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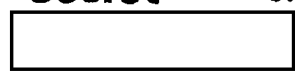
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Economic Intelligence Weekly

Secret

CIA No. 7745/73
9 August 1973

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CONTENTS

	<u>Page</u>	
Notes		
Japan's Steel Exports to Hit New High in 1973	1	
<div style="border: 1px solid black; height: 15px; width: 100%;"></div>		25X1
Egypt Invites US Oil Exploration	1	
<div style="border: 1px solid black; height: 15px; width: 100%;"></div>		25X1
Peanuts in Short Supply	2	

Articles

Worldwide Grain Developments	3
Japan Importing More US Agricultural Products <i>Imports - especially of grains - are up sharply this year and are likely to continue at a high level in 1974.</i>	5
Argentine Moves Against Foreign Investments <i>Foreign investment comes under increasing nationalistic pressure.</i>	6
Libya Prepared to Enforce Its Oil Sector Aims <i>Libya's bargaining position strengthened during recent lull in oil negotiations.</i>	7
Venezuelan Oil Developments <i>Spiraling world prices have lessened pressures on Caracas to develop new oil reserves.</i>	8
Central Bank Intervention in International Money Markets <i>Central bank intervention has again become a major factor in international money markets, but an easing of German credit policy was also needed to stabilize the money markets.</i>	9
GATT Trade Negotiations <i>GATT trade talks are to begin in September</i>	10

Publication of Interest

Summary of a Recent Publication	11
---------------------------------	----

Comparative Indicators

Recent Data Concerning Domestic and External Economic Activity	Inside Rack Cover
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Note: Comments and queries on the contents of this publication are welcomed. They may be directed to

ECONOMIC INTELLIGENCE WEEKLY

Notes

Japan's Steel Exports to Hit New High in 1973

The Japan Iron and Steel Federation is predicting record steel exports in 1973. Shipments are expected to reach 24.3 million tons, with a value -- buoyed by rising export prices -- of more than \$5 billion. Exports during the first half of the year amounted to 12.1 million tons, a 20% increase from the same period in 1972. Exports to the United States were down 3%, to 2.7 million tons.

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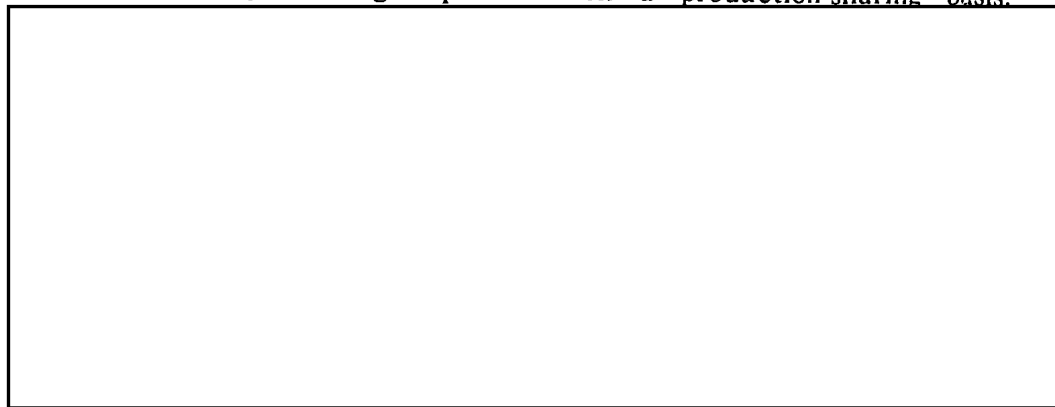
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Egypt Invites US Oil Exploration

Egyptian officials are trying to interest US oil companies in exploring the Western Desert, where Soviet technicians conducted an unsuccessful 15-year search for oil. Soviet efforts, involving nearly \$70 million of credits, were hampered by obsolete seismograph technology and drilling equipment unsuited to desert operations. Cairo hopes to replace Soviet assistance with US expertise by inviting exploration on a production-sharing basis.

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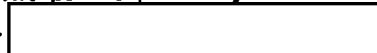


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Peanuts in Short Supply

Poor crops in major peanut exporting countries are aggravating the shortage and costliness of high protein livestock feeds. Peanut meal brought a record \$500 a ton in July, more than triple its price a year earlier. Drought in Africa and India and flooding rains in Brazil and Argentina have reduced the five leading exporters' peanut harvests by 20%. Consequently, this year's exports of peanuts and by-products may not exceed 1.7 million tons, compared with about 2.0 million tons in 1972. Peanut prices probably will continue at high levels at least through this year.

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9 August 1973

Articles

Worldwide Grain Developments

Bumper Soviet Harvest Continues

Despite slower than normal harvest progress, a record Soviet grain crop of 155 million to 160 million tons of usable grain is now likely.

Ideal weather and minimal harvest losses are needed to reach the higher figure, while the lower figure will result if less than ideal conditions cause:

- direct harvesting losses of 10% to 15% on the 10 million to 15 million hectares of lodged grain in the European USSR
- more than moderate losses in harvesting overripe grain due to delayed harvesting.

Harvesting operations in the western USSR, slowed by lodged grain and wet weather, could lead to higher than expected losses. By 6 August, 30% of the total grain area had been threshed, compared with an average of 36% in 1970-72.

Even with the predicted record harvest, imports of 11 million to 16 million tons of grain will be needed to meet export requirements and domestic demand. If the harvest reaches 160 million tons, the 8 million tons of grain already purchased this year plus deliveries of grain bought last year will satisfy the minimum Soviet requirement until next August. Additional imports will be required if the harvest is less than 160 million tons or should the Soviets decide to increase grain reserves, which are now minimal.

Recently, the Soviets tempered earlier statements that they would make no further grain purchases from the United States through 1975. They now claim that they have stopped buying US grain only temporarily to ease the pressure on the US market. In this connection, they will reduce the amount of corn contracted for this year, moving some of it into FY 1975.

The Soviets have already indicated interest in additional purchases in Canada, Australia, and France. The Canadians agreed to supply no more than 4 million tons of grain during FY 1974. The Soviets could meet similar reluctance by other exporting countries to commit much of their crop until their exportable surplus is known.

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China

China has purchased a record 6.7 million tons of wheat and corn for delivery in FY 1974. The United States will supply 5.6 million tons, compared with only 1.4 million tons last year. In its first report on the 1973 harvest, Peking indicated disappointment with the summer grain harvest. Output reportedly only equaled last year's crop despite expanded acreage. Since the summer crop accounts for only 20% of the total, China's overall grain supply position and import requirements this year will depend heavily on the fall harvest. Because of changed cropping patterns, the crop will be unusually late, making the crop especially vulnerable to bad weather.

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Other Wheat Developments

Argentina, after banning further export commitments in July, reportedly is trying to buy 500,000 tons of US wheat to help meet export commitments and domestic needs.

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Ottawa expects the current wheat crop to reach a record 18.2 million tons, of which 13.2 million tons will be available for export. Canada already has committed about one-half of this amount and has received purchase requests exceeding the remainder.

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The Common Market, normally a significant exporter of wheat, on 7 August banned exports of soft wheat because it had received export licensing requests for 1 million tons in the last three days.

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Japan: Selected Agricultural Imports

	Thousand Tons		Percent Change
	January- May 1972	January- May 1973	
Corn	2,391	3,128	31
United States	834	2,432	192
South Africa	697	466	-33
Thailand	624	153	-75
Other	236	77	-67
Wheat	1,999	2,232	12
United States	779	1,367	75
Australia	684	183	-73
Canada	536	597	11
Other	85
Grain sorghum	1,344	1,408	5
United States	734	1,235	68
Argentina	348	48	-86
Australia	139	99	-29
Other	123	26	-79
Soybeans	1,455	1,619	11
United States	1,322	1,510	14
China	133	103	-23
Other	6
Cotton	420	445	6
United States	117	159	36
Nicaragua	43	32	-26
Mexico	41	26	-37
USSR	40	58	45
Other	179	170	-5
Pork	11	48	336
United States	4	19	375
Canada	4	7	75
Taiwan	1	10	900
Other	2	12	500
Poultry	9	11	22
United States	2	4	100
China	2	4	100
Other	5	3	-40

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Japan Importing More US Agricultural Products

The volume of Japan's imports of US farm products is up sharply this year. Imports of US grain during January-May increased by 114% over the same period of 1972, compared with a 49% drop in grain imports from other countries. US pork and poultry also are going to Japan in greatly increased - though still small - amounts.

Japan's imports of US agricultural products will continue at a high level through next year. Although the Japanese probably will be able to buy more wheat from Australia and soybeans from Brazil, they are ordering large amounts of US grain and other farm products. By mid-July they reportedly had ordered about 4 million tons of corn and 2 million tons of grain sorghum, mostly for delivery in 1974. These orders alone exceed Japan's imports of US corn and sorghum in 1972. Contracts for US soybeans, which fell off following enactment of export controls in early July, picked up substantially by mid-month. The Japanese also have made large purchases of US cotton.

Tokyo continues to worry about its reliance on the United States for many agricultural products. This concern has strengthened the government's determination to help private firms develop alternative sources of supply, preferably through direct investment in the agricultural sectors of other western Pacific countries.

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9 August 1973

Argentine Moves Against Foreign Investment

Argentina's foreign investment climate has deteriorated rapidly in the first months of Peronist rule. Pending bills would expropriate, restrict, or otherwise discourage foreign investment. These threats, combined with terrorist kidnapping, extortion, and murder, are bringing new investment to a virtual standstill. Foreign direct investment in Argentina amounts to \$3 billion, of which some \$1.4 billion is American.

The major proposals concern:

- **Limits on Foreign Ownership:** Pending legislation, which is more restrictive than the Andean Foreign Investment Code, would force most foreign interests to reduce their equity share to less than 20%, others to 49%. The bill also would limit annual profit and capital remittances to 12.5% and 5% of invested capital, respectively.

- **Bank Renationalization:** This bill, approved 2 August, expropriates foreign bank holdings acquired since 1966. Affected are interests of Chase Manhattan, Morgan Guaranty Trust, First National City Bank of New York, and two Spanish banks. While only about \$4 million in US equity is threatened immediately, financial exposure exceeds \$400 million for the three banks.

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- **Expropriation of ITT Properties:** This bill would expropriate ITT holdings, compensation being adjusted to reflect alleged excess profits. ITT's equity in Standard Electric Argentina and the Sheraton Hotel in Buenos Aires is valued at \$75 million. The law also would cancel the remainder of a \$135 million contract in which Standard Electric would supply and install telephone switching exchanges and lines for the state telecommunications enterprise.

- **Nationalization of Oil Refineries:** This measure would nationalize all eight privately owned refineries, the two largest of which are operated by Esso and Royal Dutch Shell. Esso has approximately \$60 million invested in Argentina and already has suffered substantial losses from reduced crude oil allocations and other discriminatory moves.

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Libya Prepared to Enforce Its Oil Sector Aims

Libya renewed negotiations with US oil companies on 1 August with its bargaining position strengthened. The Libyans are confident they can enforce their revised participation demands without seriously jeopardizing oil output or exports.

Libya's bargaining position has been improved by the current scramble for oil

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Despite BP's boycott attempts (now seconded by Bunker Hunt), Libya has oversold oil from the former BP/Bunker Hunt concession, mostly to Western buyers. A backlog of long-term orders is accumulating at prices in excess of \$3.50 per barrel.

As an example to other companies, the Libyan Government has increased pressure on the Oasis oil company, which along with Occidental is now facing a 15 August deadline on a 51% participation demand. Occidental apparently is prepared to acquiesce to Libyan demands. A settlement by Occidental would force Oasis to follow suit or leave. Amoseas, although not yet approached during the current round of negotiations, also expects a direct confrontation. At least temporarily, other companies may be spared the full effect of Libya's increased muscle.

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Esso may be ignored for some time because of the government's unwillingness to upset its complex operations, which include one of the world's largest liquefied natural gas plants.

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Venezuelan Oil Developments

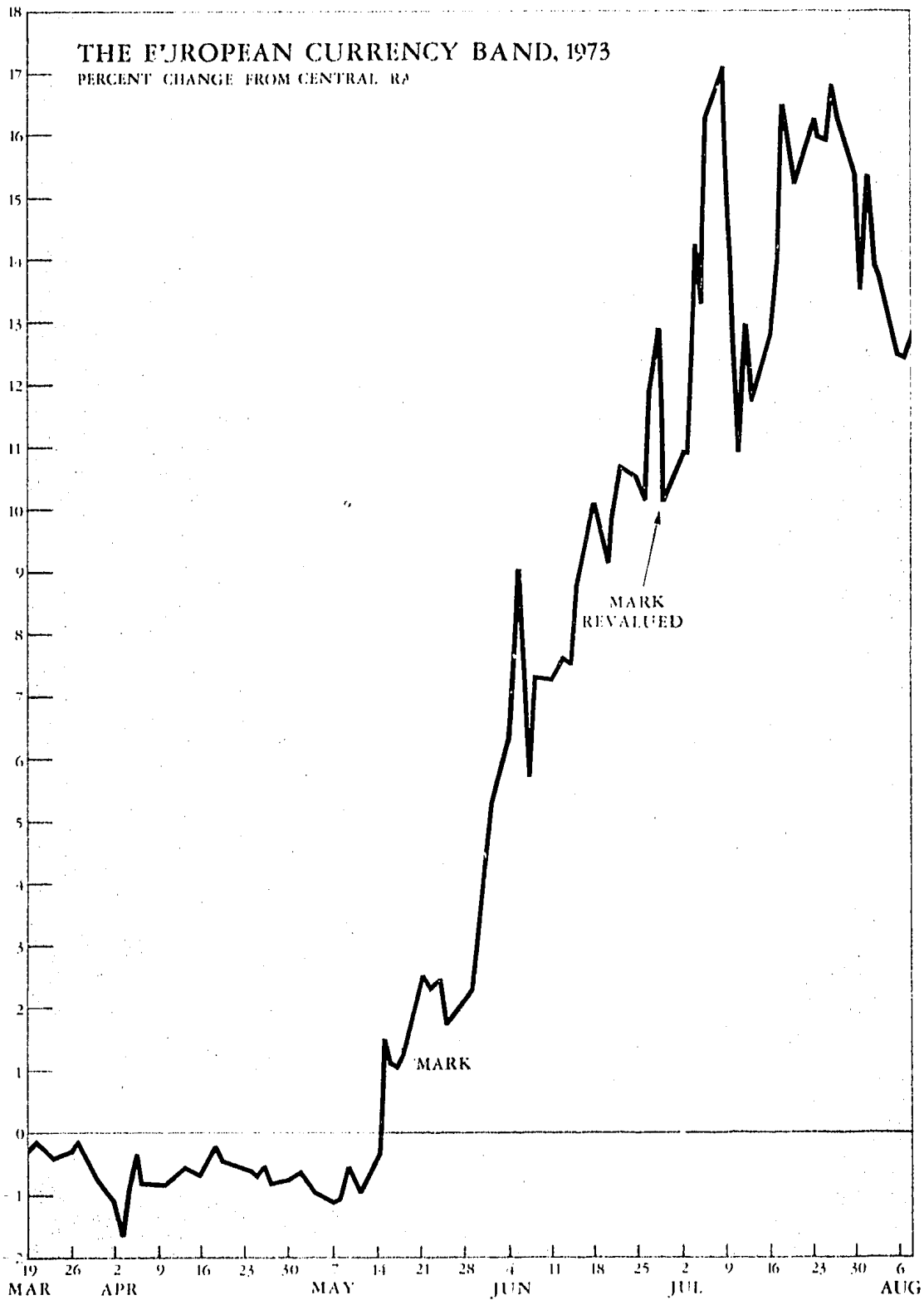
Government revenues from oil in the first six months of 1973 exceeded budget projections by 13%. This makes development of new petroleum reserves a less pressing matter and will strengthen Caracas' bargaining position in negotiations with the United States for a long-term oil agreement. Higher revenues reflect both a rise in world oil prices and a slight recovery in Venezuelan exports.

Venezuela's oil production has recovered to nearly 3.4 million barrels per day (b/d) this year, after having slipped nearly 15% from a 1970 peak of 3.7 million b/d. Rising Middle East oil prices and high tanker rates restored the competitive position of Venezuelan oil in its traditional short-haul markets. Two-thirds of this oil is sold to the United States and Canada. Sales to European and South American markets continued to decline, however, further increasing dependence on the US market.

The delivered price of Venezuelan oil to the US East Coast now runs as high as that of US oil. Future Venezuelan revenue increases will depend largely on increasing production and higher prices in major foreign markets, particularly the United States. Proved reserves now cover only 12 years' production at current levels and are declining steadily. If new areas are not developed, production is expected to drop to 2.5 million b/d within the next decade. With such a decline, US oil prices would have to rise by an estimated 10% annually if Caracas is to maintain its past rate of revenue growth.

Venezuela has sizable unproved reserves both offshore and in the Orinoco tar belt that could be brought into production in 3 to 10 years. Although Caracas would like to develop its own reserves, it lacks both the advanced technology and massive capital resources that the major oil companies could provide. After the December elections, the new government probably will consider a long-term energy agreement with the United States that would encompass investment guarantees for the companies and a preferential market for output from new fields. These negotiations are likely to be difficult and protracted.

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Central Bank Intervention in International Money Markets

Central bank intervention again became a major factor in international money markets in July.

- The US and German central banks intervened to support the dollar.
- Substantial intervention was required, mainly by the Bundesbank, to maintain the European joint float.
- The Italians and the British intervened heavily to support the falling lira and pound.

Total intervention by the major central banks amounted to the equivalent of about \$2.5 billion. The Bank of Italy spent the equivalent of about \$1 billion; the Bundesbank, about \$800 million; and the Bank of England, approximately \$500 million.

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Resumed intervention to support the dollar reflected official concern with growing exchange market instability. The intervention was designed to minimize short-term fluctuations in exchange rates and to slow the rise of the German mark and the slide of the dollar, the lira, and the British pound. No country was willing to undertake the multibillion-dollar effort needed to defend the existing exchange rates against powerful market forces for change.

Intervention helped to dampen currency fluctuations. Nevertheless, the mark continued to appreciate, and the Bundesbank, under considerable pressure from other governments, had to relax its tight money policy. It was not until the German overnight interest rates dropped sharply on 30 July that pressure on the dollar and the joint float eased. The dollar has been strong and the joint float stable so far in August.

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GATT Trade Negotiations

The "Nixon Round" of multilateral trade negotiations will be launched at a Tokyo ministerial meeting in mid-September. Detailed negotiations are scheduled for November in Geneva.

At a month-long meeting in July, the GATT Preparatory Committee hammered out a declaration of principles to guide the trade talks. Although agreement was finally reached, differences emerged among the United States, the EC, and Japan, and between developed and developing countries. The declaration calls for countries to obtain negotiating authority as rapidly as possible, but the EC agreed with Washington that the lack of negotiating authority should not prevent the start of analytical work.

Agriculture will be a difficult issue. The declaration calls for similar treatment of agricultural and industrial commodities, but recognizes the EC position that agriculture poses special problems. There was little indication that the EC was willing to reduce substantially its barriers to US agricultural exports.

Whether trade negotiations can move forward only after monetary stability is achieved remains to be settled in Tokyo. In the US view, progress in the monetary area depends on progress in trade negotiations. France maintains the reverse but agreed to an EC compromise calling for parallel progress in the two areas.

Trade negotiations will also involve a rich-poor confrontation. The principal points gained by the less developed nations at the July meeting were a watered-down version of their demand for preferential treatment and a provision calling for special procedures for negotiations between them and the developed countries. A dispute between the Africans and the Latin Americans over special consideration for the least developed countries, a category that includes some African countries but no Latin American ones, will be carried into the Tokyo meeting.

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August 1979

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Publication of Interest

The Flow of Arms to the Arabian Peninsula

(CIA ER IR 73-15, August 1973,)

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Arms purchases by Arabian Peninsula countries from the beginning of 1955 through June 1973 totaled about \$2.5 billion. More than \$1.6 billion of this sum has been contracted since January 1968, when the British announced withdrawal of their military forces from the Persian Gulf. Saudi Arabia accounts for about 85% of the arms purchases.

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EXTERNAL ECONOMIC INDICATORS

Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
		1970	1 Year Earlier	3 Months Earlier

EXPORT PRICES (US \$)

Country	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	May 73	3.1	6.3	13.7	18.9
Japan	Jun 73	1.4	12.0	22.4	23.7
West Germany	Apr 73	0.9	10.9	13.0	84.5
France	Mar 73	6.9	12.8	20.8	70.4
United Kingdom	Jun 73	3.1	11.2	11.8	34.1
Italy	Mar 73	0.9	8.1	8.1	30.4
Canada	Apr 73	3.5	6.0	12.5	32.8

EXPORT PRICES (National Currency)

Country	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	May 73	3.1	6.3	13.7	18.9
Japan	Jun 73	1.5	1.3	6.4	17.9
West Germany	Apr 73	0.7	1.2	1.3	4.2
France	Mar 73	1.5	4.9	8.3	12.3
United Kingdom	Jun 73	1.2	8.6	10.8	15.1
Italy	Mar 73	0.9	4.9	6.5	24.1
Canada	Apr 73	3.6	4.8	13.0	33.4

IMPORT PRICES (National Currency)

Country	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	May 73	1.2	9.9	17.4	43.1
Japan	Jun 73	3.2	3.8	18.4	21.9
West Germany	Apr 73	1.3	0.3	7.2	5.3
France	Mar 73	1.9	2.5	0.4	-16.3
United Kingdom	Jun 73	1.7	11.4	28.4	34.7
Italy	Mar 73	3.4	7.5	14.0	35.9
Canada	Mar 73	3.4	4.0	6.2	18.4

OFFICIAL RESERVES

Country	Latest Period	Billion US \$			
		End of	June 1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	14.0	16.3	13.3	14.0
Japan	Jul 73	15.2	4.1	15.9	16.8
West Germany	Jul 73	40.9	8.8	24.8	30.6
France	Jun 73	10.2	4.4	9.4	11.2
United Kingdom	Jul 73	6.6	2.8	6.1	6.1
Italy	Apr 73	6.4	4.7	6.5	5.8
Canada	Jul 73	5.8	4.3	8.2	5.9

EXPORTS*

Country	Latest Period	Million US \$	Cumulative (Million US \$)	
			1973	1972
United States	Jun 73	5,778	Jan-Jun 32,289	22,986
Japan	Jun 73	2,865	Jan-Jun 16,638	13,068
West Germany	Jun 73	5,088	Jan-Jun 29,916	22,498
France	Jun 73	3,135	Jan-Jun 16,982	12,821
United Kingdom	Jun 73	2,512	Jan-Jun 13,636	11,716
Italy	May 73	1,766	Jan-May 7,542	7,352
Canada	May 73	2,029	Jan-May 9,851	7,949

IMPORTS*

Country	Latest Period	Million US \$	Cumulative (Million US \$)	
			1973	1972
United States	Jun 73	5,793	Jan-Jun 33,099	25,114
Japan	Jun 73	2,761	Jan-Jun 13,794	8,719
West Germany	Jun 73	4,039	Jan-Jun 23,408	18,305
France	Jun 73	3,038	Jan-Jun 16,370	12,371
United Kingdom	Jun 73	2,867	Jan-Jun 15,523	12,231
Italy	May 73	2,118	Jan-May 8,506	6,774
Canada	May 73	1,912	Jan-May 9,116	7,521

TRADE BALANCE*

Country	Latest Period	Million US \$	Cumulative (Million US \$)	
			1973	1972
United States	Jun 73	-15	Jan-Jun -810	-2,128
Japan	Jun 73	104	Jan-Jun 2,344	4,349
West Germany	Jun 73	1,050	Jan-Jun 6,507	4,193
France	Jun 73	97	Jan-Jun 612	449
United Kingdom	Jun 73	-356	Jan-Jun -1,887	-515
Italy	May 73	-353	Jan-May -966	578
Canada	May 73	117	Jan-May 735	428

EXCHANGE RATES (Spot Rate)

As of 3 Aug 73	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 71	19 Mar 73	27 Jul 73
Japan (Yen)	0.0037	35.70	15.31	-1.55	-0.58
West Germany (Deutsche Mark)	0.4258	69.37	37.22	20.25	-2.02
France (Franc)	0.2427	20.21	23.26	10.12	-1.54
United Kingdom (Pound Sterling)	2.5092	-10.08	-3.70	1.96	0.07
Italy (Lira)	0.0017	8.06	0.58	-2.26	0.70
Canada (Dollar)	0.9986	8.26	0.08	0.09	-0.14

TRADE-WEIGHTED EXCHANGE RATES

As of 3 Aug 73	Percent Change from			
	Dec 66	18 Dec 71	19 Mar 73	27 Jul 73
United States	-20.03	-10.43	-3.62	0.55
Japan	22.24	8.29	-3.74	-0.32
West Germany	33.86	16.72	1.65	-1.35
France	-10.25	2.97	0.53	-0.70
United Kingdom	-33.16	-18.98	-4.57	0.84
Italy	-21.03	-19.77	-12.88	1.92
Canada	3.88	-2.64	-0.98	0.02

*Seasonally Adjusted

9 Aug 73

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DOMESTIC ECONOMIC INDICATORS

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since			Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since			
			1970	1 Year Earlier	3 Months Earlier			1970	1 Year Earlier	3 Months Earlier	
GNP* (Constant Market Prices)					WHOLESALE PRICES (Industrial)						
	Quarter										
United States	73 II	0.6	5.1	6.4	2.5	United States	Jul 73	0	4.8	7.5	8.3
Japan	73 I	3.6	9.8	16.0	15.2	Japan	Jun 73	1.3	4.1	13.8	11.4
West Germany	73 I	5.4	4.7	5.8	23.8	West Germany	Jun 73	0.6	4.7	6.7	6.8
France	73 I	2.0	5.5	3.8	8.2	France	Apr 73	0.8	6.2	12.0	20.2
United Kingdom	73 I	1.5	3.2	7.1	6.2	United Kingdom	Jun 73	1.0	6.7	6.2	3.7
Italy	73 I	0.8	3.1	5.2	3.0	Italy	Apr 73	1.1	6.4	12.1	18.7
Canada	73 I	2.9	6.3	8.0	12.1	Canada	Jun 73	1.3	7.5	16.1	15.8

INDUSTRIAL PRODUCTION*

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	0.2	5.5	9.6	6.1
Japan	Jun 73	0.4	6.2	19.4	13.0
West Germany	May 73	1.1	4.4	7.8	-4.3
France	May 73	4.2	7.9	10.6	10.7
United Kingdom	May 73	0.1	3.8	9.2	3.5
Italy	May 73	9.3	3.4	8.8	51.7
Canada	May 73	0.1	6.9	10.3	7.5

CONSUMER PRICES

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	0.7	4.5	5.9	8.3
Japan	May 73	1.9	7.5	11.1	29.1
West Germany	Jun 73	0.7	6.2	7.9	8.5
France	Jun 73	0.8	6.1	7.4	10.0
United Kingdom	Jun 73	0.5	8.6	9.3	13.3
Italy	Jun 73	0.9	7.2	11.4	14.5
Canada	Jun 73	0.9	5.0	8.1	11.4

RETAIL SALES*

(Current Prices)

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	-0.8	11.0	12.1	-6.1
Japan	Mar 73	4.0	12.9	24.8	45.2
West Germany	Mar 73	-5.7	9.1	5.9	14.2
France	Mar 73	4.1	6.3	7.0	6.7
United Kingdom	Apr 73	-7.2	9.6	11.2	-3.0
Italy	Feb 73	9.0	11.5	18.8	24.1
Canada	May 73	-3.0	10.5	10.5	1.6

MONEY SUPPLY*

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jul 73	0.4	7.8	6.7	10.8
Japan	May 73	-0.6	19.0	30.5	26.8
West Germany	May 73	-4.2	10.2	8.4	-13.6
France	Mar 73	0.8	12.5	10.0	-3.4
United Kingdom	Apr 73	2.2	12.2	13.1	19.1
Italy	Feb 73	2.1	20.1	18.7	21.5
Canada	May 73	2.3	14.1	17.5	20.3

MONEY-MARKET RATES

Representative Rates	Latest	Percent Rate of Interest			
		12 Months Earlier	3 Months Earlier	1 Month Earlier	
United States Prime finance paper	Aug 3	8.25	4.75	6.75	7.63
Japan Call money	Jul 27	7.50	4.25	5.92	6.75
West Germany Interbank loans (3 months)	Aug 3	14.25	4.75	N.A.	14.25
France Call money	Jul 27	8.38	3.50	7.02	8.50
United Kingdom Local authority deposits	Jul 27	10.38	4.95	7.28	6.32
Canada Finance paper	Aug 3	7.50	5.00	6.25	7.25
Euro-Dollars Three-month deposits	Aug 3	11.44	5.38	8.50	9.81

*Seasonally Adjusted

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