Report of the Deutsche Bundesbank

for the Year 1982

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Note: In order to expedite publication of the English version of this Report the following sections contained in the German original have been omitted:

Part A	Bank supervision, domestic and external monetary and foreign exchange policy regulations of the Deutsche Bundesbank
Part C	Fund for the Purchase of Equalisation Claims
Appendices to Parts B and C	Nos. 1, 3, 4 and 5

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The German original went to press on April 7, 1983

Part A: General part

The currency
and the economy in 1982

I. Economic developments and central bank policy

Economic developments in the Federal Republic of Germany in 1982 were overshadowed by a slowdown in economic activity. It began around mid-year and dashed the earlier hopes of an upswing in the second half of 1982. The deterioration in conditions in the middle of the year was primarily due to the unfavourable trends in the world economy, which inevitably affected Germany as well in view of its close economic ties with other countries. Besides the general cyclical stagnation, global business activity was increasingly hampered last year by debt crises in a number of countries. World trade actually decreased somewhat, for the first time since 1975. The effects were felt by German exporters from the spring of 1982 onwards, when foreign orders began to decline, and this soon also led to a reduction in exports.

The fall in foreign demand could not be offset in the domestic market in the short run. Indeed, the underlying trend of domestic demand pointed downwards throughout the year, partly on account of structural difficulties that had long been apparent. This applies particularly to investment activity, which decreased for cyclical reasons, but was and still is depressed as a result of adverse long-term developments as well. Chief among these are the inadequate earning power of enterprises and the associated shortage of capital and reserves. The new deficits in the public authorities' budgets and the discussion on how to remedy them, together with a government crisis, undoubtedly aggravated the existing uncertainty. The business community was correspondingly cautious in its forward planning, and cuts in production became unavoidable. The overall economic performance in 1982 was therefore characterised on the one hand by a decline of over 1 % in the real gross national product compared with the preceding year, a decrease of more than 1½ % in the number of employed persons, and a rise in the unemployment ratio from under 5 % of the total labour force in 1981 to over 6½ % last year.

On the other hand, favourable tendencies are also to be seen in the overall picture of economic developments in 1982. The progress made in the domestic and external stabilisation process stands out particularly clearly. In the balance of payments field, equilibrium was regained; in fact, the current account, which had been heavily in deficit, showed a surplus again, while the inflows and outflows on capital account largely cancelled out and the Deutsche Mark strengthened during the year. The successes scored in the domestic stabilisation process were reflected at all levels: the growth rate of consumer prices, which had been over 6 % at the beginning of 1982, dropped to 3½ % in March 1983.

In these circumstances the Bundesbank, in its monetary policy, did not need to give the same consideration to external problems in 1982 as in 1981; in other words, it could pay greater regard to the weakness of domestic economic activity. In particular, within the monetary target set for 1982 it seemed justifiable for the money in the hands of non-banks to expand more than in the previous year. To this end the Bundesbank lowered its interest rates on several occasions and buttressed these measures by relaxing liquidity policy. Together with the fall in interest rates abroad, especially in the United States, this contributed to a considerable reduction in the level of interest rates in the money and capital markets and to the easing of financial tensions in many enterprises and banks. At the same time the lowering of interest rates encouraged housing construction, and also in part private consumption, in the course of last year, and the stimulus continued to be felt beyond the turn of 1982-83.

On the basis of the more favourable conditions created during last year, the economic situation in Germany improved noticeably at the beginning of 1983. This improvement owed something to an increase in the inflow of domestic orders, which was partly caused by incentives provided by economic policy in the past but which obviously also testified to a general strengthening of investors'

Key data on overall economic developments

Period	Gross national product 1 — Annual change %	Employed persons 2 — Annual change %	Employed persons 2 — Annual change Thousands	Unemployment ratio 3 %	Consumer prices; 4 annual increase %	Balance on current account DM billion
1970 to 1973 5	+ 4.2	+ 0.5	+ 140	0.8	+ 5.3	+ 5.3
1974 to 1979 5	+ 2.4	− 0.6	− 150	3.5	+ 4.6	+10.5
1980 to 1982 5	+ 0.2	− 0.5	− 120	4.9	+ 5.6	−11.7
1974	+ 0.5	− 1.3	− 360	2.2	+ 7.0	+26.6
1975	− 1.6	− 2.8	− 760	4.0	+ 6.0	+ 9.9
1976	+ 5.6	− 0.8	− 220	4.0	+ 4.3	+ 9.9
1977	+ 2.8	− 0.2	− 40	3.9	+ 3.7	+ 9.5
1978	+ 3.5	+ 0.6	+ 150	3.8	+ 2.7	+18.1
1979	+ 4.0	+ 1.3	+ 340	3.3	+ 4.1	−11.2
1980 p	+ 1.8	+ 1.0	+ 260	3.3	+ 5.5	−28.5
1981 p	− 0.2	− 0.7	− 180	4.8	+ 5.9	−14.7
1982 p	− 1.1	− 1.7	− 460	6.7	+ 5.3	+ 8.1

1 At 1976 prices. — 2 Persons employed in Germany; absolute figures rounded. — 3 Unemployed persons as % of the total labour force.— 4 Cost of living index for all households. — 5 Annual averages. — p Columns 1 to 3 provisional.

and consumers' propensity to buy. The present decline in energy costs will presumably help to augment real purchasing power as well. Under the prevailing economic conditions, there seems to be a good prospect of the recovery that was expected for 1982, but ultimately failed to materialise, coming under way properly this year. An upturn in economic activity would also facilitate the solution of a number of outstanding structural problems. In this field economic and fiscal policy are faced with tasks that can only be coped with over the longer term. The Bundesbank's monetary policy can best assist this process by ensuring monetary stability and thus safeguarding the most important factor influencing enterprises' decisions.

1. Favourable prospects after a pronounced economic slowdown in 1982

Slowdown in economic activity mainly due to decline in demand for exports

Subdued demand and decreasing output, in conjunction with growing unemployment, were the main features of the overall economic performance last year. The business community started 1982 under comparatively favourable conditions, and the chances of economic activity picking up after a long period of stagnation appeared to be quite good. But these signs of a positive trend faded away in the course of 1982, mainly because foreign demand declined more sharply than expected soon after the beginning of the year. In July/August seasonally adjusted export orders were on average 12 % lower in value and 13½ % smaller in volume than in the first two months of 1982. In particular, the German capital goods sector — which makes by far the largest contribution to German exports — felt the lack of demand stimuli from abroad. It was not until the end of the year that foreign orders generally stabilised at a reduced level. The setback in exports hit the business community all the harder as many enterprises had geared their planning to favourable export prospects, which had appeared so very likely at the time. Most of the forecasts for 1982 had predicted that exports would be buoyant, if not so strong as in the preceding year. In its Annual Economic Report for 1982, for instance, the Federal Government had estimated the increase in exports of goods and services in 1982 at 10½ to 11½ % at current prices (compared with 14½ % a year earlier). In fact, exports of goods went up by only about 8 % in 1982. This loss of export growth and the dampening effects it had on the German economy explain a large part (according to econometric computations: two thirds) of the decline in the gross national product in 1982 as against the original expectations.

Abrupt reduction in the demand of some OPEC countries for imports

One of the main reasons for the setback in exports was that in 1982 several OPEC countries sharply reduced their demand for industrial goods (which had been expanding very strongly) when their oil receipts dwindled because the international oil markets could no longer absorb the quantities on offer and because prices were starting to fall. The oil-producing countries' demand for imports slackened at a time when other countries had not nearly solved the adjustment problems arising from the change in international economic conditions and were generally forced to cut down their imports owing to their deficits on current account.

International trade hampered by sluggish growth world-wide

The disequilibria in the western industrial countries were reflected both in high rates of inflation and in large budget (and often also current account) deficits; the fight against them depressed demand and output in these countries and reduced their mutual trade as well as their demand for imports from developing countries, which mainly supply raw materials. Together with the growing debt problems, this very seriously impaired the importing capacity of the commodity-producing countries. This cumulative downward process explains much of the unexpectedly rapid and sharp decline in export demand in the first half of last year, while the easing of the pressure on the industrial countries associated with the fall in prices in the international raw material markets did not immediately result in a renewed strengthening of economic growth in these countries.

Deterioration in the investment climate owing to increase in entrepreneurial risks

With the sharp drop in foreign demand in the course of 1982, a major factor which had long countered the weakness of domestic demand ceased to be effective in Germany. The sales expectations of many firms were disappointed, and they were slow to embark on new investment projects. As the year progressed it became increasingly evident that enterprises' profitability would not improve as much as had been expected; in fact, as explained in more detail below, many enterprises were faced with the risk of losses on receivables and of other secondary effects of an unprecedented spate of insolvencies in Germany. In these circumstances investors continued to hold back for a long while despite the government measures to promote investment, notably the investment grant and the improvement in diminishing-balance depreciation allowances for buildings and equipment adopted in the autumn of 1981 as part of "Operation '82". Many enterprises were actually obliged to reduce their investment budgets in the course of 1982. This was clearly reflected in the order books of the capital goods producers. Between January and October the domestic orders received by the capital goods industries (excluding vehicle building) were on average 1½ % lower in value and 7 % smaller in volume than a year before. Domestic demand for commercial vehicles in the same period was also distinctly down on the year. It was only towards the end of 1982, just before the deadline for placing orders under the investment grant scheme, that orders increased steeply; however, this will not affect output and spending until some time in 1983. Over the whole of 1982 expenditure on machinery and equipment in the economy as a whole was 3 % lower than a year earlier at current prices and as much as 7 % down at constant prices. With the exception of the energy industry and mining, all the major economic sectors seem to have invested less than in 1981. Spending on rationalisation and plant modernisation was clearly the most important item.

Growing restraint in stockbuilding in the course of the year

Under the impact of the disappointed sales expectations, reduced production plans and greater liquidity risks, enterprises became much more cautious in their stockbuilding in the course of last year. Industry and the distributive trades had initially built up their stocks of finished products in the expectation

Key economic variables in the Federal Republic of Germany

Item	Unit	1979	1980	1981	1982	1979	1980	1981	1982
						Percentage change on previous year			
Aggregate demand									
Private consumption	DM billion	779.0	834.7	874.1	899.2	+ 7.4	+ 7.1	+ 4.7	+ 2.9
Public consumption	DM billion	273.5	298.4	319.8	330.3	+ 8.3	+ 9.1	+ 7.2	+ 3.3
Fixed capital formation	DM billion	304.8	338.0	339.3	328.6	+ 14.3	+ 10.9	+ 0.4	− 3.2
Machinery and equipment	DM billion	119.7	127.9	128.8	124.8	+ 12.5	+ 6.9	+ 0.7	− 3.0
Construction	DM billion	185.2	210.1	210.5	203.7	+ 15.4	+ 13.5	+ 0.2	− 3.2
Stockbuilding	DM billion	27.0	17.5	− 1.4	5.4	.	.	.	.
Domestic expenditure	DM billion	1,384.3	1,488.5	1,531.7	1,563.5	+ 10.5	+ 7.5	+ 2.9	+ 2.1
External surplus **1**	DM billion	+ 11.0	− 4.3	+ 11.4	+ 36.5	.	.	.	.
Exports	DM billion	383.2	431.6	496.1	535.0	+ 9.6	+ 12.6	+ 15.0	+ 7.9
Imports	DM billion	372.2	435.9	484.7	498.5	+ 19.2	+ 17.1	+ 11.2	+ 2.9
Gross national product at current prices	DM billion	1,395.3	1,484.2	1,543.1	1,600.0	+ 8.2	+ 6.4	+ 4.0	+ 3.7
Memorandum items									
Orders received by manufacturing	1976 = 100	117.8	122.2	127.7	126.4	+ 10.8	+ 3.8	+ 4.5	− 1.0
Domestic orders	1976 = 100	118.5	122.0	120.5	119.8	+ 9.2	+ 3.0	− 1.2	− 0.6
Foreign orders	1976 = 100	116.3	122.8	143.4	140.6	+ 14.6	+ 5.6	+ 16.8	− 1.9
Orders received by construction	1976 = 100	160.8	165.2	140.9	141.8	+ 12.9	+ 2.7	− 14.7	+ 0.6
Distribution of income									
Wage and salary income	DM billion	776.7	841.7	881.2	901.4	+ 7,7	+ 8.4	+ 4.7	+ 2.3
do. as a percentage of national income	%	71.5	73.3	74.3	73.5	.	.	.	.
Entrepreneurial and property income	DM billion	310.3	306.2	304.7	325.2	+ 7.6	− 1.3	− 0.5	+ 6.7
do. as a percentage of national income	%	28.5	26.7	25.7	26.5	.	.	.	.
National income	DM billion	1,087.0	1,147.9	1,185.9	1,226.6	+ 7.7	+ 5.6	+ 3.3	+ 3.4
Production									
Gross national product at 1976 prices	DM billion	1,241.6	1,264.3	1,261.9	1,248.6	+ 4.0	+ 1.8	− 0.2	− 1.1
Productivity **2**	1976 = 100	111.4	113.2	115.0	116.4	+ 3.2	+ 1.7	+ 1.6	+ 1.2
Output in the producing sector (excluding construction)	1976 = 100	109.8	109.8	108.4	105.7	+ 5.2	+ 0.0	− 1.3	− 2.5
Construction output	1976 = 100	117.4	114.2	105.3	95.8	+ 6.7	− 2.7	− 7.8	− 9.0
Employment									
Employed persons	Millions	26.0	26.3	26.1	25.7	+ 1.3	+ 1.0	− 0.7	− 1.7
Wage and salary earners	Millions	22.7	23.0	22.9	22.5	+ 1.8	+ 1.4	− 0.5	− 1.8
Memorandum item									
Total number of man-hours worked	1976 = 100	99.3	99.4	97.7	95.5	+ 0.8	+ 0.2	− 1.8	− 2.3
Unemployed persons	Thousands	876	889	1,272	1,833	− 11.8	+ 1.5	+ 43.1	+ 44.2
do. as a percentage of									
the total labour force	%	3.3	3.3	4.8	6.7	.	.	.	.
the dependent labour force	%	3.8	3.8	5.5	7.5	.	.	.	.
Prices									
GNP deflator	1976 = 100	112.4	117.4	122.3	128.1	+ 4.0	+ 4.5	+ 4.2	+ 4.8
Memorandum item									
Unit labour costs in the economy as a whole **3**	1976 = 100	109.6	116.2	121.6	125.9	+ 3.2	+ 6.0	+ 4.7	+ 3.5
Cost of living index for all households	1976 = 100	110.9	117.0	123.9	130.5	+ 4.1	+ 5.5	+ 5.9	+ 5.3
Producer prices of industrial products	1980 = 100	93.0	100.0	107.8	114.1	+ 4.8	+ 7.5	+ 7.8	+ 5.8
Overall construction price level	1976 = 100	120.1	133.2	140.2	**pe** 143.7	+ 8.7	+ 10.9	+ 5.3	**pe** + 2.5
Index of import prices	1976 = 100	109.1	125.3	142.9	145.0	+ 11.6	+ 14.9	+ 14.0	+ 1.5

1 Balance of transactions in goods and services with other countries (including GDR). — **2** Gross national product at 1976 prices per man-hour worked; calculated by the Bundesbank. — **3** Index of gross wages and salaries per employee divided by index of real GNP per employed person. — **pe** Partly estimated. — The figures from the national accounts from 1980 onwards are provisional.

that sales would improve, but in the second half of last year efforts were mainly directed towards running down the stocks of finished goods. Enterprises were also more and more circumspect about purchasing primary materials. Pithead stocks of coal increased sharply, however, because output in the mining industry was not brought into line with the lower sales. Agricultural stocks also grew markedly as a result of the good crops.

Sluggish consumer demand . . .

The expansion of consumption expenditure was rather limited last year. The personnel and other operating expenses of the government (central, regional and local authorities and social security funds) rose by 3½ % in 1982 and thus distinctly less than a year earlier (7 %), partly because of smaller pay rate increases in the public service and of efforts to improve the financial situation in the social security field. In real terms, government consumption in 1982 was about as large as a year before. Households' consumption expenditure in 1982 was 3 % higher in value than in 1981, but in volume it was 2½ % down on the year. In particular, households bought a larger amount of everyday requisites, on which they had to spend much more than in the preceding year, if only because of further price increases (which moderated to some extent, however, during the year). In part this was at the expense of purchases of those goods with which households are already relatively well supplied; this hit retail sales of textiles, clothing and shoes as well as of household goods and home requisites particularly hard. Purchases of new passenger cars remained distinctly below their 1981 level. After years of continuous growth, households no longer stepped up their spending on holiday trips abroad in 1982. It was not until the autumn of last year and the first few months of 1983 that private consumer demand began to recover slightly.

. . . as a result of narrow income margins

As far as incomes were concerned, households' scope for expanding consumption was narrow last year. In 1982 total gross wages and salaries grew by only 2 %; in net terms, i.e. after deduction of taxes and social security contributions, wage and salary income rose by only 1 %. The losses of income caused by the decline in employment were partly offset by higher payments of unemployment benefits or unemployment assistance and short-time working allowances. On the other hand, relatively few funds were withdrawn from enterprises for private consumption and saving on balance owing to firms' low profitability, and income from private financial investments grew much less in 1982 than in the preceding year. Households' disposable income therefore rose by only 2½ % and thus less than their consumption expenditure (3 %).

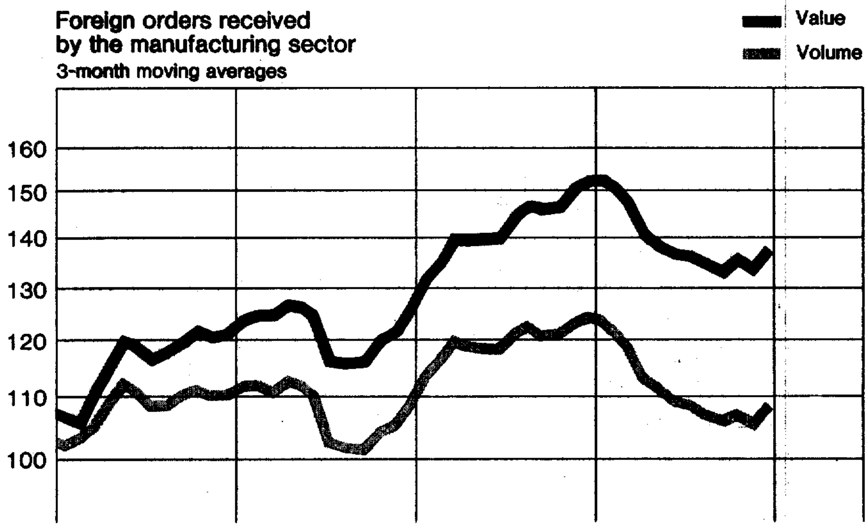
Slight decrease in the saving ratio

In these circumstances the expansion of private consumption was partly at the expense of saving. Over 1982 as a whole households saved little more than a year earlier; the saving ratio thus fell slightly (to 14½ %). As the interest rate pattern progressively returned to normal, households reverted more to the traditional forms of investment for their new financial assets in 1982. For instance, the amount of private savings paid into short-term time accounts with banks in 1982 was far smaller than in the previous year. Moreover, private investors reduced their purchases of bonds to less than half of the 1981 level. By contrast, they built up their savings deposits with banks exceptionally sharply after having withdrawn funds from their savings accounts on balance in 1981. Furthermore, insurance enterprises received relatively large amounts of funds from private savers, whereas financial investments with building and loan associations decreased slightly compared with the preceding year. Finally, total saving was adversely affected by the fact that households were apparently more willing to borrow again in view of the decline in interest rates.

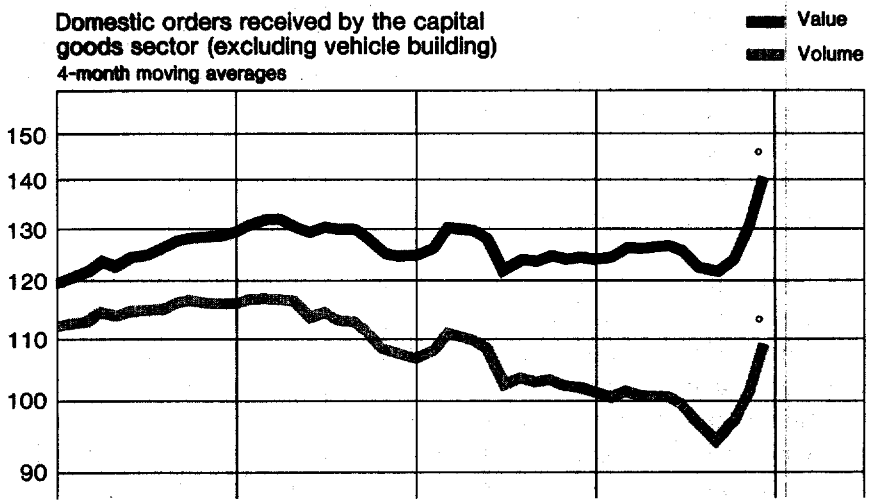
Trends in demand

1976=100, seasonally adjusted, log. scale

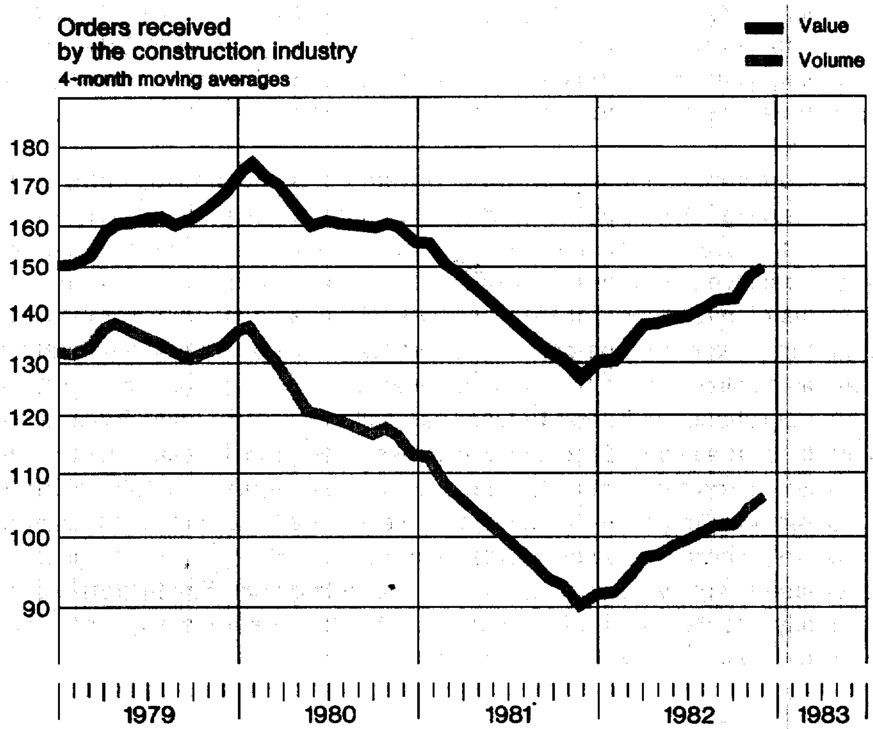
Foreign orders received by the manufacturing sector
3-month moving averages



Domestic orders received by the capital goods sector (excluding vehicle building)
4-month moving averages



Orders received by the construction industry
4-month moving averages



° Influenced by the deadline for qualifying for the investment grant (December 31, 1982) and by large-scale orders.

Demand for construction work

Percentage change on previous year

Item	1980	1981	1982 Total	1982 1st hf	1982 3rd qtr	1982 4th qtr
Orders received by the construction industry						
Total (value)	+ 2.7	−14.7	+ 0.6	− 7.1	+ 3.7	+15.9
Residential buildings	− 1.3	−10.4	+ 1.0	−11.5	+ 5.9	+30.8
Industrial buildings 1	+12.3	− 9.5	+ 1.7	− 6.2	+ 0.6	+21.4
Public buildings 2	− 0.7	−21.2	− 0.4	− 4.1	+ 4.9	+ 1.2
Total (volume)	− 7.7	−18.5	p − 0.1	− 8.4	p + 3.7	p +15.9
Memorandum item						
Backlogs of orders in the construction industry 3						
Total (value)	+ 3.8	− 6.5	−11.4	−14.5	− 9.0	− 6.4
Total (volume) 4	− 7.0	−11.5	p −12.6	−16.5	− 9.3	p − 6.5

1 Including the Federal Railways and Federal Post Office. — 2 Excluding the Federal Railways and Federal Post Office. — 3 End-of-quarter levels; yearly and half-yearly figures calculated as simple arithmetical means. — 4 Calculated by the Bundesbank. — p Provisional.

Demand for construction work, and particularly for housing, increases in the course of 1982

Unlike demand for machinery and equipment, orders for new buildings increased noticeably in the course of 1982. In the fourth quarter the construction industry received about 16% more orders than in the same period of 1981, when demand for construction work had fallen to an exceptionally low level. Over the entire year, however, the order position in the construction industry remained unsatisfactory; at the end of 1982 the backlogs of orders were smaller than a year before. Demand for residential buildings increased particularly sharply during the past year; in the fourth quarter of 1982 the orders placed in this field were nearly one third up on the year. The willingness to start new projects was fostered, firstly, by the fact that financing them became much cheaper; at the end of 1982 mortgage loans for residential buildings cost about 9% on average, compared with roughly 12% in September 1981. In view of the large amount of idle construction capacity, it was also reasonable for potential building owners to assume that their projects would be completed within a relatively short time and at comparatively favourable prices. Secondly, demand for housing construction responded increasingly to the stimulatory government measures which were adopted as part of "Operation '82" and which applied retroactively as from July 30, 1981. The depreciation allowances under sections 7 (b) — together with the introduction of a tax rebate for large families — and 7 (5) of the Income Tax Act were improved. The prospect of the abolition in 1985 of the "turnover tax option" for buildings constructed under "Bauherrenmodelle" tax-saving schemes also seems to have prompted many developers to bring forward their orders for housing projects. Finally, in 1982 the Länder Governments provided more funds than a year earlier for publicly-assisted housing construction. This was possible because a legislative amendment had enabled them to bring the interest rates on the building loans they had granted before 1970 more into line with the much higher market rates. Moreover, many borrowers took advantage of the simultaneous offer enabling them to repay such loans prematurely at a considerable discount. In municipalities with more than 300,000 inhabitants the Länder Governments were also empowered to impose an "ineligibility levy" on low-rent dwellings built with public funds; so far, however, little use has been made of this facility.

More orders for industrial buildings

Seasonally adjusted orders for industrial buildings likewise went up rather sharply from the spring of 1982 onwards. The increase was largely due to the awarding of some large-scale contracts in the field of power station construction and to the starting of a number of projects by the Federal Railways and Federal Post Office. The improvement in depreciation allowances under "Operation '82" also played a role in the larger demand for industrial buildings. Furthermore, some orders were placed last year for buildings for which the investment grant is to be claimed. Industrial construction projects the permit for which was applied for in 1982, and which have been completed by December 31, 1984, will qualify for the investment grant. Public developers also temporarily increased their demand for construction work last year after having cut it back very sharply in 1981. On an annual average, however, new public construction orders in 1982 were not above the very depressed 1981 level.

Decrease in production as from the middle of the year

Until the middle of 1982 overall production, as measured by the real gross national product, remained at about the level at which it had been running, with minor fluctuations, for roughly two years. But after that date the business community adjusted its output of goods rather quickly to the lower overall level of demand. Taken as a whole, the real gross national product in 1982 was just over 1 % smaller than a year earlier. As in 1980 and 1981, the productivity of labour improved only slightly; calculated per employed person, the real gross national product rose by about ½ % last year.

Diverging trends in production in the various economic sectors

The trends in production in the various sectors mirrored the differing tendencies in demand and also the persistent structural difficulties. In the steel industry, for example, output fell by 12½ %, owing not only to the cyclical downturn but also to the continuation of the structural crisis which has been evident in this sector for some time and is caused by many factors. On the other hand, some branches of the capital goods sector which are benefiting from technological progress were able to expand their output further in 1982 (e.g. the data and information systems industry by 5 %). By contrast, the real value added in the construction industry decreased by 4½ % and that in the distributive trades by 4 %, primarily because of cyclical factors. In most of the services sectors it increased. As a result of the good crops of some agricultural products, the value added in agriculture in 1982 was much higher than a year earlier.

Further drop in the utilisation of production potential

In 1982 enterprises' production facilities were utilised to a smaller degree than before. Not least owing to the low level of investment, overall production potential grew by barely 2 % and thus again less than in the previous year (2½ %). Since, however, aggregate output decreased by about 1 %, as noted, the utilisation of production potential dropped further in 1982 — according to estimates by the Bundesbank, from 95½ % to 93 %. Full utilisation of overall production facilities has not been achieved for some time; a relatively favourable figure was last recorded in 1979, at 98½ %; it should be borne in mind, however, that such estimates are only approximations.[1]

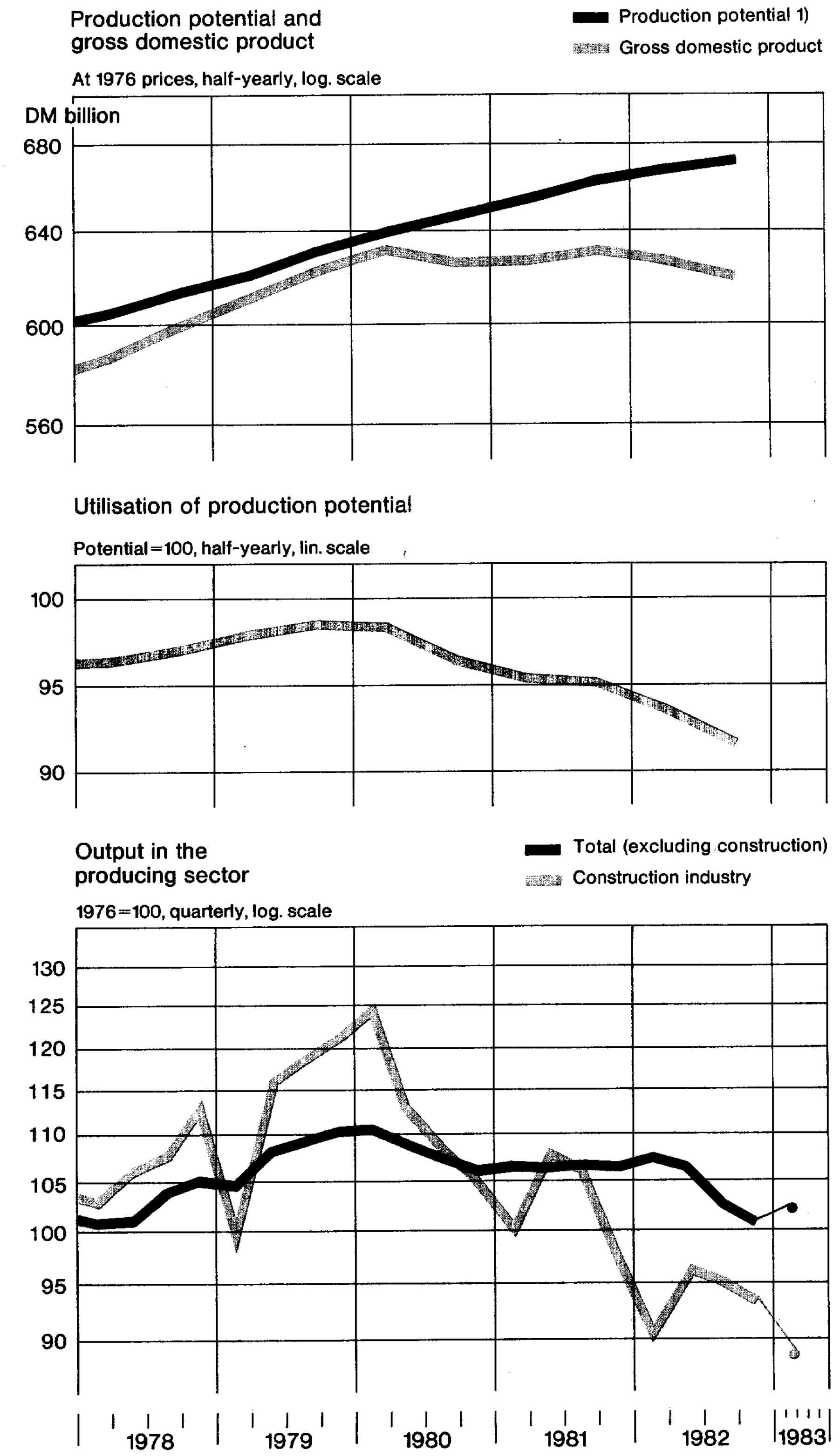
Sharp decline in employment and increase in short-time working

The consequences of the underutilisation of the available resources were particularly serious in the labour market. In 1982 the average number of employed persons fell by about 460,000 or just over 1½ %. About 420,000 wage and salary earners lost their jobs, especially in the producing sector, as in the preceding year; the total number of personnel in this field decreased by just over 3½ %. In the distributive trades and the transportation sector the number of employees also dropped distinctly in 1982, for the first time. In the services sector the average number of employees seems to have been larger last year than in 1981, but here, too, enterprises were slow to recruit new staff. Quite a number of firms also tried to tide over temporary shortfalls in production by introducing short-time working. The average number of short-time workers rose to more than 600,000 in 1982, above all in industry and the construction sector; about 6 % of the persons employed in these fields were affected by short-time working. Around the turn of 1982-83 the number of short-time workers reached an all-time peak, at 1.2 million.

1 See "Recalculation of the production potential of the Federal Republic of Germany" in Monthly Report of the Deutsche Bundesbank, Vol. 33, No. 10, October 1981, p. 32. The figures in that article are, however, now out of date as a result of the revision of the national accounts in the autumn of last year and the associated change to the price base 1976 = 100.

Output

Seasonally adjusted



1) Calculated by the Bundesbank.- • = January/February.

In these circumstances unemployment was bound to increase further, particularly as, given the decline in employment, there was on balance no chance of absorbing the inflow of new labour to the market. In 1982 the number of unemployed persons registered at the labour exchanges averaged 1.83 million, or 560,000 more than in 1981. The unemployment ratio — the number of jobless

Steep rise in the unemployment figure and high labour turnover

Situation in the labour market

Item	1979	1980	1981	1982	1981	1982
	In thousands, annual averages				Change on previous year in thousands	
Employment						
Employed persons	26,039	26,302	26,123	25,668	− 179	− 455
of whom						
Wage and salary earners	22,659	22,986	22,877	22,455	− 109	− 422
Unemployed persons	876	889	1,272	1,833	+ 383	+ 561
Young people below 20 years of age	71	73	112	165	+ 39	+ 53
Men (20 to 59 years of age)	350	355	549	874	+ 194	+ 325
Women (20 to 59 years of age)	396	395	531	701	+ 136	+ 170
Older people (over 59 years of age)	59	65	80	93	+ 15	+ 13
Short-time workers	88	137	347	606	+ 210	+ 259
Vacancies	304	308	208	105	− 100	− 103
Structure of unemployment	In thousands, end-September levels				Percentage of total unemployed	
Unemployed persons, total	737	823	1,256	1,819	100	100
by qualification						
Skilled workers	94	109	182	318	14.5	17.5
Salary earners of equivalent status	193	205	282	388	22.5	21.3
Other	450	509	792	1,113	63.0	61.2
by previous activity						
Wage and salary earners	573	633	962	1,356	76.6	74.5
Self-employed persons	9	11	17	34	1.3	1.9
Industrial trainees and school-leavers	44	53	95	154	7.6	8.5
Other	111	127	182	275	14.5	15.1
by duration of unemployment						
Less than 3 months	308	372	532	643	42.3	35.4
3 months and over but less than 6 months	135	153	245	332	19.5	18.3
6 months and over but less than 1 year	147	158	276	457	21.9	25.1
1 year and over	146	140	203	386	16.2	21.3

Discrepancies in the totals are due to rounding.

relative to the dependent labour force — rose to 7.5%; relative to the total labour force, the commonest international measure, the ratio stood at 6.7%. However, the labour market was not as inelastic as is suggested by these figures. According to an estimate by the Federal Labour Office, about 5 million persons found a job in 1982; more than 2 million of them had previously been registered as unemployed, and over half a million started a course of industrial training. Approximately 5½ million employment contracts were terminated in 1982. About 2.8 million employees who had left or lost their jobs registered as unemployed at the labour exchanges. In addition, a further 600,000 persons, including 70,000 foreigners, tried to find employment for the first time or after having been out of the labour market for a fairly long while. Altogether, 3.7 million persons (including about 270,000 young people who failed to find jobs after the completion of their industrial training or schooling) registered as unemployed in the course of the year; over half of them, as stated, eventually managed to find employment. Nevertheless, the average duration of unemployment increased distinctly in 1982. Of the persons registered as unemployed in September last year, 21% had been without a job for more than one year, compared with 16% a year earlier. The longer unemployment lasts, of course, the greater the resulting economic and psychological burdens become.

Unsolved structural problems make the economy more prone to bouts of weakness

The spreading and intensification of the tendencies towards weakness in the economy last year owed something to the fact that the structural adjustment process which had been triggered by the two massive oil price increases and fostered by the growing competition from "new industrial countries" was partly at the expense of enterprises' financial position. The pace of cost rises admittedly slackened last year. Negotiated wages and salaries went up by an average of 4% against 5½% in 1981. Furthermore, the prices of imported goods and services generally increased only a little in 1982. The decline in interest rates in the credit markets likewise had a favourable effect on profitability. On the other hand, enterprises' cost accounts were adversely affected by high overheads resulting from the further decrease in the utilisation of fixed capacities, and the scope for passing on cost rises in sales prices remained rather limited. The earnings position and thus the self-financing situation therefore improved only marginally in 1982 — much less, at least, than had originally been expected. In addition to the profit squeeze, quite a number of enterprises experienced liquidity problems, owing either to stagnating sales and the growing debt burden or to losses arising in connection with the insolvency of business partners. About 12,000 firms, among them an increasing number of large, old-established enterprises, had to file bankruptcy petitions or institute composition proceedings in 1982, compared with 8,500 in 1981 and 7,000 in 1975, when the insolvency wave of the mid-seventies reached its peak. As explained in more detail below, the lasting correction of the present low profitability of the business community is an essential, though not in itself a sufficient, precondition for the indispensable strengthening of enterprises' financial stability.

Significant moderation of the upward trend of prices

Among the positive features of economic developments in 1982, the progress made in moderating the pace of price rises takes pride of place. By the turn of 1982-83 the price increase rates at the producer and consumer stages had fallen to their lowest levels since the beginning of 1979. This owed something to the decline in the prices of major industrial raw materials in the international markets. The oil markets, too, increasingly came under price pressure towards the end of the year as oil remained in plentiful supply. At the same time the external value of the Deutsche Mark strengthened against the U.S. dollar, in which many oil and raw material transactions are invoiced. In these circumstances Deutsche Mark import prices decreased noticeably around the turn of 1982-83, seasonally adjusted; in 1982 they were on average only 1.5% higher than a year earlier, compared with 14% in 1981 (in February 1983 they were about 2% lower than a year before).

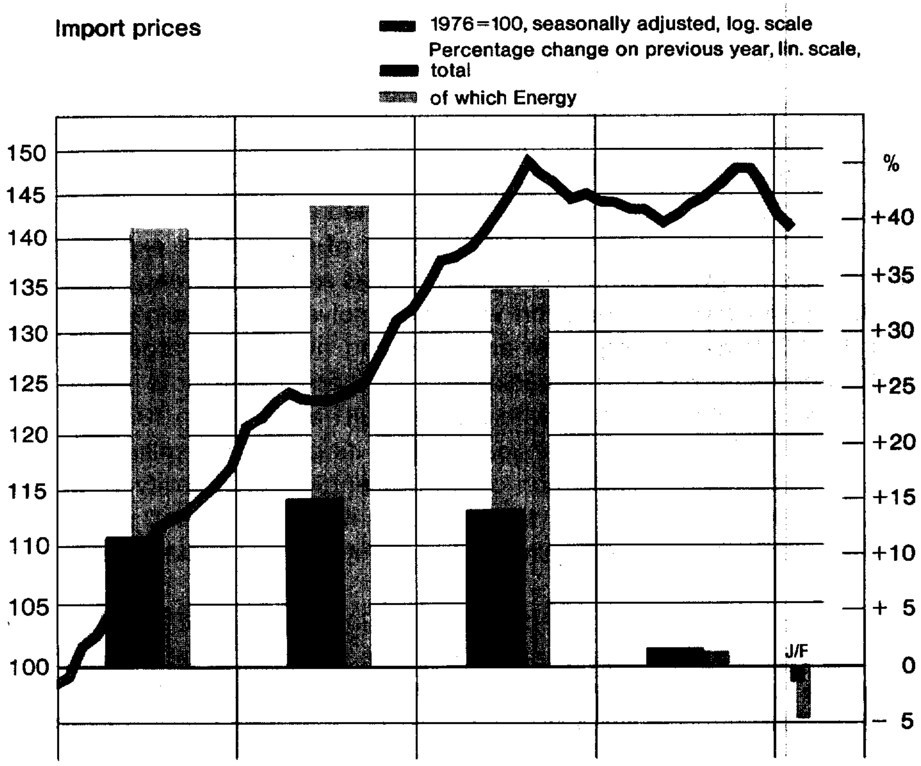
Stabilisation of industrial producer prices and construction prices

In the domestic markets the effects were not so strong, but still significant. Around the middle of the year the slowdown in price rises at the industrial producer level was interrupted by the drastic increase in tobacco tax; the prices of petroleum products also went up rather sharply at times in the summer and early autumn. But during the second half of the year the tendency towards more moderate price rises reasserted itself. Since last December seasonally adjusted producer prices have decreased; in February 1983 they were 2% higher than a year previously. The pace of price increases in the construction market likewise slowed down noticeably. In 1982 the average construction price level was about 2½% up on 1981; its growth rate thus halved compared with the preceding year.

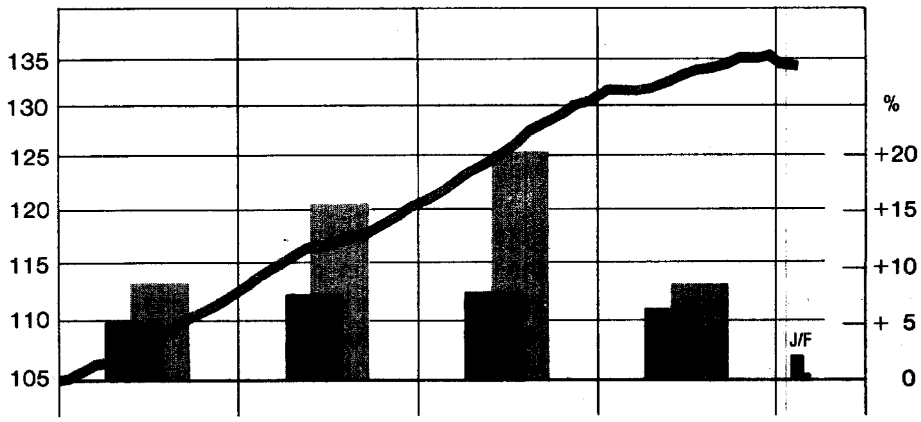
Progress towards stabilising consumer prices

One of the key factors affecting the general price climate was that the rate of inflation also decelerated at the consumer level in 1982. Here, too, the process was interrupted for a time, mainly as a result of administrative price rises (increase in spirits tax and tobacco tax as well as in postal charges) and a temporary upturn in the prices of petroleum products. In 1982 the consumer price level went up on average by 5.3% (against 5.9% in 1981), but at the end of 1982 its year-on-year growth came to only 4½% and in March 1983 — the latest available figure — to as little as 3.5%.

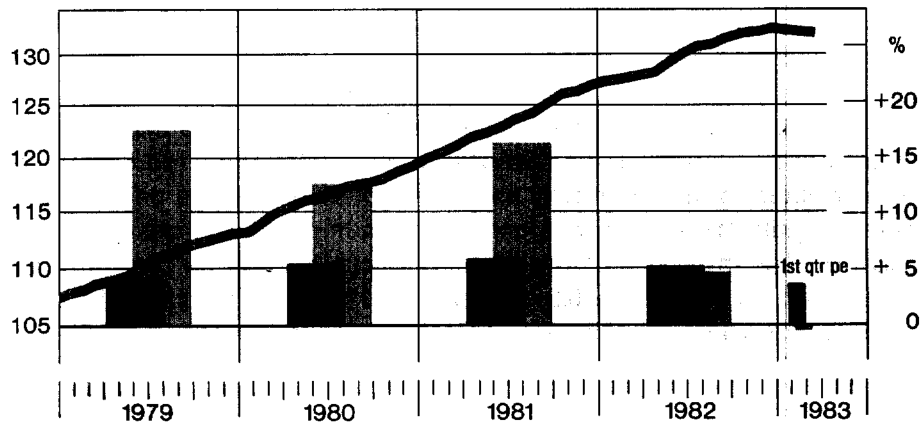
Import prices



Producer prices of industrial products 1)



Cost of living index



1) Rebased from original base 1980=100.- pe Partly estimated.

Somewhat brighter prospects at the beginning of 1983

Towards the end of 1982 and in the first few months of the present year the prospects for the German economy were generally more favourable. The recovery in demand for construction work which started at the beginning of last year has proved to be lasting. Declining interest rates and further public subsidies for housing construction — increased scope for deducting from the tax liability interest paid on loans for the construction of owner-occupied homes; a special DM 2 billion promotional programme for publicly-assisted housing — have worked in the same direction, although the subsidies appear to pose some problems from a longer-term, structural and regulatory point of view (see page 46). Both the number of applications for building permits filed with the construction authorities and the placing of construction orders expanded distinctly around the turn of the year. Moreover, the investment grant scheme only started to stimulate investment in machinery and equipment towards the end of the year. This no doubt reduced some of the barriers that had previously hampered the recovery of investment demand. Since foreign demand was likewise slightly more buoyant in some sectors, the overall order position improved. The output figures for the first two months of 1983 imply that the business community is beginning to respond to the demand stimuli: seasonally adjusted output in the producing sector (excluding construction) in those two months was as much as nearly 2% above the average level of the fourth quarter of 1982. In these circumstances enterprises viewed future business prospects much more optimistically than they had been doing a short while before. At all events, many indicators suggest that the long-awaited upturn in production, which will lead to an increase in employment later on, has now begun.

Structural and labour market problems soluble only through a lasting containment of costs and improvement in earnings

But the structural difficulties in various sectors of the economy still persist. As will be explained in more detail below, they can only be overcome by a sustained improvement in enterprises' earning power, for otherwise a widening of the capital base will not be assured and enterprises will not be sufficiently willing to take new investment risks. The structural weaknesses can only be remedied step by step. The moderate wage settlements reached in the last few weeks are making a substantial contribution to this. The recent slackening of the upward trend of prices — in March the cost of living index for all households was only 3.5% higher than a year before, as indicated — has no doubt facilitated such decisions.

2. Change of stance in fiscal policy

Fiscal policy on a middle course

In 1982 fiscal policy adopted a middle course between taking due account of the low level of economic activity and reducing the structural budget deficits in such a way as is imperative in the medium term. The additional burdens placed on the budgets during the year as a result of the sluggish pace of the economy were generally accepted. This meant, however, that the original target of limiting the deficit of the central, regional and local authorities in 1982 to about the volume of 1980 (approximately DM 60 billion) — as aimed at by the Federal and Länder Governments and local authorities in the Fiscal Planning Council at the end of 1981 — moved out of reach. In fact, the cash deficit of the central, regional and local authorities amounted to DM 70 billion last year. It was thus admittedly DM 10 billion smaller than in 1981, but the greater part of the improvement was ascribable to the increase in the profit which the Bundesbank transferred to the Federal Government: this rose from DM 2.25 billion in 1981 to DM 10.5 billion in 1982. Profit transfers of this magnitude cannot be expected in the years ahead. But even after elimination of the special factor of the higher profit transfer by the Bundesbank, it emerges that the structural element of the deficit (i.e. that part which would remain even if economic activity picked up) declined perceptibly in 1982, while the cyclical component grew further. "Operation '82" in the autumn of 1981 was largely instrumental in bringing about this reduction in the structural deficit. The measures approved by Parliament relieved the central, regional and local authorities of direct payments to individuals (especially in respect of children's benefits); moreover, they meant that the Federal grants to the social security funds rose less sharply than they would have done under the regulations in effect until then (cuts in various benefits under the Work Promotion Act and increase in the contribution rate to the Federal Labour Office); besides, a number of excise taxes were raised. The Länder Governments and local authorities, like the Federal Government, were anxious to embark on the medium-term consolidation of their budgets, in accordance with the fiscal policy objective for 1982. The social security funds[1] recorded a surplus of some DM 5 billion in 1982, as in the preceding year; while the finances of the pension insurance funds deteriorated, the results of the statutory health insurance institutions were better than in 1981 owing to the slower increase in their costs.

Rise in expenditure checked

The target of medium-term consolidation was clearly reflected in the trend of the central, regional and local authorities' expenditure. Spending by the Federal and Länder Governments and local authorities in 1982 rose by only 2½ %, compared with almost 7 % a year previously. The expenditure of the social security funds grew by 6 %, a particularly significant item being the largely cyclical increase of almost 40 % in unemployment benefits. Altogether, the public authorities expanded their spending in 1982 by 3½ %, matching the growth of the gross national product. The rise in the "public spending ratio" in the preceding two years (to 51½ % in 1981, against just over 49 % in 1979) thus came to a halt. If the influence of economic activity on expenditure, especially in the field of unemployment insurance, is taken into account, it becomes apparent that the expenditure policy of 1982 was a successful first step towards the goal of reducing the share of public spending in the gross national product in the medium term. The efforts of the central, regional and local authorities to economise had a marked impact on the structure of expenditure. While it was virtually impossible to influence the sharp growth of interest expenditure, the rise in other consumption spending was checked, and capital expenditure was cut back sharply.

Much heavier interest burden

The central, regional and local authorities' room for financial manoeuvre was greatly restricted by the burden of interest payments; this is clearly illustrated by the fact that the rise in interest expenditure from not quite DM 37 billion in 1981 to DM 45.5 billion in 1982 accounted for more than half of the total increase in spending. The share of interest expenditure in the budget volume of the central, regional and local authorities thus grew from 6¾ % to more than 8 %. The bulk of the rise in interest expenditure was attributable to the borrowing operations of 1981, as most of the payments had to be made retroactively for the preceding year. More than half of the increase in the interest paid must be ascribed to the expansion of government debt; another important factor was that the capital market rates for new borrowing (including the funds needed to repay earlier loans) went up until the autumn of 1981. The decline in the interest rates on the loans taken up in 1982 was not reflected in the interest payments made in the same year; it will not affect such payments until 1983.

Slower growth of consumption expenditure

Other consumption expenditure grew more slowly in 1982 than before. Personnel spending (the largest item in this field) increased by only 2½ %. This was because wages and salaries in the public service were raised less than a year previously under negotiated pay settlements or statutory provisions; besides, the central, regional and local authorities hardly expanded the number of their employees any further. The increase in current transfers (including grants to the social security funds) was limited to 3 % despite the additional burdens

1 Statutory pension, health and accident insurance, Federal Labour Office, supplementary pension funds for government employees, farmers' old-age pension funds.

Finances of the public authorities*

Item	1979	1980	1981 pe	1982 pe	1979	1980	1981	1982
	DM billion				Percentage change on previous year			
A. Expenditure, receipts and cash results								
Central, regional and local authorities								
Expenditure								
Personnel expenditure	151.9	164.1	174.4	178.5	+ 6.9	+ 8.0	+ 6.3	+ 2.5
Other operating expenditure	71.2	77.0	82.0	87	+10.5	+ 8.1	+ 6.6	+ 6
Transfers	121.3	130.9	142.2	146	+ 3.9	+ 7.9	+ 8.7	+ 3
Interest	25.0	29.6	36.8	45.5	+13.7	+18.3	+24.2	+23.5
Direct capital outlays	55.3	62.2	59.2	53	+12.0	+12.5	− 4.9	−10.5
Indirect capital expenditure **1**	34.0	36.1	37.7	37	+19.2	+ 6.3	+ 4,3	− 1
Other expenditure **2**	8.7	11.2	13.8	13.5	+41.7	+29.1	+22.8	− 2
Total expenditure	467.5	511.1	546.1	561	+ 8.9	+ 9.3	+ 6.8	+ 2.5
of which								
Federal Government	212.7	228.3	247.7	259	+ 8.1	+ 7.3	+ 8.5	+ 4.5
Länder Governments	191.6	208.6	217.4	223	+ 8.5	+ 8.8	+ 4.2	+ 2.5
Local authorities	130.4	145.6	152.7	152.5	+10.3	+11.7	+ 4.9	− 0.0
Receipts								
Tax receipts	342.8	365.0	370.3	378.5	+ 7.4	+ 6.5	+ 1.5	+ 2.5
Other receipts	77.6	86.8	95.4	112	+ 8.3	+11.9	+ 9.9	+17.5
Total receipts	420.4	451.8	465.7	491	+ 7.6	+ 7.5	+ 3.1	+ 5.5
of which								
Federal Government	186.7	199.5	207.8	222.5	+ 9.1	+ 6.9	+ 4.2	+ 7
Länder Governments	177.3	186.2	190.7	198	+ 8.1	+ 5.0	+ 2.4	+ 4
Local authorities	125.1	139.9	142.0	145	+ 7.3	+11.9	+ 1.5	+ 2
Cash deficit (−)	− 47.1	− 59.3	− 80.3	− 70	.	.	.	.
of which								
Federal Government	− 26.0	− 28.8	− 39.9	− 36	.	.	.	.
Länder Governments **3**	− 15.0	− 23.2	− 27.6	− 25.5	.	.	.	.
Local authorities	− 5.3	− 5.7	− 10.7	− 7.5	.	.	.	.
Social security funds								
Expenditure	252.9	272.1	293.5	311	+ 6.3	+ 7.6	+ 7.9	+ 6
Receipts	253.4	275.3	299.0	315.5	+ 7.3	+ 8.6	+ 8.6	+ 5.5
Cash surplus (+)	+ 0.5	+ 3.2	+ 5.5	+ 4.5	.	.	.	.
Public authorities, total								
Expenditure	687.2	745.4	797.4	827	+ 8.2	+ 8.5	+ 7.0	+ 3.5
Receipts	640.6	689.5	722.7	761.5	+ 7.8	+ 7.6	+ 4.8	+ 5.5
Cash deficit (−)	− 46.6	− 56.1	− 74.8	− 65.5	.	.	.	.
	Level at end of year, DM billion				Change on previous year in DM billion			
B. Indebtedness								
Loans against borrowers' notes	283.0	334.4	409.3	449.5	+36.6	+51.4	+74.9	+41
Securities	110.8	111.9	110.7	142.5	+ 7.1	+ 1.1	− 1.1	+31.5
Other debt	20.1	22.3	25.5	22.5	− 0.5	+ 2.2	+ 3.2	− 3
Total indebtedness **4**	413.9	468.6	545.6	614.5	+43.1	+54.7	+77.0	+69
of which								
Federal Government	205.5	232.3	273.1	309	+24.9	+26.8	+40.8	+36
Länder Governments	115.9	137.8	165.2	190.5	+13.8	+21.9	+27.3	+25.5
Local authorities	83.4	88.1	95.1	101.5	+ 3.4	+ 4.7	+ 7.0	+ 6.5

* In the cash definition, which differs in several respects from that of the government account of the national accounts. In contrast to earlier Reports, the figures for the Länder Governments are based on the annual accounts statistics rather than the quarterly statistics. In addition, the pension and health insurance contributions for recipients of public financial benefits are no longer treated as offsetting between public authorities, but are included in receipts and expenditure. — **1** Expenditure on investment grants and loans to third parties, plus the acquisition of participations. — **2** Transfer of the Community share in tax revenue, differences in clearing transactions between the central, regional and local authorities, and special transactions. — **3** For technical accounting reasons the cash deficit of the Länder Governments differs from the balance of receipts and expenditure. — **4** The main reason why the change in indebtedness differs from the cash deficit is that the change in cash resources also helps to finance it. — **pe** Partly estimated.
Discrepancies in the totals are due to rounding.

caused by higher unemployment; this owed something to the measures of "Operation '82". Even so, other operating expenditure still went up relatively steeply (+ 6%).

Public capital spending curbed

Capital spending (mainly on construction), which is not subject to such firm budgetary commitments as many other types of expenditure, dropped by 10½% in 1982; the local authorities, which account for the greater part of public capital formation, cut back their construction expenditure particularly drastically under the impact of their deficits. Hence, capital spending followed the decline in public construction orders which had begun in 1980 and 1981; the fact that rather more public construction orders were placed at times in the course of 1982 (though starting from a very low level) is unlikely to have had much influence on spending last year. In view of the great differences in conditions, however, it would be wrong to take a generally negative view of the restrictions of public capital spending. For one thing, not all the expenditure included in this category (primarily construction spending) serves productive purposes in the widest sense, i.e. the economic and ecological infrastructure; some of it is used to create assets for consumption purposes. For another, the investment plans of public authorities must also be examined critically with respect to the costs which they subsequently cause, because public capital formation is only in part self-financing (by fees or additional tax receipts). All this by no means implies, however, that the public capital formation which is necessary to foster economic growth and satisfy urgent needs of the general public should be neglected.

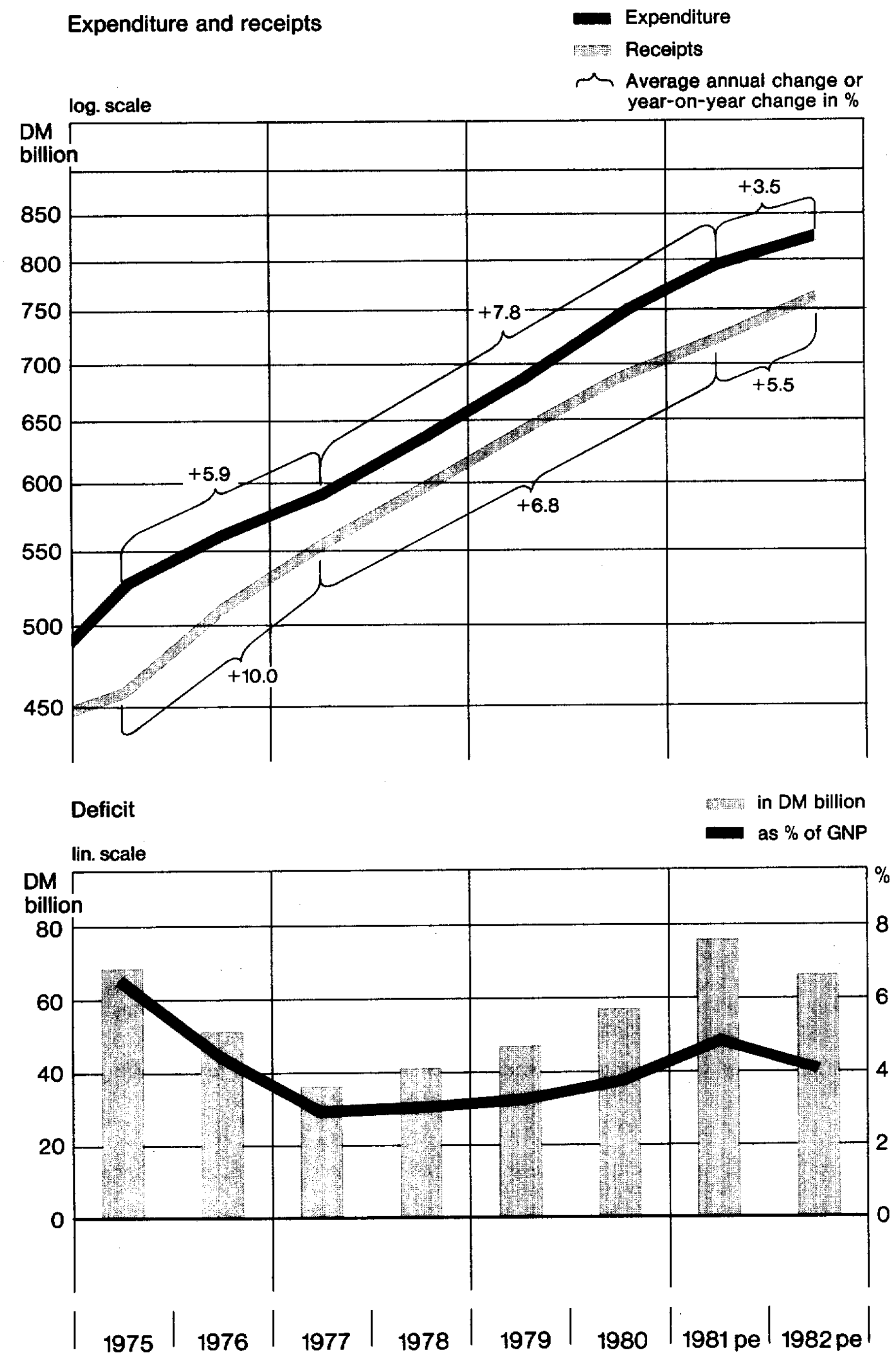
Receipts of the central, regional and local authorities increase sharply

The total receipts of the central, regional and local authorities rose by 5½% in 1982 and hence much more sharply than their spending. This was largely due to the profit transfer by the Bundesbank, without which overall revenue would have increased by little more than 3½% against the preceding year. Other non-tax receipts grew relatively vigorously, partly because fees were raised. In the field of taxes, on the other hand, receipts fell short of the budget estimates, mainly for cyclical reasons. Tax revenue went up by only 2½% in 1982, whereas the budget had been based on an increase of 5½%. The overall tax ratio, which has been tending to decline since 1978, dropped further in 1982 (to 23.7% of the gross national product).

Almost all major taxes affected by cyclical shortfalls

The unfavourable economic situation was reflected in the yields of almost all major taxes. Receipts of turnover tax stagnated because private consumption expenditure grew only a little and housing and public construction turnover (which is subject to value-added tax) declined. Moreover, the raising of the tax rates on tobacco, spirits and sparkling wine under "Operation '82" increased revenue to a smaller extent than expected because consumers responded to the consequent price rises by sharply curtailing demand. Wage tax revenue was greatly reduced by the decrease in employment. Nevertheless, the wage tax deducted at source grew by 6% because the progressive tax scale again took full effect after the tax cuts of 1981. The development of wage tax revenue is, however, becoming less and less indicative of the ultimate tax burden on wages and salaries, mainly because a growing number of employees are liable to income tax nowadays and refunds of excess wage tax payments (which are common, e.g. because allowances for special expenditure are claimed retroactively) are deducted from the yield of assessed income tax. This is admittedly only one of the reasons why the sums shown as assessed income tax receipts in 1982 were 7% lower than in 1981, after such tax revenue had already fallen in the previous two years. It presumably also owes something to the fact that more and more use was made of the statutory possibilities of tax avoidance, for instance through section 7b of the Income Tax Act, "Bauherrenmodell" schemes for construction projects, and companies specialising in the exploitation of tax privileges. It seems to have been mainly on account of these very

Finances of the public authorities *



* Central, regional and local authorities and social security funds.- pe Partly estimated.

varied influences that receipts of assessed income tax developed less favourably than those of corporation tax, which rose last year, for the first time since 1979 (+6½ %); there are no indications, incidentally, that the profitability of corporations was better than that of enterprises without a legal personality of their own, which are subject to income tax.

Only slightly less borrowing in the market

As the deficits of the central, regional and local authorities declined, their financial needs fell as well in 1982 in comparison with the preceding year. But they did not reduce their borrowing in the credit market to the same extent. In this situation the central, regional and local authorities resorted less to the Bundesbank's book credit — which is intended for bridging short-term financial re-

Record of economic policy measures

	I. Domestic and external monetary policy
1982	
January 21	The Bundesbank continues its policy of gradually easing conditions in the money market and lowers the special lombard rate from 10½ % to 10 % with effect from January 22.
February 21	The Belgian and Luxembourg franc is devalued by 8½ % and the Danish krone by 3 % against the other currencies in the EMS with effect from February 22.
March 18	The special lombard rate is lowered from 10 % to 9½ % with effect from March 19.
April 22	The Bundesbank approves the annual accounts for 1981 and transfers DM 10.5 billion of its net profit to the Federal Government.
May 6	The granting of special lombard loans is discontinued. With effect from May 7 the Bundesbank resumes the granting of lombard loans to the banks at the lombard rate of 9 %.
June 12	Exchange rates in the EMS are realigned with effect from June 14. The bilateral central rate of the Deutsche Mark is raised by just over 10½ % against the French franc, by just over 7 % against the Italian lira and by 4½ % each against the Belgian and Luxembourg franc, the Danish krone and the Irish pound. The exchange rate relationship between the Deutsche Mark and the Netherlands guilder remains unchanged.
June 16	The Bundesbank releases liquidity on a durable basis by increasing the banks' rediscount quotas by DM 5 billion as from June 23 (at the same time the ceiling for the purchase of prime bankers' acceptances is raised by DM 0.5 billion).
July 1	Following its regular review of the monetary target in mid-year, the Bundesbank reaffirms its intention of keeping monetary growth in the upper half of the target corridor (of 4 to 7 %) during the rest of the year in view of the weakness of domestic economic activity, provided that the prospects of further monetary stabilisation remain good.
August 26	The Bundesbank lowers the discount rate from 7½ % to 7 % and the lombard rate from 9 % to 8 % with effect from August 27.
September 23	The minimum reserve ratios on the banks' domestic and foreign liabilities are lowered by 10 % as from October 1 (releasing DM 5.5 billion of liquidity).
October 21	The Bundesbank lowers the discount rate from 7 % to 6 % and the lombard rate from 8 % to 7 % with effect from October 22.
December 2	The Bundesbank announces its monetary target for 1983: the growth of the central bank money stock between the fourth quarter of 1982 and the fourth quarter of 1983 is to be kept within a range of 4 to 7 %. As long as the level of economic activity remains low and price and cost movements permit, the Bundesbank will abide by its previous policy of allowing the central bank money stock to expand in the upper half of the target range.
	The discount rate is lowered from 6 % to 5 % and the lombard rate from 7 % to 6 % with effect from December 3.
1983	
January 20	The banks' rediscount quotas and the ceiling for the purchase of prime bankers' acceptances are raised by a total of DM 5.5 billion with effect from February 1.
March 17	The Bundesbank lowers the discount rate from 5 % to 4 % and the lombard rate from 6 % to 5 % with effect from March 18. At the same time the banks' rediscount quotas are reduced by DM 5 billion with effect from April 5 so as to absorb some of the excess liquidity which has arisen among the banks as a result of substantial foreign exchange inflows.
March 21	As part of a general realignment of central rates in the EMS the Deutsche Mark is revalued by 5½ %, the Netherlands guilder by 3½ %, the Danish krone by 2½ % and the Belgian and Luxembourg franc by 1½ %; the French franc and the Italian lira are devalued by 2½ % each and the Irish pound is devalued by 3½ %.
March 31	The Board of Governors of the International Monetary Fund resolves that the total quotas in the Fund shall be increased from SDR 61 billion to SDR 90 billion (US$ 98.5 billion) under the Eighth General Review of Quotas. The quota increase is to take effect by the end of 1983. At the same time the General Arrangements to Borrow are to be enlarged and the amount available to the Fund under the GAB is to be raised from SDR 6.5 billion to SDR 17 billion (US$ 19 billion).
	II. Economic and fiscal policy
1982	
January 1	Major provisions of the laws accompanying the 1982 Federal budget ("Operation '82") come into force with the aim of relieving the pressure on the budget. On the other hand, "Operation '82" also includes measures to stimulate employment, in particular improvements in depreciation allowances. The overall volume of the legislative measures taken in 1982 to alleviate the budgetary burdens amounts on balance to DM 15 billion for the Federal Government and DM 3.5 billion for the Länder Governments and local authorities. In addition, further sums are saved when implementing the budgets.

January 22	The Bundestag adopts the 1982 Federal budget, with a volume of DM 240.5 billion and a financial deficit of just over DM 27 billion.
February 3	As part of a Joint Initiative on Jobs, Growth and Stability, the Federal Government decides to introduce for a limited period an investment grant of 10% on capital spending (on machinery, equipment and industrial buildings) over and above the average level of the last three years, the relevant orders having to be placed, or the building permits applied for, before the end of 1982; it also adopts a number of other measures.
February 4	The Federal Government states in its 1982 Annual Economic Report that the primary task of economic and fiscal policy is to strengthen the growth forces in the economy on the basis of further progress in the external adjustment process and in the fight against inflation. Provided there are no severe external constraints, the real gross national product might expand by 1 to 1½% on average during the year and the growth rate of consumer prices might slow down to some 5%.
April 1	The increase in spirits tax and sparkling wine tax comes into force as part of "Operation '82".
June 1	The increase in tobacco tax (of about one third for cigarettes) comes into force.
June 16	The Federal Government approves the draft of a supplementary Federal budget. Including this supplement, the proposed volume of expenditure amounts to DM 245.5 billion and the financial deficit to DM 34.5 billion.
July 7	The Federal Government approves the draft Federal budget for 1983 and the Federal fiscal plan for the period up to 1986. Expenditure is to rise to DM 250.5 billion in 1983. The financial deficit is estimated at almost DM 29 billion. In order to keep within these figures, it is planned among other things to reduce financial assistance and tax concessions and to curb the growth of welfare expenditure. The contribution rate to unemployment insurance is to be raised from 4% to 4½% in 1983. On the other hand, additional measures to stimulate employment are included in the budget for that year.
October 9	The Council of Economic Experts presents a Special Report. It attributes the deterioration in the economic situation, despite the more favourable trend of costs, inter alia to the adverse effect of the decline in exports and to the poor capital structure of enterprises. In these circumstances, it says, higher profits are used primarily for consolidation purposes and not for more capital formation. The Council advocates an improvement in enterprises' self-financing capacity and recommends durable tax relief for investment.
October 27	On the basis of agreements between the parties forming the coalition, the new Federal Government approves an amendment to the draft Federal budget for 1983, a Bill Accompanying the 1983 Budget and the draft of a second supplementary Federal budget for 1982 (envisaging expenditure totalling DM 246.5 billion and a financial deficit of over DM 40 billion in that year).
	The Act Accompanying the Budget, which is adopted at the end of 1982, relieves the pressure on the budgets of the central, regional and local authorities by DM 18 billion on balance in 1983, and on the budget of the Federal Government alone by DM 12 billion. Important measures are: restriction of welfare benefits and subsidies; raising of established government employees' salaries and pensions by 2% as from July 1, 1983; increase in turnover tax rates to 14% (7%) as from July 1, 1983 and use of the additional receipts for tax relief to foster capital formation; introduction of a non-interest-bearing, repayable investment assistance levy. The measures also include cuts in expenditure and increases in social security contributions.
	The volume of the 1983 Federal budget, after its adoption by the Bundestag and Bundesrat, is just over DM 253 billion; the financial deficit is estimated at DM 41.5 billion.
November 21	In its Report for 1982-83 the Council of Economic Experts ascribes the worsening of the economic situation in the second half of 1982 inter alia to the fact that the supply conditions apparently did not pick up sufficiently to strengthen the economy's powers of resistance. The primary task of economic and wage policy is to improve the longer-term prospects.
November 29	The Fiscal Planning Council reaffirms its view (which it expressed in similar terms in March and June 1982) that in 1983 and the following years a policy of strict restraint in spending and gradual reduction of the structural deficits is one of the essential prerequisites for a more favourable economic performance.
December 10	The Bundestag approves the Act to Increase the Supply of Rented Housing. The Act facilitates the raising of rents and sanctions agreements on graduated rent increases over time and the conclusion of leases for specified periods.
1983	
January 27	In its 1983 Annual Economic Report the Federal Government states that the aim of its economic policy is to lastingly improve the prospects for employment by modifying major basic conditions for economic activity, primarily with a view to strengthening the willingness to invest. It considers an economic performance in which the real gross national product grows perceptibly in the course of 1983, and thus on average regains the level of the preceding year, to be within reach. Moreover, the average annual increase in consumer prices should not exceed about 4%.

quirements — at end-1982 than a year previously, whereas in 1981 they had taken up more book credit and drawn on their deposits in order to finance their deficit. The Federal and Länder Governments and local authorities borrowed DM 72 billion net in the credit market in 1982, and hence only DM 2.5 billion less than a year before. The external debt of the central, regional and local authorities rose by DM 12.5 billion, which was only half as much as in 1981; this was in keeping with the improvement in the current account. The calls on the domestic credit market were correspondingly larger, at DM 60 billion; this was fully DM 10 billion more than a year previously. The decline in interest rates (which is described in more detail in a later section of this Report) shows that this did not aggravate the overall situation in the capital market. It is true that sentiment in the capital market was temporarily affected by the prospect of growing budget deficits and by uncertainty as to whether it would be possible to keep public finance on its consolidation path in the medium term, but as a whole the capital market had become more productive. The central, regional and local authorities were therefore able to raise a substantial part of the funds they needed (DM 51 billion gross and DM 32 billion net, i.e. after deduction of redemptions of securities of the same type) by issuing securities,[1] whereas in 1981 they had on balance only taken up loans against borrowers' notes.

Further reduction in the structural deficit in 1983

When economic activity flagged surprisingly sharply in the summer of 1982 (instead of picking up, as expected), it became evident that further measures were necessary in connection with the budgets for 1983, over and above those taken as part of "Operation '82", in order to prevent the deficits of the central, regional and local authorities from getting out of hand. At the beginning of July, therefore, simultaneously with the draft Federal budget for 1983, the Federal Government approved a number of measures that were mostly taken over by the new coalition government in the autumn, though in part they were modified and substantially extended in several respects. These measures will ease the burden on the central, regional and local authorities' budgets in 1983 (compared with the situation if they had not been taken) by an estimated DM 18 billion, DM 12 billion of which is accounted for by the Federal budget alone.[2] Even so, at present it looks as if the overall deficit of the central, regional and local authorities in 1983 will be about as large as it was last year (inclusive of the social security funds, the public sector deficit will probably increase somewhat because the finances of the pension insurance funds are very likely to deteriorate). This shows that fiscal policy will "take a middle course" again in 1983, much as it did last year. As the real gross national product in 1983 will on average be only a little higher than it was in 1982, while production potential continues to grow and productivity is increasing, the cyclical part of the deficit will rise further, especially since expenditure on unemployment benefits is mounting. At the same time, however, a further step towards lowering the structural deficit has been taken in the shape of the Act Accompanying the 1983 Budget, which was submitted by the new Federal Government and approved by Parliament in December 1982.

Measures to curb consumption and stimulate capital formation

These measures were for the most part adopted with a view to making the unavoidable cuts, where feasible, to the detriment of consumption, while fostering capital formation to the limited extent possible. The measures to alleviate the pressure on the budgets consequently focus on consumption spending (social and personnel expenditure). To gain some leeway for the promotion of private capital formation, value-added tax will be raised by 1 percentage point (to 14%) in mid-1983; the resultant extra revenue will be used to finance a reduction in trade tax, the deduction from the tax liability (for a limited period) of a larger amount of interest on loans taken up in connection with the construction

1 Including Treasury discount and financing paper of the Federal Government.
2 These measures also affect the social security funds to some extent, but in this case the impact on receipts and that on expenditure largely cancel out.

of new owner-occupied homes, and tax concessions when taking over enterprises threatened by insolvency. Additional funds will be available in 1984 because the higher rate of value-added tax will then be effective over the entire year; these extra receipts are to be used to further improve investment and innovation in the economy and to implement measures in the field of personal asset formation. Under the Act Accompanying the Budget passed in December 1982, moreover, a refundable investment assistance levy was imposed on higher incomes in 1983 and 1984, although this levy is not payable if the liable party invests in his enterprise funds amounting to at least five times the levy to which he would otherwise be subject. In accordance with the new agreements which the parties forming the coalition reached after the Bundestag elections of March 1983, this levy is to be imposed in 1985 as well and will be refunded at a later date than was initially envisaged. The revenue from the levy is to be applied principally to promoting publicly-assisted housing construction, and partly also to funding a programme of interim finance for savings contracts with building and loan associations. In a more general sense, however, the budgetary consolidation measures are also directed towards a restructuring of resources: towards utilising overall saving in the future less for the (mainly consumption-oriented) purposes of the public sector and more for the financing of corporate investment, which is an indispensable element in future economic expansion. But progress in this direction is bound to be slow; greater scope for such headway can be provided only by stronger economic growth and eventually declining unemployment, always provided that the present objectives are still being pursued when the financial situation has ceased to be so tight. In the field of social security, and especially of the pension insurance funds, however, not even a favourable development of production and incomes will solve all the financial problems; here further long-term assistance measures will be necessary to avert the deficits that are in prospect, and to dispel the doubts entertained by pensioners.

3. Safeguarding external equilibrium

Current account in surplus again

In 1982 the balance of payments position of the Federal Republic of Germany continued to improve considerably. The turnaround in the unfavourable current account had begun in the course of 1981, and in 1982 it was possible to eliminate the deficit completely. After a temporary setback at the beginning of the year, when a small deficit was run (seasonally adjusted), slight surpluses were soon recorded, so that over the whole of 1982 the current account showed a surplus of about DM 8 billion. Compared with the preceding year, when there had been a deficit of just under DM 15 billion, the balance on current account thus improved by DM 23 billion. External equilibrium therefore seems to have been generally regained even if a pronounced upward trend in economic activity should cause imports to rise again in the future.

Improvement in the terms of trade for the first time for four years

The main reason for the improvement in the current account was that the trade surplus, on an f.o.b. basis,[1] rose by DM 23 billion to DM 62.5 billion in 1982. On the other hand, the deficit on services and transfer payments accounts hardly increased any further; however, at DM 56 billion, it still makes up the largest item that has to be financed out of the trade surplus. In contrast to 1981, when the real export surplus expanded strongly, this time the favourable development of foreign trade owed more to price movements. While German exporters seem to have been able to pass on domestic price rises to foreign customers in full (export unit values grew by 5½ %), imports became only 1 % dearer. The falling prices of crude oil and other raw materials were just as important in this

1 In contrast to the official foreign trade statistics, which show imports on a c.i.f. basis, both exports and imports are recorded here in the balance of payments on an f.o.b. basis, in accordance with international practice. Expenditure on the transport and insurance of imports is entered in the services account. This change does not affect the overall balance on current account. On an f.o.b./c.i.f. basis the trade surplus amounted to DM 51.3 billion in 1982 (compared with DM 27.7 billion in the preceding year).

connection as the tendency of the Deutsche Mark to appreciate against other European currencies. Germany's terms of trade improved distinctly (by over 4%) in 1982, for the first time for four years; even so, they were still 12½% less favourable than, for instance, in 1978, the year immediately prior to the outbreak of the second oil crisis. This means that 3% more of the gross national product than at that time had to be spent to pay for the same quantity of imports.

Adjustment process complete

By the end of 1982 the new adjustment process that had been under way since the second oil price hike could, on the whole, be regarded as complete as far as the German current account was concerned. The improvement in the current account was not very uniform, either in regional terms or with respect to the pattern of goods (the balance of trade became more favourable primarily with three countries: Saudi Arabia, France and the United Kingdom). Moreover, the cyclical decrease in imports will not persist. Nevertheless, this development strengthened international confidence in the Deutsche Mark, and this in turn (e.g. because it tends to make the German currency appreciate) is a factor that eases the balance of payments situation in the longer run, at least if the performance of the German economy continues to justify such confidence.

Severe setback in the export field

This bright picture is darkened somewhat by the fact that stabilisation was achieved under conditions of more slowly growing turnover, and at times even of declining overall demand. Over the whole of 1982 German exports increased by only 8% in value and by 2% "in real terms". In the course of the year they actually fell on occasion (seasonally adjusted); only towards the end of the year do they seem to have stabilised. The downturn in exports was mainly due to the recessionary trends in numerous major partner countries and to the balance of payments difficulties of a number of developing countries and centrally planned economies. In other countries, however, German exporters continued to score notable successes. Exports to some oil-producing countries that were not forced to cut imports by their foreign trade and payments problems went on expanding strongly, e.g. those to the sparsely populated OPEC countries by 22%, those to the USSR by 23%, those to the United Kingdom by 20% and those to Norway by 12%. Exports to France also rose strongly, although they, too, tended to stagnate in the course of the year (seasonally adjusted).

German exporters remain highly competitive

The temporary decline in exports in 1982 owed little to domestic factors. In particular, the price competitiveness of German exporters seems to have been maintained in full. The real external value of the Deutsche Mark (calculated from the average nominal appreciation and the price differentials based on the cost of living) rose only slightly on average during the year, namely by just under 2%. German exports easily held their own in world markets as well. Indeed, Germany's share in global exports grew from 9½% in 1981 to roughly 10½% in 1982, but this was because world trade was depressed by the decline in oil exports. Furthermore, Germany traditionally exports little to those regions that, for various reasons, had to cut down their imports in 1982. A rather more detailed analysis (by regional markets) shows that in Germany's particular sales markets the German share increased only slightly.

Exports likely to remain weak in the near future

World economic activity and — what is especially important for Germany — economic activity in the industrial countries will not greatly facilitate a recovery of German exports, at least not in the short run. The recent decline in oil prices is likely to foster economic growth in the industrial countries; but major industrial nations still have substantial deficits on their current accounts, and in some cases these are even tending to rise. Besides, there is a real danger that protectionist tendencies might hamper competition. It is quite tempting, at all events, to counter the loss of domestic market shares not by strengthening

Major items of the balance of payments

DM billion

Item	1975	1976	1977	1978	1979	1980	1981	1982
A. Current account								
1. Foreign trade								
Exports (f.o.b.) **1**	221.6	256.6	273.6	284.9	314.5	350.3	396.9	427.7
Imports (f.o.b.) **1**	177.1	214.6	227.7	235.8	282.7	331.4	357.3	365.2
Balance	+44.5	+42.1	+45.9	+49.2	+31.8	+18.9	+39.6	+62.6
2. Supplementary trade items **2** and merchanting trade	− 1.2	− 0.1	+ 0.0	+ 2.1	+ 0.2	− 0.0	+ 0.8	+ 1.2
Balance of trade	+43.3	+42.0	+46.0	+51.2	+32.0	+18.9	+40.4	+63.8
3. Services	−15.5	−14.2	−18.2	−15.3	−22.0	−22.9	−28.2	−27.6
of which								
Foreign travel	−14.7	−14.6	−16.4	−19.0	−21.6	−25.1	−25.5	−25.9
Investment income	+ 2.4	+ 3.3	+ 0.4	+ 5.1	+ 3.1	+ 4.2	− 0.2	− 2.4
4. Transfer payments	−17.9	−17.9	−18.2	−17.8	−21.2	−24.5	−26.9	−28.1
of which								
Remittances of foreign workers	− 7.4	− 6.7	− 6.1	− 6.3	− 7.0	− 7.5	− 7.9	− 7.8
Transfers to the European Communities (net)	− 3.7	− 3.5	− 3.5	− 1.9	− 4.0	− 4.5	− 6.6	− 7.4
Balance on current account	+ 9.9	+ 9.9	+ 9.5	+18.1	−11.2	−28.5	−14.7	+ 8.1
B. Capital account								
1. Long-term capital transactions								
(a) German investment abroad (increase: −)	−24.1	−19.9	−23.1	−24.1	−20.8	−28.9	−28.0	−30.4
of which								
Direct investment	− 4.9	− 6.2	− 5.1	− 7.2	− 8.1	− 7.4	−10.1	− 8.7
Advances and loans of enterprises	− 0.3	− 0.3	− 0.3	− 0.2	− 1.0	− 0.6	− 0.8	− 1.1
Portfolio investment	− 2.6	− 0.9	− 5.4	− 4.2	− 3.0	− 7.7	− 6.2	−11.4
Advances and loans of banks	−13.5	− 9.7	− 9.6	− 8.5	− 5.4	− 9.4	− 5.3	− 3.7
Official	− 2.2	− 2.4	− 2.1	− 3.3	− 2.4	− 2.3	− 3.9	− 4.1
(b) Foreign investment in Germany (increase: +)	+ 5.9	+18.4	+10.2	+21.2	+32.9	+34.2	+36.8	+14.2
of which								
Direct investment	+ 1.7	+ 2.7	+ 1.9	+ 3.1	+ 3.0	+ 0.4	+ 2.7	+ 3.1
Advances and loans of enterprises	+ 0.4	+ 1.4	+ 0.5	+ 0.2	+ 0.4	+ 1.4	+ 4.2	+ 3.4
Portfolio investment	− 1.6	+ 4.8	+ 2.3	+ 3.2	+ 5.9	+ 0.9	+ 1.0	+ 2.7
Advances and loans of banks	+ 2.0	+ 4.9	+ 5.0	+14.8	+22.8	+ 8.5	+ 7.0	− 3.9
Official	+ 3.4	+ 4.8	+ 0.5	− 0.0	+ 0.9	+23.1	+21.9	+ 9.2
Balance of long-term capital transactions	−18.2	− 1.5	−12.9	− 2.9	+12.0	+ 5.3	+ 8.8	−16.2
2. Short-term capital transactions (net capital exports: −)								
(a) Enterprises and individuals	+ 6.5	− 5.7	+ 4.6	− 2.9	− 5.3	+ 7.6	+ 8.2	+ 2.8
Financial credits	+ 2.5	− 0.0	+ 8.5	+ 1.0	− 3.7	+13.3	+13.0	+ 3.1
Trade credits	+ 4.1	− 5.7	− 3.9	− 3.9	− 1.7	− 5.7	− 4.8	− 0.3
(b) Official	+ 0.7	− 0.6	− 0.0	+ 1.2	− 0.3	− 0.4	+ 2.5	+ 0.1
(c) Banks	− 2.3	+ 6.7	+ 8.1	+10.1	+ 4.1	− 8.8	−10.3	+ 8.2
Assets	−13.0	− 2.7	+ 1.2	− 2.2	− 1.7	− 7.1	−11.2	+ 4.4
Liabilities	+10.8	+ 9.4	+ 6.9	+12.3	+ 5.8	− 1.7	+ 0.9	+ 3.8
Balance of short-term capital transactions	+ 4.9	+ 0.4	+12.6	+ 8.4	− 1.5	− 1.5	+ 0.4	+11.0
Balance on capital account	−13.3	− 1.0	− 0.3	+ 5.4	+10.5	+ 3.8	+ 9.2	− 5.1
C. Balance of unclassifiable transactions (balancing item)	+ 1.1	− 0.1	+ 1.2	− 3.8	− 4.3	− 3.2	+ 3.2	+ 0.1
D. Overall balance on current and capital accounts	− 2.2	+ 8.8	+10.5	+19.8	− 5.0	−27.9	− 2.3	+ 3.1
E. Balancing item to the external position of the Bundesbank **3**	+ 5.5	− 7.5	− 7.9	− 7.6	− 2.3	+ 2.2	+ 3.6	− 0.4
F. Change in the net external assets of the Bundesbank (increase: +)	+ 3.3	+ 1.3	+ 2.6	+12.2	− 7.3	−25.7	+ 1.3	+ 2.7

1 Special trade. — **2** Mainly warehouse transactions for account of residents and deduction of goods returned and of commission processing. — **3** Counterpart of changes in the Bundesbank's external position which are not caused by external current and capital transactions: mainly the allocation of IMF special drawing rights and changes in the Deutsche Mark value of the external position of the Bundesbank owing to valuation adjustments; as from 1982 also the differences between the transaction values and the changes in the external position shown in the Weekly Return at balance sheet rates. Discrepancies in the totals are due to rounding.

one's competitiveness, but rather by imposing national import restrictions, administrative import barriers or "self-restraint agreements". While such measures may bring temporary relief in individual instances, adverse effects are foreseeable in the long run. Interference in free world trade leads at best to short-lived, and by no means global, employment gains in endangered industries. In the long run such interference causes the competitiveness of the "protected" industries to lag further and further behind, and a solution through the market, i. e. a revitalisation of these industries, becomes more and more elusive. It is to be hoped that, in view of the improvement in the economic situation in many industrial countries and the support given to this development by the fall in oil prices (as a cost factor with a major bearing on earnings), the protectionist tendencies will not spread any further but rather diminish — both in trade with more advanced competing countries and in trade with "threshold" countries that are in the process of industrialising their economies.

Subdued growth of imports

The development of imports in 1982 was of course strongly affected by the sharp export-induced slowdown in economic activity in Germany. In value terms imports increased by only 2 % over the whole of the year, compared with 8 % in the preceding year. In the course of 1982 they actually went down noticeably from quarter to quarter (seasonally adjusted), rather like exports. Virtually all major categories of goods were influenced by the sluggishness of import activity. Real imports of finished goods, which had been marked by particularly high growth rates for years, almost stagnated. At the same time the rises in import prices largely came to a standstill; after a dramatic increase of over 40 % in the previous three years, import unit values grew by only 1 % in 1982. As a result, imports went up by only 1 % in volume terms, and thus somewhat less than exports (+2 %).

Slight improvement in the external energy account

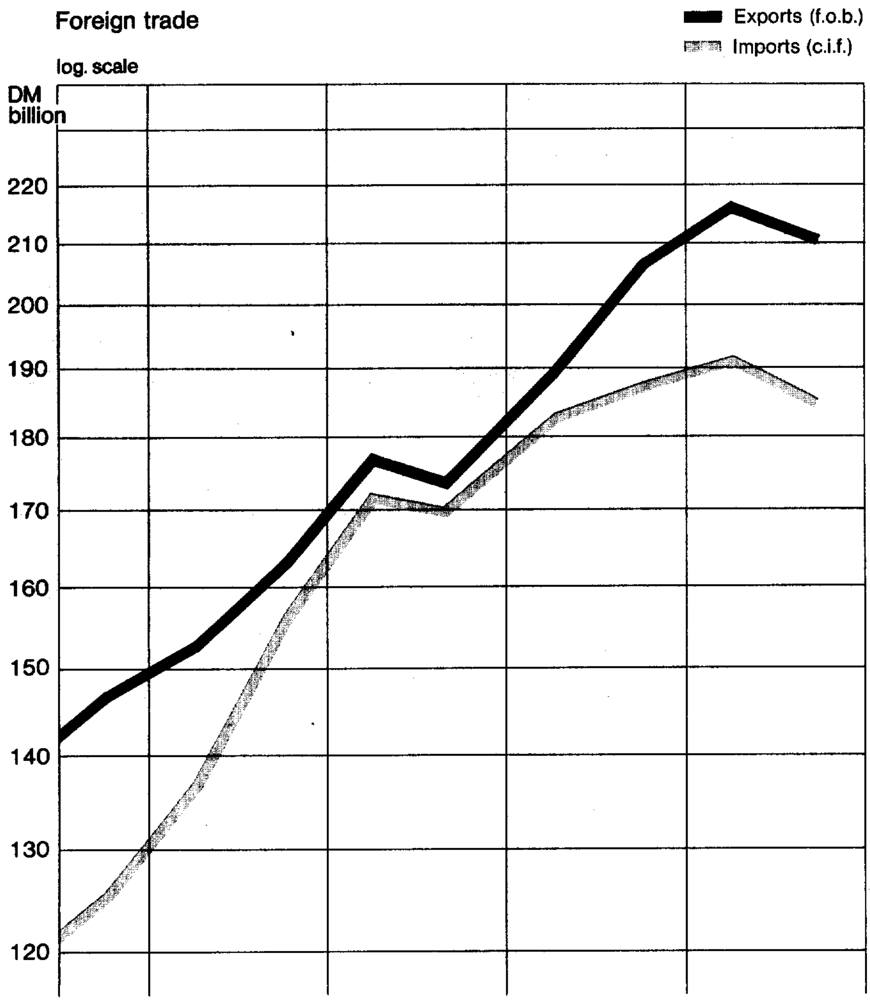
In 1982, for the first time for three years, the external energy account also improved, albeit only slightly. Net energy imports, i.e. the difference between energy imports and energy exports, declined in value by over DM 1 billion to DM 74 billion. With energy import prices roughly stagnating, the volume of imported energy decreased by 2 %. As real energy imports had fallen by one fifth in the two preceding years, this may appear relatively little, but in view of the severity of the winter of 1981-82 the further slight drop in energy imports is a notable achievement. It is, of course, no longer so easy to save energy; in particular, energy conservation is becoming more and more costly and technically complicated — a factor that is increasing in importance as the prospects of declining oil prices grow stronger. Within energy imports there were considerable shifts which were mainly connected with differing price movements. For example, imports of petroleum products whose prices had relatively soon come under pressure continued to rise in volume terms, while imports of unprocessed petroleum and natural gas decreased. Saudi Arabia was hit hardest by the decline in crude oil imports. The United Kingdom, as the second largest oil supplier, and one whose prices were favourable at times, was generally able to maintain the level of its oil sales to Germany over the year as a whole. The USSR actually almost quadrupled its oil exports, so that it advanced to sixth place on the list of the countries supplying Germany with oil.

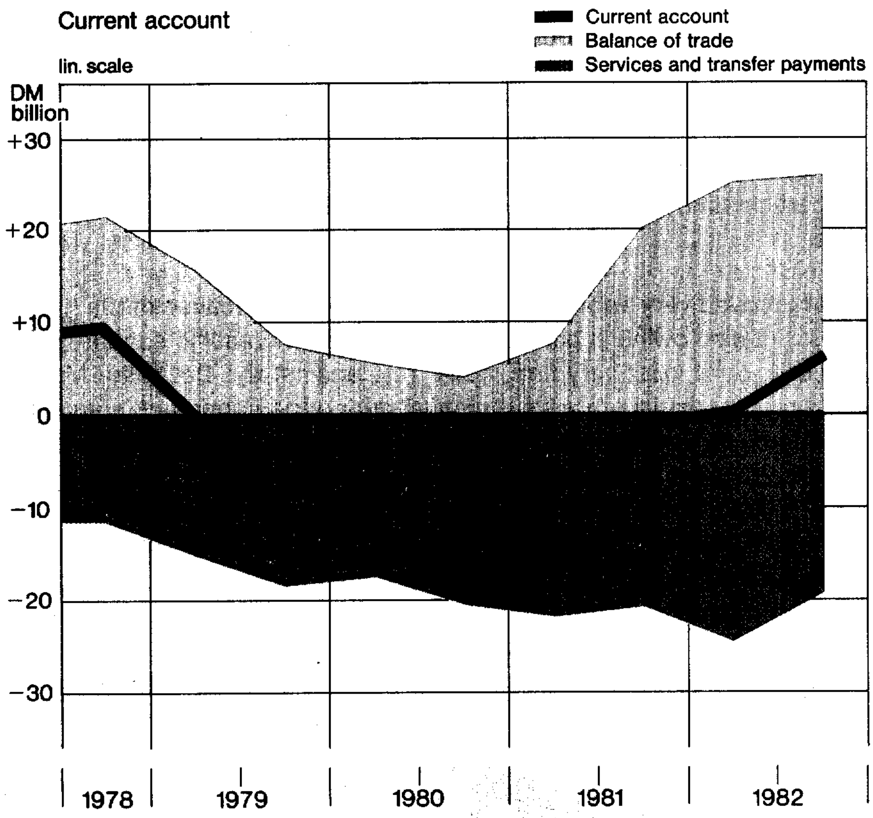
Deficit on "invisible" transactions no larger than a year before

The higher trade surplus was accompanied again in 1982 by a massive deficit on services and transfer payments; including expenditure on the transport and insurance of imports, it amounted to DM 56 billion. In contrast to the preceding years, however, the deficit on "invisible" transactions hardly increased any further in 1982. Germany's net contributions to the budget of the European Communities admittedly continued to rise (to DM 7.5 billion), and the deficit on investment income account also expanded in 1982 because, owing to the substantial current account deficit, Germany's interest-bearing external assets had declined more slowly than its external liabilities in the previous year. At the

Foreign trade and current account

Half-yearly, seasonally adjusted





same time, however, the receipts from foreign troops stationed in Germany increased, as in every year. Moreover, the deficit on foreign travel account, at DM 26 billion, hardly went up any further. Both expenditure on foreign travel and receipts from foreign tourists in Germany were slightly lower than in the previous year; in real terms they even declined markedly, as the unsatisfactory economic situation discouraged many would-be travellers. Although "invisible" transactions are thus also undergoing an adjustment process which is significantly easing the pressure on the current account, Germany remains heavily dependent on the specific international division of labour; this is clearly illustrated by the large deficits on services and transfer payments on the one hand, and the German trade surpluses on the other. As a highly industrialised nation, Germany is at a comparative disadvantage as regards its quality as a tourist country; conversely, it is an important supplier of industrial goods to major European tourist countries. It is probable that the stagnation of the deficits in this sector of the balance of payments will be only temporary; once economic activity in Germany picks up again, foreign travel will resume its former trend.

Capital exports due to the swing in the current account

In 1982 the improvement in the current account contrasted with a deterioration in capital transactions: in each of the three preceding years substantial current account deficits had been financed by net capital imports or by drawing on the monetary reserves (depending on exchange rate movements), but in 1982 the current account surplus was mainly accompanied by capital exports and only a small increase in the monetary reserves. Germany's overall capital account (including the balancing item of the balance of payments) resulted in net capital exports (totalling DM 5 billion) in 1982; in 1981, when the current account had been in deficit, DM 12.5 billion (net) had been imported. There were, however, considerable differences between short-term and long-term capital movements. In the field of long-term capital transactions more than DM 16 billion flowed out on balance in 1982, or twice as much as the simultaneous surplus on current account, whereas there were substantial inflows of funds (DM 11 billion) in the various sectors of the short-term capital account (including the balancing item of the balance of payments).

Change in the trend of long-term capital transactions

The trend of long-term capital transactions underwent a striking change in the course of 1982. While large amounts of long-term funds flowed out of Germany (DM 15 billion net) in the first half of the year, when the interest rate advantage of the dollar was at times increasing, net long-term capital exports virtually came to a halt in the second half of 1982. This was mainly because of the development of external security transactions (excluding those for the purpose of acquiring participations), which resulted in large capital exports in the first half of the year.

Substantial outflows through portfolio transactions . . .

Dollar assets proved very attractive at times — primarily because of the high interest rates, but also owing in part to expectations of increasing security prices and of a rising, or at least very firm, dollar rate against the Deutsche Mark — and this led to substantial outflows of capital during the spring and summer. In that period domestic investors for the first time acquired considerable amounts of bonds denominated in foreign currencies, especially U.S. dollars. In the further course of the year, when dollar assets became less attractive as yields declined and exchange risks grew, such outflows of capital tailed off. Altogether, domestic investors bought over DM 10 billion (net) of foreign currency bonds in 1982, which once again attests to the connection between interest rates in the German capital market and those in the U.S. capital market under conditions of moderate exchange rate fluctuations. By contrast, foreign Deutsche Mark bonds aroused relatively little interest among German investors on balance in 1982. In the course of the year, in fact, these German-issued bonds were increasingly placed abroad. In the second half of 1982 non-residents' interest in domestic securities revived. During that period outflows and inflows in the field of portfolio transactions cancelled out again. Over the whole of 1982 DM 8.5 billion net was exported through portfolio transactions.

. . . and through banks' long-term capital transactions

Large amounts of long-term funds flowed abroad from the banks as well on balance last year (DM 7.5 billion). At DM 3.75 billion, the increase in the banks' long-term external assets was relatively small;[1] in view of the greater risks involved in external lending and the de facto insolvency of some debtor countries, these credits were mainly granted to western industrial countries or to banks in the Euro-market centres. On the other hand, the banks' long-term external liabilities, especially those arising from borrowers' notes, decreased noticeably last year (by just under DM 4 billion), for the first time for a decade. This was largely because individual OPEC countries whose balance of payments position deteriorated in 1982 liquidated such investments.

Declining official capital imports

In view of the improvement in the current account, but also owing to the greater capital supply in Germany, public authorities raised substantially fewer long-term funds abroad directly or indirectly — i.e. through resales of borrowers' notes by German banks — in 1982 than in the two preceding years (DM 9 billion compared with DM 22 billion in 1981). Although foreigners invested more in newly issued public borrowers' notes, larger amounts flowed back to foreign countries owing to liquidations and redemptions. By the end of last year public authorities' long-term external indebtedness in the form of borrowers' note loans (i.e. excluding the securities shown under portfolio transactions) had risen to DM 61 billion, corresponding to one tenth of total outstanding public debt. As the current account is now back in equilibrium, or even in slight surplus, it is not necessary to increase net official indebtedness to other countries further for balance of payments reasons; as a rule the investment wishes of countries whose relations with Germany are traditionally close can be met through maturities and early resales.

Large inflows through short-term capital transactions

In the field of short-term capital transactions substantial amounts flowed into Germany in the course of last year. They accrued mainly through banks and the financial credits of non-banks; hardly any funds were exported through trade credits during that period owing to the slower growth of foreign trade turnover. In the first half of the year the short-term capital imports largely offset the considerable outflows of long-term funds. During the phase of speculation preceding the realignment in the EMS in the middle of June, a major role also seems to have been played by short-term capital movements out of EMS currencies into the Deutsche Mark; after the realignment, however, very few funds flowed out. Within short-term capital transactions there was a notable shift last year between the short-term capital movements of banks and the financial credits of non-banks. In the two preceding years the large volume of short-term Euro-DM loans raised by German enterprises (about DM 21 billion between the beginning of 1980 and the end of 1981) had been accompanied by considerable outflows of short-term funds from the banks to the Euro-DM market because granting Euro-DM loans was profitable to the banks. As interest rates in Germany fell, however, this "round trip production" came to a halt since it became more attractive for German banks to grant short-term loans on domestic terms.[2] In addition, enterprises' overall demand for short-term loans was much smaller last year than in 1981. Enterprises "imported" only DM 3.25 billion in 1982 in the form of short-term Euro-DM loans. They received no funds at all on balance through other short-term financial credits. The decrease in banks' short-term claims on the Euro-DM market in 1982 was closely connected with the slower growth of Euro-DM loans. On the other hand, the banks received larger

1 This owed something to the redemption of borrowers' note loans totalling DM 2.5 billion which the U.S. Treasury had raised from German banks in 1978-79.

2 See also "The Euro-DM market" in Monthly Report of the Deutsche Bundesbank, Vol. 35, No. 1, January 1983, p. 26.

amounts of short-term foreign funds, likewise mainly from the Euro-DM market. The banks thus imported DM 8.25 billion net, while a year earlier DM 10.25 billion had flowed out.

Deutsche Mark appreciates against most currencies . . .

The basic improvement in the current account and the similarly favourable overall development of the balance of payments are reflected most clearly in the sharp appreciation of the Deutsche Mark against almost all major currencies, with the exception of the U.S. dollar and the Canadian dollar, in the course of last year. Not least because of the realignments within the EMS in February and June 1982 (which of course were also necessitated by the specific weakness of some partner currencies), the external value of the Deutsche Mark vis-à-vis the average of the EMS currencies[1] was 8½ % higher at the end of 1982 than it had been at the beginning of the year. The Deutsche Mark also appreciated substantially against major third currencies, especially against the pound sterling (+12½ %) and the northern European currencies, which are likewise important in German foreign trade. It also increased in value against the Swiss franc (+5 %) and the Japanese yen (+1 %) in the course of last year.

. . . but depreciates against the U.S. dollar

In the Deutsche Mark/dollar market, however, the dollar remained strong almost until the end of the year; only in mid-November did the valuation come to be based more on the fundamentals, and the Deutsche Mark was able to regain some lost ground. Even so, at the end of 1982 the external value of the Deutsche Mark vis-à-vis the dollar was still 5 % lower than at the beginning of the year. Hence the Deutsche Mark appreciated by a weighted average of 8¼ % against the currencies of 23 of Germany's major trading partners.

Further small increase in the monetary reserves

In connection with the appreciation of the Deutsche Mark the net external assets of the Bundesbank increased slightly again last year, namely by DM 2.75 billion, calculated at balance sheet rates. Sales of dollars to smooth out exchange rate fluctuations resulted in outflows of foreign exchange from the Bundesbank (though far smaller ones than in 1981), but these reserve losses contrasted with foreign exchange inflows arising from EMS interventions financed through the Bundesbank. Moreover, the Bundesbank's net interest income from its external assets was again relatively large. The valuation adjustment of the foreign currency position customary at the end of the year led on balance to only a small write-down of DM 0.25 billion,[2] which was mainly attributable to the depreciation of the European Currency Unit (ECU) against the Deutsche Mark in the course of the year. After this valuation adjustment, the monetary reserves of the Bundesbank came to DM 84.5 billion at the end of 1982. The reserve assets were accompanied by DM 15.4 billion of external liabilities, so that the net monetary reserves amounted to DM 69.1 billion. If the less liquid external loans and other external assets (DM 2.5 billion) are included, the Bundesbank's net external assets totalled DM 71.6 billion at the end of the year.

Substantial inflows of monetary reserves at the beginning of the new year

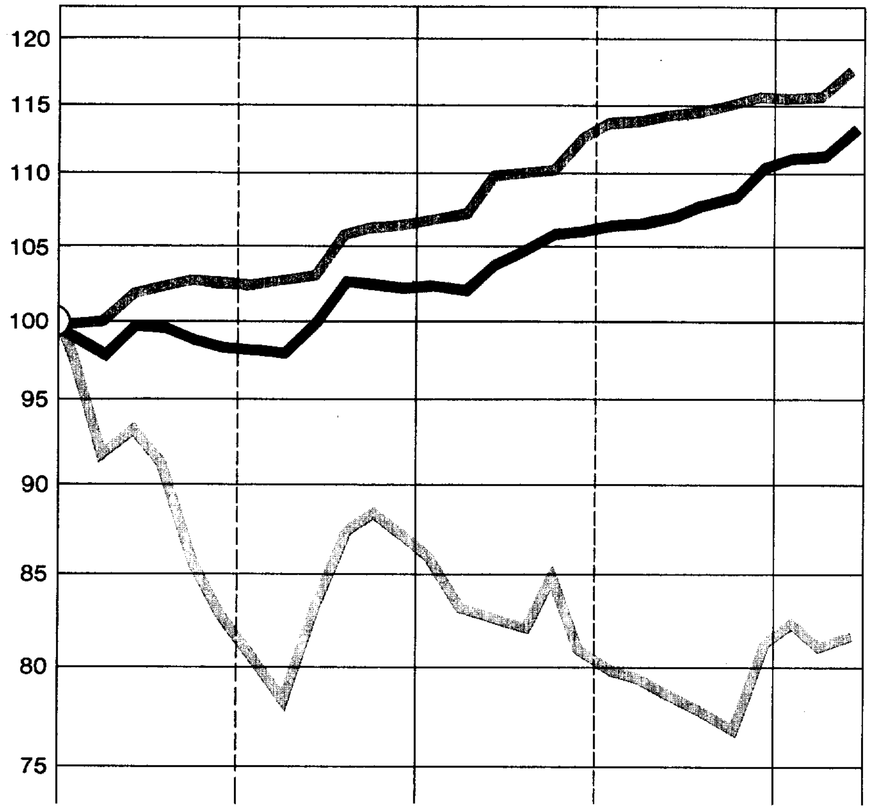
At the beginning of the new year, when expectations grew stronger that an exchange rate realignment would take place in the European Monetary System after the elections in Germany and France, the net monetary reserves increased considerably, namely by DM 17 billion by March 21, the day of the realignment (this sum mainly consisted of reserve inflows resulting from interventions in the EMS). By the beginning of April DM 5 billion of this amount had flowed out again. Relative to the EMS central rates, the realignment led to an average revaluation of the Deutsche Mark by 5½ %. As usual, only part of this revaluation effect was felt during the weeks immediately following the exchange rate adjustment, as initially the Deutsche Mark became a "weak" currency within the EMS exchange band, while the opposite was true of the deval-

1 Excluding the pound sterling, which is not participating in the exchange rate mechanism of the EMS.
2 This difference is included in the above-mentioned change in the net external assets.

External value of the Deutsche Mark

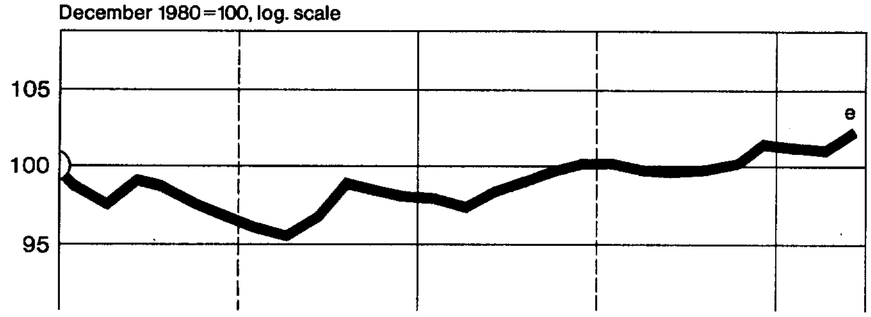
December 1980=100, log. scale, monthly averages

- against the currencies of the countries participating in the EMS 1) 2)
- against the currencies of 23 of Germany's major trading partners 1)
- against the U.S. dollar



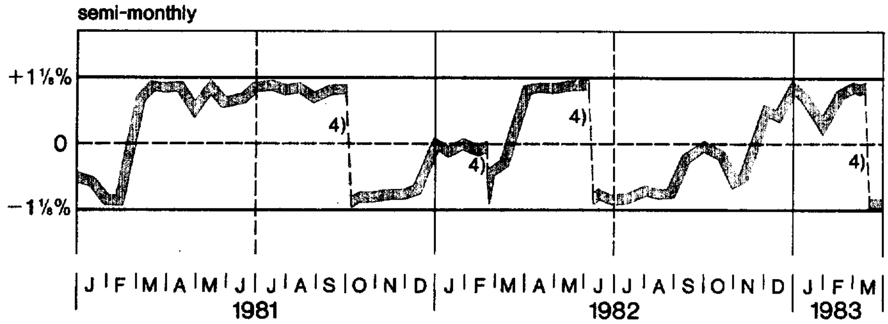
Real external value of the Deutsche Mark 3)

December 1980=100, log. scale



Position of the Deutsche Mark within the European Monetary System

semi-monthly



1) Weighted external value of the Deutsche Mark; geometric mean.- 2) Excluding the pound sterling.- 3) Weighted external value against the currencies of 14 industrial countries after adjustment for discrepancies in consumer price movements.- 4) Realignment of exchange rates in the EMS.- e Estimated.- Latest position: March 1983.

ued currencies. On April 5 the effective appreciation of the Deutsche Mark against the other EMS currencies, compared with the day before the realignment, was only 1¼%.

4. Monetary relaxation against the background of successes in stabilisation policy

(a) The monetary target and the monetary policy stance in 1982

Monetary target for 1982

The signs of progress in the field of domestic stabilisation and the correction of the external disequilibrium in 1982 enabled monetary policy to continue the gradual relaxation of conditions in the domestic money market that had been initiated in the autumn of 1981. The Bundesbank kept to the proven procedure of preparing cuts in central bank interest rates by relaxing liquidity policy first. The Bundesbank's aim was to improve the monetary conditions for an economic recovery without overstepping the limits set to monetary policy or increasing the money supply to a greater extent than stabilisation policy requirements warranted. The Bundesbank made this objective clear by announcing the monetary target for 1982, which — as in 1981 — provided for an expansion of the central bank money stock within a range of 4 to 7%. At the same time the Bundesbank indicated that it would encourage faster monetary growth in the middle or upper part of the target range if further headway was made in the domestic and external adjustment and stabilisation process and if management, labour and fiscal policy lent their support.

Relaxation of interest rate policy up to the spring ...

Soon after the turn of 1981-82 the progress apparent in the stabilisation process enabled the Bundesbank to aim at monetary growth in the upper half of the target range. In line with this objective, the rate at which residual finance was obtainable from the central bank was reduced further in two steps in the first few months of last year, and the special lombard loan facility was replaced by normal lombard loans (initially at a rate of 9%) at the beginning of May. Under the impact of these measures and the gradual slowdown in price increases, interest rates began to fall steeply in all sectors of the financial markets. While the downward movement of interest rates was relatively steady in the money market, it was almost precipitous at times in the capital market. After some initial hesitation, the banks increasingly passed on this reduction in the cost of funds to their customers.

... while fine-tuning policy "feels its way"

The liquidity policy measures adopted in conjunction with the interest rate policy moves in the year under review served equally to ease monetary conditions. After the turn of 1981-82, when it was important to sound out the domestic and external scope for further interest rate cuts, short-term assistance operations in the money market at first came to the fore. During this period, in which fine-tuning policy was "feeling its way" and which lasted up to the early summer, the Bundesbank met most of the banks' central bank money requirements in a manner that was reversible at short notice, i.e. through open market operations in securities under repurchase agreements. For this purpose it used the procedure employed since the autumn of 1981 of triggering a slight fall in interest rates in the money market by actively increasing liquidity and at the same time exploring how far this could be done without putting pressure on the exchange rate of the Deutsche Mark. The Bundesbank provided the banking system with liquidity — mostly at rates below that at which residual finance was currently available — through security-based repurchase agreements in nine tenders (mainly interest rate tenders) up to mid-year. The consequent expectations of declining interest rates tended to bring shorter-term time deposit rates close to the ruling special lombard rate (or lombard rate); at times they fell below that rate before it was lowered. At the beginning of May the Bundesbank was able to discontinue the special lombard facility as part of this policy, and thus to end

Monetary developments

Change during year 1

Item	1976	1977	1978	1979	1980	1981	1982
	DM billion						
A. Central bank money requirements of banks and liquidity policy measures of the Bundesbank 2							
1. Provision (+) or absorption (−) of central bank balances by							
Change in central bank money 3 (increase: −)	− 7.9	−10.9	[11] − 14.1	− 7.8	− 6.5	− 2.7	− 7.5
Foreign exchange movements (excluding foreign exchange swaps and foreign exchange transactions under repurchase agreements)	+ 8.3	+ 8.4	+ 20.3	− 5.2	− 24.6	− 3.1	+ 1.7
Cash transactions of the central and regional authorities (excluding shifts of Federal balances under section 17 of the Bundesbank Act)	+ 8.1	+ 5.0	− 2.1	+ 3.9	+ 0.3	+ 1.1	− 4.1
Transfer of the Bundesbank's profit to the Federal Government	−	−	−	−	−	+ 2.3	+ 10.5
Other factors	− 5.4	− 4.5	− 3.8	− 5.2	− 7.9	− 9.4	− 12.2
Total 1	+ 3.2	− 2.1	+ 0.3	− 14.3	− 38.8	− 11.8	− 11.4
2. Liquidity policy measures							
Change in minimum reserves	− 4.4	+ 8.2	− 1.8	− 3.2	+ 10.5	+ 4.1	+ 5.4
Change in refinancing facilities	+ 0.7	+ 6.5	+ 4.4	+ 5.1	+ 12.1	+ 5.1	+ 7.7
Open market transactions (with non-banks, in "N paper" and in long-term securities)	− 8.4	− 0.7	− 3.6	+ 2.7	+ 4.5	− 0.1	+ 1.5
Reversible assistance operations **4**	− 4.7	−	−	− 2.3	+ 10.5	+ 3.9	+ 0.2
Total 2	−16.8	+14.0	− 1.1	+ 2.4	+ 37.6	+ 13.0	+ 14.8
3. Remaining deficit (−) or surplus (+) (1 plus 2)	−13.7	+11.9	− 0.8	− 11.9	− 1.2	+ 1.2	+ 3.4
covered or absorbed by							
Recourse to unused refinancing facilities (reduction: +)	+ 7.2	− 5.5	− 0.2	+ 9.7	− 1.4	+ 1.3	− 3.5
Raising (+) or repayment (−) of lombard or special lombard loans	+ 6.5	− 6.5	+ 1.0	+ 2.2	+ 2.6	− 2.5	+ 0.1
	%						
B. Key monetary indicators							
Central bank money stock **2, 5**	+ 8.4	+ 9.9	[11] + 12.0	+ 5.5	+ 5.4	+ 3.1	+ 5.8
Memorandum item							
As an annual average	+ 9.2	+ 9.0	[11] + 11.4	[11] + 9.1	+ 4.8	+ 4.4	+ 4.9
M1 (= currency in circulation and sight deposits)	+ 3.9	+11.3	+ 14.3	+ 3.8	+ 4.2	− 0.8	+ 6.8
M2 (= M1 plus time deposits for less than 4 years)	+ 6.6	+11.1	+ 13.2	+ 8.2	+ 8.8	+ 8.8	+ 5.0
M3 (= M2 plus savings deposits at statutory notice)	+ 8.3	+11.0	+ 10.9	+ 5.8	+ 6.2	+ 4.9	+ 7.1
Lending by banks and the Bundesbank to domestic non-banks	+10.0	+ 9.5	+ 11.5	+ 11.5	+ 9.3	+ 9.0	+ 6.6
	DM billion						
C. Money stock and its counterparts							
Money stock M3 (= 1 plus 2 less 3 less 4 less 5)	+41.0	+58.9	+ 64.8	+ 39.2	+ 42.8	+ 36.1	+ 54.8
Counterparts in the balance sheet							
1. Volume of credit **6**	+91.2	+94.2	+125.4	+139.0	+126.3	+132.0	+104.4
of which							
Bank lending to domestic non-banks	+96.3	+95.8	+122.6	+140.9	+122.4	+129.9	+106.1
− to enterprises and individuals **7**	+46.5	+42.3	+ 49.0	+ 67.5	+ 56.3	+ 41.6	+ 29.6
− to the housing sector **8**	+19.3	+26.8	+ 38.9	+ 44.8	+ 44.5	+ 40.7	+ 36.4
− to public authorities	+30.5	+26.7	+ 34.7	+ 28.5	+ 21.6	+ 47.5	+ 40.0
2. Net external assets **9**	+ 8.3	+10.1	+ 7.1	− 21.8	− 10.6	+ 11.9	+ 4.5
3. Monetary capital	+59.1	+42.9	+ 54.8	+ 75.8	+ 61.7	+ 86.0	+ 46.5
of which							
Savings deposits at agreed notice	+12.2	+ 0.8	+ 7.7	+ 3.3	− 1.9	− 2.1	+ 4.3
Bank savings bonds	+10.4	+13.4	+ 10.3	+ 14.8	+ 17.8	+ 14.0	+ 12.0
Time deposits for 4 years and over	+11.4	+13.6	+ 17.0	+ 18.7	+ 14.6	+ 13.8	+ 7.2
Bank bonds outstanding **10**	+19.3	+ 9.7	+ 14.2	+ 33.6	+ 26.7	+ 53.6	+ 14.0
4. Central bank deposits of domestic public authorities	−10.2	− 0.8	+ 2.5	− 1.7	− 1.9	− 0.2	+ 0.5
5. Other factors	+ 9.6	+ 3.3	+ 10.4	+ 3.8	+ 13.2	+ 22.0	+ 7.1

1 Unless otherwise indicated, based on end-of-month figures. — **2** Based on daily averages of the last month of the period and the last month of the previous period, respectively. — **3** Currency in circulation (as from March 1978 excluding the banks' cash balances of domestic notes and coins, which are deductible from the required minimum reserves) and required reserves on the banks' domestic liabilities at current reserve ratios; changes in the required reserves resulting from changes in the reserve ratios are shown in item A2. — **4** Open market transactions under repurchase agreements in bills and securities, foreign exchange swaps and foreign exchange transactions under repurchase agreements, and shifts of Federal balances under section 17 of the Bundesbank Act. — **5** Reserve component calculated at constant reserve ratios (base: January 1974). — **6** Banks and the Bundesbank; including credit based on the purchase of securities. — **7** Excluding housing. — **8** Excluding credit based on the purchase of securities. — **9** Banks and the Bundesbank. — **10** Excluding bank holdings. — **11** The statistical break caused by the redefinition of the central bank money stock (see footnote 3) has been eliminated.

Discrepancies in the totals are due to rounding.

a period of monetary policy in which the primary aim had been effectively to counter the danger of importing inflation and of the pace of domestic price rises quickening.

Channelling the Bundesbank's profit into the money market

In the first half of the year the temporary provision of central bank balances by means of revolving open market operations under repurchase agreements was also consistent with the need to take appropriate liquidity policy measures at an early date in view of the distribution of the Bundesbank's profit to the Federal Government in the spring. In the last ten days of April the Bundesbank transferred DM 10.5 billion of its net profit for the 1981 accounting year to the Federal Government. In order to neutralise the associated expansion of bank liquidity, the Bundesbank had allowed the banks to accumulate a high level of debt from outstanding security-based repurchase agreements with differing but short maturities up to the time when its profit was transferred. Only a part of these agreements were renewed after the profit distribution. In this manner the increase in liquidity caused by the transfer of profit was offset by the drain on liquidity resulting from the unwinding of maturing security-based repurchase agreements. As the Federal Government did not use the funds accruing to it immediately in cash transactions, the Bundesbank also temporarily employed the instrument of shifting Federal balances to the banking system (pursuant to section 17 of the Bundesbank Act) in order to maintain orderly conditions in the money market.

Pause in interest rate cuts around mid-year

Around mid-year the Bundesbank felt that no further interest rate cuts were possible for a while. Heavy capital outflows to other countries and the renewed weakness of the Deutsche Mark against the dollar showed that the chances of a marked monetary relaxation "against the current" of international interest rate movements were slim. Moreover, the temporary acceleration of domestic inflation and new uncertainties about the future size of the public sector deficits made a pause in lowering interest rates seem advisable. On the occasion of its regular review of the monetary target in mid-year, however, the Bundesbank reaffirmed its intention of keeping monetary growth in the upper half of the target corridor for the rest of the year in view of the weakness of domestic economic activity, provided that the prospects of further monetary stabilisation remained good.

Durable release of liquidity from mid-year onwards

While further progress in reducing interest rates could not be achieved around mid-year, there was still some room for a lasting provision of central bank balances through liquidity policy measures of "longer-run adjustment". When it became clear that the transfer of the Bundesbank's profit to the Federal Government had not been accompanied on balance by an excessive expansion of bank liquidity (because a "shortage" of longer-term central bank balances had been created beforehand), the banks' rediscount quotas were increased by DM 5 billion in June, and at the same time the ceiling for the purchase of prime bankers' acceptances was raised by DM 0.5 billion. In October a similar amount of liquidity was released on a durable basis in a second step through a reduction of the minimum reserve ratios. Under the impact of these injections of liquidity and the security-based repurchase agreements, which were continued on a smaller scale, the tensions in the money market eased more and more. The day-to-day money rate was only sporadically above the level of the lombard rate, especially as the Bundesbank still sought to alleviate the temporary pressure that built up in the money market during the monthly minimum reserve periods by taking additional fine-tuning measures (foreign exchange swaps and shifts of Federal balances under section 17 of the Bundesbank Act).

Marked falls in interest rates in the second half of the year

Interest rates in the United States and the Euro-markets began to fall steeply in the late summer, and market rates in Germany tended to follow suit; the external conditions for a further relaxation of the interest rate policy stance accordingly improved during the second half of the year. As, moreover, monetary growth started to slacken slightly in the summer and there were prospects of a slowdown in the pace of domestic price rises, the Bundesbank was able to lower the lombard rate further at the end of August and also to cut the discount rate for the first time. At the end of October and the beginning of December the discount and lombard rates were reduced in two further steps by a full percentage point on each occasion. By the end of last year the rate at which the Bundesbank met the banks' need for residual finance in the money market had thus been brought down considerably to 6% (from 12% in the autumn of 1981) and the discount rate had been lowered to 5%. After the turn of the year the Bundesbank at first confined itself to fostering the continued fall in interest rates by adopting further measures to increase liquidity. To this end it raised the rediscount quotas and the ceiling for the purchase of prime bankers' acceptances by DM 5.5 billion at the beginning of February. As on the earlier occasions when it had released liquidity on a long-term basis, its aim was to encourage the banks to pass on a greater part of the reduction in their funding costs to their customers. However, this increase in refinancing facilities soon turned out to be no longer warranted, as substantial inflows of foreign exchange occurred before the central rates in the European Monetary System were realigned on March 21, 1983. To absorb the excess liquidity which had arisen among the banks the rediscount quotas were reduced by DM 5 billion again. On the other hand, the Bundesbank lowered the discount and lombard rates by another full percentage point to 4% and 5% respectively in mid-March.

(b) Growth of the central bank money stock in 1982 and the monetary target for 1983

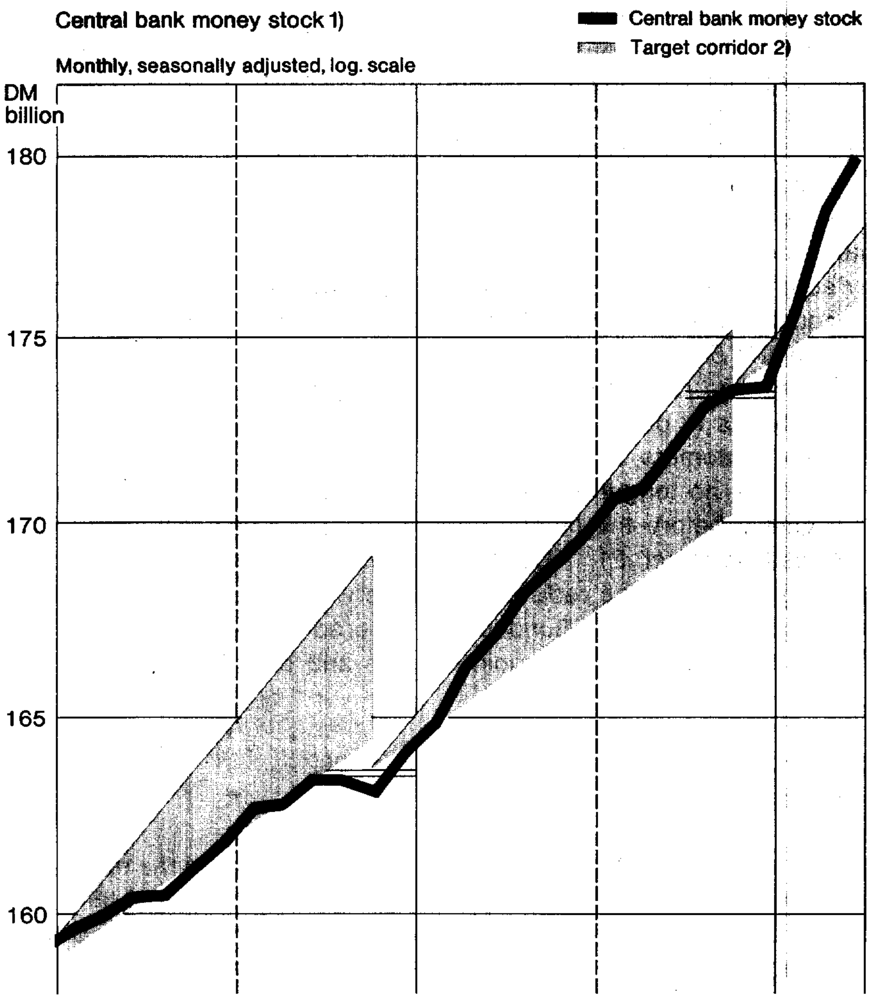
Monetary expansion within the envisaged limits

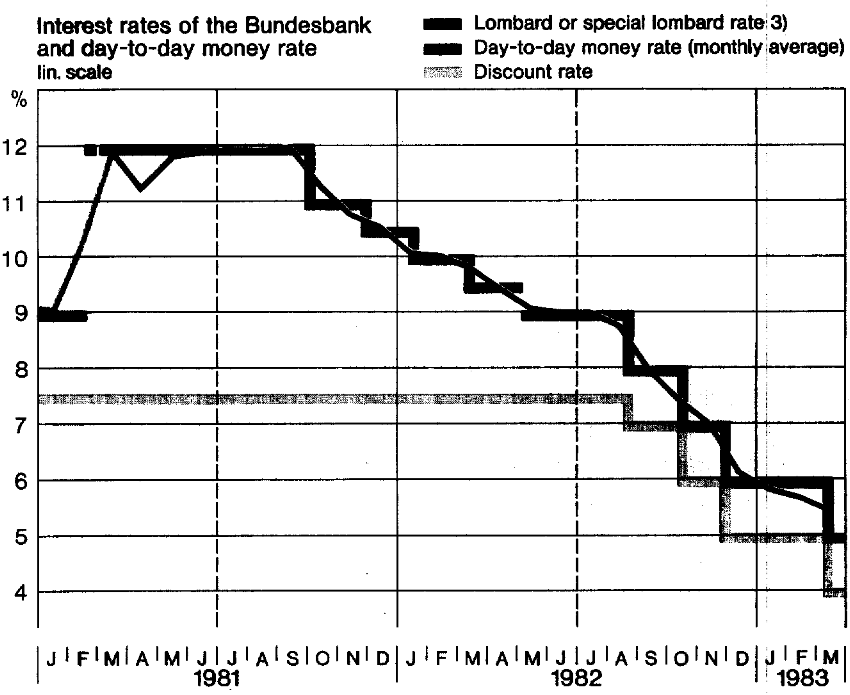
The Bundesbank's interest rate and liquidity policy measures in the money market as described above were fully consistent with the expansion of the central bank money stock envisaged for 1982. After monetary growth had picked up slightly around the turn of 1981-82, the central bank money stock entered the upper half of the target corridor in February. Thereafter it moved in effect at the top end of the target range until May. Not unexpectedly, the special influences evident in 1981, which at times had somewhat impaired the usefulness of the central bank money stock as an indicator of monetary expansion, disappeared as a result of the faster monetary growth. The demand for currency, which had almost stagnated in 1981, returned to normal on account of the change in the interest rate and exchange rate trend. At the same time the reserve component of the central bank money stock rose very steeply. One reason for this was that sales of short-term bank bonds, which in 1981 had curbed statistical monetary growth, decreased in significance on the flattening out of the interest rate structure curve in the capital market; from the spring onwards the outstanding amount of such bonds actually declined because of the heavy redemptions of maturing short-dated paper. Some of the funds released were shifted into bank deposits; this was reflected via the minimum reserve component in the faster growth of the central bank money stock. In the second half of the year the pace of overall monetary expansion slowed down somewhat. In the fourth quarter of 1982 the central bank money stock was 6.0% higher than a year before. It was thus in the upper part of the 1982 monetary corridor, as envisaged by the Bundesbank as early as the beginning of last year and reaffirmed in mid-year.

Derivation and interpretation of the monetary target for 1983

The underlying monetary and overall economic conditions around the turn of 1982-83 made it seem advisable to continue the ruling course of monetary policy for a while. The Central Bank Council therefore decided to keep the expansion of the central bank money stock between the fourth quarter of 1982 and the fourth quarter of 1983 at a rate of 4 to 7% once again. In calculating the target the Bundesbank assumed that production potential would grow by 1½ to

Growth of the central bank money stock and movement of interest rates





1) Currency in circulation and required reserves on domestic liabilities (calculated at constant reserve ratios, base: January 1974).- 2) In 1981, 1982 and 1983: 4% to 7% (between the fourth quarter of the preceding year and the fourth quarter of the current year).- 3) Between February 20, 1981 and May 6, 1982 the banks were not granted lombard loans at the lombard rate (during that period the Bundesbank granted the banks special lombard loans at a special rate as and when required).

2% on average this year. An "unavoidable" price rise of 3½% was also allowed for. When announcing the monetary target the Bundesbank indicated that as long as the low level of economic activity remained among the foremost economic problems, and as price and cost movements and the external situation permitted, it intended to allow the central bank money stock to continue to expand in the upper half of the target range in the new year. In fact, the central bank money stock actually moved above the top end of the new target range at the beginning of 1983. The preliminary data available at present are, however, insufficient to decide how far this is due to temporary influences (shifting of previously blocked long-term savings deposits into reserve-carrying deposits; currency hoarding abroad) and how far it reflects a sustained acceleration of monetary growth. A continuation of the current signs of an upturn in economic activity would automatically augment the demand for money and credit, whereas a prolonged expansion of the money supply that greatly overshot the target would entail the risk of the "monetary cloak" becoming too wide. A monetary policy aiming at stability and steadiness must take care not to create any monetary scope for price rises, which are latent in any sustained economic upswing.

Monetary policy implications of the "velocity of circulation"

Any quickening of the pace of monetary growth that is not accompanied by a similarly rapid expansion of turnover and nominal income changes the ratio of the money supply to turnover, i.e. the "velocity of circulation" of money. There may in fact be periods in which such a change is brought about by the general public's strong preference for holding liquid assets; such behaviour is particularly widespread at times when the economic situation is deteriorating or in response to major political developments that are regarded as unfavourable. Experience has shown, however, that this attitude will be abandoned if the level of economic activity is tending to rise and enterprises and households are on balance feeling optimistic, as seems to be the case at present. Hence the velocity of circulation does not decrease indefinitely, but picks up again during an upswing, so that the longer-term ratio of the money supply to turnover (or more precisely: of the money supply to the gross national product) is restored. This is not least likely if the money stock is expanding on account of exogenous influences, in particular because of a temporary heavy inflow of funds from abroad. The monetary target, which is derived with due regard to this wider context, provides a guide in this case — not in the sense that very short-lived deviations call for immediate monetary policy countermeasures, but in the sense that any protracted deviations make a review of the current policy stance appear advisable.

(c) Faster monetary expansion

Money stock grows faster than bank lending

In line with the trend of the central bank money stock, the growth of the money in the hands of domestic non-banks in the broad definition M 3[1] also accelerated last year. Even after the turn of 1982-83 monetary growth remained strong. The money stock M 3 rose by 7% between December 1981 and December 1982, compared with not quite 5% a year before. It thus expanded somewhat more rapidly than the central bank money stock.[2] In 1982 the money supply also grew distinctly faster than lending by the German banking system to domestic non-banks. In the preceding three years, when the large current account deficits had tended to drain funds continuously from the domestic money circulation, strong domestic credit expansion had been accompanied by fairly subdued monetary growth. The return to external equilibrium, which brought a small surplus on current account in its train, caused monetary developments to revert in 1982 to the previous pattern, according to which some of the increase

1 The monetary aggregate M 1 comprises currency and sight deposits, M 2 the aggregate M 1 plus time deposits and funds borrowed for less than four years, and M 3 the aggregate M 2 plus savings deposits at statutory notice.
2 The main reason for this is that currency in circulation, which did not increase as steeply as bank deposits, carries less weight in the aggregate M 3 than in the central bank money stock.

in the money stock was attributable to inflows of funds from abroad to the non-bank sector, and to that extent made domestic borrowing unnecessary.

Monetary capital formation slackens

A more important factor in 1982 was, however, that the volume of longer-term monetary capital which non-banks formed at banks from the current supply of money deriving from domestic credit expansion and inflows of funds from abroad was much lower than usual. The inflows of longer-term funds to the banks in 1982, at DM 47 billion, were little more than half as large as a year before (DM 86 billion). These figures admittedly overstate the actual decline in longer-term monetary capital formation somewhat. In 1981, as indicated, the growth of "non-monetary" financial assets at banks had been inflated by heavy purchases of short-term bank bonds by non-banks. A large part of these bonds had been bought as a substitute for shorter-term time deposits and hence represented "quasi-money". Last year, by contrast, there were net redemptions of short-term bank bonds, and most of the redemption proceeds were paid into short-term bank accounts, which are included in the money stock. This return to normal in the field of short-dated bonds was one of the main reasons why the banks' total sales of bank bonds to domestic non-banks, at DM 14 billion, raised only about one quarter as much as in the previous year (DM 54 billion). Sales of bank savings bonds, which are not subject to price risks, held up better, yielding almost the same amount as a year before, at DM 12 billion. The banks also registered net inpayments (DM 4.5 billion) into savings accounts at agreed notice last year, for the first time since 1979. Altogether, however, the propensity to invest funds at longer term decreased considerably in 1982.

Reactions of the money stock components to the easing of interest rates

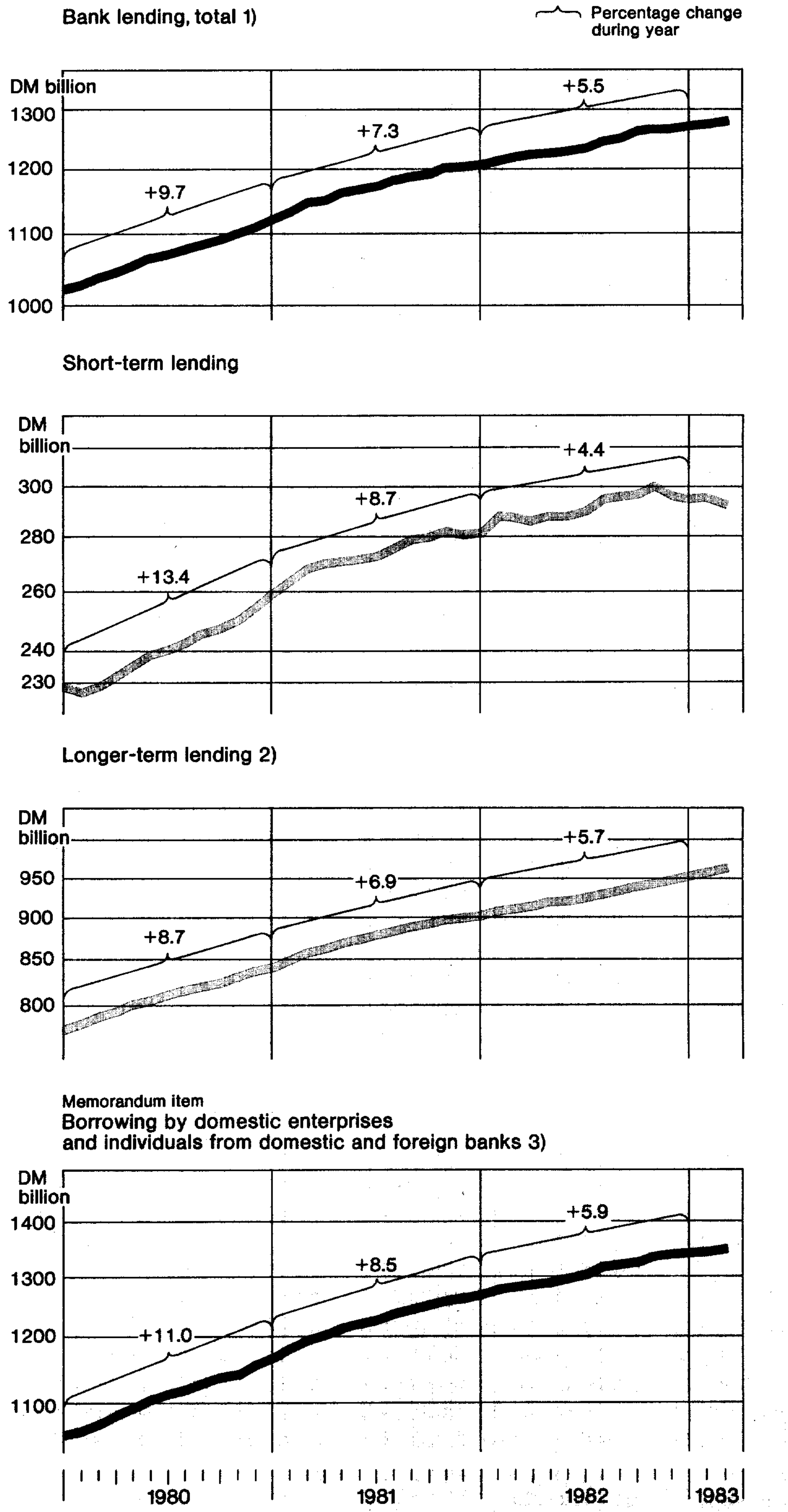
The decline in the level of interest rates, which reduced the opportunity cost normally associated with holding liquid assets rather than longer-term investments, was no doubt a major factor in this connection. It had a particularly marked effect on the holding of time deposits. The rates on short-term time deposits fell throughout the year, except during the temporary period of firmer interest rates around mid-year; at the end of 1982 the rate paid on three-month deposits was 4 percentage points lower than at the end of 1981. On the other hand, the banks did not reduce the "standard" savings rate until near the end of the year (by 1 percentage point); time deposits thus lost most of their previous interest rate advantage. Hence in 1982 shorter-term time deposits were built up fairly moderately, whereas savings deposits at statutory notice, which traditionally bear a low rate of interest, increased rapidly. But sight deposits, which bear practically no interest at all, and currency in circulation also rose more steeply than time deposits last year. As a result of these differences, the trends exhibited by the more narrowly defined monetary aggregates during the preceding phase of high interest rates were reversed. The money stock in the narrowest definition M 1, which in 1981 had fallen slightly, increased by just on 7 % and thus at about the same pace as the overall money stock M 3, while the money stock M 2 grew more slowly, at 5 %.

Moderate domestic credit expansion

The interest-rate-induced shifts in bank liabilities were the main reason why the money stock rose strongly last year. Lending by domestic banks to non-banks did not stimulate the money creation process to any major extent. The outstanding loans of the banking system (including the Bundesbank) to private and public borrowers mounted by 6½ %, compared with 9 % a year before. In absolute terms domestic bank credit expanded by DM 104 billion and thus less than in any of the preceding four years. In particular, bank lending to the private sector increased more slowly; the growth rate of bank lending to the public sector also slowed down (from 15 % to 11 %), although it remained above the average. However, it must be borne in mind in this connection that in April 1982 the Bundesbank transferred a record amount of profit to the Federal Government, at DM 10.5 billion. This recourse to the Bundesbank's profit meant that

Bank lending to domestic enterprises and individuals

Seasonally adjusted, log. scale



1) Lending by domestic banks; including credit based on the purchase of Treasury bills and securities.- 2) Excluding credit based on the purchase of securities.- 3) Lending by domestic banks and financial credits granted by foreign banks.

the Federal Government needed to borrow less from the banks. If the profit distribution and government borrowing from the banking system are combined, it is found that the expansionary impact of public sector cash transactions on monetary developments was only a little smaller than in 1981. Similarly, it then emerges that the increase in net bank lending to domestic borrowers did not differ quite as much from the rise in money balances as is suggested by the purely statistical figures already mentioned.[1]

(d) Late revival of the private demand for credit

Slower growth of lending to the private sector . . .

Lending by domestic banks to the private sector expanded by only 5½ % during the year, compared with almost 7 % a year earlier. This relatively moderate increase mirrors not least the low level of enterprises' investment activity. Moreover, enterprises evidently sought to consolidate their financial position in view of the greater risk of insolvencies. In the first half of the year in particular they met their needs of funds by drawing heavily on their financial assets so as to avoid having to take up additional bank credit. As a result the expansion of lending by domestic banks to enterprises (excluding housing) in 1982, at just over 3 %, was only half as rapid as a year before, and also slower than in any other year since 1975. The growth of lending to the housing sector, at 7½ % in 1982 (against 9½ % in 1981), slackened less. The use of consumer credit, which had declined markedly in 1981, picked up again last year, increasing by 6½ %.

. . . but heavier demand for longer-term credit

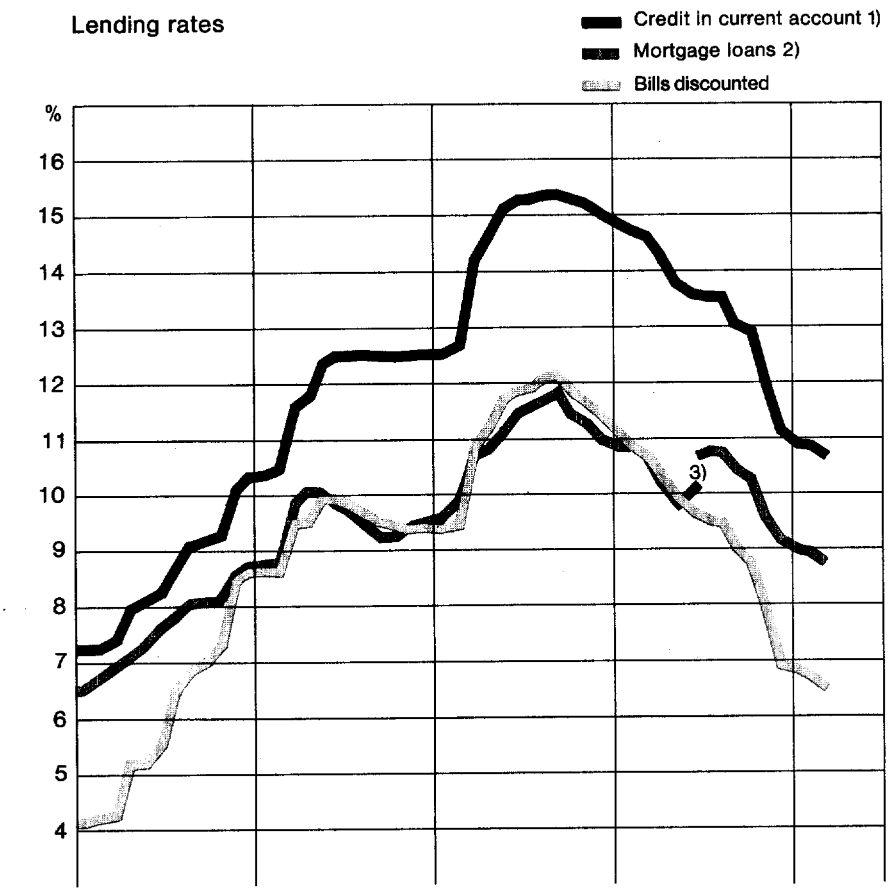
Although bank lending to the private sector showed hardly any reaction to the fall in interest rates in 1982 as a whole, there were signs of a reversal in the trend of demand for longer-term credit in the second half of the year. For one thing, many enterprises and private housebuilders obviously thought, in view of the prevailing level of long-term interest rates, that the time had come to consolidate the short-term debt they had accumulated during the period when interest rates were high. For another, more new housing loans were granted as a result of the steep fall in the cost of funds and the government assistance measures. In 1982 as a whole longer-term direct advances to the private sector admittedly expanded somewhat less than a year before, but they increased appreciably more than short-term lending, which grew at only half the pace of 1981. The strengthening of demand for long-term credit towards the end of the year was reflected more clearly in long-term loan commitments, which had been pointing upwards since the spring of 1982. Promises of long-term loans of fixed amount and fixed maturity grew at a seasonally adjusted annual rate of 8½ % during the second half of the year. This implies that long-term lending is likely to go on rising.

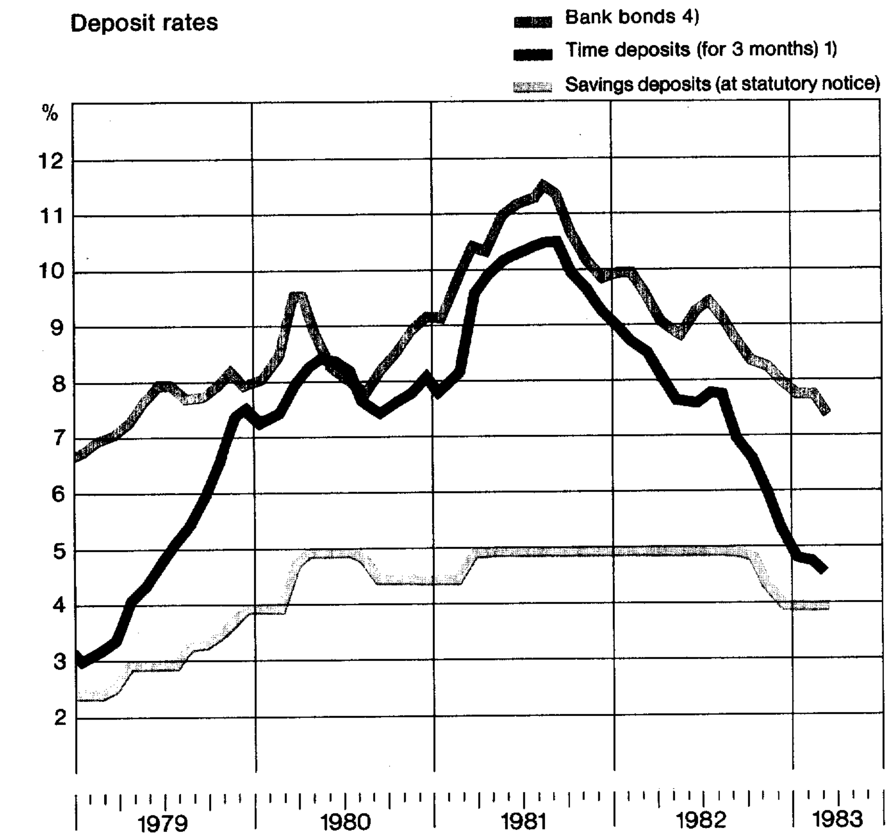
More rapid fall in interest rates towards the end of the year

The revival of private demand for credit towards the end of last year probably owes something to the fact that the decline in interest rates did not gain momentum until then, even though the Bundesbank had lowered its interest rates markedly before. Altogether, the cost of short-term bank credit dropped by 4 to 4½ percentage points in the course of 1982. In retail banking, in particular, the fall in interest rates lagged behind the simultaneous reduction in the cost of funds (notably the cost of the residual finance available from the Bundesbank) as the banks sought to widen their interest margins, which had shrunk in the period of rising interest rates; not until the end of the year and the first few months of 1983 did their lending rates begin to decrease at a similar pace to the cost of funds. In the course of 1982 the rates charged for long-term loans went down by an estimated 2½ percentage points, in keeping with the decline in the long-term interest rate.

1 Viewed in the "balance sheet context" of the monetary analysis, the profit transfer is reflected in "other factors". At some DM 7 billion in 1982, these showed a far smaller contractionary "negative balance" than in 1981 (DM 22 billion).

Movement of selected bank interest rates





1) Of under DM 1 million.- 2) Secured by residential real estate; effective rate .- 3) As from June 1982 only average interest rate for mortgage loans at variable interest rates; the figures are not fully comparable with previous figures (June 1982 estimated). 4) Yield on bonds outstanding.

(e) The business situation and profitability of the banking groups

Banks with long-term business benefit from the easier conditions

Last year the progressive easing of conditions in the credit and deposit markets particularly enhanced the balance sheet growth of those banking groups which concentrate on long-term loan business. This bore out the experience that some banking groups whose asset structure puts them at a competitive disadvantage in periods of rising interest rates are able to make up some of the ground they have lost at times when interest rates are falling. In 1982 the mortgage banks again benefited from the fact that they traditionally engage in lending to the public sector, which shows faster growth. Hence the increase in their lending to domestic non-banks last year, at 9.9 %, was greater than that of all banks taken together (6.7 %). An above-average expansion of credit — a faster one, indeed, than in 1981 — was also recorded by the central institutions of credit cooperatives (25.8 %) and by private bankers (6.9 %). These banking groups counteracted the slowdown in lending to enterprises by increasing their lending to the public sector. The growth of the domestic credit volume of the savings banks and credit cooperatives, at 6.3 % and 6.4 % respectively, was slightly below the average of all banks last year. The expansion of lending by the central giro institutions (4.7 %) was also disproportionately low. This was no doubt mainly because the central giro institutions, unlike the other banking groups, cut down their lending to the public sector, which had risen steeply in the preceding years. The commercial banks (excluding private bankers) expanded their domestic lending at a similarly slow rate.

Differences in profitability and risks in the banking industry

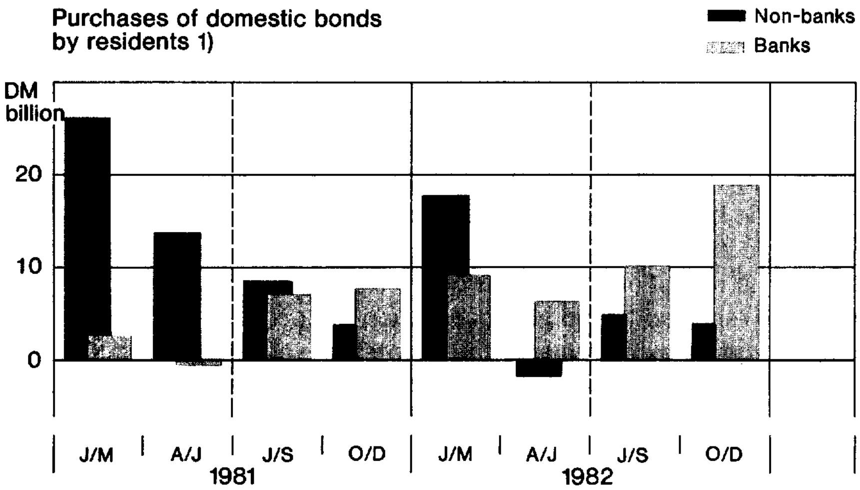
As usual in periods of falling interest rates, profitability in the banking industry improved in 1982. This applies, at least, to the operating result. In the first place, shorter-term lending rates declined less sharply than the corresponding deposit rates on average, so that the banks' interest margins widened further. Secondly, the banks continued to restructure their assets and liabilities with a view to improving their profitability; they were often helped in this by the fact that many fixed-rate loans granted in the last period of low interest rates (above all in 1977 and 1978) matured, or that the periods for which the interest rates had been fixed expired. On the other hand, the profitability of many banks seems to have been considerably impaired by extraordinary expenses, and especially by the write-downs required for individual loan losses and country risks. The differences are of course particularly great in this field. For banking groups such as the savings banks and credit cooperatives or for the smaller regional banks and private bankers, whose foreign exposure is not very large, country risks are of minor importance; nor do losses on loans granted to large enterprises play any major role. But the general deterioration in economic conditions has naturally affected the customers of smaller banks as well and led to loan losses. It appears at the time of writing that the great majority of banks have generated sufficient ordinary receipts to enable them to cover their higher extraordinary expenses. Nonetheless, the loan losses resulting from international and national lending underline the need to bring the banking regulations concerning capital and risks into line with recent developments, so as to ensure that the banks' capital can adequately fulfil its function of safeguarding liability and solvency. Strengthening the "buffer" function of the capital base and making sure that the banks' exposure is shown in a consolidated form therefore remain major concerns of the forthcoming amendment of the Banking Act.

(f) The capital market under the impact of declining interest rates

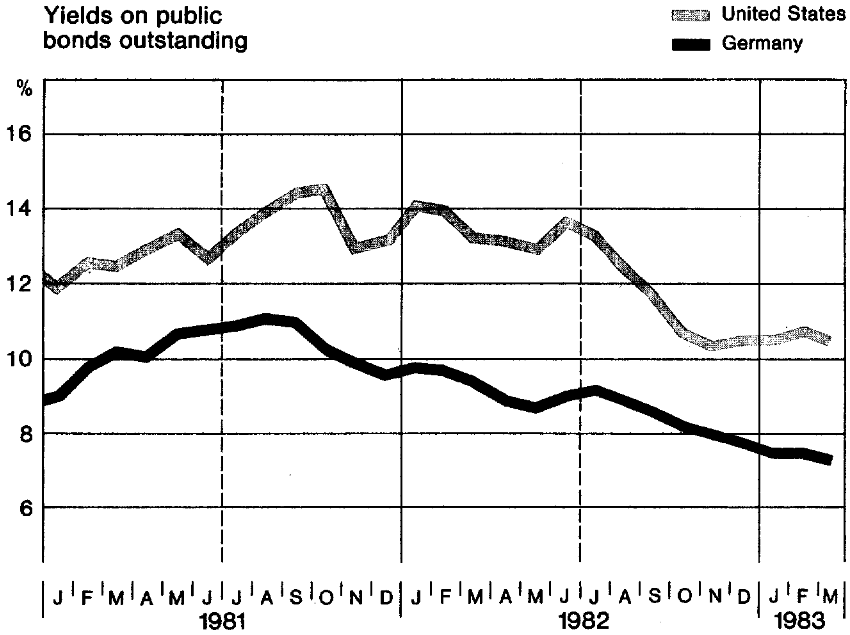
Bond market very productive

Conditions in the capital market relaxed in the course of 1982 in view of the progressive decline in interest rates fostered by the Bundesbank. In particular, the bond market proved to be very productive. In 1982 DM 84 billion of new investible funds flowed into the market through the bond purchases of domestic and foreign investors, much the greater part through the acquisition of long-

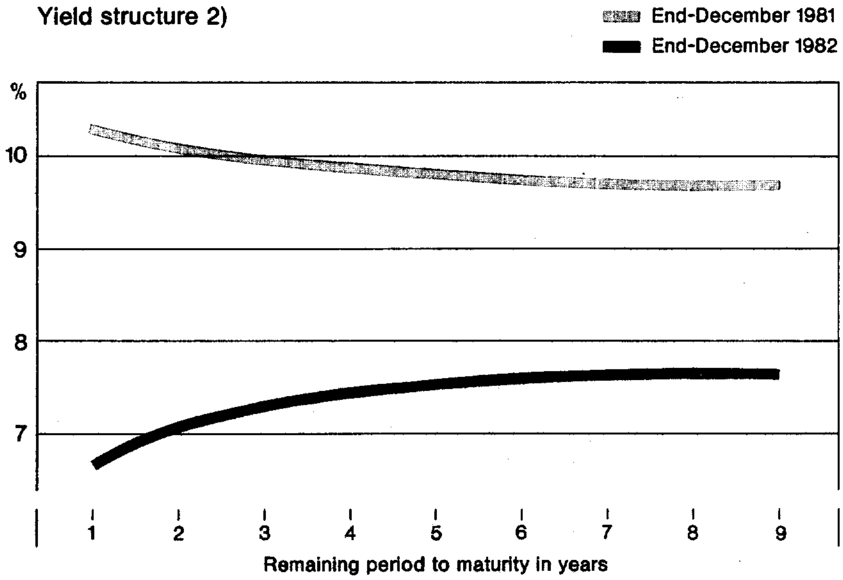
Purchases of domestic bonds by residents 1)



Yields on public bonds outstanding



Yield structure 2)



1) Net purchases excluding open market operations of the Bundesbank.- 2) Regression values for bonds of the Federal Government, Federal Railways and Federal Post Office, adjusted for coupon effects.

dated securities (in the definition used here, those with maturities exceeding four years). The stabilisation of market conditions is illustrated very clearly by the fact that in 1981 long-term bonds had accounted for less than half of the total amount raised (DM 73 billion), the remaining funds having been invested in short-dated securities (four years and less).

Sharp fall in interest rates despite interruptions

Assisted by the strong propensity to invest displayed by domestic and foreign buyers and especially by domestic banks, interest rates in the German capital market generally tended to fall last year, albeit with interruptions. After investment activity had been exceptionally buoyant in the initial months of 1982, particularly with respect to long-dated bonds, the market lost momentum at the beginning of May. The revival of the discussion on the financial situation of the public authorities, the renewed temporary acceleration of price rises and the firming of interest rates abroad (which caused the interest rate advantage of dollar assets over Deutsche Mark assets to widen to 6 percentage points for a time) exercised an adverse influence on the market up to the middle of the year. Not until mid-August, when the U.S. financial markets were swept by a sudden wave of optimism about the future trend of interest rates, did the downward movement of interest rates in the German market suddenly resume. By the end of October the yields on bonds had gone down to little more than 8%, against 10½% a year previously. In the following months market sentiment changed on several occasions under the impact of international interest rate and exchange rate movements and varying assessments of future economic and political developments in Germany, but basically the yields continued to decline. Market participants' behaviour also implied that bond purchasers have learned to live with the greater interest rate fluctuations apparent in the security markets for some years now. A few weeks after the turn of 1982-83 the yield on bonds reached 7½%, and when this Report went to press it was standing at 7⅓%.

Change in the yield structure

The advanced stage which the downward trend in interest rates in the German financial markets reached in the first few months of 1983 is indicated by the fundamental change in the yield structure in the bond market. For almost three years from the summer of 1979 onwards the yield structure had shown a differential from the short to the long end of the market, such as is typical of periods of rising interest rates. As the fall in interest rates proceeded (it was especially pronounced in the money market and for time deposits), the yields on securities with short remaining periods to maturity came under heavier pressure than those on bonds with longer maturities. Assessments of longer-term developments and particularly investors' inflationary expectations play a part in such situations, while at the same time demand for long-term funds expands as interest rates decline, and this tends to curb the fall in the yields on long-term bonds. The protracted "inverse" yield differential from the short to the long end of the market finally reversed in the second half of 1982. At the beginning of April 1983 the yields on short-dated securities were more than 2 percentage points lower than those on long-dated bonds.

Distorted maturity pattern of overall financial flows corrected

Following the relaxation of the liquidity squeeze and the change in interest rate expectations, the distorted maturity pattern of overall financial flows was corrected in 1982; until then there had been a bias in favour of short maturities. As the interest rate peak receded further into the past, borrowers gave greater preference to longer-term financing and made efforts to consolidate the short-term credits they had originally taken up in anticipation of a lowering of interest rates. At the same time investors tried — at least in the early stages of the interest rate decline — to secure the ruling interest rates for as long as possible by investing in long-term financial assets. As a result, about 80% of the domestic non-financial sectors' incurrence of liabilities was accounted for by longer-term[1] funds in 1982 against just over 71% in 1981. Enterprises, in partic-

1 According to the definition of the capital finance account: maturities exceeding one year.

Acquisition of financial assets and incurrence of liabilities by the domestic non-financial sectors *

Item	1979 DM billion	1979 %	1980 p DM billion	1980 p %	1981 p DM billion	1981 p %	1982 pe DM billion	1982 pe %
Acquisition of financial assets								
Longer-term 1	122.5	72.8	115.4	68.8	125.6	61.8	135.5	74.6
of which								
Savings deposits	12.7	7.6	7.4	4.4	− 4.2	− 2.1	36.3	20.0
Bonds	33.9	20.2	25.7	15.3	45.9	22.6	18.0	9.9
Shares	6.5	3.9	7.3	4.4	6.0	3.0	5.6	3.1
Short-term	45.7	27.2	52.2	31.2	77.6	38.2	46.2	25.4
Total	168.2	100	167.6	100	203.2	100	181.7	100
Incurrence of liabilities								
Longer-term	161.6	82.1	162.4	74.1	171.9	71.3	154.0	79.9
of which								
Bonds	4.9	2.5	3.0	1.3	− 3.7	− 1.5	28.0	14.5
Shares	3.9	2.0	5.3	2.4	3.6	1.5	4.5	2.3
Short-term	35.4	17.9	56.7	25.9	69.0	28.7	38.8	20.1
Total	197.0	100	219.1	100	240.9	100	192.8	100
Financial surplus (+) or deficit (−) 2	−28.8	×	−51.4	×	−37.7	×	−11.1	×

* Households, enterprises (including housing), government (including social security funds). — **1** Financial investments with maturities of more than one year, including all savings deposits and all purchases of securities (regardless of their maturity). — **2** Acquisition of financial assets less incurrence of liabilities. — **p** Provisional. — **pe** Partly estimated.
Discrepancies in the totals are due to rounding.

ular, sharply reduced their short-term borrowing from domestic banks and non-residents last year. The public authorities, which normally finance a major part of their deficits at longer term, took advantage of the easier market conditions, as expected, to raise more funds direct in the bond market, whereas they had preferred to borrow from banks or abroad a year before (see also page 20). As regards the overall acquisition of financial assets, investors' behaviour diverged strongly again in 1982. In particular, the security purchases of the non-financial sectors, which had been a focus of their activity in 1981, diminished in significance last year. Non-banks' monetary capital formation with banks in the longer-term maturity categories of more than four years, a substantial part of which is in the form of purchases of bank bonds, was correspondingly weak. On the other hand, investors built up their savings deposits by more than DM 36 billion last year after having run them down by DM 4 billion in 1981. The domestic non-financial sectors' overall longer-term acquisition of financial assets in the definition used here, including all savings deposits and financial investments with maturities exceeding one year, therefore grew on balance by DM 10 billion to DM 136 billion, whereas short-term financial asset accumulation declined sharply (by DM 31 billion).

Shorter-dated bonds on the decline

A glance at the shifts in the maturity pattern in the more limited area of the bond market reveals the extensive adjustments in financing behaviour even more clearly. In 1982 domestic issuers sold only DM 8.5 billion (net) of shorter-term bonds (with maturities of up to four years) against DM 37.5 billion in the preceding year. At the same time, sales of long-dated securities, at DM 64.5 billion, were over twice as large as in 1981. Most of the bonds offered by banks were thus "traditional" bank bonds, namely long-dated communal bonds and mortgage bonds, while the outstanding amount of "other" bank bonds fell by DM 5 billion.

Heavy sales of public bonds

Public issuers,[1] who had largely withdrawn from the bond market in 1981 on account of the unstable conditions there, sold a record amount of bonds in 1982,

1 Including the Federal Railways and the Federal Post Office.

Purchases of bonds, by group of buyers and type of securities

DM billion (market value)

Purchasers	Year	Domestic bonds Total	Bank bonds	Industrial bonds	Public bonds 1	Foreign bonds 2	All bonds
Residents	1978	39.7	30.6	− 0.8	9.9	3.6	43.3
	1979	37.2	36.0	− 1.0	2.3	3.7	40.9
	1980	44.9	41.9	− 1.2	4.3	7.3	52.3
	1981	68.3	70.7	− 0.9	− 1.5	6.1	74.5
	1982	70.5	45.3	− 0.6	25.8	11.0	81.5
Banks	1978	20.2	16.7	− 0.2	3.7	1.2	21.4
	1979	1.1	3.3	− 0.2	− 2.0	2.6	3.7
	1980	14.1	15.6	− 0.1	− 1.5	3.3	17.3
	1981	17.0	18.0	− 0.0	− 1.0	0.5	17.6
	1982	44.3	31.8	− 0.1	12.6	− 1.2	43,1
Non-banks	1978	16.0	13.9	− 0.6	2.7	2.3	18.3
	1979	38.2	32.7	− 0.9	6.4	1.1	39.3
	1980	29.1	26.2	− 1.1	4.0	4.1	33.2
	1981	51.5	52.7	− 0.9	− 0.3	5.6	57.1
	1982	24.5	13.5	− 0.5	11.6	12.2	36.7
Open market operations of the Bundesbank	1978	3.5	—	—	3.5	—	3.5
	1979	− 2.1	—	—	− 2.1	—	− 2.1
	1980	1.8	—	—	1.8	—	1.8
	1981	− 0.2	—	—	− 0.2	—	− 0.2
	1982	1.7	—	—	1.7	—	1.7
Non-residents 3	1978	0.1	e − 1.2	e − 0.2	1.5	×	0.1
	1979	4.0	e 0.4	e − 0.1	3.7	×	4.0
	1980	0.3	e − 0.3	e − 0.0	0.7	×	0.3
	1981	− 1.5	e − 0.3	e − 0.0	− 1.1	×	− 1.5
	1982	2.2	e − 0.5	e − 0.0	2.8	×	2.2
Total 4	1978	39.8	29.4	− 1.0	11.4	3.6	43.4
	1979	41.2	36.4	− 1.1	6.0	3.7	45.0
	1980	45.2	41.5	− 1.3	4.9	7.3	52.6
	1981	66.9	70.5	− 1.0	− 2.6	6.1	73.0
	1982	72.7	44.8	− 0.6	28.6	11.0	83.7

1 Mostly bonds, medium-term notes,Federal savings bonds and 5-year special Federal bonds. — 2 Net purchases (+) or net sales (−) of foreign bonds by residents. — 3 Net purchases (+) or net sales (−) of domestic bonds by foreigners. — 4 Net sales plus/less changes in issuers' holdings of their own bonds. — e Estimated. Discrepancies in the totals are due to rounding.

at DM 28.5 billion (net); practically all of them were securities with long maturities. The Federal Government was by far the most important issuer (DM 23 billion). Demand for five-year special Federal bonds, which were offered on tap, was particularly strong (DM 14 billion), while the outstanding amount of Federal savings bonds declined further, albeit only slightly. The remaining public issues were accounted for in roughly equal shares by the Federal Railways, the Federal Post Office and the Länder Governments.

Foreign Deutsche Mark bond market acts as a "turntable"

Issues of foreign Deutsche Mark bonds also increased perceptibly last year. In all, foreign borrowers sold Deutsche Mark bonds to the nominal value of almost DM 13 billion in 1982. After deduction of large redemptions, net sales came to DM 3.5 billion (against DM 1 billion in 1981), no less than four fifths of which was placed abroad. Germany's continued success in the external adjustment process and the strength of the Deutsche Mark in the foreign exchange markets evidently had a favourable impact on the decisions of foreign investors at a relatively early stage. The result was that this market sector served as a "turntable" for international capital to a greater extent last year, whereas issues of foreign Deutsche Mark bonds had seriously burdened the German bond market at times in the preceding years owing to the great restraint then shown by foreign investors.

Banks more willing to invest

As usual during periods of growing liquidity, the absorptive capacity of the German bond market was aided in 1982 by the banks' stronger propensity to invest. They enlarged their bond holdings by DM 43 billion last year, taking up more than half of the bonds sold (net) against barely one quarter in the previous year. Given the "easy" state of the money market (reflecting the comparative abundance of liquidity) and the generally low level of private demand for credit, the banks had enough room to increase their participation in bond purchases, especially since the downward trend of interest rates implied price gains.

Differentiated investment behaviour of non-banks

Non-banks, which had been the principal group of bond buyers until the turnaround in interest rates in the autumn of 1981, were less significant last year, although their purchases of domestic and foreign bonds remained relatively large, at DM 36.5 billion. From the outset, the funds invested in short-dated bonds in earlier years and partly released in 1982 could be regarded to only a limited extent as investment in the capital market. In fact, only a small proportion of the redemption proceeds appears to have been reinvested in securities last year. Private investors, in particular, paid large amounts into their savings accounts in 1982, after having considerably increased their bond holdings at the expense of their savings deposits in the years when interest rates were high.

Growing interest in foreign currency bonds

Last year, however, domestic investors also bought a substantial quantity of longer-term foreign bonds. In 1982 one third of the bond purchases of domestic non-banks, representing an amount of more than DM 12 billion, consisted of foreign securities. These were virtually all foreign currency bonds (mainly dollar bonds), which after the relatively rapid fall in interest rates in the German capital market seem to have given many investors a welcome opportunity of improving the overall yield on their security portfolios.

Stronger foreign demand for Deutsche Mark bonds

Foreign investors' interest in Deutsche Mark bonds picked up in the course of last year. In 1982 non-residents bought more than DM 2 billion of domestic bonds, after having reduced their investments in the German market by DM 1.5 billion a year before. In addition, they acquired DM 2.5 billion of foreign Deutsche Mark bonds, which — in contrast to domestic bonds — are not subject to coupon tax, which often makes them more attractive to foreigners.

Buoyant share market

Under the impact of the downward trend in interest rates in the bond market, there was an upswing in the share market at the beginning of 1982. This gave way to price losses in the spring, however, when the bond market, too, tended to be weak at times. Various economic developments, such as the slight improvement in enterprises' earnings and the more favourable profit expectations, might have warranted a more optimistic market outlook at the time. But this was prevented by the persistent cyclical uncertainty, which was exacerbated by bad news on the economic front. Share prices on the German stock exchanges therefore declined from April up to the summer months. As measured by the index of share prices calculated by the Federal Statistical Office, they reached their lowest level for several years in August 1982. The bullish tendency that suddenly appeared in the U.S. stock market in mid-August initiated a reversal in sentiment in the German share market. Since then share prices have risen strongly, despite some brief fluctuations, in line with the price trend in the bond market. At the end of March they were about 28 % higher than at the beginning of 1982, thus reaching a record level.

Sales of shares little larger than a year before

Despite the brisk demand for shares, particularly in the second half of the year, the share market continued to play a minor role as a source of finance for enterprises in 1982. The net amount domestic enterprises raised in the share market last year, at just under DM 6 billion (market value), was DM 0.5 billion larger than in 1981. Sales of foreign equities totalled approximately DM 4 billion in 1982 and consisted mostly of acquisitions of participations by enterprises and capital increases in existing firms rather than of portfolio investment. The modest amount raised in the domestic share market forms a striking contrast to the financing situation of German enterprises, which are confronted with the urgent task of reinforcing their weak capital base in order to be better equipped for taking new investment risks.

5. Sluggish capital formation and its consequences

Overall economic problems aggravated by weak capital formation

The increase in the inflow of longer-term financial resources last year cannot obscure the fact that the formation and use of capital in Germany have for some time been inconsistent with the requirements of sustained, job-preserving growth. The main reason for this is that less and less of the income generated is being used for the extension and improvement of production facilities and the infrastructure. In 1982, just as in the preceding year, about 90 % of the net national product — after deduction of the consumption of fixed capital — was used for consumption purposes and only 10 % for the net formation of capital (in the form of fixed assets and stocks) and the net acquisition of claims on the rest of the world. In the seventies 14½ % of the net national product, and in the sixties almost 20 %, had been used on average to build up national wealth, and thus to provide the capital base for the creation of jobs and the improvement of productivity.[1] In the last few years the reduction in overall capital formation has coincided with a sharp expansion of the supply of labour (due largely to demographic factors) and thus has tended to aggravate the labour market problems. As the level of wages, and particularly of fringe benefits, in Germany is high by international standards, only those jobs which are provided with enough and sufficiently efficient capital are as a rule profitable and hence secure; this applies above all to those economic sectors which are directly or indirectly exposed to international competition in their domestic and foreign markets.

Housing sector accounts for a large share of the total capital input

In addition, about 40 % of the total increase in fixed assets in the past decade (with massive government promotion) has been in the housing sector, i.e. in a field in which capital is used in the main directly for consumption purposes. Substantiated on the face of it for years by a housing shortage, which in many cases has been due only to a misallocation of accommodation deriving from "distorted prices", a large part of overall saving has been channelled into the housing sector through tax concessions, housing bonuses, low-interest public loans, etc., whereas producing enterprises, which have to pay interest at market rates on most of their borrowed funds, have become more reluctant to embark on investment projects in view of their unpromising earnings prospects.

Slower growth of production potential

The low level of investment in the producing sector of the economy has contributed materially to the distinct deceleration in the growth of overall production potential in the last few years. Since 1980 production potential has risen on average by 2½ % a year, compared with 3½ % in the seventies and 4½ % in the sixties. As indicated before, the actual expansion of domestic production has failed to keep pace even with this slow increase in potential. However, this has mainly been a temporary interruption of the growth of output caused by cyclical factors and essential adjustment processes. How far it will be possible, after the period of weakness has been overcome, to influence growth so favourably that more labour will be required and employed on a durable basis depends crucially on whether net capital formation increases again and more capital is applied to productive uses, quite apart from cyclical developments.

1 The long-term decrease in the overall investment ratio is also evident if 1982 is compared with years in which economic conditions were very similar; in 1975 this ratio came to 10½ % of the net national product and in 1967 to 16½ %.

Overall capital formation and saving

As a percentage of the net national product at market prices

Item	1960-69 1	1970-79 1	1979	1980 p	1981 p	1982 p
Capital formation						
Net capital formation	18.7	13.7	14.2	13.9	11.1	9.5
Net fixed capital formation	16.8	12.7	12.0	12.6	11.2	9.2
Stockbuilding	1.9	1.0	2.2	1.3	− 0.1	0.4
Change in net claims on the rest of the world	0.7	0.8	− 1.1	− 2.4	− 1.4	0.3
Capital formation, total	19.4	14.5	13.1	11.5	9.7	9.8
Saving 2						
Households	7.3	8.7	7.9	8.2	9.0	8.8
Enterprises	7.5	4.4	5.0	3.2	2.1	2.8
of which						
Producing enterprises 3	4.6	2.2	3.7	1.2	0.1	0.6
Government	4.6	1.4	0.2	0	− 1.4	− 1.7
Saving, total	19.4	14.5	13.1	11.5	9.7	9.9
Memorandum items						
Capital formation in DM billion	(77.0)	(132.0)	(162.2)	(150.3)	(130.8)	(138.4)
Percentage change on previous year or on an annual average in %	+ 7.3	+ 4.4	+ 9.0	− 7.3	−13.0	+ 5.8

1 Annual averages. — 2 Including capital transfers. — 3 Enterprises, excluding housing and excluding financial institutions. — p Provisional.
Discrepancies in the totals are due to rounding.

Because of the reduced efficiency of the capital stock, more must be invested in modernisation and innovations

The problem of inadequate capital formation is the more severe as the economic efficiency of the existing capital stock has decreased in the past few years as a result of the two oil price shocks. It became necessary to conserve energy and develop alternative energy sources; this called for a large capital input, which, however, did little to improve the productivity of labour. Moreover, in several traditionally important industries the emerging competition of the "new industrial countries" led to an economic and in some cases also physical decrease in capacities (or such a decline is imminent, as seems to be the case in some areas of the steel industry and shipbuilding). In view of this extended period of subdued capital formation, numerous production facilities in other sectors too no longer conform to the latest state of the art. These structural weaknesses can only be remedied by additional investment, which accelerates the indispensable adjustment of the economy. What is primarily required is investment which ultimately helps to bring about technological progress. A need to catch up has arisen in the last few years, not so much in the field of expenditure on research, where Germany still ranks above the international average, as in the area of transferring technological innovations to enterprises. For investment in new technologies will be postponed if the earnings position is poor and if the risk of such investment, which requires long-term planning, is high relative to the expected returns.

Declining share of enterprises in overall saving . . .

One of the reasons for the low level of investment is that, in the saving process, the distribution of functions among the economic sectors has changed considerably over the long term (see the above table). In 1982 households formed savings equivalent to about 9% of the net national product, thus keeping their contribution to overall capital formation approximately at the level of the seventies and slightly above that of the sixties. But producing enterprises (enterprises excluding housing and financial institutions) accounted for only a small part of overall saving through their net retained income, including net investment grants received from other sectors. The total amount of funds of this kind available to all enterprises (corporations and enterprises without a legal personality of their own), at just over DM 8 billion, made up only about ½% of the net national product in 1982; in the seventies this share had stood at over 2% and in the sixties at 4½%. The new net capital formation of these enterprises has always been much larger than the internal resources and investment grants from other sectors at their disposal. It is in keeping with their traditional role that, by borrowing, they acquire savings formed elsewhere in the economy and use them, together with their own funds, for investment purposes. But the share of own funds in their net capital formation has hardly ever been so low as in the last few years. The public authorities, finally, "dis-saved" in 1982, i.e. on balance they attracted savings from other sectors equivalent to 1½% of the net national product and transformed a major proportion of them into consumption expenditure. During the seventies, by contrast, the public authorities formed substantial savings and used them to finance a large part of their net capital formation and capital transfers; and during the sixties they actually provided savings of their own to fund the capital formation of the private sector. Some of these shifts are undoubtedly of a long-term and irreversible nature; in any case, a distribution of savings like that of the fifties and sixties, when government "saving" was relatively large and exceeded public investment in fixed assets, would not be desirable in present circumstances, which are different in many respects; incidentally, that distribution was widely considered to be in need of correction at the time. The economic problem posed by the shift in overall saving in the last few years is that it has gone too far and therefore ultimately tended to reduce enterprises' ability to invest. The decrease in enterprises' "saving" is directly related to the deterioration in their profitability: sharp wage and salary increases in the early seventies, high taxes on profits, structural distortions in the wake of the two oil price crises, signs of saturation in some sub-markets and the growing competition of the "new industrial countries" have all played their part. The latest world-wide economic slowdown with its adverse consequences for German exports has aggravated this tendency, but probably only temporarily.

... and growing government absorption of income

At the same time, the government absorbed an increasing proportion of the overall value added by raising taxes. In 1982 total taxes and levies were equivalent to about 42½% of the nominal gross national product, compared with 38½% ten years earlier and roughly 33½% in 1960. It is notable that this did not detract from households' saving, as stated before. This owes something to the fact that a large and continuously growing part of taxes and other levies flowed back to households through government transfer payments. This does not apply, however, to private enterprises, at least not to the many enterprises which do not receive any subsidies, interest allowances or other financial assistance. The government itself expanded its net capital formation at a disproportionately slow pace in that period; in 1982 it accounted for about 3% of the nominal gross national product against an average of nearly 4% during the seventies. The government's own contribution to financing this investment and its capital grants to third parties also decreased steadily. Since the middle of the seventies the share of the government's capital spending in its total expenditure has declined considerably, while a far larger part of government spending than in earlier years has been financed by borrowing.

Decreasing return on the capital employed in enterprises

The tendencies just outlined are mirrored clearly in enterprises' profit and loss accounts. According to the balance sheet statistics of the Deutsche Bundesbank, which cover the principal areas of economic activity with private enterprises outside the financial and housing sectors, in 1981 enterprises retained only 4½% of their gross earnings (sales proceeds net of work done by other enterprises) as profit for the year, and judging from the available information there was no significant improvement in their earning power in 1982. Hence profitability in 1981, and probably also in 1982, was below even the very depressed level of 1974-75; in the early seventies the profit for the year had averaged 8% of gross earnings, and in the second half of the sixties over 9%. Relative to the internal resources employed, enterprises' profitability has deteriorated further in the last few years. Among corporations, whose annual accounts provide the best indication of the return on the capital employed in enterprises, the profit for the year (after tax) in 1981 amounted to roughly 5% of the published capital and reserves, according to the data on 5,000 public and private limited companies available for that year, and the results for 1982 will probably be very similar. At the beginning of the seventies, by contrast, the return on the own funds employed in incorporated enterprises came to 7½%.

Provision of risk capital more difficult

The reduced earning power of enterprises had adverse effects in several respects. Firstly, it made it more difficult for enterprises to strengthen their capital base by their own efforts. Secondly, in such circumstances it is not easy to find investors who are prepared to take the risk of participating in a firm. Finally, inadequate returns in one's own enterprise give grounds for tying up capital in higher-yielding investments outside the enterprise and even abroad. It cannot be said with certainty at which precise point capital starts to migrate, for such investment decisions are naturally influenced by other factors as well as by yield considerations. But the deterioration in earnings prospects in Germany seems to have contributed significantly to the sustained sharp rise in the acquisition of shares and other capital interests abroad by German investors, whereas corresponding investments in Germany by foreigners have decreased distinctly. German direct investment abroad, including portfolio investment in foreign shares, totalled about DM 19 billion in 1981 and 1982 combined, while the inflow of funds from abroad for similar purposes was less than half as large, at about DM 9 billion. If investors are unwilling to provide enterprises with risk capital and if the income generated is not retained in the firm, the only options are to adjust capital formation to the reduced supply of own funds, to resort increasingly to outside finance, or — as has sometimes happened in the last few years — to do both. The narrower the capital base and hence the more the lenders have to share the entrepreneurial risk, the greater is the danger that the cost of outside finance will rise and profitability be impaired in this way as well.

Entrepreneurial risks increased by shortage of own funds

Quite a number of enterprises have been caught up in this vicious circle of progressively worsening financing conditions in the course of the last few years. The weakening of their financial base is also reflected in the decrease in enterprises' own funds ratio. According to the balance sheet statistics of the Deutsche Bundesbank, the capital and reserves of the enterprises in the branches of economic activity covered by these statistics came to 20½% of the balance sheet total in 1981 (the results for 1982 are not yet available). At the beginning of the seventies this ratio stood at 26½% and in the middle of the sixties, when the Bundesbank started to evaluate balance sheets, at 30%. The inevitable outcome of the sharp decline in this ratio has been that enterprises have responded more and more sensitively to fluctuations in economic activity. As long as the use of borrowed funds yields more than it costs, it increases the return on own funds — the more so, indeed, the lower the ratio of capital and reserves to the balance sheet total is; in view of this fact, enterprises were not infrequently recommended in earlier years to minimise their input of own funds, this being a particularly lucrative financial strategy (leverage effect). However, this makes enterprises increasingly susceptible to fluctuations in earnings and interest rates, and the cushion for absorbing losses becomes too thin. The sharp rise in company failures in the last few years already referred to (see page 11), is not least due to the fact that enterprises have found it difficult, owing to their weaker capital base, to cope with the adverse influences emanating from the general economic environment.

Return to appropriate economic growth conditional on higher earnings and a broader capital base

An improvement in earnings and a broader capital base for enterprises seem to be indispensable if appropriate economic growth and a high level of employment are to be regained. This goal can, however, be approached only gradually and not by a single route. Wage policy and social policy (which influences fringe benefits) are two key factors which can bring about, or at least facilitate, a change. But tax policy is no less important, particularly in view of the underlying conditions for the provision of more capital through the market. These comprise two elements: firstly, preventing misdirections of risk capital due to the tax regulations (such as are frequently associated with investments in projects entailing losses for tax purposes, e.g. companies specialising in the exploitation of tax privileges or "Bauherrenmodell" tax-saving schemes); and secondly, paving the way for the provision of more risk capital to enterprises.

Improving the provision of risk capital by broadening the share market

The narrowness of the share market, which has been deplored for a long time, is proving a particular handicap, although the share has its advantages as an instrument of capital participation. On the one hand, if the share market is large enough, it enables an enterprise which is looking for capital to raise it on a broad basis, thus safeguarding its independence. On the other hand, the share gives an investor an opportunity of spreading his risk more widely. An improvement in the functioning of the share market, such as has often been called for (most recently in the latest report of the Council of Economic Experts), would also be helpful in connection with the increased participation of wage and salary earners in the capital and earnings of enterprises, an issue which is constantly being raised. Such plans have been under active discussion again in the recent past owing to the initiatives announced in the Federal Government's Annual Economic Report for 1983; however, they will have a chance of success in the long run only if such participations — no matter how they are technically designed — are in enterprises which generate adequate earnings and are not exposed to undue risks. This presupposes that the underlying economic conditions can be steadied, so that the outlook for investors is secure over the longer term. This is primarily a task for general economic and fiscal policy. The contribution that the Bundesbank can make is to keep the value of money — the most important basis for enterprises' decisions — stable.

1. The international economic situation

Persistent recession and rising unemployment . . .

Contractionary forces continued to dominate the world economy in 1982. The OECD countries even had to accept a slight reduction of their real national product, after economic growth had already declined considerably in 1980-81. Unemployment continued to rise for this reason. It reached worrying levels in practically every country, all the more so because employment in the OECD area as a whole decreased for the first time. In earlier years employment had continued to grow even though its increase lagged more and more behind the number of job-seekers entering the labour market. The further weakening of economic activity was in part an inevitable concomitant of the fight against inflation. However, the particularly strong rise in unemployment was also due to the fact that high real wages and an unsatisfactory earnings position for enterprises exerted just as depressive an effect on investment activity as the greater recourse of the public sector to the capital markets. Moreover, for some time a number of branches of the economy have been feeling more keenly the pressure on the world market originating in the industrialised threshold countries. Last but not least, the over-indebtedness of some countries, especially in Latin America and Eastern Europe, induced them to cut their imports sharply, leading in turn to a marked decline in the exports of the industrial countries.

. . . can be lastingly overcome only by policies geared to stability

In spite of this difficult situation, most governments and central banks in the industrial countries have adhered to economic policies geared to stability. These efforts have been given firm support by international institutions such as the IMF and the OECD, and are based on the conviction — as well as the lesson learned through bitter experience — that a durable economic upswing can only be achieved after monetary stability has been regained. Any policy other than one geared to stability would inevitably have led the industrial countries of the West into even greater economic difficulties. The correction of structural weaknesses would have been further delayed, and ultimately there would still have been no alternative to combating inflation, with all the greater losses in terms of growth and employment. Countries that believed they could ignore this lesson have once again had to pay dearly for it.

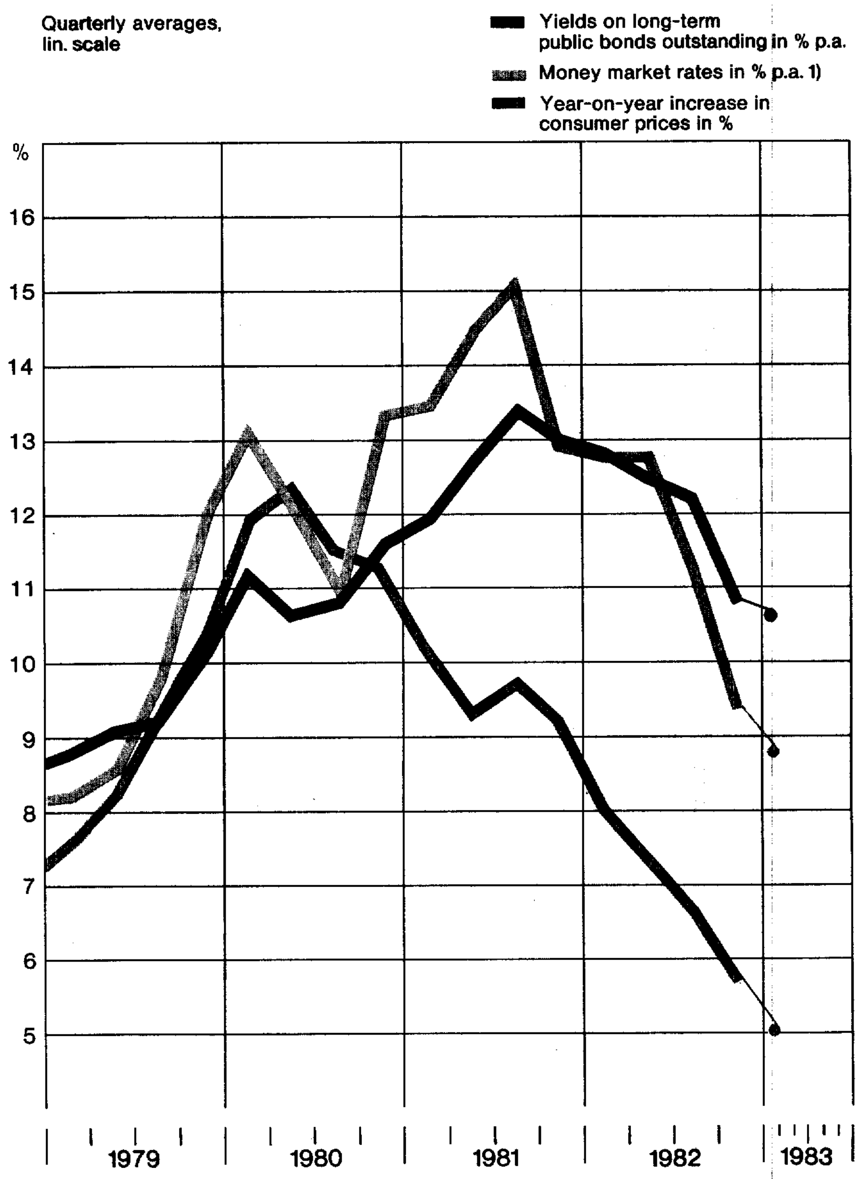
Lower rates of inflation and declining interest rates

Although the efforts undertaken so far have been far from easy, they have borne fruit. In most countries inflation is on the decline. By the end of last year the weighted average rate of inflation in the countries comprising the Group of Ten had fallen to roughly 6% in comparison with the previous year, i.e. to its lowest level since 1972, with the United States, Japan and the United Kingdom achieving particularly impressive results. Interest rates in the money markets and capital markets of the industrial countries dropped considerably at the same time. However, in some countries the decline in interest rates lagged distinctly behind the progress achieved in fighting inflation. Real interest rates — measured in terms of the long-term interest rate less the annual rate of inflation — even increased on average for the industrial countries and reached a level of over 5%. But this primarily provides evidence of how deeply embedded inflationary expectations still are and how strongly any move away from a stability-oriented policy would drive up interest rates again.

Moderate income distribution policies and consolidation of budgets still an urgent task

The further rehabilitation of the economies of the industrial countries requires above all moderate income distribution policies. Any additional scope for income distribution resulting from increases in productivity and improvements in the terms of trade must first be used to strengthen enterprises' earnings position. At all events, in most countries insufficient progress has been made in this direction so far. Apart from this, practically every country is faced with the urgent task of consolidating public sector budgets and simultaneously giving precedence to capital expenditure over consumption. This is the only way to contain inflationary expectations on a lasting basis and to gain greater scope

International price and interest rate movements*



* Weighted average for the countries of the Group of Ten including Switzerland; GNP weights.- 1) Mostly interest rates for three-month funds.- Latest position: January 1983.

for the financing of productive investments. Since it is the most powerful economy in the world, the United States naturally bears a special responsibility in this respect.

Considerable success in adjusting to the balance of payments and energy situation

The successes scored in the adjustment process by both the industrial countries and the developing countries include not least reduced tension in the global pattern of current accounts and the decline in oil prices, which has now been in progress for two years and recently even accelerated. This again strikingly demonstrates the degree to which discipline, together with confidence in the forces of the market, can help to overcome even extremely difficult situations. However, the persistently grave balance of payments problems of the developing countries underline the fact that these countries will have to continue to make considerable efforts before their economies return to a more satisfactory state. At all events, the limits to incurring debt as a means of achieving balance of payments equilibrium became apparent in many countries. Even though the implications of this are painful, an orderly correction of economic policy now seems to have been initiated in the developing countries. These countries are by no means on their own in this difficult task. In implementing a better combination of financing and adjustment they can rely on help from their creditor banks, on closer cooperation between central banks and, last but not least, on additional assistance from the IMF, financed by the industrial countries with strong currencies as well as by a number of oil-exporting countries. This warrants the hope that serious damage to the international economic and financial system can be averted.

Economic outlook not unfavourable

If the industrial countries and the developing countries keep to economic policies geared to stability, and strengthen this policy stance wherever it seems necessary, then the world can look forward to future economic developments with confidence, particularly as initial signs of recovery are evident. This confidence is all the more justified since the distinct decline in oil prices is not only easing the balance of payments situation of many countries further but is also stimulating private domestic demand in the oil-importing countries, thus encouraging the renewed growth of world trade. For these reasons there is now a better prospect of the successful containment of protectionist tendencies — which have recently increased and can only inhibit the rehabilitation of the world economy — and of strengthening the forces of free trade once again.

2. The global pattern of current accounts

Reduction in the OPEC surplus

The second oil price hike quickly led to a rise in the current account surplus of the OPEC countries to $ 115 billion in 1980. As early as 1981 it had fallen back to about $ 65 billion, and it disappeared almost completely last year. In the process, the surplus of the group of sparsely populated countries, to which Libya, Saudi Arabia and the smaller Gulf states belong, also declined. In 1981 the fall in the OPEC surplus was mainly to the detriment of countries with a dense population and a correspondingly strong demand for imports, and their current account balances actually moved into deficit. In contrast, the further increase in their deficits in 1982 accounted for only one sixth of the overall deterioration of the aggregate current account balance of the OPEC countries.

Sharp drop in sales and receipts from oil exports

The drop in sales and receipts from the OPEC countries' exports of petroleum was the main cause of the deterioration of their current account balances. The more sparing use of petroleum and petroleum products in the industrial countries and the developing countries and the decline in demand for oil owing to the recession contributed to this development. The weather also evidently played a role. According to statistics of the International Energy Agency (IEA), oil consumption in the OECD countries fell from its peak in 1979 by about 17 % in the ensuing three years, with annual decreases of 7 %, 6 % and finally 4½ %. The demand for OPEC oil went down even more than current consumption, since stocks of oil in the OECD countries diminished and the self-sufficiency of the industrial countries and the developing countries increased simultaneously. All these factors taken together exerted considerable downward pressure on oil prices in the spot market. The OPEC countries were not able to resist this pressure for long. In terms of U.S. dollars, the average price for OPEC crude oil fell between the beginning of 1981, when it had reached its highest level to date, and the end of 1982 by approximately 5 %, before the posted prices for OPEC oil had to be reduced once again in the initial months of the current year. The import demand of the OPEC countries, which had risen sharply in 1981, grew hardly at all last year. Although Saudi Arabia and a number of smaller countries in the Gulf region increased their imports further, most of the other countries were not able to expand their imports any more, at least in real terms, and some of them even had to cut them back sharply in the light of the decline in their oil export receipts.

Current account balances of selected countries and groups of countries

US$ billion

Group of countries/Country	1978	1979	1980	1981	1982 5 p
A. OECD countries					
Seven principal countries	+22	−10	− 34	− 2	− 7
United States	−15	− 1	+ 2	+ 4	− 8
Japan	+17	− 9	− 11	+ 5	+ 7
Canada	− 4	− 4	− 1	− 5	+ 2
Germany	+ 9	− 6	− 16	− 6	+ 3
France	+ 7	+ 5	− 4	− 5	−12
United Kingdom	+ 2	− 2	+ 7	+13	+ 7
Italy	+ 6	+ 6	− 10	− 8	− 6
Other countries	− 9	−17	− 36	−24	−23
Total	+12	−28	− 69	−31	−30
B. OPEC countries					
Sparsely populated 1	+16	+42	+ 93	+84	+30
Densely populated 2	−11	+19	+ 23	−17	−28
Total	+ 5	+62	+115	+67	+ 2
C. Other developing countries					
Threshold countries 3	−12	−26	− 39	−44	−35
Other countries	−11	−12	− 24	−29	−28
Total	−23	−38	− 63	−73	−63
D. Other non-OECD countries 4	− 9	− 4	− 11	−10	− 2
E. Statistical discrepancy (Total A less D)	−15	− 8	− 27	−47	−93

1 Kuwait, Libya, Qatar, Saudi Arabia, United Arab Emirates and the non-member Oman. — **2** Algeria, Ecuador, Gabun, Indonesia, Iran, Iraq, Nigeria, Venezuela. — **3** Countries which in 1979 had a per capita income of at least US$ 1,500 and a share of the manufacturing sector in the gross domestic product of at least 20%: Argentina, Brazil, Chile, Hong Kong, Israel, Mexico, Singapore, South Korea, Taiwan, Uruguay. — **4** Centrally planned economies (China, Indo-Chinese countries, Mongolia, North Korea, eastern European countries, USSR), Malta, South Africa, Yugoslavia. — **5** The figures for the OECD countries include more recent reports by a number of countries. Hence the aggregate deficit of this group of countries is about one quarter lower than the latest available estimates of the OECD. The discrepancy in the statistically recorded global current account pattern has decreased accordingly. — **p** Provisional.
Sources: OECD, IMF and national statistics.

Analytical usefulness of global current account balances greatly impaired

However, up to the present the reduction in the OPEC surplus has not been accompanied by a statistically proven corresponding improvement in the position of the other groups of countries. The current account deficit recorded by the OECD countries in 1982 was hardly any lower than that of the previous year, according to the available data, and the aggregate deficit of the other country groups also fell comparatively little. The sum total of all current account balances, which ought to be zero if all international transactions were recorded completely and simultaneously, revealed a deficit of no less than roughly $ 95 billion for last year on the basis of current data.[1] It goes without saying that such disproportionately large gaps in the statistically recorded global current account pattern detract from the analytical usefulness of the current account balances as actually shown and of the changes in them from year to year.

Aggregate current account balance of industrial countries possibly subject to the most statistical uncertainty

In so far as these discrepancies are clarified later and thus become somewhat smaller, experience shows that the aggregate current account balances of the OPEC countries need to be corrected least. The change in the current account position of the OPEC countries discussed above should therefore be a fairly accurate reflection of the change in their external position. In contrast, the estimates of the global current account balances of the OECD countries might be too unfavourable a representation of their situation, particularly since in earlier years the movements in the current account balances of the OPEC countries and the OECD countries always correlated closely with each other. This assumption is also strengthened by recent reports from individual industrial

1 The reasons behind this discrepancy and the changes in it are briefly discussed in the Report of the Deutsche Bundesbank for the year 1981, p. 56.

countries, whose current account balances were all more favourable than had been expected. Moreover, it is possible that, compared with the past, a greater proportion of the discrepancy in the development of the current account balances between the OPEC countries and the OECD countries is mainly due to oil transactions being recorded at different times. To this extent, the statistics on foreign trade are not really faulty; they only reflect the decreasing exports of petroleum by the OPEC countries in the trade balances of the industrial countries with a corresponding time-lag. In fact, judging from the available data, the aggregate balance of trade of the industrial countries also improved only slightly in 1982, while the trade balance of the oil-exporting countries deteriorated roughly in line with the decline in their aggregate current account balance. For these reasons a really accurate picture of the development of the industrial countries' current account as a whole cannot be gained from the currently available figures. International organisations such as the IMF and the OECD should take this opportunity of intensifying their efforts to clarify the excessively large gaps in the statistics on the global pattern of current accounts.

Initial, but insufficient, progress in adjustment by developing countries

In comparison with the data on the industrial countries, the available statistics on the development of the overall current account of the developing countries seem to reflect the dominant trends more or less accurately. At all events, these countries have made noticeable progress in reducing their current account deficits, as is also confirmed by international institutions. This is reflected in particular in the fact that they have succeeded in lowering their current account deficits despite the renewed rise in interest payments on their short-term and long-term foreign debt. However, these trends do not apply to all countries within this group. In a number of countries with a particularly heavy burden of debt financial conditions deteriorated severely, with the result that grave financing crises arose. The situation was brought to a head in the middle of last year by the problems of Mexico — one of the developing countries with a growing oil-producing and oil-exporting sector of its own, and therefore seemingly with better prospects than many of its neighbours for coming to grips with its difficult external situation. The example of Mexico thus clearly illustrates that lasting confidence is not guaranteed by rich raw material and petroleum resources alone but also depends on the ability of these countries to maintain their creditworthiness in the international financial markets by means of appropriate economic policies. Present efforts to overcome the debt crises faced by many countries will therefore meet with success only if the countries concerned adopt and adhere to economic policies through which they can move closer to overall equilibrium in their economies. The International Monetary Fund can assist them in this task by providing them with financial resources to bridge unavoidable balance of payments deficits and by combining this with economic policy conditions whose strict observance will initiate the requisite adjustment process. The main efforts must, of course, be undertaken by the debtor countries themselves. They have to reduce their current account deficits, and hence their financing needs, to a level that is more in keeping than it has been to date with their ability to service their foreign debts. At all events, international banks will in future hardly be prepared or in a position to enable individual countries to increase their debts (with the inevitable concomitant of current account deficits) on so generous a scale as in the past by granting them credits.

3. Problems and prospects in the international financial markets

Debt crises in important countries . . .

As early as 1981 the borrowing limits of some debtor countries in the international financial markets were beginning to emerge. Last year there was a rapid increase in the number of countries whose creditworthiness deteriorated. The economic and domestic political difficulties of Poland initially induced banks in the West not to renew short-term loans to some other borrowers in Eastern Europe as well. This affected Romania and Hungary in particular. As the year

International credit and bond markets

US$ billion

Item	1978	1979	1980	1981	1982 p
A. Medium and long-term Euro-currency loans [1]	74.2	79.1	79.9	[9] 145.9	98.9
Borrowing sectors					
Public [2]	56.2	61.5	50.3	59.6	63.0
Private	18.0	17.6	29.6	[9] 86.3	36.0
Borrowing countries [3]					
OECD countries	35.8	29.1	41.2	[9] 97.3	55.2
Seven principal countries	23.2	12.9	23.4	[9] 78.0	31.2
Other countries	12.6	16.1	17.8	19.4	23.9
OPEC countries	10.2	8.8	6.8	5.7	9.0
Other developing countries	24.0	32.8	27.8	40.4	32.4
Centrally planned economies [4]	3.9	7.9	3.0	2.0	0.8
Other countries [5]	0.3	0.5	1.1	0.4	1.5
B. International bond issues	37.5	38.9	39.4	48.8	71.5
Borrowing sectors					
Public [2]	27.6	25.8	25.2	27.8	41.5
Private	9.9	13.1	14.2	21.0	30.0
Borrowing countries [3]					
OECD countries	23.2	26.6	28.4	36.7	57.1
OPEC countries	1.9	0.4	0.2	0.3	0.3
Other developing countries	3.4	2.6	1.6	3.0	3.0
Other countries	0.6	0.4	0.4	0.2	0.4
International organisations					
European	3.4	3.8	3.6	2.5	3.5
Other	5.0	5.1	5.2	6.0	7.2
Types of issues					
Euro-bonds [6]	15.1	17.4	20.0	26.5	46.4
Traditional foreign bonds [7]	20.7	20.0	18.0	21.3	25.1
Special issues [8]	1.6	1.6	1.4	1.0	–
Currencies of issue					
U.S. dollar	14.1	15.3	16.7	29.1	44.7
Deutsche Mark	8.2	7.9	8.7	2.7	5.4
Swiss franc	7.6	9.6	7.6	8.4	11.4
Yen	4.8	3.0	2.1	3.3	3.9
Other	2.8	3.1	4.2	5.3	6.1
C. Total (A plus B)	111.7	118.0	119.4	[9] 194.7	170.4

1 Publicised internationally syndicated loans running for more than 12 months and almost entirely financed on a roll-over basis which have not necessarily been taken up yet. — 2 Including public enterprises and financial institutions and including international organisations. — 3 For the definition of the groups of countries see the table on page 54. Borrowing operations by foreign subsidiaries are included under the country of domicile of the parent company. — 4 Including CMEA institutions. — 5 Including international organisations. — 6 Internationally syndicated issues. — 7 Nationally syndicated issues in domestic currency. — 8 Direct placements with monetary authorities and governments. — 9 Including large loans to U.S. enterprises amounting to US$ 50 billion granted in connection with take-overs of other U.S. corporations, including Conoco and Texasgulf; only part of these loans resulted in transactions affecting the balance of payments. — p Provisional.
Discrepancies in the totals are due to rounding.
Source: OECD.

progressed, however, these developments tended to recede into the background in comparison with the financial consequences of the Falklands conflict, which largely cut Argentina off from additional foreign credits. In August even greater shock waves were triggered by the imminent cessation of payments by Mexico, which had meanwhile become the developing country with the largest foreign debts. Rather as in the case of Poland, a "regionalisation effect" occurred here, too, in the sense that the banks quickly began to have doubts about the creditworthiness of other debtor countries in Latin America.

. . . but not on a global scale

But the developing countries in other areas of the world, especially in Asia, and the industrial countries were affected only marginally by the greater restraint of the banks. Some of them were even able to have greater recourse to the international markets than previously. Although there are also a number of countries in Asia which are heavily in debt, their debt service obligations bear a sounder relationship to their ability to export than do those of some countries in Latin America. Moreover, in recent years they have succeeded in expanding their exports considerably, not least because of the high level of foreign trade between the countries in the Asian area, and they have consequently been less affected by the world recession and the crisis of confidence in the international financial markets.

Marked decline in total new medium-term and long-term loans

After allowing for repayments, new lending of short and long-term capital via the international credit and bond markets amounted to $ 150 billion in 1982, i. e. to about $ 40 billion less than in the previous year. This decline was due to a curtailment of bank credits. In comparison with 1981 new lending fell by over $ 60 billion to a total of barely $ 100 billion. As a consequence, the annual growth rate of outstanding bank credits in 1982 dropped to below 10%. In 1981 the rise had been approximately 20% and in the preceding years it had been even higher. However, there was a simultaneous increase of some $ 20 billion in the net volume of bond issues.

Rise in longer-term loans and bond issues for industrial countries

On the basis of the gross figures on newly granted medium to long-term Euro-currency loans, which are already available in full and which reflect (with some reservations) the trend of aggregate international bank lending, the OECD countries took up slightly more loans in 1982 than in the previous year, namely $ 55 billion. Although the table opposite contains a much higher figure for 1981, at $ 97 billion, this includes large loans to U.S. corporations – partly in the form of standby credits – totalling $ 50 billion which were granted in the second half of 1981 in connection with corporate take-overs in the oil industry and have been disregarded in the above comparison with the preceding year owing to their special nature. Apart from this, the increase in the volume of funds taken up in the bond markets was mainly accounted for by private and public sector borrowers in the OECD countries. All in all, in 1982 the OECD countries were able to borrow a third more longer-term foreign funds than in the previous year. At just over $ 26 billion, the United States headed the list, followed by Canada and France with $ 15 billion each, Australia with $ 8 billion and Japan with $ 6 billion.

Upswing in the bond market primarily due to interest rate reductions

On the one hand, the decline in interest rates induced borrowers to take up long-term debt, and to do so in greater measure on fixed terms. In the process, a considerable amount of short-term credits that had been raised earlier was replaced, thus reducing the corresponding burden on banks. On the other hand, the expectation that interest rates would fall made lenders who wished to ensure a high return on their funds more willing to invest. Moreover, the strength of the U.S. currency in the foreign exchange markets had a positive impact on the volume of funds raised in the dollar market. The leading position of the U.S. dollar as a currency for international bond issues is reflected in the fact that its share in the total of newly issued bonds rose further to 62%. Behind the Swiss franc, the Deutsche Mark, with a share of almost 8% (after 6% in the preceding year), accounted for the third position, but it was still far below its former significance as the second most important currency of issue.

Higher level of lending to OPEC countries as well

As a consequence of falling oil revenue the OPEC countries also increased their longer-term borrowing in 1982 (by $ 3 billion to $ 9 billion in gross terms). The net volume of funds they took up, including short-term loans, rose by as much as some $ 6 billion to $ 10 billion. At the same time they drew on their bank deposits. As a result, their net claims on Western banks, which had grown constantly in earlier years, declined by no less than $ 25 billion.

Sharp fall in new loans to other developing countries

In contrast, the other developing countries were promised a gross volume of new longer-term syndicated Euro-currency loans totalling only $ 32 billion against $ 40 billion in the previous year. The amount of loans granted in the first half of 1982, at $ 20 billion, was actually somewhat higher than in the comparable period of the preceding year. Against this, the volume of new loan commitments fell to as little as $ 12 billion in the second half of 1982. Moreover, the bond markets continued to play a subordinate role for these countries; since August 1982 these markets have been practically closed to debtor countries in Latin America. On the basis of the quarterly statistics compiled by the BIS, the aggregate new debts incurred by the developing countries in 1982, including short-term loans and after allowing for repayments, at about $ 15 billion, were much lower than in the previous year, when they had amounted to $ 40 billion. Of the total net volume of loans taken up last year, the largest share, at $ 12 billion, was for Latin American countries, led by Brazil ($ 6 billion) and Mexico ($ 5 billion). Thus, the relatively steep decline in new loans to developing countries was due first and foremost to the change at the short end of the market. Whereas in the two preceding years short-term bank loans with original maturities of one year or less had increased in significance among new loans to heavily indebted developing countries, the trend in 1982 was exactly the reverse as a result of the extreme restraint exercised by banks.

Debt crises owe much to short-term lending

Looking back, it is evident that the high level of short-term lending to the developing countries as well as a number of centrally planned economies was one of the main reasons why such considerable financing difficulties arose in 1982. On the one hand, it was made much too easy for these countries to finance their excessively high imports for ambitious development projects or other reasons. In some cases this only facilitated capital flight. This policy became the more disquieting, the higher the foreign debts and the resultant debt service burden of a country rose in comparison with its ability to export. On the other hand, the policy was based on the — as it later turned out — erroneous assumption of a number of banks that, in the event of impending danger, they would be able to withdraw their short-term loans without risk. An additional contributory factor, however, was insufficient differentiation of the interest margins in accordance with the individual country risks. In part this was a consequence of strong competition among the banks seeking foreign loan business; but short-sighted thinking in terms of prestige on the part of debtor countries also played a role. Moreover, some banks took too little account of the fact that, although they were able to shift the risk of interest rate changes on to the debtors to a considerable extent by incorporating flexible interest rate conditions in their agreements, they exposed themselves to greater risks of default as a result. Particular problems were posed by interbank loans which banks in debtor countries took up via their own foreign branches and often made available to their clients for longer-term periods. If the foreign branches that raised the loans are situated in offshore financial centres outside the BIS reporting area, no insight whatsoever is normally possible with respect to such lending.

Financial strength exaggerated by traditional debt service ratios

The marked shift towards short-term forms of lending has greatly increased the vulnerability precisely of the heavily-indebted threshold countries through a sudden reduction in the willingness of banks and other creditors to grant them credits. This weakness is not revealed at all by the traditional method of calculating debt service ratios — the ratio of debt service payments to revenue from exports of goods and services — because short-term liabilities are excluded. According to IMF calculations, the debt service ratio of the non-oil developing countries, for instance, rose from 18% to 24% between 1980 and 1982, and that of the 20 developing countries with the highest debt service payments from 29% to 38%. However, when short-term debts with a maturity of, say, one year are included, the average ratios increase to about twice the above levels, and in the case of the countries of Latin America they even amounted to around 125% in 1982. Under such circumstances any crisis of confidence will call the solvency of the affected country in question within a short space of time, especially since in some countries — as illustrated by the example of Mexico — a flight of private capital of considerable proportions may also be involved.

Overcoming the difficulties through cooperation between those primarily concerned

The prospects that the present difficulties in the international financial markets can be overcome and the stability of the international banking system maintained depend critically on cooperation based on mutual trust and self-responsibility between the four main parties concerned, namely the debtor countries and the creditor banks as well as the national monetary authorities of the major industrial countries and the relevant international institutions. In this context each group has special tasks to fulfil in keeping with its specific responsibilities and its own enlightened self-interest. For their part, the international commercial banks, which became the most important lenders for many developing countries with a relatively high per capita income (particularly the threshold countries) in the seventies, bear considerable responsibility. They cannot evade necessary reschedulings of the loans they have granted any more than certain increases in their commitments, which should, however, be based on cooperation with the IMF and therefore ultimately not be arranged without economic policy conditions. The debtors would otherwise find themselves in a hopeless situation despite the efforts they make themselves. If they were not willing to reschedule due debts and increase their lending commitments, the banks would even have to be concerned about whether current interest payments would be forthcoming. This would have a considerable impact on the valuation of their outstanding claims.

4. The role of the IMF and other international institutions in the present situation

The IMF as a catalyst of international financial assistance

Last year the financing and adjustment problems of many countries led to international bodies being especially heavily involved in coping with the crises that arose. In some cases this was reflected in a considerable expansion of their operations. In the face of the impending or acute payments difficulties of a number of its members, the IMF in particular, as the coordinator of the financial support operations of governments, multilateral institutions and commercial banks, has contributed in recent months towards preventing the debt crises of some large developing countries from turning into a banking crisis of global dimensions. By making, in particularly problematical cases, an adjustment programme financed partly by the Fund conditional on agreement among the creditors on a realistic rescheduling package, including sufficiently large new private loan commitments, the IMF offered the banks a sensible way out of an impasse, with the result that the international financial markets calmed down again. A major role in this process was played by the fact that each of the "problem countries" was simultaneously committed to far-reaching adjustment efforts through the economic rehabilitation programmes negotiated with the Fund. As experience shows, agreements of this nature which are supported by IMF loans considerably enhance the international creditworthiness of a country that is heavily in debt. At all events, the commercial banks are then more willing to grant such countries additional bridging loans and to reschedule old liabilities that have fallen due for repayment. This function of the IMF as a catalyst is particularly important, since as a rule the Fund can meet only part of the overall balance of payments needs of a member country anyway owing to its limited financial resources. Like the central banks, the IMF cannot, of course, relieve the commercial banks of responsibility for their loan commitments. Its function must be limited to neutral services, such as acting as an intermediary in rescheduling negotiations, and to providing a certain amount of financial assistance on the basis of adjustment programmes that promise to be successful. This requirement is dictated by the relatively short-term character of the subscriptions and credit lines made available to the Fund by the monetary authorities of its members. For this reason the Fund must not be tempted by the debtor countries or the commercial banks to take over a part of the outstanding debts; nor can the Fund be expected to satisfy any future needs for resources over a relatively long period. That would shift the IMF into the area of develop-

Purchases and repurchases under IMF credit facilities

SDR billion

Item	1977	1978	1979	1980	1981	1982
Credit tranches	2.9	0.4	0.9	1.8	3.4	2.5
Extended Fund Facility	0.2	0.2	0.2	0.6	2.1	2.1
Compensatory Financing Facility	0.2	0.6	0.6	1.0	1.2	2.6
Buffer Stock Facility	—	—	—	—	—	0.1
Total purchases	3.3	1.2	1.7	3.4	6.8	7.4
Total repurchases	2.9	4.8	4.2	3.3	2.1	1.8
Net purchases (net repurchases: —)	0.4	−3.6	−2.5	0.1	4.7	5.6

Discrepancies in the totals are due to rounding.
Source: IMF.

ment financing, which is the responsibility of other institutions — which, moreover, have to procure their resources on a long-term basis.

After a considerable volume of lending by the Fund in 1981 ...

As a reaction to the large-scale balance of payments disequilibria following the second oil price hike, the IMF had arranged for a considerable increase in the drawing facilities of its members as early as the beginning of 1981, initially for a limited period until the results of the 8th General Review of Quotas came into effect. With the decision on the Policy of Enlarged Access to Fund Resources adopted in March 1981, Fund members were granted the possibility — provided they had a corresponding balance of payments need — of drawing a maximum of 150% of their quota per year for a period of three years under standby arrangements or "extended arrangements". In addition, members that fulfil the relevant drawing conditions can obtain assistance under the Compensatory Financing Facility and the Buffer Stock Facility. This considerable scope for drawings has since been utilised almost exclusively by the oil-importing developing countries, which have encountered particularly grave difficulties as a result of the rise in the oil price, the global recession and the higher interest rates in the international financial markets as well as the world-wide growth of protectionism. After the manifest payments crisis of Mexico, a number of other developing countries were forced to have greater recourse than formerly to their drawing facilities in the IMF owing to the rapid increase in doubts as to their solvency and creditworthiness.

... a further rise in drawings last year

In 1982 the volume of new lending by the IMF under its various facilities rose to SDR 7.4 billion while loan repayments fell over the same period to SDR 1.8 billion. As a result, the Fund increased its additional lending by about SDR 1 billion in comparison with 1981 to SDR 5.6 billion. At the end of 1982 total outstanding drawings in the credit tranches thus amounted to SDR 19.3 billion. As the above table illustrates, particularly great use was made of the special facility for the compensatory financing of shortfalls in export earnings; in addition, drawings under the Extended Fund Facility, which is intended for structural adjustment, were once again heavy. At the same time there was a noticeable drop in drawings on the normal credit tranches, which are linked with relatively short-term stabilisation programmes. In 1982 the latter accounted for only about one third of all drawings on the Fund's credit facilities, compared with approximately one half in the previous year.

Some loan commitments cancelled owing to insufficient adjustment

However, the above figures on the effective contribution of the IMF towards financing the balance of payments of the developing countries in 1982 provide only a partial picture of the total balance of payments and liquidity assistance supplied by the Fund in this period. Credits granted by the IMF under standby arrangements or "extended arrangements", but not yet disbursed for various reasons, are also of great significance for the liquidity position of many Fund members. At the end of 1982 the volume of such credit lines that are still open totalled approximately SDR 11 billion as against SDR 13 billion at the end of 1981. The reduction last year was due, inter alia, to the fact that credit lines amounting to over SDR 4 billion were cancelled. In some cases this was done at the request of the borrowers, but generally it was the result of not fulfilling economic policy conditions. The large amount involved in these cancellations on the one hand raises the serious question as to how far countries borrowing from the IMF are willing and able to adhere to the conditions of the Fund, designed as they are to stabilise the country's balance of payments. On the other hand, it also indicates that, in the interest of economic adjustment measures that are generally acknowledged to be necessary, the Fund is not prepared to accept insufficient efforts by its borrowers and simultaneously jeopardise its own credibility.

Strengthening of the Fund's liquidity through an increase in quotas . . .

The strong growth of the IMF's loan commitments, particularly since the fourth quarter of 1982, and the corresponding "future burden" on its own resources and refinancing arrangements make a marked raising of the Fund's quotas in the near future appear desirable. After the Interim Committee of the Board of Governors of the IMF had on several occasions endorsed the principle that the Fund should continue to finance its lending operations primarily from its own resources, it virtually concluded its preparatory work on an increase in IMF quotas at its meeting in February 1983. The 8th General Review of Quotas is thus expected to lead to a rise in the Fund's quotas from their present total of SDR 61 billion to SDR 90 billion in future, i.e. by over 47 %. The Interim Committee envisages that this considerable increase should take effect if possible by the end of 1983.

. . . and through an enlargement of the GAB . . .

Even after the envisaged increase in quotas, the Fund's liquidity will probably remain subject to greater pressure than in the past. The members of the Group of Ten and Switzerland therefore decided in spring 1983 to enlarge their General Arrangements to Borrow (GAB) in favour of the IMF from just under SDR 7 billion to SDR 17 billion (about $ 19 billion). At the same time it was agreed that in future the GAB can be utilised under certain conditions to finance drawings on the IMF by non-participants in the GAB. These modifications of the GAB are intended in particular to enable the Fund to react quickly and adequately to balance of payments crises of major countries that constitute a danger to the monetary system as a whole. The Fund had recourse to this refinancing arrangement on several occasions in earlier years, the last time being in November 1978 in connection with a drawing by the United States on its reserve tranche. As a result of this operation the Fund's liabilities under the GAB amounted to SDR 0.8 billion at the end of 1982, SDR 0.6 billion of which was due to the Bundesbank.

. . . as well as through other refinancing arrangements

In order to finance its Enlarged Access facility the IMF can also draw on credit lines extended by the Saudi Arabian Monetary Agency (SAMA), a group of central banks under the auspices of the BIS and a number of other central banks. At the end of 1982 only SDR 2 billion of these refinancing commitments totalling SDR 9.3 billion (SDR 8 billion of which is accounted for by SAMA alone) had been activated, the greater part of them already being covered by loan commitments by the Fund to members. An increase in SAMA's refinancing commitment is in prospect. Moreover, SAMA will probably open an additional credit line to the IMF paralleling the GAB with the industrial countries of the West.

Recourse by the IMF to the financial markets undesirable in principle

The idea of the IMF refinancing part of its rapidly expanding lending operations by going to the international financial markets was discussed again last year. This possibility is envisaged in the Fund's Articles of Agreement. However, in the past the IMF has declined to do so for good reasons. Sooner or later, recourse by the Fund to the international financial markets would not only change its character — away from an institution of monetary policy cooperation and towards a kind of "super-Eurobank" — but might also raise the cost of the resources borrowed by the Fund and probably make it very dependent on the commercial banks. Moreover, a particularly critical point is that such a policy on the part of the IMF might cause the banks to withdraw increasingly from financing the developing countries (which is necessary in overall economic terms but involves many risks) and grant credits to the IMF at practically no risk instead. In this respect, the Interim Committee stressed again in September 1981 that the Fund should go to the international financial markets only if its liquidity comes under serious pressure which cannot be alleviated in any other way.

"Fire-fighting assistance" from the BIS

Since the procedure for approving large-scale drawings on the Fund usually takes a few months and the Fund generally disburses its loans in instalments, in line with the progress achieved by a country in stabilising its economy, the central banks of the industrial countries last year granted substantial short-term loans to prefinance IMF drawings to a number of major "problem countries" under the auspices of the BIS. This "fire-fighting assistance" was particularly justified wherever a serious threat to the international banking system was to be averted. As mentioned above, liquidity assistance of this kind cannot be intended to relieve the commercial banks and other creditors of the risk of default on loan commitments that are in special jeopardy. Nor can such assistance be granted repeatedly, because this might reduce the willingness of countries in a weak balance of payments position to make forceful efforts to adjust and to commence loan negotiations with the IMF at an early date. Finally, the short-term nature of central bank resources and the collateral needed to obtain loans also set limits to such assistance measures. Bridging loans of this type can therefore at best be granted in exceptional cases for special reasons, and their timely repayment via the IMF or in some other way must be assured as far as possible from the outset.

New co-financing instruments of the World Bank

The World Bank, too, played a more active role in the efforts to strengthen the basis of confidence for continued lending to the developing countries. The ideas it evolved led to the introduction at the beginning of 1983 of new co-financing instruments which in essence envisage the direct participation of the Bank in loan syndicates together with commercial banks. As a result, the commercial banks should — at least, this is what is expected — share the exceptionally high credit standing of the World Bank, thus helping to accommodate the greater need for security in private lending to developing countries. The World Bank hopes that in this way it can considerably expand its role as a catalyst of flows of private capital to the developing countries. Besides the Bank's own contribution of $ 500 million, it is intended to raise additional private resources totalling more than $ 2 billion with the aid of the new co-financing instruments over a period initially restricted to two years. At the same time the World Bank decided to increase in the near future its disbursements of loans for projects of paramount importance for the adjustment process. In the current financial year 1982-83, in which this policy is not yet expected to have a major impact, the transfer of resources originating from the World Bank and its affiliates, the International Development Agency (IDA) and the International Finance Corporation (IFC), as well as from private and official co-financing sources will probably total some $ 22 billion, as against approximately $ 21 billion last year.

Financial scope of the development banks very limited

However, the scope for more extensive initiatives on the part of the development banks so as to overcome existing debt problems is very limited. The task of these institutions in the field of development policy, which is geared to a time horizon of 15 to 50 years, makes it impossible for them to grant short-term assistance, which must remain the prerogative of the IMF, also in view of the division of tasks between them and the Fund. Besides, despite the improvement in conditions in the capital market the development banks are already coming up against limits in financing their traditional forms of assistance. This is because additional requests for credit by new member countries, credit applications submitted for the first time by other members and a greater need for loans in the energy sector are coinciding with a reduction in the ability of some major donor countries to make larger contributions to the concessionary resources of the development banks or to their capital and reserves out of government budget funds. Last year these unfavourable background conditions were accentuated by the serious financing problems encountered by the IDA. For the development banks taken as a whole, therefore, the signs are pointing more towards the financial consolidation of their traditional activities. This does not imply that they do not have an important part to play in overcoming current debt problems. They can probably make the most effective contribution to solving existing problems by asserting their influence more strongly, in the context of their traditional lending operations, in order to ensure stability-oriented economic and development policies.

5. The development of global monetary reserves

Renewed decline in global monetary reserves owing to valuation adjustments . . .

In 1982 the identified gross monetary reserves of the IMF countries fell by about $ 28 billion, thus continuing at a faster pace the decline in official reserve holdings that was observed for the first time in 1981. However, as in the previous year, an important role in this process was played by downward valuation adjustments. On the one hand, there was another decrease in the ECU balances created by EEC countries depositing gold with the European Monetary Cooperation Fund (EMCF) on the basis of a market-related valuation, after the gold price had fallen further between the two valuation dates. On the other hand, losses in value of most reserve components vis-à-vis the U.S. dollar continued. In contrast, the gold holdings of the EEC countries not transferred to the EMCF and the gold holdings of the other IMF member countries are included in this calculation at a constant value of $ 42.22 per fine ounce, which means that they did not contribute to the above-mentioned changes in aggregate reserves due to valuation adjustments.

. . . and to the use of reserves

If the ECU balances created by provisionally transferring gold to the EMCF are ignored and the other reserve components are valued at constant exchange rates per end-1980, then the decline in global reserves in 1982 is reduced to an estimated $ 13 billion, i. e. to just under half the identified decrease in global monetary reserves. In contrast, the fall in reserve holdings in 1981 was due entirely to valuation adjustments; if changes in value are disregarded, global monetary reserves even increased slightly in that year.

Reduction in U.S. dollar and Deutsche Mark reserve assets

Last year holdings of U.S. dollars in particular declined markedly. On balance the deficit countries evidently drew down their holdings of Euro-dollars in the main since, according to U.S. statistics, investments by foreign monetary authorities in the United States registered a slight rise during that period. Reserve holdings in Deutsche Mark also dropped relatively sharply in 1982; calculated at constant exchange rates, they fell by an estimated $ 4 billion. Foreign Deutsche Mark reserve holdings went down over the course of the year from DM 81 billion to about DM 72 billion or — calculated at current exchange rates — from $ 36 billion to some $ 30 billion (estimated on the basis of the data available up to September 1982). Last year the share of the Deutsche Mark in world foreign exchange reserves, which reached a record level of 13 % in 1980, thus declined by about 1 percentage point to only 10½ % (in each case foreign exchange reserves excluding ECU balances deriving from gold deposited with the EMCF).

Gross monetary reserves of the IMF countries *

US$ billion

Type of reserves/Group of countries	Level at end of year 1980	1981	1982 p	Year-on-year change 1981	1982 p
A. Type of reserves					
Gold **1**	40.2	40.2	40.1	− 0.0	− 0.1
Special drawing rights	15.1	19.1	19.6	+ 4.0	+ 0.5
Reserve position in the IMF	21.5	24.8	28.1	+ 3.3	+ 3.3
Foreign exchange	378.5	354.7	323.2	−23.7	−31.5
ECU balances	63.7	50.2	41.3	−13.5	− 8.9
− against gold	47.6	37.4	30.5	−10.2	− 7.0
− against U.S. dollars	13.9	11.5	9.6	− 2.4	− 1.8
− arising from very short-term financing	2.2	1.3	1.3	− 0.9	− 0.0
U.S. dollars	201.2	192.0	(170.2)	− 9.2	(−21.8)
Deutsche Mark	42.4	36.1	(29.2)	− 6.3	(− 6.9)
Yen	11.8	12.3	.	+ 0.5	.
Swiss francs	9.5	8.3	(6.4)	− 1.2	(− 1.9)
Pounds sterling	8.8	6.6	(5.7)	− 2.2	(− 0.9)
French francs	3.7	3.1	(2.9)	− 0.6	(− 0.2)
Netherlands guilders	2.8	2.7	(2.2)	− 0.1	(− 0.5)
Unidentified assets	34.6	43.4	.	+ 8.8	.
Total reserves	455.2	438.8	410.9	−16.4	−27.9
Memorandum items					
1. Excluding ECU balances arising from contributions of gold **2**	411.2	405.0	384.1	− 6.2	−20.9
2. After adjustment for changes in value due to exchange rate movements **3**	411.2	418.8	405.8	+ 7.6	−13.0
Gold **1**	43.8	43.8	43.7	− 0.0	− 0.1
Special drawing rights	15.1	20.9	22.6	+ 5.9	+ 1.7
Reserve position in the IMF	21.5	27.2	32.5	+ 5.7	+ 5.3
Foreign exchange	330.8	326.9	307.0	− 3.9	−19.9
of which					
Deutsche Mark	42.4	41.6	(37.7)	− 0.8	(− 3.9)
B. Regional distribution 4					
OECD countries	272.5	252.9	240.2	−19.6	−12.7
of which					
EEC countries	160.8	136.5	122.2	−24.3	−14.3
United States	26.8	30.1	33.9	+ 3.3	+ 3.9
Japan	25.7	29.2	24.4	+ 3.6	− 4.9
Canada	4.0	4.4	3.9	+ 0.4	− 0.5
Germany	52.0	47.7	48.8	− 4.3	+ 1.0
France	30.8	25.7	20.0	− 5.1	− 5.7
United Kingdom	21.4	16.0	13.2	− 5.4	− 2.8
Italy	26.0	22.9	16.9	− 3.0	− 6.0
OPEC countries	94.9	95.7	85.8	+ 0.8	− 9.9
Sparsely populated	44.2	50.5	48.0	+ 6.4	− 2.6
Densely populated	50.7	45.2	37.8	− 5.6	− 7.3
Other developing countries	76.0	71.2	62.6	− 4.8	− 8.6
Threshold countries **5**	32.4	32.0	24.7	− 0.5	− 7.2
Other countries	43.6	39.3	37.9	− 4.3	− 1.4
Other IMF countries	11.8	19.0	22.4	+ 7.2	+ 3.4
IMF countries, total	455.2	438.8	410.9	−16.4	−27.9
Memorandum items					
Excluding ECU balances arising from contributions of gold **2**	411.2	405.0	384.1	− 6.2	−20.9
of which					
OECD countries	228.5	219.1	213.3	− 9.4	− 5.7
EEC countries	116.8	102.7	95.4	−14.1	− 7.3
Germany	39.8	38.3	41.3	− 1.5	+ 3.0
France	20.3	17.6	13.6	− 2.7	− 4.0
United Kingdom	19.0	14.2	11.7	− 4.8	− 2.5
Italy	17.4	16.4	11.7	− 1.0	− 4.7

* Including Switzerland. — The figures in brackets show the level at end-September 1982 or the corresponding change. — **1** Valued at $ 42.22 per ounce of fine gold. — **2** The gold underlying the ECU balances was included in the other gold holdings again. — **3** Calculated at the exchange rates of end-1980. — **4** For the definition of the groups of countries see the table on page 54. — **5** Excluding Taiwan. — **p** Provisional. Discrepancies in the totals are due to rounding. Sources: IMF and BIS.

Rise in IMF reserve positions

In contrast, reserve positions in the IMF increased distinctly because the greater recourse to the Fund by deficit countries led to corresponding reserve claims on the Fund arising in favour of the creditors whose currencies were used to finance drawings on the IMF. On the basis of constant exchange rates per end-1980, the rise in IMF reserve positions amounted to $ 5.3 billion, with the reserve claims of the United States (+ $ 3 billion), Saudi Arabia (+ $ 1.5 billion) and Germany (+ $ 0.9 billion) growing most.[1]

Decrease in reserves in all major groups of countries

The overall decrease in gross monetary reserves, i. e. including changes in holdings due to valuation adjustments, was distributed among all the major groups of countries (the complete elimination of changes due to valuation adjustments on a regional basis, using the data currently available, would be very difficult and be subject to a considerable margin of error). With a loss in reserves of $ 13 billion, the OECD countries accounted for almost half the decline in world monetary reserves; however, as much as $ 7 billion was due to the drop in the ECU balances of the EEC countries resulting from the fall in the price of gold. The officially identified monetary reserves of the OPEC countries went down by $ 10 billion, chiefly at the expense of the densely-populated member countries, which nevertheless still have relatively high reserve holdings. Finally, the other developing countries had to accept a decrease of almost $ 9 billion in their reserves, with over $ 7 billion being accounted for by the threshold countries.

Renewed creation of SDRs not justified by the short-term drop in reserves alone

The decline in world monetary reserves, which was considerable for the first time, has recently induced many developing countries in particular to demand an allocation of special drawing rights within the current basic period in order to strengthen international liquidity. Before this could be considered, however, it would first have to be ensured that the conditions laid down in the IMF Agreement for a decision in favour of a new allocation of special drawing rights are fulfilled. These include above all convincing proof of a foreseeable global need for additional reserves over the longer term which, in the opinion of a sufficient majority, ought to be satisfied in this way. The development of monetary reserves over a period of one year does not provide enough evidence of such a need. Besides, the possibility of current account deficits of considerable proportions being incurred again by the United States, as the country with the main reserve currency, could lead to quite a number of countries rebuilding their dollar reserves. An allocation of special drawing rights might therefore coincide with a period of renewed reserve growth from other sources. Moreover, the artificial creation of unconditional liquidity could reduce the adjustment pressure on some countries in a thoroughly undesirable way and thus aggravate the potential danger of persistent external disequilibria and unsolved debt problems. In contrast, the planned increase in IMF quotas by just under 50 % from 1984 onwards and in the Fund's credit lines under the General Arrangements to Borrow with the industrial countries opens the prospect that the availability of sufficient resources to bridge balance of payments deficits under appropriate economic policy conditions will gradually lessen the danger of the pressure to adjust being weakened by liquidity policy measures.

6. Exchange rate developments and policy

Persistently strong shifts in exchange rates

The pattern of exchange rates among the major currencies was characterised by strong movements again in 1982. Although a number of conditions for greater exchange rate stability improved, especially in the major industrial countries (the United States, Japan, the United Kingdom and Germany), this was evident-

1 According to the figures in the table on page 60, net lending by the IMF totalled SDR 5.6 billion, or $ 7.3 billion, last year (also calculated at the exchange rate ruling at the end of 1980). The main reason why the increase in IMF reserve positions was distinctly below this amount is that the Fund financed part of the drawings by funds it acquired through subscription and interest payments in 1982 or earlier.

ly not sufficient to restore greater calm to the foreign exchange markets. The persistent exchange rate disturbances continued to be determined in part by changes in the interest rate differentials vis-à-vis the U.S. dollar. In addition, influences from outside the above countries repeatedly made themselves felt and affected the exchange rates of currencies which in global terms appeared to be particularly suitable for investments. These influences included some emanating from the debt crises faced by many developing countries. Even in the light of the progress made in efforts to regain overall economic equilibrium and greater monetary stability in individual countries, it is therefore impossible to do without a sufficient degree of flexibility of the currencies that are of considerable importance as international transaction, investment and reserve currencies.

(a) Trends in major currencies

Further strengthening of the U.S. dollar

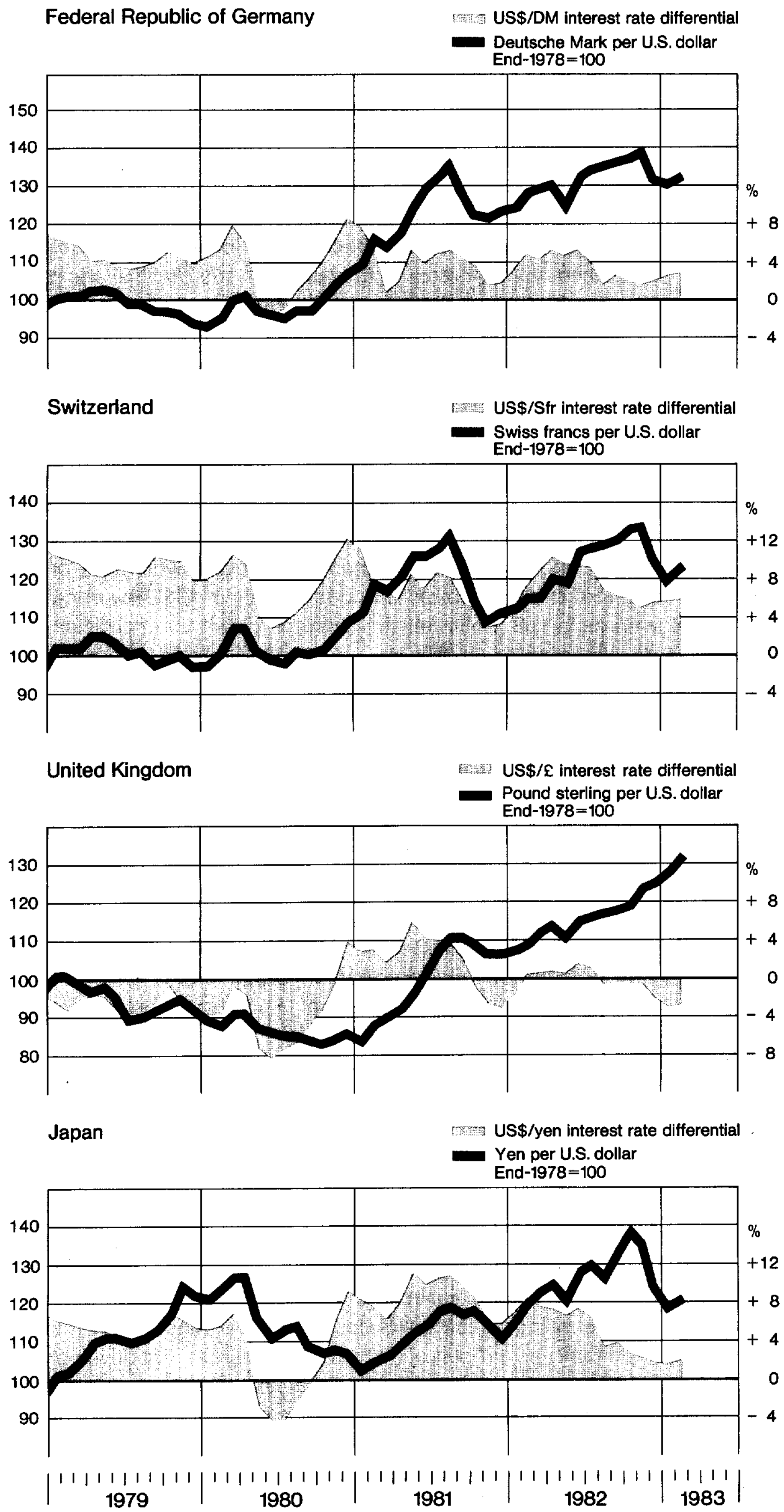
Contrary to expectations in many quarters, the U.S. dollar did not weaken in 1982; in fact, its weighted external value strengthened further. According to the Bundesbank's method of calculation, the external value of the U.S. dollar increased in 1982 vis-à-vis the currencies of 23 major trading partners by 10% on an annual average in comparison with the previous year. At the end of last year it was roughly at the level it had reached for a short time in August 1981, and it has since risen further. This means that the dollar is distinctly above its external value per end-1972 and has also made good the exchange rate losses it suffered as a result of the Smithsonian Agreement of December 1971.

Rise in its rate until the late autumn

Initially, the additional strengthening of the dollar was fostered by the renewed rise in U.S. interest rates and a concomitant widening of interest rate differentials in favour of the United States. However, the dollar also profited from a number of other influences. These included the continuing surpluses at the beginning of the year on the U.S. current account, which benefited from the declining oil price, low imports owing to the sluggish domestic economy and sustained high net receipts from investment income and other services. Apart from this, further success in combating inflation in the United States enhanced confidence in the U.S. dollar. Last but not least, global uncertainties of a non-economic nature had a favourable impact on the U.S. currency, the Falklands conflict being only one factor among several. After a swing in sentiment against the U.S. dollar in the second half of April, it began to move upwards again in the foreign exchange markets at the end of May, and this trend persisted when U.S. interest rates started to fall sharply in the middle of the year and the interest rate differential in favour of the United States narrowed distinctly. The renewed strengthening of the U.S. dollar was due, on the one hand, to the tensions that arose within the EMS. On the other hand, the U.S. currency proved to be more resilient to the repercussions of the world-wide discussion of banks' problematical loan commitments resulting from their international and domestic transactions. Besides other economic and non-economic factors that operated for the most part in favour of the U.S. currency into the autumn, the international pattern of interest rates contained elements that benefited the U.S. dollar despite the narrowing of the interest rate differential. Although U.S. interest rates declined considerably, they remained high in relation to the equally marked fall in inflationary pressures. For this reason some investors may have considered the level of U.S. interest rates to be still attractive. The interest rate advantage enjoyed by the U.S. currency — which, despite having diminished in nominal terms, had most likely increased after allowing for the differences in rates of inflation — might have favoured investments in dollar assets to the degree that exchange rate expectations were based one-sidedly on inflation differentials.

External interest rate differentials* and exchange rates of the U.S. dollar

Monthly averages



* Measured in terms of money market rates. United States: 3-month CDs; Federal Republic of Germany: 3-month funds; Switzerland: 3-month Eurofunds; United Kingdom: 3-month funds; Japan: call money.

U.S. dollar weaker again from November 1982 onwards

In the middle of November 1982 the dollar rate started to go down again, although its movements against the other major currencies were not uniform. This trend, which has predominated since then, began when U.S. estimates of a probable marked deterioration in the U.S. trade and current accounts in 1983 became known, after the trade balance for the third quarter of 1982 and long-standing problems in trade in capital goods had already pointed in the same direction. Moreover, towards the end of last year interest rate expectations with respect to the United States moved down sharply after the Federal Reserve Board had indicated at the beginning of October that for technical as well as cyclical reasons it would tolerate some overshooting of its monetary targets for the time being, and underlined this more flexible policy stance by lowering its discount rate in October, November and December. However, owing to the simultaneous reduction of interest rates in Europe, both the nominal and the real interest rate differentials did not change much.

Distinct rise in the external value of the Deutsche Mark despite weakening in the dollar market

The Deutsche Mark was not affected so strongly as in previous years, and less than other currencies, by the general strength of the U.S. dollar. While the average rate of the dollar in 1981 had been DM 2.26, it rose to DM 2.43 in 1982. This represents a depreciation of the Deutsche Mark against the U.S. dollar of 7 %. At its highest point (DM 2.59) in November 1982, the U.S. currency exceeded its peak level of the preceding year by two pfennigs. However, the Bundesbank did not need to be so concerned about the development of the dollar rate as before. On the one hand, international commodity prices, which are primarily expressed in terms of the U.S. dollar, fell considerably in 1982 (by about 10 % on an annual average in U.S. dollar terms), with the result that hardly any inflationary pressure was exerted in this important sub-sector of Germany's imports by the rise in the exchange rate of the U.S. dollar. On the other hand, the Deutsche Mark appreciated significantly vis-à-vis most other currencies; its weighted external value consequently increased on average by as much as 6 % in 1982 in comparison with the preceding year, and reached its highest level ever at the beginning of 1983. As described elsewhere in this Report, owing to these two influences Germany's terms of trade improved on average last year, for the first time since 1978, thus fostering the reduction of the current account deficit. In the process, the Bundesbank's net sales of U.S. dollars in the foreign exchange market, including forward interventions, declined to $ 3.2 billion in 1982 as against $ 9.4 billion in 1981. Germany's share in the aggregate dollar interventions of the 15 countries that participate in foreign exchange market concertations fell to only 4 % in 1982 after totalling 14 % in the previous year.

Strong Swiss franc

The Swiss franc is one of the few currencies besides the U.S. dollar against which the Deutsche Mark weakened on average during 1982. After having already risen strongly in 1981, the Swiss currency improved by a further 4 % vis-à-vis the Deutsche Mark last year. In 1982 the Swiss franc correspondingly appreciated more strongly than the Deutsche Mark against all other currencies on a weighted average. The Swiss currency reached its highest point against the Deutsche Mark in March 1982, when currency unrest within the EMS fostered flows of short-term funds into Switzerland. In addition, Switzerland's current account showed a large surplus again, and this contributed to the demand for Swiss francs. In the ensuing period the Swiss franc fell distinctly in terms of the Deutsche Mark, primarily as a result of international interest rate developments. In the light of declining inflation, the persistent weakness of economic activity and competitive disadvantages caused by exchange rate movements, the Swiss National Bank took liquidity policy measures which enabled money market rates to drop considerably — to a greater extent, in fact, than interest rates in the United States and Germany. By April 1982 the interest rate differential vis-à-vis the U.S. dollar and the Deutsche Mark for three-month funds had consequently widened to over 10 percentage points and 5 points, respectively. Since longer-term interest rates in Switzerland fell at the same time, exports of

Changes in the net external position of the Bundesbank due to interventions in the foreign exchange market and other foreign exchange movements*

DM billion

Period	Net external position, total	Interventions: Deutsche Mark/ dollar market 1	Interventions: "Snake" or EMS 2	Other foreign exchange movements
1973 April to December	+ 6.6	− 0.4	+ 8.3	− 1.3
1974	− 1.6	+ 0.0	+ 0.2	− 1.8
1975	− 2.2	− 0.6	− 1.8	+ 0.3
1976	+ 8.9	+ 2.5	+17.0	−10.6
1977	+10.5	+10.9	+ 1.5	− 2.0
1978	+20.1	+24.1	+ 7.9	−11.8
1979	− 7.8	+ 7.3	+ 8.2	−23.3
1980	−25.4	−18.3	−10.5	+ 3.4
1981	− 3.2	−21.5	+15.0	+ 3.3
1982	+ 3.2	− 6.6	+ 3.7	+ 6.2
January to February	− 2.1	− 1.5	− 0.6	− 0.0
March to mid-June	+ 4.0	− 1.3	+ 4.4	+ 0.9
Mid-June to December	+ 1.3	− 3.8	− 0.2	+ 5.3
1983 January to mid-March Mid-March to end-March	+17.1	+ 0.4	+12.6	+ 4.1
April 1973 to March 1983	+26.0	− 2.0	+57.0	−27.0

* Excluding liquidity swaps, allocations of SDRs and changes due to valuation adjustments. Recorded according to the date on which the transaction was conducted and not according to the value date; discrepancies between these figures and those of the balance of payments are therefore possible. — **1** Including U.S. interventions. — **2** Including Deutsche Mark interventions by other central banks.
Discrepancies in the totals are due to rounding.

capital also rose strongly. Moreover, speculative funds that had previously flowed in from abroad flowed out again. A renewed strengthening of the Swiss franc against the Deutsche Mark at the turn of 1982-83, which was connected with the most recent bout of weakness of the U.S. dollar, proved to be temporary.

Sterling increasingly weaker towards the end of the year

The weighted external value of sterling declined only slightly in 1982 on an annual average in comparison with the previous year. Although sterling went down by 13% against the U.S. dollar and hence twice as much as the Deutsche Mark, many other currencies fell even more strongly against the U.S. currency, for instance the French franc and the Swedish krona, with the result that sterling gained ground against these currencies. The relative strength of sterling primarily reflected the abatement of inflationary pressures and the stability-oriented stance of monetary policy. Considerable progress in consolidating the government budget may also have contributed to the currency's firmness. The fact that sterling nevertheless repeatedly came under selling pressure was due on the one hand to the continuing difficult overall economic situation, which again and again occasioned doubts as to whether the thrust of policy could be maintained, and on the other hand to the less favourable prospects for the United Kingdom in the oil market. The Falklands conflict was an additional negative factor for a while. The Bank of England countered this trend by selling only relatively small amounts of dollars in the foreign exchange market. Of greater significance for sterling was the fact that U.K. interest rates remained at the same high level as in the United States last year, and even rose above that level again in the second half of the year. However, real interest rates were not nearly so high as in the United States since the rate of inflation in the United Kingdom was still distinctly above that in the United States. But when all other major currencies strengthened again vis-à-vis the U.S. dollar towards the end of 1982, sterling was unable to move up with them. It weakened further, and at the beginning of 1983 it fell below its previous all-time low recorded in October 1976. The corresponding drop in sterling's exchange rate against all other major currencies led to a marked decline in its weighted external value as well. Increases in U.K. interest rates from the end of November 1982 onwards did little to change this situation.

Yen exceptionally weak . . .

Last year the development of the Japanese yen ran counter to the underlying economic conditions in that country. On an annual average, the weighted external value of the yen went down by 6% in comparison with the previous year, including falls of 11% and 5% against the U.S. dollar and the Deutsche Mark, respectively. Rather like other major currencies, the yen dropped against the U.S. dollar for over a year, with brief interruptions, before a stronger trend made itself felt from November 1982 onwards. In contrast, Japan was the only country that succeeded in pushing down inflation to an average annual rate of under 3%. Moreover, its current account, which had moved back into surplus as early as 1981, improved further. Last but not least, Japan registered considerable economic growth, with a comparatively low level of unemployment, in the middle of a world-wide recession. But all these factors did not suffice to make the yen attractive in comparison with high-yielding dollar assets, the interest rates on which were up to 8 percentage points higher. The cautious view taken of the yen was partly due to setbacks suffered by Japan in the export field, even though falling raw material prices offset this factor to a certain degree. The fear of protectionist measures particularly directed against Japan, together with the longer-term implications this would have for Japan's current account, may have played a part in this context. On the other hand, budgetary problems in Japan also exerted an adverse influence. At all events, the outcome was net capital exports of considerable proportions, consisting of a combination of rising capital exports and falling capital imports. It was not until international interest rate differentials narrowed greatly towards the end of the year that capital transactions, and hence the development of the yen, took a more normal course.

. . . despite countermeasures by the Japanese authorities

In international discussions the impression was sometimes aroused that Japan had deliberately engineered the weakening of the yen or at least had not done enough to counteract it. In fact, foreign exchange market interventions were undertaken on a considerable scale to defend the Japanese currency, and they resulted in a decline of $ 5.5 billion in the country's foreign exchange reserves between January and October 1982. In addition, capital exports were curbed by various administrative measures on the part of the Japanese authorities. Given an average Japanese real rate of interest of over 5%, interest rate increases could hardly be contemplated. More stringent controls on capital movements were also to be regarded as an unsuitable instrument. They would have nullified the liberalisation of capital transactions that had just been achieved with such effort, and would have impeded the role which a financially strong country like Japan should in principle play in the world economy. Moreover, stricter controls on capital outflows would probably have discouraged capital imports (which decreased anyway last year), and thus been of little help in solving Japan's capital account problem.

(b) Developments within the European Monetary System

Repeated changes in central rates

In 1982 and the initial months of 1983 the European Monetary System was exposed to stronger tensions than in the preceding year. After the Belgian and Luxembourg franc and the Danish krone had been devalued against the other currencies in the system by 8½% and 3%, respectively, in February 1982, fears arose that these central rate changes would soon be followed by others, attention being focused on the French franc and the Italian lira. One of the factors supporting this view was that the measures adopted by France to stimulate the economy led to a distinct increase in its trade deficit, while greater investment activity and higher employment failed to materialise. The Italian lira was also affected by these considerations, because Italy's balance of trade had

Revaluations of the Deutsche Mark in the EMS against partner currencies

Change in central rates in %

Period	Belgian and Luxembourg franc	Danish krone	French franc	Netherlands guilder	Irish pound	Italian lira	Weighted average 1
September 24, 1979	2.0	5.0	2.0	2.0	2.0	2.0	2.1
November 30, 1979	–	5.0	–	–	–	–	0.2
March 23, 1981	–	–	–	–	–	6.4	1.2
October 5, 1981	5.5	5.5	8.8	–	5.5	8.8	5.6
February 22, 1982	9.3	3.1	–	–	–	–	1.9
June 14, 1982	4.3	4.3	10.6	–	4.3	7.2	5.5
March 21, 1983	3.9	2.9	8.2	1.9	9.3	8.2	5.5
Cumulative since the inception of the EMS	27.4	28.7	32.8	4.0	22.7	36.9	24.0

1 Geometric mean weighted with foreign trade turnovers (exports plus imports) between 1978 and 1980.

deteriorated sharply at the beginning of the year and serious setbacks were to be expected in Italian exports to the OPEC countries, which had increased more than the corresponding exports of most other industrial countries in 1981. Moreover, inflation continued to run at a much higher level in Italy than in any of its major partner countries; in addition, extremely large public sector deficits considerably dampened the hopes that inflation could be reduced relatively quickly. The pressure on the pattern of exchange rates within the EMS led initially to large-scale interventions in the foreign exchange markets, but these interventions were unable to prevent a further realignment of exchange rates in the EMS. In June 1982 the Deutsche Mark and the Netherlands guilder were revalued by 4½ % vis-à-vis the Danish krone, the Belgian and Luxembourg franc and the Irish pound, and by about 10½ % and 7¼ % vis-à-vis the French franc and the Italian lira, respectively. Even so, the situation within the EMS remained unstable. The currencies of Belgium, France and Italy repeatedly came under marked selling pressure despite the fact that the stabilisation measures introduced in Belgium were producing initial successes and that, in the light of the preceding changes in exchange rate relationships, the inflation gap between France and Germany did not make a further realignment appear urgent. However, the development of the French balance of trade clearly indicated that that country was moving into growing external disequilibrium. This created considerable tensions within the EMS, and finally made a renewed adjustment of exchange rates within the system unavoidable in March 1983. As is shown by the above table, the Deutsche Mark was revalued vis-à-vis all other partner currencies, including a revaluation of over 8 % against both the French franc and the Italian lira.

Original expectations disappointed

Exchange rate adjustments are undoubtedly an integral part of the European Monetary System, and are explicitly envisaged in the EMS Agreement for this reason. Where the harmonisation of economic developments in the member states is not sufficiently assured, such adjustments can help to mitigate tensions between the partner currencies. Nevertheless, changes in central rates should not occur too frequently or be too great, so as not to prejudice the credibility of the system. These conditions were in fact fulfilled in large measure in the initial stages of the EMS. Since 1982, however, both the frequency and the size of central rate adjustments have grown to a disquieting degree. Moreover, the member countries have increasingly been exposed to speculative foreign exchange movements which have necessitated large-scale interventions in the foreign exchange market and made it more and more difficult for the member states to implement their monetary policies. To this extent, actual experience with this exchange rate mechanism has deviated considerably from the expectations originally associated with it.

Large-scale interventions

The change in the net external position of the Deutsche Bundesbank due to interventions within the EMS does not completely reflect the degree to which other currencies were supported through interventions in Deutsche Mark. Foreign central banks frequently carry out a large proportion of their Deutsche Mark interventions in a way that does not affect the Bundesbank's net external position. Thus, in 1982 Germany's monetary reserves rose by only DM 3.7 billion owing to interventions in the EMS (see the table on page 69). Of this amount, DM 0.5 billion was accounted for by interventions by the Bundesbank to support other currencies and the remaining DM 3.2 billion by sales of Deutsche Mark by foreign monetary authorities, which were financed primarily by recourse to the "very short-term financing" facility of the EMS. In addition, foreign central banks sold Deutsche Mark to the amount of DM 2 billion originating from investments outside the Bundesbank or taken up in the international financial markets. Moreover, a major part of the very large sales of U.S. dollars by other countries last year was designed to prevent the corresponding currencies from weakening within the EMS exchange rate band. Although this implies that support of other currencies through interventions was not inconsiderable in 1982, the proportion of support operations that affected the Bundesbank's net external position and hence the volume of liquidity in the German banking system was fairly limited last year. Furthermore, these and other inflows of foreign exchange contrasted with the sales of U.S. dollars mentioned above, with the result that the aggregate external transactions of the Bundesbank did not exert any disturbing influences on monetary policy in 1982. In contrast, the Deutsche Mark interventions within the EMS to support other currencies from the beginning of 1983 to the last business day before the latest realignment amounted to no less than DM 16 billion, DM 12.5 billion of which affected liquidity in Germany. However, of these foreign exchange inflows that inflated liquidity, about DM 8 billion flowed out again between the realignment and the end of March.

Greater convergence inevitable

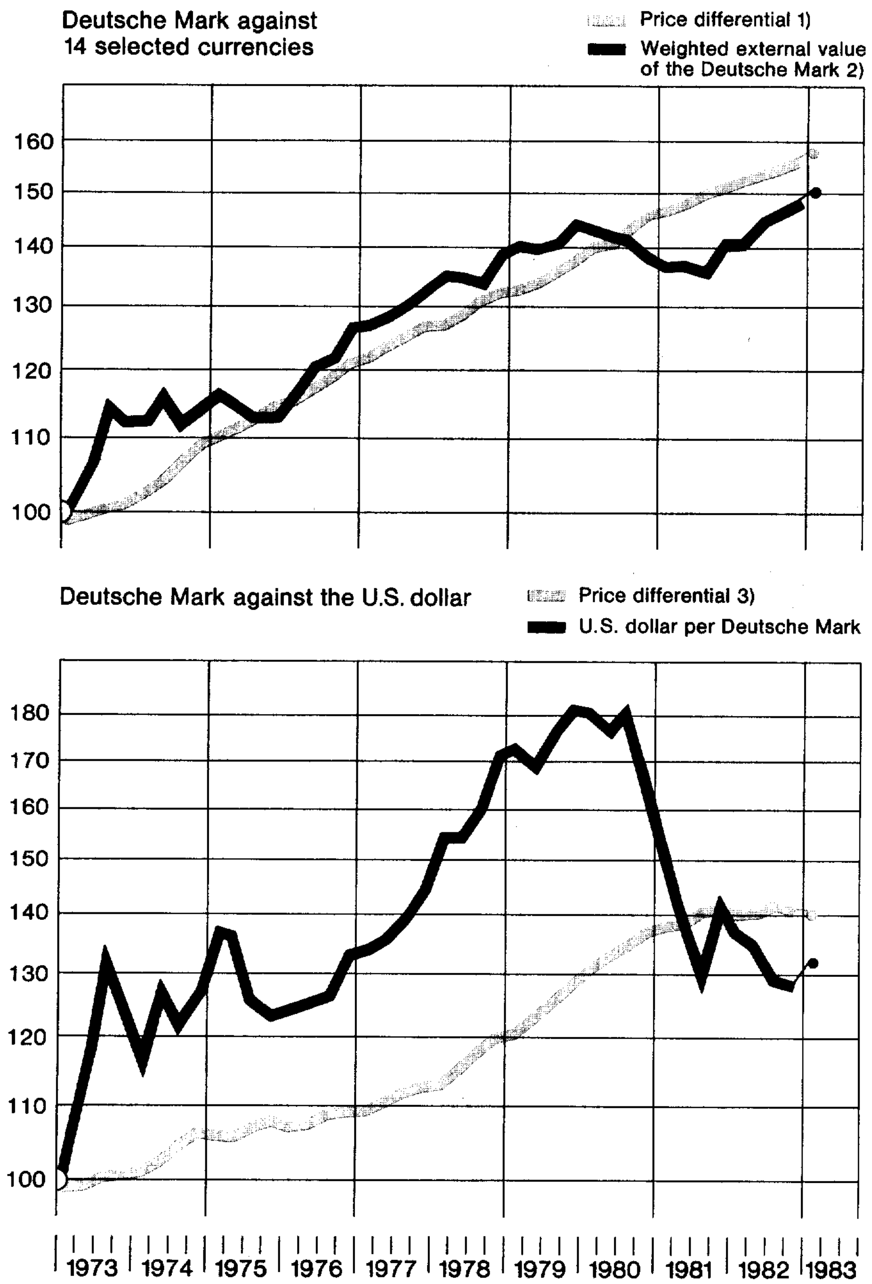
One of the positive aspects of monetary policy cooperation in Europe is that the endeavours to achieve greater exchange rate stability have made it much easier for some governments to gain acceptance at home for necessary action to adjust their domestic economies. Not least on account of the EMS, far-reaching restrictive measures were adopted last year in Belgium and Denmark, with certain corrections to economic policy also being introduced in France. By and large, however, the European Monetary System, which has been in existence for four years, has not so far fulfilled the expectations placed in it in this respect either. It has still not proved possible to bring about better harmonisation of economic developments in the member countries simultaneously with a maximum of price stability — and this is after all the chief objective of the EMS and the essential prerequisite for more stable exchange rates on a lasting basis. The differences between the member countries in terms of price movements, public finance and current account balances are still too great. But as long as the credibility of the EMS is not convincingly buttressed by greater convergence of the economic fundamentals, the system will continue to be exposed to recurrent strains. For this reason the success of the latest realignment will in the final analysis only be assured if greater success is now achieved quickly on the way towards more stability in all member countries.

Agreement on ECU balances extended to 1985

These persistent divergences remain the main obstacle to a further institutional development of the EMS. In agreement with the Council of Ministers of the EEC, the central bank governors therefore confined themselves towards the end of 1982 to once more prolonging the agreement on the creation of ECU balances against the temporary transfer of gold and dollar reserves to the European Monetary Cooperation Fund for a further two years to March 1985.

External value of the Deutsche Mark and price differential vis-à-vis foreign countries

December 1972=100, quarterly averages, log. scale



1) Geometric mean, weighted with foreign trade turnovers (exports plus imports), of the movement of consumer prices in 14 other industrial countries relative to that in the Federal Republic of Germany.- 2) Geometrically weighted mean against the currencies of 14 other industrial countries.- 3) Movement of consumer prices in the United States relative to that in the Federal Republic of Germany.- Latest position: February 1983.

(c) Exchange rate developments and international competitiveness

German competitiveness hardly affected so far by the strength of the Deutsche Mark

In 1982 the weighted year-on-year appreciation of the Deutsche Mark vis-à-vis the other major currencies was only slightly greater than would have been consistent with the higher rate of inflation abroad. The real external value of the Deutsche Mark correspondingly rose only a little. On the other hand, in terms of the pattern of exchange rates at the end of 1972 the appreciation of the Deutsche Mark was about 6 percentage points less than the inflation differential vis-à-vis other countries that had accumulated over the same period. Viewed in this restricted way, the Deutsche Mark can be considered to have decreased somewhat in value against the U.S. dollar, too, in comparison with the end of 1972. In both cases this primarily reflects the marked nominal depreciation of the Deutsche Mark in 1980-81, after the German currency had constantly appreciated in the preceding years. The most recent movement of the exchange rate of the Deutsche Mark therefore did not have a major negative impact on the price competitiveness of German industry. As already mentioned elsewhere in this Report, German exporters succeeded in maintaining their share of the world market last year. In terms of the U.S. dollar, Germany's share of exports of industrial goods, at about 20 % of the total exports of the countries constituting the Group of Ten, once more approached the high level registered in 1978. This means that Germany is again the largest exporter of industrial goods, ahead of the United States and Japan.

Large real depreciation of the yen

In Japan the advantage of a relatively low rate of inflation, combined with the simultaneous depreciation of the yen, resulted in a considerable gain in price competitiveness for Japanese industry last year. On the basis of the Bundesbank's method of calculation, the real external value of the yen fell by as much as 11 % in comparison with the previous year. Japanese exports nevertheless did not profit much from this advantage; on an inflation-adjusted basis they even declined by over 10 %. In part this reflected the weak state of world economic activity as well as the reduced imports of the OPEC nations and other developing countries. These trends were compounded by import restrictions abroad and voluntary export restraint agreements that primarily affected Japanese car exports, which account for approximately one fifth of Japan's total exports. Trade restrictions of this kind were also partly a corollary of the marked depreciation of the yen. The latest Ministerial Meeting of the General Agreement on Tariffs and Trade (GATT) thus rightly stressed that distortions in the exchange rate field can have a serious impact on the world trading system to the detriment of all countries over the longer term. However, problems of this nature can hardly be solved by a single country alone; instead, they demand wide-ranging international cooperation.

Considerable real depreciation of sterling as well

In 1982 the United Kingdom also managed to improve its competitive position appreciably, particularly as a result of the marked decline in sterling towards the end of the year. In contrast to the situation in Japan, however, this may only have helped to offset the impact on the U.K. current account of lower receipts from petroleum exports. At all events, in the world market for industrial products the United Kingdom was one of the countries that lost market shares. This was also reflected in a deterioration of the U.K. balance of trade in manufactured goods, although this trend came to a halt towards the end of the year.

Sharp real appreciation of the U.S. dollar

In contrast, the United States suffered the greatest loss in price competitiveness of all the industrial countries last year as a result of the appreciation of the U.S. dollar. On the basis of the method of calculation used by the Bundesbank, the real external value of the U.S. dollar rose by 8 % in comparison with the previous year. The great burden this placed on the U.S. economy was mirrored in repeated complaints about the high external value of the U.S. currency and the deterioration of the U.S. trade balance mentioned above.

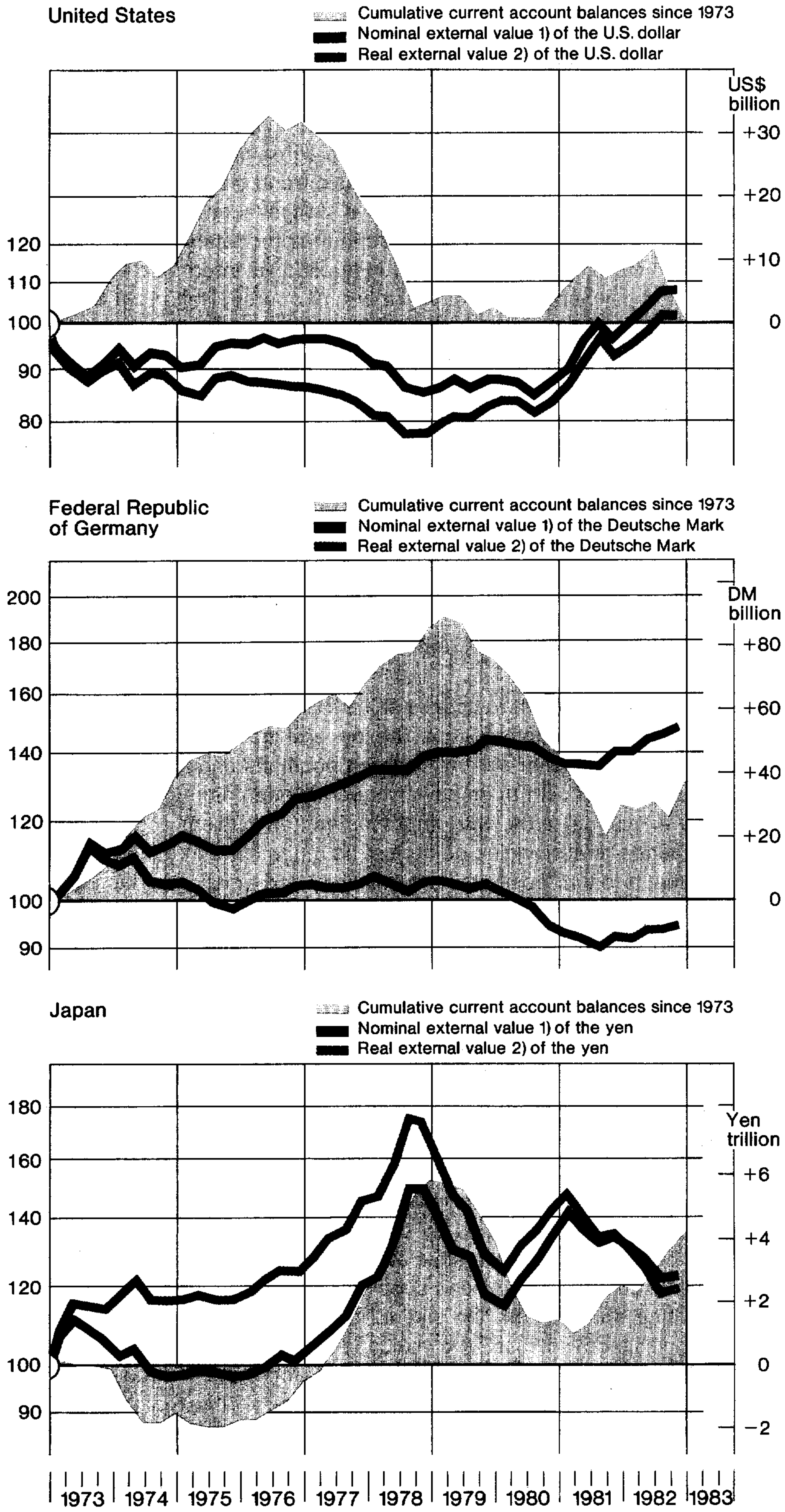
(d) Factors determining exchange rate movements

Influences of individual factors not always welcome

The above discussion also makes it clear how hard it is to identify dependable relationships between the development of fundamental economic factors and the trend of a currency's exchange rate. For this reason it is even more difficult to forecast exchange rate movements reliably. On the other hand, there is no mistaking the fact that at times individual determinants leave a clear imprint on the movement of a currency's exchange rate. This can sometimes have considerable repercussions of an unwelcome nature on economic developments themselves. Even though sufficient flexibility in exchange rates is necessary, this therefore raises the question as to which influences on the exchange rate

Balances on current account and exchange rate movements

Quarterly; exchange rates: end-1972=100, log. scale



1) Weighted external value against the currencies of 14 industrial countries; geometric mean.- 2) Nominal external value adjusted for discrepancies in consumer price movements.

should be counteracted under certain conditions, even under a regime of floating exchange rates, provided that the measures adopted promise to be successful.

Inflation differentials should be evened out over the longer term with limited interest-rate-induced exchange rate fluctuations

It is undisputed that over the longer term exchange rate changes should correspond as far as possible to the trend of international price and cost differentials; this is the only way in which the comparative cost advantages of individual countries and the welfare effects originating from the international exchange of goods can develop in full. Most countries also agree that interest-rate-induced deviations of the exchange rate from this basic trend should be kept as limited as possible. This is why many countries have always taken the exchange rate of their currency into account when formulating their monetary policy — the more so, indeed, the more closely the country in question is integrated in the international trade and payments system. There are, of course, limits to the degree to which this factor can be taken into consideration in formulating monetary policy; it can, moreover, be quite difficult to do so, especially since international cooperation does not always sufficiently ensure that the burden of adjustment is equitably shared. Particularly in relation to the U.S. dollar, a certain amount of progress should be possible in this respect now that inflationary pressures have abated markedly, both world-wide and especially in the United States itself, so that U.S. monetary policy, which has been the most important instrument in fighting inflation, promises to become somewhat less burdened. The basic stance of monetary policy does not have to be changed at all in order to achieve such progress. Within the EMS, for instance, the Bundesbank constantly endeavours to take the interests of its partners into account as long as this does not jeopardise the basic thrust of Germany's stability policy.

Influence of current account balances . . .

It is somewhat more difficult to assess shifts in exchange rates due to changes in current account positions. Since the general transition to floating, at all events, the development of current account positions and in particular the expectations associated with them have frequently been among the main factors determining exchange rates, with improvements in current account balances and appreciations of currencies going just as much hand in hand as deteriorations in current account positions and currency depreciations. This could even be considered one of the main reasons for longer-term deviations of exchange rates from their basic trend as determined by international differences in price and cost movements.

. . . sometimes destabilising

In principle, it can be assumed that, besides domestic economic adjustment measures, exchange rates must play a significant role in the adjustment of balance of payments positions, i.e. they should contribute towards reducing current account disequilibria. Hence the real appreciation or depreciation of currencies and corresponding changes in price competitiveness, sometimes referred to as the "overshooting" of exchange rates, may be fully justified. However, developments in recent years have shown that exchange rates may often also be lastingly influenced by current account disequilibria that can at least in part be regarded as reversible even without powerful support by the exchange rate. In such cases, excess supply or demand in the foreign exchange market resulting entirely from the disequilibrium on current account is only of marginal significance. Instead, the exchange rate responds above all to assumptions about future changes in the balance on current account or to the publication of corresponding figures for past periods. This implies that current account disequilibria are the main factor influencing exchange rate expectations, which then trigger destabilising capital movements. Since the shifts in exchange rates for their part initially exert a "perverse" effect on the current account (with depreciations generating a deterioration of the terms of trade and hence of the current account, and vice versa), the development of the current account and the exchange rate can easily become mutually reinforcing and thus at least contribute to considerable fluctuations in exchange rates which in part serve no useful purpose and to this extent hardly foster international economic relations. Last but not least, there is also the danger that current account deficits, currency depreciations and boosts to inflation induced by exchange rate movements may result in a vicious circle which can make it extremely difficult to regain stable domestic and external economic conditions.

Undesirable exchange rate movements not controllable through intervention alone

The monetary authorities have repeatedly attempted to counter exaggerated exchange rate movements by intervening in the foreign exchange markets. However, experience since the general transition to floating shows that the exchange rate of a currency cannot be effectively influenced over the medium and longer term by intervention operations alone. Moreover, intervention must stop at the point where — in the case of currency appreciation — it jeopardises domestic stability policy owing to the liquidity effects associated with it, or where — in the case of currency depreciation — it generates financing problems which may even accentuate the weakness of a currency.

Part B: Notes on the Deutsche Bundesbank's annual accounts for 1982

1. Legal basis, classification and valuation

Legal basis, accounting system and annual accounts

The legal basis for the annual accounts of the Bank is provided by section 26 of the Deutsche Bundesbank Act (Gesetz über die Deutsche Bundesbank) of July 26, 1957 (Federal Law Gazette I, page 745); the provisions of that section regarding the accounting system and the annual accounts remained unchanged during the year under review.

Classification of the annual accounts

On the assets side of the balance sheet the former items "Other claims" and "Other assets" were combined to form a single item 21 called "Other assets". In addition, in item 6 the sub-item "Claims arising from foreign exchange offset agreements with the United States" was deleted.

On the expenditure side of the profit and loss account item 7 "Write-downs of monetary reserves and other foreign currency positions" was added. On the receipts side the item "Receipts from purchases and sales of foreign currencies" was deleted.

Valuation

The provisions of the Companies Act (Aktiengesetz) were applied mutatis mutandis in the valuation (section 26 of the Bundesbank Act).

2. Annual accounts

The annual accounts for 1982 are attached to this Report as an Appendix; as usual, the notes on them are in the same order as the items in the balance sheet and profit and loss account. At the same time a report is rendered on the Bank's activities during 1982.

Balance sheet

Comparison of balance sheet figures

At December 31, 1982 the balance sheet total, at DM 207,349.9 million, was DM 9,262.2 million larger than at end-1981.

Comparison of balance sheet figures

DM million

Assets	December 31 1981	December 31 1982
Gold	13,687.5	13,687.5
Reserve position in the International Monetary Fund and special drawing rights		
Drawing rights within the reserve tranche	3,120.2	4,178.3
Loans under special borrowing arrangements	2,437.1	3,159.2
Special drawing rights	3,628.5	4,881.5
Claims on the European Monetary Cooperation Fund in connection with the European Monetary System	37,189.1	38,496.9
Balances in European Currency Units (ECUs)	2,751.1	2,120.8
Other claims		
Balances with foreign banks and money market investments abroad	37,245.6	38,955.7
Foreign notes and coins	26.7	25.0
External loans and other external assets		
Claims arising from foreign exchange offset agreements with the United States	416.0	–
Other loans to foreign monetary authorities	685.9	–
Loans to the World Bank	2,485.7	2,455.7
Foreign bills of exchange	5,367.4	7,050.4
Domestic bills of exchange	44,827.9	46,688.8
Securities bought in open market transactions under repurchase agreements	11,875.6	9,103.4
Lombard loans	5,985.4	12,031.1
Cash advances (book credits)	4,744.6	1,395.4
Equalisation claims on the Federal Government and non-interest-bearing debt certificate in respect of Berlin	8,683.6	8,683.6
Securities	3,732.3	5,409.4
German coins	913.6	1,084.2
Balances on postal giro accounts	327.8	150.3
Land and buildings	1,185.3	1,267.0
Furniture and equipment	90.2	107.7
Items in course of settlement	3,938.7	2,970.4
Other assets **1**	2,707.4	3,411.6
Prepaid expenses and deferred income	34.5	36.0
Balance sheet total	198,087.7	207,349.9
Contingent claims	0.6	1.2

Liabilities	December 31 1981	December 31 1982
Banknotes in circulation	83,790.3	88,574.7
Deposits of banks	50,608.8	51,875.1
Deposits of public authorities		
Federal Government	293.2	723.6
Equalisation of Burdens Fund and ERP Special Fund	43.0	162.2
Länder Governments	391.7	330.0
Other public depositors	38.7	42.3
Deposits of other domestic depositors		
Federal Railways	6.2	19.8
Federal Post Office	1,512.1	2,865.8
Other depositors	628.4	629.7
Liabilities arising from mobilisation and liquidity paper sold	4,905.1	4,651.6
Liabilities arising from external transactions	8,910.2	12,035.0
Counterpart in respect of the valuation of the gold and dollar reserves provisionally contributed to the European Monetary Cooperation Fund	23,369,4	21,021.9
Counterpart of special drawing rights allocated	3,177.7	3,174.0
Provisions	3,866.0	4,306.0
Other liabilities	244.6	186.4
Deferred expenses and accrued income	993.1	675.7
Capital	290.0	290.0
Reserves	1,874.3	4,479.5
Unappropriated profit	13,144.9	11,306.6
Balance sheet total	198,087.7	207,349.9
Contingent liabilities	0.6	1.2

1 Until 1981 subdivided into "Other claims" and "Other assets".

Assets

Gold

The gold holding at December 31, 1982, at DM 13,687.5 million, was the same as at end-1981.

Reserve position in the International Monetary Fund and special drawing rights

Drawing rights within the reserve tranche

At December 31, 1982 the drawing rights within the reserve tranche in the IMF amounted to DM 4,178.3 million against DM 3,120.2 million at end-1981. Increases due to other members' Deutsche Mark drawings and transactions of similar effect equivalent to SDR 557.1 million were accompanied by decreases equivalent to SDR 152.2 million due to other members' Deutsche Mark repayments and transactions of similar effect. The level of drawing rights within the reserve tranche represents the difference between the German quota of SDR 3,234 million and the Deutsche Mark balances equivalent to SDR 1,640.2 million at the disposal of the IMF at the end of the year.

Loans under special borrowing arrangements

Loans under special borrowing arrangements amounted to DM 3,159.2 million at December 31, 1982 against DM 2,437.1 million at end-1981. The loans outstanding at the end of 1982 comprised a claim of SDR 582.9 million on the IMF under the General Arrangements to Borrow (GAB) arising from the financing of a Deutsche Mark drawing by the United States in 1978, and claims of SDR 622.2 million on the IMF arising from the financing of other members' drawings under the Supplementary Financing Facility; in the year under review the IMF was granted loans totalling SDR 276.5 million under this Facility.

Special drawing rights

The amount of special drawing rights (SDRs) held at December 31, 1982 is shown at DM 4,881.5 million against DM 3,628.5 million at end-1981. It consisted of SDR 1,210.8 million of SDRs allocated, the counterpart of which is shown on the liabilities side, and SDR 651.3 million of SDRs purchased. In the year under review the Bank received SDR 574.6 million through designations, SDR 152.6 million through the settlement of balances in the EMS and SDR 128.4 million through interest payments and remunerations. The Bank sold a total of SDR 376.1 million in freely agreed transactions.

Claims on the European Monetary Cooperation Fund in connection with the European Monetary System

This item comprises the Bank's ECU balances and the claims arising from the use of the very short-term financing arrangement by other central banks.

Balances in European Currency Units (ECUs)

The ECU balances amounting to DM 38,496.9 million arose from the provisional contribution of 20% of the Bank's gold and dollar reserves to the European Monetary Cooperation Fund in the form of three-month swaps and from the reserve ECUs transferred to the Bank by other central banks.

Other claims

Other claims totalling DM 2,120.8 million arose from the granting of loans to other central banks in connection with the very short-term financing of interventions.

Balances with foreign banks and money market investments abroad

The balances with foreign banks and money market investments abroad, the great bulk of which are denominated in U.S. dollars and bear interest, amounted to DM 38,955.7 million at December 31, 1982 against DM 37,245.6 million at December 31, 1981.

Foreign exchange deals

Mainly owing to reduced intervention in U.S. dollars, the Bank's turnover in foreign exchange spot deals (foreign currency against Deutsche Mark) fell to DM 29,031.1 million against DM 63,584.1 million in 1981. Because of the increase in commercial transactions the number of deals dropped to 5,926 compared with 6,596 in the previous year. These deals consisted of

	1981		1982	
	Number	DM million	Number	DM million
Purchases	2,412	20,486.2	2,635	9,725.1
Sales	4,184	43,097.9	3,291	19,306.0
	6,596	63,584.1	5,926	29,031.1.

The number of cross deals (foreign currency against foreign currency) also declined in the year under review, at 474 deals equivalent to DM 3,836.5 million against 590 deals equivalent to DM 4,466.8 million in 1981. By contrast, the number of SDR/U.S. dollar and SDR/Deutsche Mark deals rose to 130 deals equivalent to DM 2,546.2 million compared with 68 deals equivalent to DM 1,310.8 million in 1981. In addition, 123 U.S. dollar inter-centre switch transactions totalling US$ 24.9 million were conducted against 142 transactions amounting to US$ 34.6 million in the preceding year.

Four forward purchases of U.S. dollars totalling US$ 50 million and 13 forward sales amounting to US$ 750 million were effected, compared with 17 U.S. dollar purchases totalling US$ 600 million and 34 U.S. dollar sales totalling US$ 1,050 million in the previous year.

To regulate the money market 65 dollar swaps totalling DM 13,492.1 million were conducted with domestic banks to increase liquidity during the year under review against 100 such transactions amounting to DM 20,186.3 million in the preceding year. No foreign exchange swaps or foreign exchange transactions under repurchase agreements to reduce liquidity were conducted in 1982.

External payments

The Bank executed the following payment orders in the context of external payments:

External payments

Number of orders

Year	Outgoing external payment orders				
				of which	
	in foreign currency	in Deutsche Mark	Total	Processed by automated standing order procedure	Processed automatically via S.W.I.F.T. 1
1981	459,727	1,546,075	2,005,802	1,752,600	145,934
1982	450,038	1,770,714	2,220,752	1,963,234	155,190
	Incoming external payment orders				
				of which Payments received via S.W.I.F.T.	
1981	14,205	204,221	218,426	–	153,890
1982	15,134	206,043	221,177	–	176,014

1 S.W.I.F.T. (= Society for Worldwide Interbank Financial Telecommunication) is a Belgian society which transmits external payments messages by means of data telecommunication. The Bank is a member of the society and has been using the services provided by S.W.I.F.T. since the middle of 1978.

Sales of foreign cheques

During 1982 11,949 (1981: 10,620) foreign cheques payable to order totalling DM 898.8 million (1981: DM 788.7 million) were sold. In addition, the Bank sold 31,298 traveller's cheques amounting to DM 3.4 million against 30,536 traveller's cheques totalling DM 3.0 million in the preceding year.

Simplified collection procedure for foreign cheques

The number and amount of cheques received under the simplified collection procedure for foreign cheques continued to rise during the year under review. Further details are given in Appendix 3 of the German original of this Report.

Foreign commission business

The Bank took in the following for realisation on a commission basis:

	1981 Number	1982 Number
Bills, cheques, etc.	53,560	49,885
Foreign notes and coins	5,765	6,518
	59,325	56,403.

Foreign notes and coins

The amount of foreign notes and coins held at December 31, 1982, at DM 25.0 million, was DM 1.7 million lower than at December 31, 1981. During the year under review the Bank effected 21,448 purchases (1981: 21,151) and 39,418 sales (1981: 39,907) of foreign notes and coins.

External loans and other external assets

After the foreign exchange offset agreements with the United States had been fulfilled on the settlement of the residual claim falling due in the year under review, the relevant sub-item was deleted.

Loans in connection with EEC medium-term monetary assistance

No loans were granted under the EEC medium-term monetary assistance arrangements during the year under review, as during the previous year.

Other loans to foreign monetary authorities

The loan granted to a foreign monetary authority and shown in this item at December 31, 1981 was repaid during the year under review.

Loans to the World Bank

As in preceding years, the loans to the World Bank were mainly granted against borrowers' notes denominated in Deutsche Mark.

Foreign bills of exchange

At the end of 1982 the portfolio of foreign bills accumulated through purchases in Germany amounted to DM 7,050.4 million compared with DM 5,367.4 million at December 31, 1981. The share of Deutsche Mark bills in the total value of the foreign bills purchased in 1982 averaged about 90% (1981: also about 90%).

Purchases of foreign bills of exchange in the Land Central Bank areas

Land Central Bank	1981 Number	1981 DM million	1982 Number	1982 DM million
Baden-Württemberg	37,160	2,412.0	40,541	2,985.7
Bavaria	24,189	3,619.1	22,490	3,980.6
Berlin	1,388	1,837.2	1,326	2,113.4
Bremen	2,887	314.2	2,651	364.0
Hamburg	12,050	2,755.7	11,717	3,604.8
Hesse	21,701	5,895.7	24,312	8,634.1
Lower Saxony	4,575	563.7	4,506	597.7
North Rhine-Westphalia	35,262	6,117.9	39,164	6,918.7
Rhineland-Palatinate	7,885	770.0	7,829	894.1
Saarland	3,364	762.9	3,492	840.4
Schleswig-Holstein	1,339	281.7	1,588	444.0
Total	151,800	25,330.1	159,616	31,377.5

Domestic bills of exchange

At the end of 1982 the Bank's portfolio of domestic bills amounted to DM 46,688.8 million against DM 44,827.9 million at the end of 1981. The Bank's average portfolio of domestic bills on all return days, at DM 46,525 million, was also larger than in the preceding year (DM 43,631 million). This was possible because of the raising of the rediscount quotas and the ceiling for prime bankers' acceptances in June 1982; in addition, more bills than in 1981 were rediscounted under the rediscount lines of the Export Credit Company (Limit B) and the Industrial Plant Finance Company (Limit II).

The domestic bill portfolio comprised	Dec. 31, 1981 DM million	Dec. 31, 1982 DM million
Domestic bills discounted	41,974.7	43,453.3
Prime bankers' acceptances acquired in the course of open market operations	2,853.2	3,235.5
	44,827.9	46,688.8.

Purchases of domestic bills of exchange in the Land Central Bank areas

Land Central Bank	1981 Thousands	1981 DM million	1982 Thousands	1982 DM million
Baden-Württemberg	605	25,645.7	610	26,682.5
Bavaria	386	25,471.6	393	26,101.3
Berlin	26	5,566.3	28	5,860.9
Bremen	49	4,408.6	49	4,464.9
Hamburg	121	16,297.2	119	15,937.2
Hesse	356	39,703.9	373	47,101.1
Lower Saxony	175	13,017.0	179	13,437.7
North Rhine-Westphalia	621	47,486.9	625	49,539.2
Rhineland-Palatinate	101	5,914.5	101	6,070.3
Saarland	27	2,486.2	30	2,560.6
Schleswig-Holstein	49	3,997.9	46	3,862.9
Total	2,516	189,995.8	2,553	201,618.6

The average value of the bills purchased in the year under review was DM 79,000 compared with DM 75,500 in the preceding year.

Of the bills purchased, the following were returned and charged, in the absence of payment, to the parties presenting them for rediscounting:

	1981		1982	
	Number	DM million	Number	DM million
	10,289	153.0	15,139	222.8
as % of the total purchased	0.41	0.08	0.59	0.11.

Discount rate

During the year under review the Bank's discount rate for domestic and foreign bills stood at 7½% until August 26, at 7% from August 27 to October 21, at 6% from October 22 to December 2 and at 5% as from December 3.

Prime bankers' acceptances

The amount of prime bankers' acceptances which the Bank is prepared to purchase in the course of its open market operations was raised by DM 500 million with effect from June 23, 1982. Although the Bank's buying rate was above the discount rate until the end of August 1982 and fell below it only in October 1982, the distinctly higher money market rates, in conjunction with the raising of the ceiling, contributed to the increased use of this refinancing facility. The Bank's purchases of prime bankers' acceptances through the Privatdiskont-Aktiengesellschaft came to DM 13,749.9 million (1981: DM 12,974.1 million). There were no resales to the market via the broker in 1982.

The prime bankers' acceptances that remained in the Bank's portfolio until payment on maturity amounted to DM 13,102.6 million (1981: DM 12,708.0 million). At December 31, 1982 the Bank held prime bankers' acceptances totalling DM 3,235.5 million (1981: DM 2,853.2 million).

Open market transactions in bills under repurchase agreements

The Bank offered open market transactions in bills under repurchase agreements to alleviate special tensions in the money market between January 14 and 21 and again between March 11 and 18, 1982. In these transactions the Bank bought trade bills outside the rediscount quotas at the market rates on condition that the banks submitting the bills simultaneously repurchased them forward; the repurchase period was ten days in each case. The Bank's largest portfolio of bills stemming from such transactions amounted to DM 641.5 million (on March 17, 1982). The market rates were 10% between January 14 and 21 and 9½% between March 11 and 18.

Securities bought in open market transactions under repurchase agreements

To provide liquidity for a limited period, the Bank offered the banks, by tender, open market transactions in securities under repurchase agreements on several occasions during the year under review. In these transactions the Bank bought bonds eligible as collateral for lombard loans on condition that the sellers repurchased them forward. The repurchase periods ranged between 28 and 36 days, and the interest rates between 5.9% and 10.25%. At the end of the year the Bank held DM 9,103.4 million of securities deriving from such transactions.

Lombard loans

At the end of 1982 the Bank's outstanding lombard loans to banks amounted to DM 12,031.1 million against DM 5,985.4 million at end-1981. The average level of these loans on all return days of the year under review was DM 4,552 million compared with DM 3,528 million in the previous year. The outstanding amount of such loans was subject to marked fluctuations, as in preceding years, and was largest on May 7, 1982, at DM 12,862 million. It was not until May 7, 1982 that lombard loans were granted to the banks at the lombard rate in the year under review. Up to that date the Bank had granted special lombard loans at a special lombard rate.

Lombard rate and special lombard rate

During the year under review the lombard rate stood at 9% until August 26, at 8% from August 27 to October 21, at 7% from October 22 to December 2 and at 6% as from December 3. The special lombard rate stood at 10½% until January 21, at 10% from January 22 to March 18 and at 9½% from March 19 to May 6 (when the granting of special lombard loans was discontinued).

Cash advances (book credits)

Section 20 (1) 1 of the Bundesbank Act lays down the following credit ceilings:

	DM million
for the Federal Government	6,000
for the Federal Railways	600
for the Federal Post Office	400
for the Equalisation of Burdens Fund	200
for the ERP Special Fund	50

for the Länder Governments DM 40 per inhabitant; for Berlin, Bremen and Hamburg DM 80 per inhabitant.

Besides book credits, Treasury bills which the Bank holds in its portfolio or has undertaken to purchase are to be counted against these credit ceilings.

Federal Government, Equalisation of Burdens Fund, Länder Governments

Cash advances (book credits) outstanding

DM million

Borrower	December 31, 1981	December 31, 1982
Federal Government	3,200.1	–
Länder Governments		
Bavaria	88.5	181.6
Berlin	157.6	–
Bremen	54.7	54.7
Hamburg	144.0	144.0
Hesse	192.1	186.1
Lower Saxony	187.1	192.2
North Rhine-Westphalia	561.4	517.0
Rhineland-Palatinate	19.4	–
Saarland	41.9	30.5
Schleswig-Holstein	97.8	89.3
Total	4,744.6	1,395.4

The Equalisation of Burdens Fund and the ERP Special Fund took up no cash advances during the year under review.

Federal Railways, Federal Post Office

No book credits to the Federal Railways or Federal Post Office were outstanding at December 31, 1982; such credits, together with claims arising from the purchase of Treasury bills and Treasury discount paper, are to be shown in the item "Loans to the Federal Railways and Federal Post Office" on the assets side of the balance sheet.

Throughout the year the rate of interest on book credits was identical with the Bank's discount rate.

Treasury bills and Treasury discount paper

In the issuing of Treasury discount paper the Bank again acted as the selling agent for the Federal Government and its special funds. This paper, which serves financing purposes, is distinct from the mobilisation and liquidity paper issued pursuant to sections 42 and 42 (a) of the Bundesbank Act, which will be reported on below. No Treasury bills serving financing purposes were issued during the year under review.

Federal Government

To meet the credit requirements of the Federal Government, Treasury discount paper amounting to DM 10,497.6 million (1981: DM 8,673.9 million) was issued. A large part of this sum (DM 5,651.4 million) consisted of sales to domestic banks of Treasury discount paper type "BN", which is not returnable before maturity and which was also offered by tender on two occasions.

The total issue figure includes DM 4,006.2 million (1981: DM 2,308.6 million) of Treasury "financing" paper — a special type of Treasury discount paper which has been sold to non-banks by a standardised procedure since February 1975. It is in smaller denominations, is not returnable before maturity and is mostly sold through banks, but partly also by the Bank or the Land Central Banks direct. The residual DM 840.0 million was purchased by an institutional investor.

After the redemption of DM 2,966.8 million (1981: DM 3,937.7 million) of matured Treasury discount paper (including Treasury financing paper), the amount of Treasury discount paper types "B" and "BN" outstanding at December 31, 1982 came to DM 18,230 million (end-1981: DM 10,699.2 million). Of this total, DM 1,090.0 million was repurchasable by the Bank (type "B").

Federal Railways

The (returnable) Treasury discount paper of the Federal Railways (type "Ba") which fell due in 1982, totalling DM 100.0 million, was reissued. The amount of Federal Railways Treasury discount paper (type "Ba") outstanding at end-1982 therefore came to DM 231.0 million, as in the previous year.

Federal Post Office

In the year under review the Federal Post Office issued non-returnable Treasury discount paper (type "PN"), for the first time for several years; the total amount placed (DM 524.9 million) was still outstanding at the end of the year (no such paper was outstanding at end-1981).

The total amount of money market paper issued for the account of the Federal Government and its special funds and outstanding at December 31, 1982 came to DM 18,985.9 million (end-1981: DM 10,930.2 million). Further details are given in the following table.

Money market paper issued for the account of the Federal Government and its special funds

DM million

Type of paper	Outstanding at Dec. 31, 1981	1982 Issued	1982 Redeemed	Outstanding at Dec. 31, 1982
Treasury discount paper of the Federal Republic of Germany type "B" 1 and type "BN" 2	10,699.2	10,497.6	2,966.8	18,230.0
of which Treasury financing paper	(3,494.0)	(4,006.1)	(2,126.8)	(5,373.3)
Treasury discount paper of the Federal Railways type "Ba"	231.0	100.0	100.0	231.0
Treasury discount paper of the Federal Post Office type "PN" 2	—	524.9	—	524.9
Total	10,930.2	11,122.5	3,066.8	18,985.9

1 The letter "B" serves to distinguish these bonds from the mobilisation and liquidity paper dealt with below. — 2 The letters "BN" and "PN" denote securities which may not be returned before maturity.

Länder Governments

In the year under review, for the first time since 1976, Treasury discount paper was issued by a Land Government by agreement with the Bank; the total amount placed (DM 800 million) was still outstanding at the end of 1982 (no Länder Government money market paper was outstanding at the end of 1981). This paper is not included in the money market regulating arrangements.

Equalisation claims on the Federal Government and non-interest-bearing debt certificate in respect of Berlin

The Bank's equalisation claims on the Federal Government and the non-interest-bearing debt certificate in respect of Berlin remained unchanged during the year under review.

Loans to the Federal Railways and Federal Post Office

No loans to the Federal Railways or Federal Post Office were outstanding at December 31, 1982, as in the previous year. See also the notes on the items "Cash advances (book credits)" and "Treasury bills and Treasury discount paper".

Securities

During the year under review the Bank's portfolio of securities — chiefly bonds of the Federal Republic of Germany, the Federal Railways and the Federal Post Office — rose on balance by DM 1,677.1 million to DM 5,409.4 million owing to open market operations (end-1981: DM 3,732.3 million).

Issue of bonds

In 1982 15 bond issues totalling DM 20,000 million (1981: eleven bond issues amounting to DM 13,150 million) were launched through the Federal Bond Consortium, which is under the direction of the Bank. Of this total, DM 4,650 million (1981: DM 2,575 million) was reserved at the time of issue for the issuers' own institutions and for price regulation purposes.

At the end of 1982 the outstanding amount of bonds of the Federal Republic of Germany came to DM 55,882.5 million (end-1981: DM 44,499.3 million), that of the Federal Railways to DM 16,733.0 million (end-1981: DM 14,905.3 million) and that of the Federal Post Office to DM 9,930.6 million (end-1981: DM 8,825.8 million).

Bond issues of the Federal Republic of Germany, the Federal Railways and the Federal Post Office in 1982

Issuer	Amount issued (DM million)		Terms				Start of sales
	Total	of which Sold through Federal Bond Consortium	Nominal interest rate (%)	Maturity (years)	Issue price (%)	Yield (%)	
Federal Republic of Germany	1,600	1,200	9.75	10	100	9.75	Jan. 4
Federal Railways	900	750	10	10	100.50	9.92	Jan. 18
Federal Post Office	1,000	800	9.75	10	100.25	9.71	Feb. 9
Federal Republic of Germany	1,600	1,200	9.75	10	100	9.75	Feb. 24
Federal Republic of Germany	1,600	1,200	9.50	10	100.50	9.42	Mar. 11
Federal Republic of Germany	1,600	1,200	9	10	100.50	8.92	Apr. 13
Federal Republic of Germany	1,600	1,200	8.50	10	99.50	8.58	May 17
Federal Post Office	1,000	800	8.75	10	99.50	8.83	June 7
Federal Railways	850	700	9.50	10	100.50	9.42	June 28
Federal Republic of Germany	1,600	1,200	9	10	99.75	9.04	July 28
Federal Republic of Germany	1,600	1,200	8.75	10	99.75	8.79	Aug. 24
Federal Post Office	1,000	800	8.50	10	99	8.65	Sep. 20
Federal Railways	850	700	8	10	99	8.15	Oct. 18
Federal Republic of Germany	1,600	1,200	7.75	8	99	7.92	Oct. 27
Federal Republic of Germany	1,600	1,200	7.75	10	100	7.75	Dec. 7

Issue of Federal savings bonds

With the Bank assisting in the selling process, DM 2,870.2 million (gross) of Federal savings bonds were sold to private investors through banks and by the Bank itself in 1982 (1981: DM 4,998.8 million).

During the year under review the rate of interest paid on Federal savings bonds was raised twice and lowered five times to bring it into line with market rates. Details are given in the following table.

Gross sales, interest rates and yields of Federal savings bonds in 1982

Issue	Sales period 1982	Gross sales (DM million) Total	Federal savings bonds type A 1	Federal savings bonds type B 2	Interest rate (I) in, and yield (Y) after, . . . year after issue (% p. a.)	1st	2nd	3rd	4th	5th	6th	7th
1981/ 13+14	Jan. 4– Jan. 11 3	56.8 4	20.7		I	7.00	8.50	8.75	9.25	9.50	10.00	
					Y	7.00	7.72	8.04	8.30	8.50	8.70	
				36.1	I	7.00	8.50	8.75	9.25	9.50	10.00	10.00
					Y	7.00	7.75	8.08	8.37	8.60	8.83	9.00
1982/ 1+2	Jan. 12– Mar. 11	886.4	340.0		I	8.00	9.50	9.50	9.75	9.75	10.00	
					Y	8.00	8.72	8.96	9.13	9.23	9.33	
				546.4	I	8.00	9.50	9.50	9.75	9.75	10.00	10.00
					Y	8.00	8.75	9.00	9.19	9.30	9.41	9.50
1982/ 3+4	Mar. 12– Apr. 5	463.7	209.1		I	7.50	9.00	9.00	9.50	9.75	10.00	
					Y	7.50	8.22	8.46	8.69	8.86	9.01	
				254.6	I	7.50	9.00	9.00	9.50	9.75	10.00	10.00
					Y	7.50	8.25	8.50	8.75	8.95	9.12	9.25
1982/ 5+6	Apr. 6– June 28	463.2	203.8		I	7.00	8.50	8.75	9.00	9.00	9.25	
					Y	7.00	7.72	8.04	8.25	8.38	8.49	
				259.4	I	7.00	8.50	8.75	9.00	9.00	9.25	9.25
					Y	7.00	7.75	8.08	8.31	8.45	8.58	8.68
1982/ 7+8	June 29– Aug. 25	436.9	142.8		I	7.00	9.00	9.25	9.50	9.75	10.00	
					Y	7.00	7.96	8.36	8.61	8.80	8.96	
				294.1	I	7.00	9.00	9.25	9.50	9.75	10.00	10.00
					Y	7.00	8.00	8.41	8.68	8.90	9.08	9.21
1982/ 9+10	Sep. 1– Oct. 22	270.0	115.2		I	6.50	8.00	8.25	8.50	8.75	9.00	
					Y	6.50	7.22	7.54	7.75	7.92	8.07	
				154.8	I	6.50	8.00	8.25	8.50	8.75	9.00	9.00
					Y	6.50	7.25	7.58	7.81	8.00	8.16	8.28
1982/ 11+12	Oct. 25– Dec. 6	198.4	83.0		I	5.75	7.25	7.50	8.00	8.25	9.00	
					Y	5.75	6.48	6.79	7.06	7.27	7.51	
				115.4	I	5.75	7.25	7.50	8.00	8.25	9.00	9.00
					Y	5.75	6.50	6.83	7.12	7.35	7.62	7.82
1982/ 13+14	Dec. 7– Dec. 31*	94.8	39.6		I	5.00	7.00	7.50	8.00	8.25	8.50	
					Y	5.00	5.97	6.45	6.80	7.05	7.25	
				55.2	I	5.00	7.00	7.50	8.00	8.25	8.50	8.50
					Y	5.00	6.00	6.49	6.87	7.14	7.37	7.53
Total	Jan. 4– Dec. 31*	2,870.2	1,154.2	1,716.0								

1 With annual payment of interest. — 2 With accrual of interest. — 3 Sales started on October 15, 1981. — 4 Sales between October 15, 1981 and December 31, 1981: Federal savings bonds type A DM 55.3 million, Federal savings bonds type B DM 107.4 million = DM 162.7 million. — * Sales not completed on December 31, 1982.

During 1982 DM 961.7 million (1981: DM 10,941.3 million) of Federal savings bonds from earlier tranches were returned to the issuer before maturity, and a further DM 2,241.9 million was redeemed on maturity. Because repurchases and redemptions by the issuer exceeded new sales, the amount of Federal savings bonds outstanding declined from DM 13,841.4 million at the end of 1981 to DM 13,508.0 million at December 31, 1982.

Issue of five-year special Federal bonds

With the assistance of the Bank, sales of five-year special Federal bonds (which were introduced as a tap issue in December 1979) through the banks and by the Bank itself continued to rise during the year under review.

Five-year special Federal bonds are sold in consecutive series, before admission to stock exchange dealing, only to domestic natural persons and to institutions serving publicly beneficial, charitable or religious purposes. In the year under review DM 13,133.8 million (1981: DM 10,625.8 million) of newly issued special Federal bonds were sold in the market. In addition, DM 1,515.5 million was reserved for price and market regulation purposes after the completion of the issue of the current series.

During the year under review the terms of issue of special Federal bonds were brought into line with market conditions on 23 occasions. Details of the various series are given in the following table.

Sales and terms of issue of five-year special Federal bonds in 1982

		Terms (%)			Amount issued (DM million)				
					Sales				
Designation Series	Start of sales	Nominal interest rate	Issue price	Yield	per issue price	Total	Price regulation share	Total	Date of admission to stock exchange dealing
S. 23 of 1981 (1986)	Jan. 4 [1]	9.50	99.80	9.55	150.2	[2] 150.2	101.8	850	Jan. 25
S. 24 of 1982 (1987)	Jan. 12 Jan. 26	9.75	99.80 100.20	9.80 9.70	398.0 1,266.9	1,664.9	135.1	1,800	Mar. 19
S. 25 of 1982 (1987)	Mar. 5 Mar. 10	9.50	99.80 100.40	9.55 9.40	201.1 671.5	872.6	127.4	1,000	Mar. 30
S. 26 of 1982 (1987)	Mar. 19 Mar. 24	9.25	100.20 100.60	9.20 9.10	159.0 730.3	889.3	110.7	1,000	Apr. 21
S. 27 of 1982 (1987)	Apr. 5 Apr. 6 Apr. 15	9.00	100.20 100.80 101.20	8.95 8.80 8.69	82.6 143.0 164.8	390.4	59.6	450	May 10
S. 28 of 1982 (1987)	Apr. 28 June 15	8.50	99.80 98.40	8.55 8.91	448.1 57.1	505.2	94.8	600	July 9
S. 29 of 1982 (1987)	June 29	9.50	100.60	9.34	1,031.9	1,031.9	118.1	1,150	Aug. 5
S. 30 of 1982 (1987)	July 26 Aug. 17 Aug. 20	9.00	99.60 99.20 100.40	9.10 9.21 8.90	366.0 1,246.2 32.6	1,644.8	155.2	1,800	Sep. 1
S. 31 of 1982 (1987)	Aug. 23 Aug. 30	8.75	99.80 100.60	8.80 8.60	231.0 699.2	930.2	169.8	1,100	Oct. 4
S. 32 of 1982 (1987)	Sep. 22 Oct. 11	8.25	99.20 99.80	8.45 8.30	952.2 371.9	1,324.1	175.9	1,500	Oct. 26
S. 33 of 1982 (1987)	Oct. 14	8.00	99.60	8.10	1,142.3	1,142.3	157.7	1,300	Nov. 4
S. 34 of 1982 (1987)	Oct. 25	7.75	99.40	7.90	2,090.6	2,090.6	109.4	2,200	Dec. 21
S. 35 of 1982 (1987)	Dec. 7 Dec. 30	7.50	99.40 100.00	7.65 7.50	489.0 8.3	497.3	[3] –	[3] –	–

1 Sales started on November 16, 1981. — 2 Sales between November 16, 1981 and December 31, 1981 = DM 598.0 million. — 3 Sales not completed on December 31, 1982.

The amount of special Federal bonds outstanding at the end of 1982 came to DM 35,417.4 million (end-1981: DM 20,649.4 million).

Issue of medium-term notes

Through the agency of the Bank, DM 3,234.8 million of Treasury bonds (medium-term notes) of the Federal Government and the Federal Post Office were sold in three tenders in 1982 (1981: DM 1,238.2 million in two tenders). The terms of the four issues are shown in the following table.

Treasury bonds (medium-term notes) of the Federal Republic of Germany and the Federal Post Office sold by tender in 1982

Issuer	Amount sold (DM million)	Nominal interest rate (%)	Maturity (years)	Selling price (%)	Yield on issue (%)	Month of sale
Federal Post Office	941.0	8.75	4	100	8.75	May
Federal Republic of Germany	995.1	9	4	99.30	9.22	August
Federal Republic of Germany	660.7	8.25	3	99.70	8.37	September
Federal Republic of Germany	638.0	8.25	4	99.30	8.46	September

At the end of 1982 the outstanding amount of medium-term notes of the Federal Republic of Germany came to DM 8,957.6 million (end-1981: DM 11,402.1 million), that of the Federal Railways to DM 933.4 million (end-1981: DM 1,033.4 million) and that of the Federal Post Office to DM 2,100.9 million (end-1981: DM 1,159.9 million).

Admission to stock exchange dealing

The Bank introduced the new bond issues of the Federal Republic of Germany, the Federal Railways, the Federal Post Office and the Reconstruction Loan Corporation, as well as the special Federal bond series 23 to 34, to official dealing on all German stock exchanges; it also introduced five issues of bearer bonds of the Equalisation of Burdens Bank to regulated unofficial dealing on the Düsseldorf stock exchange.

In addition, the Bank introduced the new issues of medium-term notes of the Federal Republic of Germany and the Federal Post Office to regulated unofficial dealing on the Frankfurt stock exchange.

Price regulation operations

In the year under review, as in preceding years, the Bank conducted price regulation operations for the account of the issuers on the eight German stock exchanges in respect of the bonds issued by the Federal Government and its special funds, one Land Government, the Reconstruction Loan Corporation and the Equalisation of Burdens Bank.

The Bank as paying and collecting agent for bonds

As the paying and collecting agent for, in particular, bonds (including external bonds) of the Federal Government and its special funds, the Bank paid 1,492,271 interest coupons and matured bonds in the year under review (1981: 2,456,670).

German coins

The amount of German coins held by the Bank came to DM 1,084.2 million at end-1982 (end-1981: DM 913.6 million). In 1982 the Federal Government was credited with DM 483.0 million for coins taken over from the Mints and debited with DM 8.7 million for coins no longer fit for circulation or melted down. Between 1948 and 1982 the Bank — acting for the account of the Federal Government — took over coins amounting to DM 10,868.4 million and redeemed DM 1,663.9 million of coins which were no longer fit to circulate or had been called in.

The total amount of coins in circulation at the end of 1982 (DM 8,120.2 million) divided by the number of inhabitants of the Federal Republic of Germany, including the Land of Berlin, on September 30, 1982 (61.6 million) yields a coin circulation of DM 131.81 per head of population (1981: DM 126.69).

During the year under review the DM 5 commemorative coins "United Nations Conference on the Environment" and "Johann Wolfgang von Goethe" were put into circulation.

Balances on postal giro accounts

The postal giro account balances, including the branches' transfers in transit to the postal giro account of the Bank (Central Office) in Frankfurt am Main, amounted to DM 150.3 million at December 31, 1982 (December 31, 1981: DM 327.8 million). The Bank's credit balances on the latter account and on the postal giro account of the Land Central Bank in Berlin, other than those required for current payments, are offset daily, in rounded amounts, against the giro balances of the Central Cash Office of the Federal Post Office and the Berlin (West) Postal Giro Office.

Postal giro transactions with third parties

	1981				1982			
	Transfers received from third parties		Transfers made to third parties		Transfers received from third parties		Transfers made to third parties	
Area	Number	DM million	Number	DM million	Number	DM million	Number	DM million
Land Central Bank								
Baden-Württemberg	62,138	17,806.0	11,260	2,314.0	64,932	18,391.1	5,981	2,344.0
Bavaria	51,504	13,314.9	7,772	6,665.9	40,666	13,148.4	6,802	6,545.5
Berlin	17,397	2,946.5	2,252	790.5	17,842	2,963.8	2,305	977.8
Bremen	4,954	387.9	479	0.1	4,654	380.8	94	0.0
Hamburg	108,880	18,045.4	1,090	142.5	114,112	18,913.2	1,306	317.2
Hesse	77,635	8,127.3	4,470	7,352.9	75,927	8,605.3	3,660	7,392.0
Lower Saxony	49,871	7,704.5	3,527	2,106.2	50,597	8,215.3	3,218	2,314.6
North Rhine-Westphalia	130,474	21,433.2	14,127	6,636.1	141,715	22,885.4	10,789	7,202.3
Rhineland-Palatinate	18,417	1,422.8	5,857	1,029.2	18,858	1,278.3	4,161	825.6
Saarland	5,828	1,885.9	214	0.1	5,564	1,926.9	159	0.1
Schleswig-Holstein	4,106	54.4	1,341	0.5	4,768	84.9	723	0.5
Total	531,204	93,128.8	52,389	27,038.0	539,635	96,793.4	39,198	27,919.6
Bundesbank — Central Office —	9,365	1,674.0	1,117	3.4	5,169	1,912.1	828	3.3
Grand total	540,569	94,802.8	53,506	27,041.4	544,804	98,705.5	40,026	27,922.9

Land and buildings

After additions amounting to DM 191.9 million and depreciation totalling DM 110.2 million, land and buildings are shown at DM 1,267.0 million.

Furniture and equipment

The balance sheet value of furniture and equipment is DM 107.7 million after additions totalling DM 64.1 million and depreciation amounting to DM 46.6 million.

Items in course of settlement

The "Items in course of settlement" mainly comprise the intercity credit and debit transfers proceeding inside the Bank at the end of the year and the cheques and direct debits being cleared. At December 31, 1982 the balance of items in course of settlement stood at DM 2,970.4 million against DM 3,938.7 million at end-1981.

Other assets

The item "Other assets" is composed of the former items "Other claims" and "Other assets". At the end of 1982 it is shown at DM 3,411.6 million against DM 2,707.4 million[1] at end-1981. This item primarily includes the interest due in 1983 but assignable to the profit and loss account for the year under review on funds invested abroad and securities (DM 2,514.0 million against DM 1,909.3 million at end-1981) and the balance arising from intra-German settlements (commercial payments under the "Berlin Agreement"), which amounted to DM 489.8 million (1981: DM 582.6 million). The regulations governing intra-German payments are outlined in Part A IV of the German original of this Report.

This item also contains the Bank's 30% share, amounting to DM 75 million, in the capital of the Liquidity Consortium Bank of Frankfurt am Main (set up as a private limited company). The provision included in the articles of association of

1 "Other claims" DM 799.5 million; "Other assets" DM 1,907.9 million.

that bank that, if necessary, further capital is to be paid up in proportion to the existing share entails for the Bank a maximum commitment of DM 225 million.

Prepaid expenses and deferred income

The prepaid expenses and deferred income almost entirely comprise salary and pension payments made in the year under review but relating to 1983.

Liabilities

Banknotes in circulation

The amount of banknotes in circulation at December 31, 1982, at DM 88,574.7 million, was DM 4,784.4 million larger than at end-1981.

Currency in circulation

DM million

End of	Bundesbank notes	Federal coins	Currency in circulation, total
1977	65,567.4	6,097.6	71,665.0
1978	74,799.1	6,577.5	81,376.6
1979	79,385.6	6,988.7	86,374.3
1980	83,730.3	7,461.0	91,191.3
1981	83,790.3	7,816.6	91,606.9
1982	88,574.7	8,120.2	96,694.9

The denominations of the Bundesbank notes and Federal coins in circulation are shown in Appendix 3 to the German original of this Report.

In the year under review the Bank again took over new Bundesbank notes of various denominations from the printing works and put them into circulation or made them ready for that purpose.

The banknotes (including monetary tokens) destroyed as being no longer fit for circulation or after having been called in amounted to:

	1977	1978	1979	1980	1981	1982
Number (millions)	459.1	560.9	505.9	466.4	662.3	834.5
Value (DM million)	18,086.2	22,682.1	20,829.6	18,495.1	28,793.9	39,604.0.

The number and value of the counterfeit Bundesbank notes and Federal coins detained in payments in the Federal Republic of Germany and Berlin (West) increased further in comparison with the preceding year.

The rise was primarily due to the appearance of a new type of counterfeit DM 50 note, the maker of which has already been identified, and to the greater incidence of counterfeit DM 2 and DM 5 coins.

Counterfeits detected in payments

Year	Bundesbank notes		Federal coins	
	Number	DM thousand	Number	DM thousand
1977	9,754	946.0	6,754	25.7
1978	6,341	586.4	9,835	35.5
1979	3,388	296.6	7,405	24.3
1980	2,421	183.4	9,428	25.1
1981	2,896	219.1	17,172	34.3
1982	3,317	250.7	19,975	43.3

Deposits of banks

The banks' deposits on giro accounts are mainly composed of the minimum reserves to be held at the Bank. The sub-item "Other" contains the deposits of domestic banks on U.S. dollar accounts. At the end of the year, compared with end-1981, the deposits were made up as follows:

	Dec. 31, 1981 DM million	Dec. 31, 1982 DM million
Deposits on giro accounts	50,583.8	51,854.9
Other	25.0	20.2
	50,608.8	51,875.1.

Deposits of public authorities

In the item "Deposits of public authorities" the current balances of public authorities are shown as follows:

	Dec. 31, 1981 DM million	Dec. 31, 1982 DM million
Federal Government	293.2	723.6
Equalisation of Burdens Fund and ERP Special Fund	43.0	162.2
Länder Governments	391.7	330.0
Other public depositors	38.7	42.3
	766.6	1,258.1.

Deposits of other domestic depositors

The deposits of other domestic depositors were composed as follows:

	Dec. 31, 1981 DM million	Dec. 31, 1982 DM million
Federal Railways	6.2	19.8
Federal Post Office (including postal giro and postal savings bank offices)	1,512.1	2,865.8
Other depositors	628.4	629.7
	2,146.7	3,515.3.

Giro transactions, simplified cheque and direct debit collections

Almost 100% of the turnover on the giro accounts was settled on a cashless basis, in terms of both the number of transactions and the amount involved, as in the previous year.

Annual turnover on the giro accounts of the Bank

Type of turnover	1981 Number of transactions (Thousands)	1981 Total amount (DM million)	1981 Average amount (DM thousand)	1982 Number of transactions (Thousands)	1982 Total amount (DM million)	1982 Average amount (DM thousand)
(a) Credits						
Cash payments	1,080	212,783	197.0	1,069	214,935	201.1
Clearings with account-holders	4,336	4,481,638	1,033.6	4,219	4,584,719	1,086.7
Local transfers	27,307	4,553,872	166.8	78,972	4,764,580	60.3
Intercity transfers	270,736	4,657,892	17.2	291,028	4,899,258	16.8
Cheque and direct debit collections (total presented)	1,023,578	1,924,742	1.9	1,097,794	2,041,085	1.9
Total	1,327,037	15,830,927	–	1,473,082	16,504,577	–
(b) Debits						
Cash payments	1,526	215,834	141.4	1,546	222,819	144.1
Clearings with account-holders	3,233	4,327,694	1,338.6	3,127	4,453,782	1,424.3
Local transfers	27,307	4,553,872	166.8	78,972	4,764,580	60.3
Intercity transfers	271,356	4,806,700	17.7	291,337	5,021,074	17.2
Cheque and direct debit collections (total paid)	1,019,432	1,923,063	1.9	1,098,323	2,038,695	1.9
Total	1,322,854	15,827,163	–	1,473,305	16,500,950	–
(c) Percentage of total turnover (credits and debits)		%			%	
Cash payments		1.35			1.33	
Clearings with account-holders		27.83			27.38	
Local transfers		28.77			28.87	
Intercity transfers		29.90			30.06	
Cheque and direct debit collections (total presented and paid)		12.15			12.36	
		100.00			100.00	

In 1982 the turnover on the giro accounts of the Bank increased over the previous year by 11 % in terms of the number of transactions and by 4 % in terms of the amount involved. The number of intercity transfers went up by 7 %, and thus not as steeply as in the preceding two years (about 20 % each). The exceptional rise in local transfers, at about 190 %, is mainly due to a change in the method of recording some of the payments (on magnetic tape). The number of items presented by the banks under the simplified collection procedure for cheques and direct debits grew by 7 % (1981: 17 %). The number of cash outpayments (1.5 million) and cash inpayments (1.1 million) made over the Bank's counters remained practically unchanged.

In the year under review 99 % of the 519 million vouchers presented for collection and 97 % of the 186 million paper-based credit transfers, as well as 579 million direct debits (1981: 525 million) and 105 million credit transfers (1981: 102 million) recorded on magnetic tape, were processed by the Bank's computer centres. The volume of payments executed through the paperless exchange of data media was about 9 % larger than in the preceding year. Such payments now account for half (49.7 %) of the payment items presented under the automated procedure. Altogether, 99 % of intercity transfers – paper-based as well as paperless – were processed automatically in the year under review. The development of the automation of intercity transfers since 1973 is shown in the following table.

Automation of intercity transfers

	Collection orders presented							Intercity credit transfers presented						
		processed							processed					
		in paper-based operations				through the paperless exchange of data media			in paper-based operations				through the paperless exchange of data media	
	Total	conventional		automated				Total	conventional		automated			
Year	millions	millions	%	millions	%	millions	%	millions	millions	%	millions	%	millions	%
1973	317	175	55	142	45	—	—	113	113	100	—	—	—	—
1974	374	142	38	232	62	0.2	0	123	75	61	48	39	0.1	0
1975	423	143	34	272	64	8	2	163	85	52	73	45	5	3
1976	501	83	17	313	62	105	21	174	62	36	83	48	29	16
1977	587	47	8	359	61	181	31	169	36	21	87	51	46	28
1978	694	31	5	412	59	251	36	183	26	14	89	49	68	37
1979	775	15	2	441	57	319	41	192	13	7	95	49	84	44
1980	873	11	1	473	54	389	45	230	7	3	125	54	98	43
1981	1,023	8	1	490	48	525	51	271	7	2	162	60	102	38
1982	1,098	7	1	512	46	579	53	291	6	2	180	62	105	36

If local payments and clearing transactions — which, apart from local credit transfers in Hamburg, are not yet processed automatically — are also taken into account, approximately 78% of cashless payments at the Bank are automated. It should be borne in mind in this connection that magnetic tapes containing payments are increasingly being exchanged locally between banks in clearing transactions, although only the total amounts are being cleared by this (conventional) procedure.

As a result of the progressive automation, the concentration of the incoming payment items continued in 1982. Since 1973 the number of items entered in giro accounts in intercity payments has fallen from 166 million to 30.5 million on the dispatch side, in spite of the simultaneous rise in the number of payments from 430 million to 1,389 million.

Liabilities arising from mobilisation and liquidity paper sold

In the year under review sales of mobilisation and liquidity paper pursuant to sections 42 and 42(a) of the Bundesbank Act, at DM 29,165.4 million, decreased sharply against the preceding year (DM 67,916.7 million). The turnover in mobilisation and liquidity Treasury bills consisted mainly of the revolving investment of funds of foreign institutions; there were no transactions with domestic banks in the year under review. Sales amounting to DM 29,004.6 million (1981: DM 67,857.9 million) were accompanied by redemptions totalling DM 29,361.9 million (1981: DM 67,145.7 million), so that the amount outstanding fell to DM 4,501.8 million (end-1981: DM 4,859.1 million).

The Bank sold DM 160.8 million of mobilisation and liquidity Treasury discount paper in 1982 (1981: DM 58.8 million), so that, after redemptions totalling DM 57.0 million, DM 149.8 million of such paper was outstanding at December 31, 1982 (end-1981: DM 46.0 million).

The liabilities arising from mobilisation and liquidity paper outstanding amounted in all to DM 4,651.6 million at December 31, 1982 (end-1981: DM 4,905.1 million).

Mobilisation and liquidity paper sold and redeemed

DM million

	1981	1982		
Type of paper	Outstanding at December 31	Sold	Redeemed	Outstanding at December 31
Treasury bills (running for up to 90 days)	4,859.1	29,004.6	29,361.9	4,501.8
Treasury discount paper (running for 6 to 24 months)	46.0	160.8	57.0	149.8
Total	4,905.1	29,165.4	29,418.9	4,651.6

Liabilities arising from external transactions

The liabilities arising from external transactions went up to DM 12,035.0 million compared with DM 8,910.2 million at end-1981. This increase was chiefly ascribable to a special transaction with a foreign central bank which led to the growth of the various liabilities. Specifically, the liabilities arising from external transactions were made up as follows:

	Dec. 31, 1981		Dec. 31, 1982	
	DM million	DM million	DM million	DM million
Deposits of foreign depositors				
Banks	8,245.6		9,108.6	
Other depositors	568.6	8,814.2	401.4	9,510.0
Other				
Provision of cover for credits, etc.	9.8		11.3	
Miscellaneous liabilities	86.2	96.0	2,513.7	2,525.0
		8,910.2		12,035.0.

Counterpart in respect of the valuation of the gold and dollar reserves provisionally contributed to the European Monetary Cooperation Fund

In connection with the European Monetary System (EMS) the Bank provisionally contributed 20% of its gold and dollar reserves to the European Monetary Cooperation Fund (EMCF) against ECUs at a value based on market prices and therefore higher than that used in the balance sheet. The resultant difference is shown in this item.

Counterpart of special drawing rights allocated

The counterpart of the special drawing rights allocated by the International Monetary Fund and shown on the assets side of the balance sheet in sub-item 2.3 corresponds to the allocations of SDRs to the Federal Republic of Germany between 1970 and 1972 and from 1979 to 1981, which totalled SDR 1,210.8 million.

Provisions

Provisions for pensions

DM 132.3 million was withdrawn from the provisions for pensions in order to pay retirement pensions and widows' and orphans' pensions. After an increase of DM 192.3 million, these provisions amounted to DM 2,036.0 million at December 31, 1982 against DM 1,976.0 million at end-1981.

Provisions for other purposes

DM 214.0 million was withdrawn from and DM 594.0 million was added to the provisions for other purposes. At end-1982 they totalled DM 2,270.0 million (end-1981: DM 1,890.0 million). They serve to meet the general hazards inherent in domestic and external transactions.

Other liabilities

The other liabilities are shown at DM 186.4 million against DM 244.6 million at end-1981.

Deferred expenses and accrued income

Deferred expenses and accrued income amounted to DM 675.7 million at December 31, 1982 (end-1981: DM 993.1 million). As before, this item mainly comprised interest received in the year under review, but relating to the following year, on domestic and foreign bills and U.S. Treasury Notes.

Capital

The capital of the Bank amounts to DM 290 million; it is held by the Federal Government (section 2 of the Bundesbank Act).

Reserves

In accordance with the decision taken by the Central Bank Council on April 22, 1982, the legal reserves were increased by DM 2,605.2 million out of the unappropriated profit for 1981. After this increase the legal reserves totalled DM 4,189.5 million; they thus reached the maximum level permissible by law of 5% of the amount of banknotes in circulation, which came to DM 83,790.3 million at end-1981. The other reserves reached the statutory ceiling of DM 290 million at the end of 1980.

Unappropriated profit

See the notes on page 102 of this Report.

Contingent liabilities and claims

The contingent liabilities and claims amounted to DM 1.2 million against DM 0.6 million at end-1981.

Profit and loss account

Comparison of expenditure and receipts

DM million

Expenditure	1981	1982	Receipts	1981	1982
Interest paid on foreign exchange transactions under repurchase agreements and swaps with domestic banks	172.4	14.0	Interest received		
Interest paid on mobilisation and liquidity paper	477.4	360.1	Funds invested abroad	7,566.8	8,044.8
Other interest paid	9.8	10.3	Lending to domestic banks	4,462.6	5,011.9
	659.6	384.4	Equalisation claims	244.1	244.1
Administrative expenditure			Securities	333.7	407.0
Staff costs	676.9	700.3	Cash advances (book credits)	215.1	173.9
Other	144.5	155.7	Other interest received	4.1	3.5
Note printing	138.5	139.5		12,826.4	13,885.2
Depreciation	136.9	156.8	Fees received	16.4	16.4
Increases in provisions			Receipts from purchases and sales of foreign currency	3,945.0	–
for pensions	201.0	192.3	Other receipts	55.5	103.5
for other purposes	1,590.0	594.0			
Pension payments in respect of the Reichsbank	32.5	30.9			
Other expenditure	118.6	33.9			
Write-downs of monetary reserves and other foreign currency positions	–	310.7			
Profit for the year (= unappropriated profit)	13,144.8	11,306.6			
Total	16,843.3	14,005.1	Total	16,843.3	14,005.1

Receipts

Interest

	1981 DM million	1982 DM million
Interest received amounted to	12,826.4	13,885.2;
after deduction of interest paid, namely	659.6	384.4,
interest is shown in the profit and loss account at	12,166.8	13,500.8.

In the year under review total interest income, at DM 13,885.2 million, was DM 1,058.8 million larger than in 1981, even though interest rates moved downwards. The interest received from external transactions rose from DM 7,566.8 million to DM 8,044.8 million. As in 1981, this was mainly because the depreciation of the Deutsche Mark led to an increase in the Deutsche Mark equivalent of the interest income paid in dollars. Receipts from lending to domestic banks — domestic bills, security transactions under repurchase agreements, lombard loans and foreign bills bought in Germany — went up by DM 549.3 million to DM 5,011.9 million as the volume of such lending expanded. The interest received from securities increased by DM 73.3 million to DM 407.0 million, the security portfolio being larger. The interest accruing from equalisation claims remained unchanged, at DM 244.1 million. The other interest income decreased from DM 219.2 million to DM 177.4 million, chiefly owing to the fall in interest received from cash advances.

The interest paid, at DM 384.4 million, declined by DM 275.2 million against the previous year. DM 14.0 million (1981: DM 172.4 million) was spent on foreign exchange transactions under repurchase agreements and swaps, and DM 360.1 million (1981: DM 477.4 million) was disbursed on Treasury bills and Treasury discount paper of the Federal Government (mobilisation and liquidity paper pursuant to sections 42 and 42(a) of the Bundesbank Act).

Fees

Fees totalling DM 16.4 million were received in the year under review, as in the preceding year.

Other receipts

The other receipts are shown at DM 103.5 million against DM 55.5 million in the previous year.

Expenditure

Administrative expenditure
Staff costs

Administrative expenditure on personnel grew by DM 23.4 million to DM 700.3 million. This was chiefly attributable to statutory or negotiated pay rate increases for established employees ("officials") and unestablished wage and salary earners.

The increase in the Bank's staff had been slowing down since 1980 (1979: +750; 1980: +417; 1981: +277); the Central Bank Council's decision of December 17, 1981 to reduce the number of employees led to a decrease in the staff in 1982, for the first time since 1977. The number of employees fell by 71 (= 0.5%) to 15,031. In spite of this reduction, more than 60 new trainee positions were created within the Bank as a whole.

The number of full-time jobs at the Bank fell by 139 to 13,594 as at January 1, 1983. Hence the reduction by 136 jobs (about 1%) decided on by the Central Bank Council was achieved in full.

Payments to serving members of the Directorate of the Bank and the Central Bank Council amounted to DM 7,070,661.70 in the year under review. Former members of these bodies and of the Board of Directors and Board of Managers of the Bank deutscher Länder and the Managing Boards of the Land Central Banks, including their surviving dependants, received payments totalling DM 7,277,211.13.

Changes in staff regulations

In 1982 the Bank again entered into a number of pay agreements, thereby bringing the legal situation of its wage and salary earners into line with that of the wage and salary earners of the Federal Government. In addition, on October 20, 1982 it concluded an Agreement Amending and Supplementing Standard Job Definitions in the Cash Handling Service.

Staff of the Bank

	Beginning of 1982					Beginning of 1983				
				of whom					of whom	
	Central Office	Land Central Banks	Total 1	male	female	Central Office	Land Central Banks	Total 1	male	female
Officials	871	5,329	6,200	5,770	430	880	5,419	6,299	5,832	467
Salary earners	1,613	6,208	7,821	3,647	4,174	1,600	6,054	7,654	3,568	4,086
Wage earners	229	852	1,081	200	881	237	841	1,078	217	861
Total	2,713	12,389	15,102	9,617	5,485	2,717	12,314	15,031	9,617	5,414

1 of whom	1982	1983
(a) Salaried staff working outside the Bank or released to work for international institutions	70	77
(b) Trainees	616	680
(c) Part-time staff		
Salaried staff	458	477
Wage earners	749	729

Other

Other (non-staff) administrative expenditure increased by DM 11.2 million to DM 155.7 million during the year under review.

Note printing

Expenditure on note printing amounted to DM 139.5 million against DM 138.5 million in the previous year.

Depreciation and increases in provisions

Depreciation of land and buildings and of furniture and equipment was discussed in connection with the respective balance sheet items, as were increases in provisions.

Pension payments in respect of the Reichsbank

Payments to members of the former Deutsche Reichsbank and other persons to whom the Act concerning Article 131 of the Basic Law applies, for whom the Bank is required to provide in accordance with section 41 of the Bundesbank Act, at DM 30.9 million, declined slightly in the year under review.

Other expenditure

Other expenditure is shown at DM 33.9 million (1981: DM 118.6 million).

Write-downs of monetary reserves and other foreign currency positions

The valuation of the monetary reserves and other foreign currency positions resulted in write-downs amounting to DM 310.7 million in the 1982 annual accounts; they are primarily due to the appreciation of the Deutsche Mark against the European Currency Unit (ECU) during the year under review.

Unappropriated profit	The profit and loss account for 1982 shows a profit for the year of which is shown in the balance sheet as unappropriated profit (net profit).		DM 11,306,580,217.48
Proposed distribution of profit	In accordance with section 27 of the Bundesbank Act, the Directorate proposes to the Central Bank Council that the following appropriations should be made:	DM	
	to the legal reserves	239,200,000.00	
	to the Fund for the Purchase of Equalisation Claims	30,000,000.00	269,200,000.00.
	The balance of		11,037,380,217.48
	will be transferred to the Federal Government.		

After this appropriation, the legal reserves will amount to DM 4,428,700,000.00; as in the previous year, they will then come up to the statutory ceiling of 5% of the amount of banknotes in circulation, which totalled DM 88,574,737,030.00 at the end of 1982. The other reserves reached the statutory ceiling of DM 290,000,000.00 at the end of 1980.

Frankfurt am Main, April 1983

Deutsche Bundesbank
The Directorate
Pöhl Dr. Schlesinger
Dr. Emde Dr. Gleske Prof. Dr. Köhler Werthmöller

Part D: Report of the Central Bank Council

The annual accounts of the Deutsche Bundesbank for 1982 and the Report on the Fund for the Purchase of Equalisation Claims as at December 31, 1982, were audited by Treuarbeit Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft of Frankfurt am Main and Dr. Wollert — Dr. Elmendorff KG Wirtschaftsprüfungsgesellschaft of Düsseldorf, whom the Central Bank Council had appointed to be auditors in accordance with section 26 of the Bundesbank Act.

In their certificates of audit the auditors confirmed without qualifications that the annual accounts for 1982 and the bookkeeping as shown by the books at December 31, 1982, complied with German law and that the Fund for the Purchase of Equalisation Claims had been properly administered.

The Central Bank Council approved the annual accounts for 1982 on April 7, 1983, and accepted the Directorate's proposal in respect of the profit distribution. At the same time it approved the Report on the Fund for the Purchase of Equalisation Claims as at December 31, 1982.

Since the publication of the Report for the Year 1981 the following changes have taken place in the Central Bank Council and the Directorate of the Deutsche Bundesbank:

Retired

as at the close of May 31, 1982
the President of the Land Central Bank in Hamburg
Hans Hermsdorf,

as at the close of December 31, 1982
the Vice-President of the Land Central Bank in Rhineland-Palatinate
Ernst Adamski.

Reappointed

with effect from October 1, 1982
Professor Dr. Claus Köhler
Member of the Directorate of the Deutsche Bundesbank,

with effect from December 1, 1982
Walter Kulla
Member of the Managing Board of the Land Central Bank in Hesse,

with effect from April 1, 1983
Dr. Volkhard Szagunn
Vice-President of the Land Central Bank in Baden-Württemberg.

Appointed

with effect from June 1, 1982
Dr. Wilhelm Nölling
to be President of the Land Central Bank in Hamburg,

with effect from January 1, 1983
Eberhard Weiler
to be Vice-President of the Land Central Bank in Rhineland-Palatinate.

The Central Bank Council, acting also on behalf of the Directorate and of the Managing Boards of the Land Central Banks, expresses to the entire staff of the Deutsche Bundesbank its thanks for their loyal and understanding cooperation during 1982. The Council likewise wishes to record its appreciation of the excellent collaboration with the staff representative committees.

Frankfurt am Main, April 1983

Karl Otto Pöhl
President of the Deutsche Bundesbank

Appendix to Part B

Balance sheet of the Deutsche Bundesbank as at December 31, 1982

Assets

	DM	DM
1 Gold		13,687,518,821.70
2 Reserve position in the International Monetary Fund and special drawing rights		
2.1 Drawing rights within the reserve tranche	4,178,266,696.24	
2.2 Loans under special borrowing arrangements	3,159,216,645.64	
2.3 Special drawing rights	4,881,475,722.65	12,218,959,064.53
3 Claims on the European Monetary Cooperation Fund in connection with the European Monetary System		
3.1 Balances in European Currency Units (ECUs)	38,496,853,645.76	
3.2 Other claims	2,120,800,294.86	40,617,653,940.62
4 Balances with foreign banks and money market investments abroad		38,955,702,736.78
5 Foreign notes and coins		25,026,514.74
6 External loans and other external assets		
6.1 Loans in connection with EEC medium-term monetary assistance	—	
6.2 Other loans to foreign monetary authorities	—	
6.3 Loans to the World Bank	2,455,698,000.—	2,455,698,000.—
7 Foreign bills of exchange		7,050,394,702.76
8 Domestic bills of exchange		46,688,839,696.04
9 Securities bought in open market transactions under repurchase agreements		9,103,371,080.10
10 Lombard loans		12,031,132,100.—
11 Cash advances (book credits)		
11.1 Federal Government	—	
11.2 Equalisation of Burdens Fund	—	
11.3 Länder Governments	1,395,369,379.—	1,395,369,379.—
12 Treasury bills and Treasury discount paper		
12.1 Federal Government	—	
12.2 Länder Governments	—	—
13 Equalisation claims on the Federal Government and non-interest-bearing debt certificate in respect of Berlin		8,683,585,988.93
14 Loans to the Federal Railways and Federal Post Office		
14.1 Cash advances (book credits)	—	
14.2 Treasury bills and Treasury discount paper	—	—
15 Securities		5,409,350,308.80
16 German coins		1,084,207,277.17
17 Balances on postal giro accounts		150,335,701.94
18 Land and buildings		1,267,016,793.43
19 Furniture and equipment		107,749,181.—
20 Items in course of settlement		2,970,398,603.37
21 Other assets		3,411,597,833.21
22 Prepaid expenses and deferred income		35,986,943.46
Rights of recourse in respect of contingent liabilities	1,176,214.63	
		207,349,894,667.58

Liabilities

	DM	DM
1 Banknotes in circulation		88,574,737,030.–
2 Deposits of banks		
2.1 Deposits on giro accounts	51,854,889,630.06	
2.2 Other	20,189,356.14	51,875,078,986.20
3 Deposits of public authorities		
3.1 Federal Government	723,564,449.71	
3.2 Equalisation of Burdens Fund and ERP Special Fund	162,148,636.27	
3.3 Länder Governments	330,031,775.07	
3.4 Other public depositors	42,331,423.30	1,258,076,284.35
4 Deposits of other domestic depositors		
4.1 Federal Railways	19,730,262.76	
4.2 Federal Post Office (including postal giro and postal savings bank offices)	2,865,816,578.37	
4.3 Other depositors	629,705,464.75	3,515,252,305.88
5 Liabilities arising from mobilisation and liquidity paper sold		4,651,600,000.–
6 Liabilities arising from external transactions		
6.1 Deposits of foreign depositors	9,510,025,029.30	
6.2 Other	2,524,974,115.62	12,034,999,144.92
7 Counterpart in respect of the valuation of the gold and dollar reserves provisionally contributed to the European Monetary Cooperation Fund		21,021,929,151.44
8 Counterpart of special drawing rights allocated		3,174,043,622.80
9 Provisions		
9.1 Provisions for pensions	2,036,000,000.–	
9.2 Provisions for other purposes	2,270,000,000.–	4,306,000,000.–
10 Other liabilities		186,377,949.33
11 Deferred expenses and accrued income		675,719,935.18
12 Capital		290,000,000.–
13 Reserves		
13.1 Legal reserves	4,189,500,000.–	
13.2 Other reserves	290,000,000.–	4,479,500,000.–
14 Unappropriated profit		11,306,580,217.48
Contingent liabilities	1,176,214.63	
		207,349,894,667.58

Expenditure

	DM	DM
1 Administrative expenditure		
1.1 Staff costs	700,334,319.94	
1.2 Other	155,727,203.08	856,061,523.02
2 Note printing		139,497,814.13
3 Depreciation		
3.1 of land and buildings	110,183,953.54	
3.2 of furniture and equipment	46,578,415.24	156,762,368.78
4 Increases in provisions		
4.1 for pensions	192,287,089.67	
4.2 for other purposes	594,000,000.—	786,287,089.67
5 Pension payments in respect of the Reichsbank		30,873,502.57
6 Other expenditure		33,961,965.01
7 Write-downs of monetary reserves and other foreign currency positions		310,756,072.19
8 Profit for the year (= unappropriated profit)		11,306,580,217.48
		13,620,780,552.85

Receipts

	DM
1 Interest	13,500,839,884.38
2 Fees	16,489,024.72
3 Other receipts	103,451,643.75
	13,620,780,552.85

Frankfurt am Main, February 3, 1983

Deutsche Bundesbank
The Directorate
Pöhl Dr. Schlesinger
Dr. Emde Dr. Gleske Prof. Dr. Köhler Werthmöller

According to the audit which we have duly carried out, the bookkeeping and annual accounts comply with German law and the Bank's by-laws.

Frankfurt am Main, March 8, 1983

Treuarbeit Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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Dr. Wollert — Dr. Elmendorff KG
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