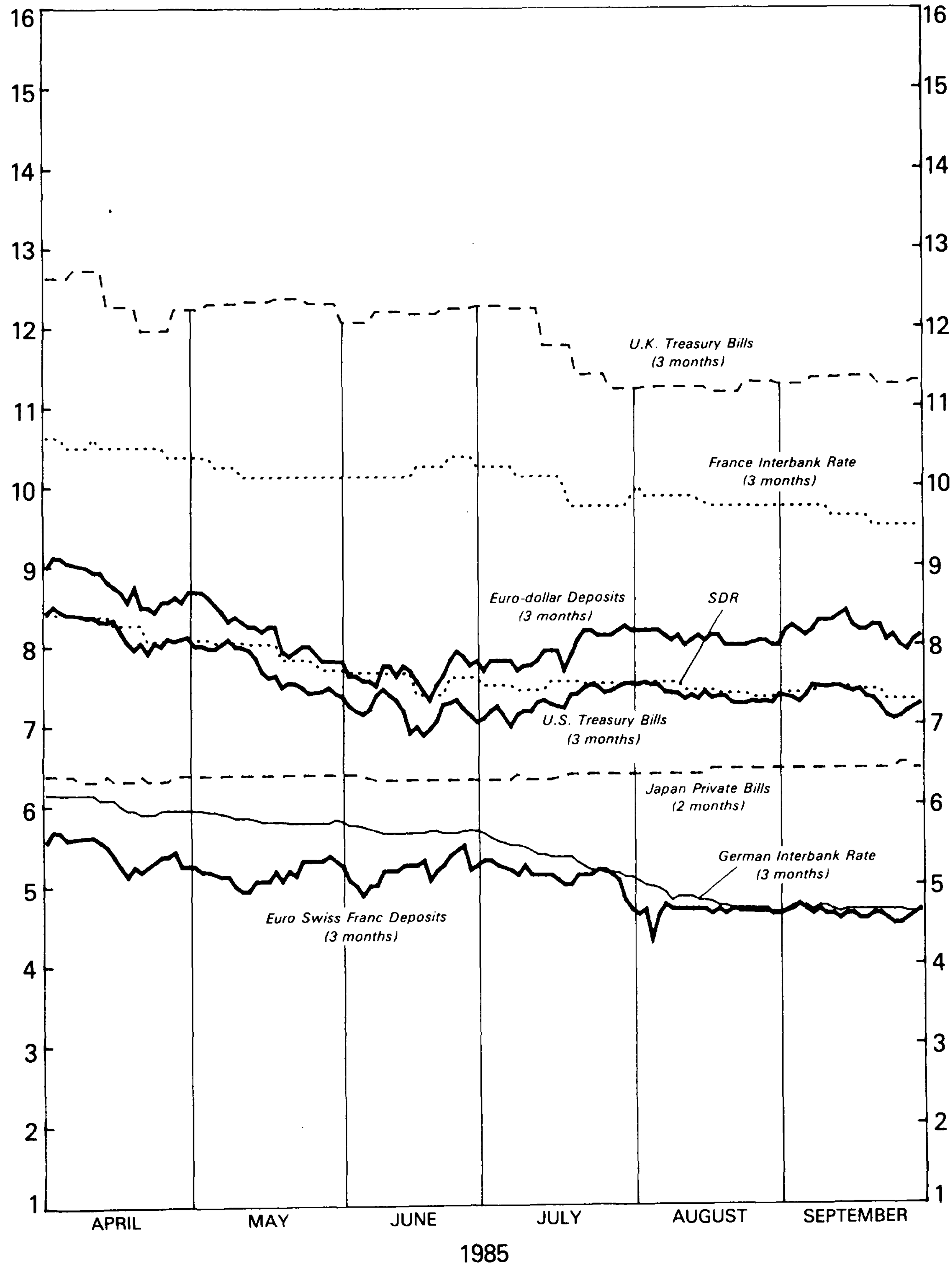


CHART 8

THREE-MONTH FORWARD RATES

Margins from Spot Rates based on noon quotations in New York

(Percent per annum)

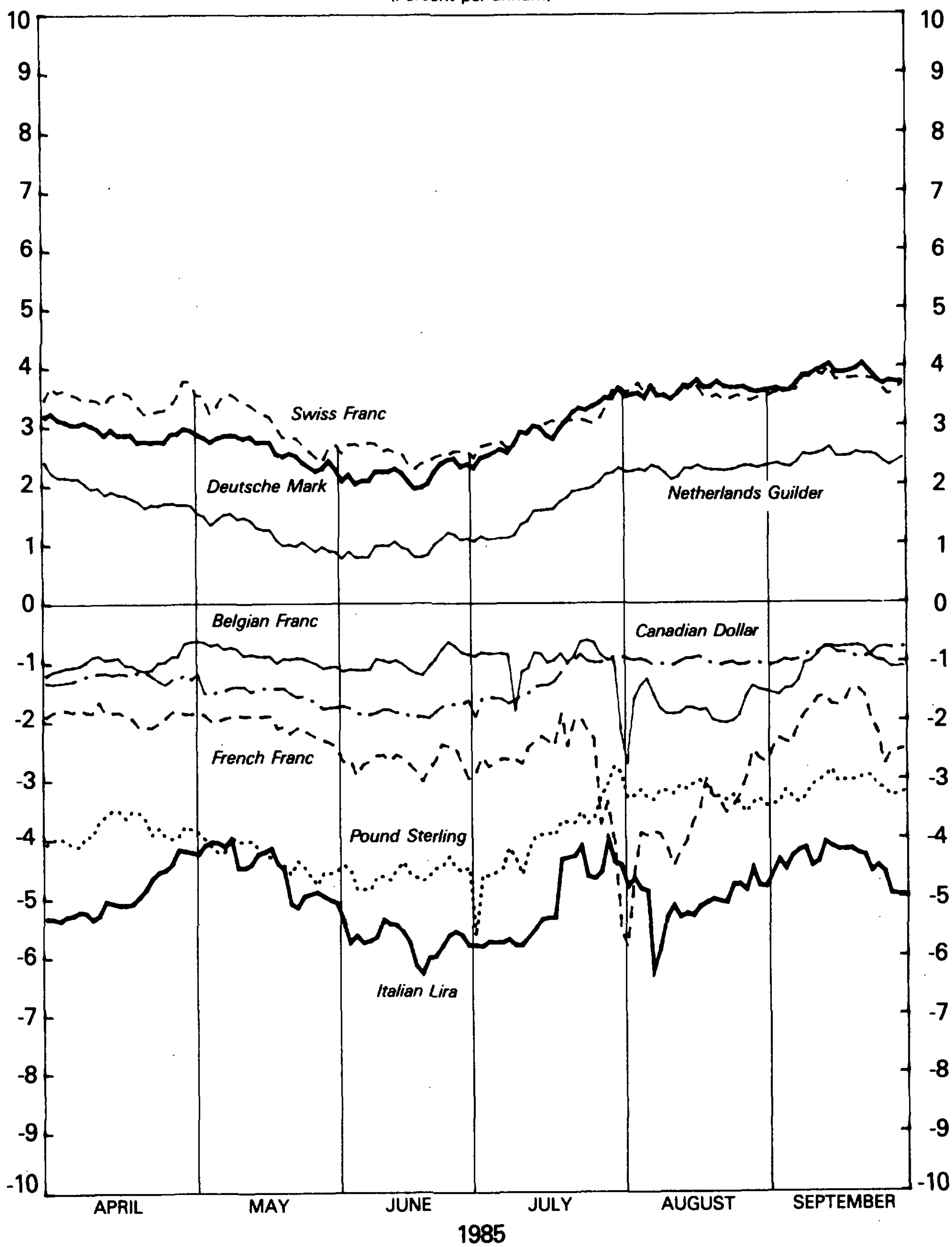
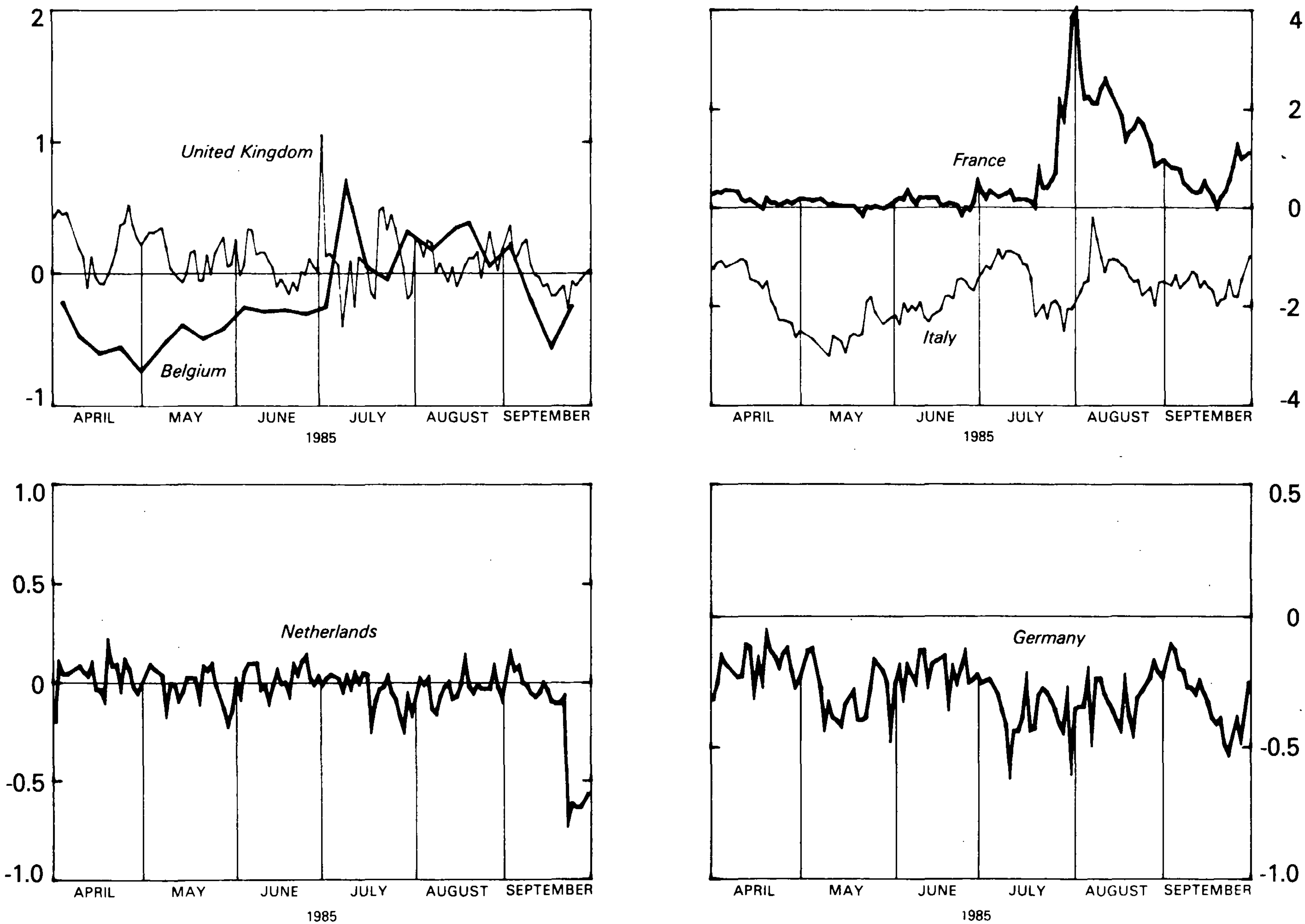


CHART 9

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, August-September 1985 1/

	August				September			
	7	14	21	28	7	14	21	28
Austrian schilling	19.9950	19.6000	19.5100	19.4650	20.0220	20.7900	20.4515	18.8325
Belgian franc								
Official	57.360	56.555	56.035	56.075	57.520	59.745	58.615	54.365
Financial	57.975	57.275	56.700	56.600	58.075	60.125	58.975	55.900
Canadian dollars	0.73440	0.73695	0.73809	0.73532	0.73067	0.72862	0.72540	0.73527
Danish kroner	10.2680	10.1013	10.0275	10.0910	10.3400	10.7200	10.4955	9.7450
Deutsche mark	2.84600	2.79025	2.76500	2.77150	2.85000	2.96000	2.90600	2.67925
French francs	8.6987	8.5300	8.4475	8.4625	8.7030	9.0225	8.8550	8.1950
Irish pounds	1.0984	1.1148	1.1250	1.1238	1.0925	1.0505	1.0710	1.1545
Italian lire	1896.000	1870.500	1854.500	1870.000	1903.000	1966.500	1949.000	1819.000
Japanese yen	238.350	237.950	236.950	236.950	239.575	243.500	242.200	226.800
Netherlands guilder	3.2020	3.1410	3.1143	3.1213	3.2030	3.3248	3.2620	3.0210
Norwegian kroner	8.3663	8.2410	8.2150	8.1930	8.3400	8.6050	8.4850	7.9710
Pounds sterling	1.3388	1.3845	1.3927	1.4020	1.3731	1.3090	1.3355	1.4380
Swedish kronor	8.4088	8.3175	8.2775	8.2610	8.4200	8.6550	8.5225	8.0345
Swiss francs	2.36100	2.30100	2.26700	2.26575	2.34550	2.43900	2.38800	2.20450

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.

APPENDIX B

Short- and Medium-Term Interest Rates

(Monthly and weekly averages)

	Domestic Money Markets 1/ (three-month)						Eurocurrency Markets 2/ (three-month)						Lending Rates		U.S. Treasury
	United States (1)	Germany (2)	United 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)	Securities (five-year) 5/ (15)
1984															
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.	8.82	6.46	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	9.18	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	8.16	9.50	9.70
Aug.	7.36	4.85	11.24	9.95	6.41	7.42	8.08	4.65	11.50	11.86	6.37	4.66	8.33	9.50	9.81
Sept.	7.33	4.75	11.33	9.75	6.45	7.38	8.20	4.52	11.52	10.23	6.43	4.62	8.46	9.50	9.81
1984 Week ending:															
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	11.58
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	8.71	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	10.87	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	8.19	6.07	11.89	10.57	6.31	8.11	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	9.28	10.50	10.99
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	8.85	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	8.81	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	9.78	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	9.58	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	10.85
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	5.31	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
26	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
Aug. 2	7.51	5.15	11.23	9.99	6.38	7.55	8.20	4.86	11.40	12.42	6.32	4.78	8.53	9.50	10.01
9	7.44	4.96	11.24	10.01	6.38	7.47	8.14	4.76	11.54	12.00	6.33	4.61	8.43	9.50	9.98
16	7.35	4.88	11.23	9.97	6.39	7.41	8.08	4.67	11.43	12.30	6.38	4.68	8.33	9.50	9.84
23	7.30	4.76	11.20	9.89	6.44	7.36	8.03	4.50	11.41	11.38	6.40	4.68	8.25	9.50	9.67
30	7.30	4.71	11.30	9.89	6.44	7.37	8.03	4.55	11.61	11.06	6.40	4.67	8.27	9.50	9.66
Sept. 6	7.37	4.76	11.29	9.89	6.44	7.41	8.19	4.61	11.63	10.53	6.41	4.69	8.38	9.50	9.76
13	7.47	4.76	11.36	9.81	6.44	7.46	8.35	4.55	11.62	10.14	6.41	4.63	8.68	9.50	9.95
20	7.35	4.75	11.36	9.70	6.44	7.38	8.23	4.47	11.50	9.84	6.42	4.60	8.55	9.50	9.85
27	7.10	4.73	11.29	9.63	6.46	7.25	8.04	4.45	11.34	10.42	6.45	4.55	8.28	9.50	9.66

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 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 (0.071).

2/ Eurocurrency 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. Weekly figures are averages of seven calendar days ending on Wednesday.

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.