Interest Rates in Leading Countries

INTEREST RATES have been generally rising since 1954 in the leading countries of the free world, as economic activity has been increasing to record levels. The economic expansion has continued thus far in 1957, especially in continental Europe. In some countries where activity leveled off in 1956, it has since regained momentum.

Under the stimulus of economic expansion, demands for loan funds have increased sharply, creating strong upward pressures on interest rates in money and capital markets. The fiscal positions of governments, and in some instances the inflow or outflow of funds through international transactions, have accentuated or mitigated the pressures brought about by the economic upswing.

In most leading countries the upswing has been accompanied by some inflationary strain as aggregate demand from individuals, businesses, and governments tended to expand faster than available supplies of goods and services. The monetary authorities have attempted to contain inflationary forces by keeping the expansion of credit in line with available productive resources. Rising interest rates have helped in this task by curbing demand for credit and encouraging growth in the supply of funds through savings.

Interest rates in the United States have remained below those in other leading countries. In all countries, rates are currently below the levels reached in the 1920's. The relation of rates among countries appears to be broadly consistent with the availabilities of capital.

ECONOMIC EXPANSION AND INTEREST RATES

In early 1957 industrial production in the free world was about 20 per cent higher than in 1954. The upswing followed the moderate recession of 1953-54 in the United States and Canada, but in Europe it was largely a continuation of the expansion begun in 1952-53.

Since 1954, output of capital goods has generally risen faster than total output. In Western Europe, gross fixed capital formation increased about 20 per cent in physical volume from 1954 to 1956, while gross product rose 10 per cent. In the United States, where gross national product also rose 10 per cent in volume, output of business construction and producers' durable equipment increased 15 per cent.

Greatly increased demands for funds to finance this expansion have exerted strong upward pressures on interest rates. Rates began to rise in the United States in the second half of 1954, and in Canada and most European countries in 1955.

In leading countries except France, the spread between short- and long-term rates has narrowed or disappeared since 1954. Short-term rates rose particularly rapidly in 1955. As expansion of economic activity proceeded, investment in fixed capital provided the major stimulus in the United States, Canada, and many Western European countries, and increasing demands for funds for such purposes made long-term rates also rise substantially.

INFLATION AND INTEREST RATES

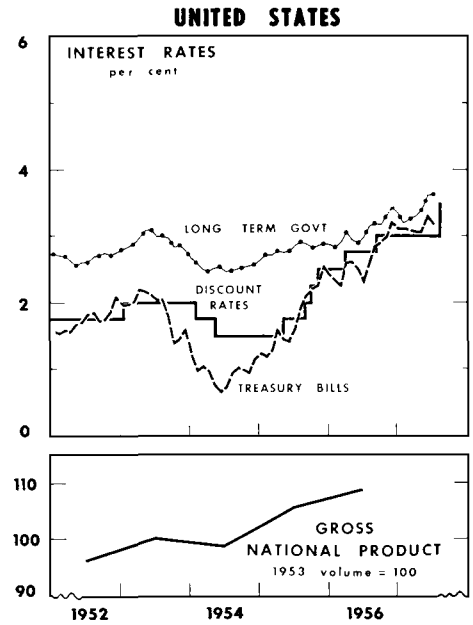
Economic expansion since 1954 has been characterized by a high degree of utilization of human and material resources and by evidence of inflationary strains in leading countries of the free world. In the United States prices of industrial commodities, and in Canada wholesale prices generally, began to rise during 1955. In both countries consumer prices remained stable until early 1956, but by mid-1957 had increased about 5 per cent.

In Western Europe consumer prices rose in the United Kingdom, Germany, and the Netherlands during 1954, and were increasing in all other countries by the end of 1955. Over the period 1954-57 increases in consumer prices for most Western European countries ranged from 6 per cent to almost 15 per cent. In some countries, France in particular, inflationary strains have also been reflected in substantial foreign trade deficits and losses of foreign exchange reserves.

To combat inflationary tendencies, the monetary authorities in most countries have endeavored to limit the amount of central bank credit available to the commercial banking system. In some countries ceilings have been placed on commercial bank loans and new security issues have been subjected to licenses. All these policies have been designed to keep expansion of bank and other credit consistent with the growth in productive resources.

As pressures of the sharply increased demands for investable funds against the more gradually rising supplies of such funds pushed interest rates up, central banks have raised their discount rates, in most cases in order to bring them in line with market conditions.

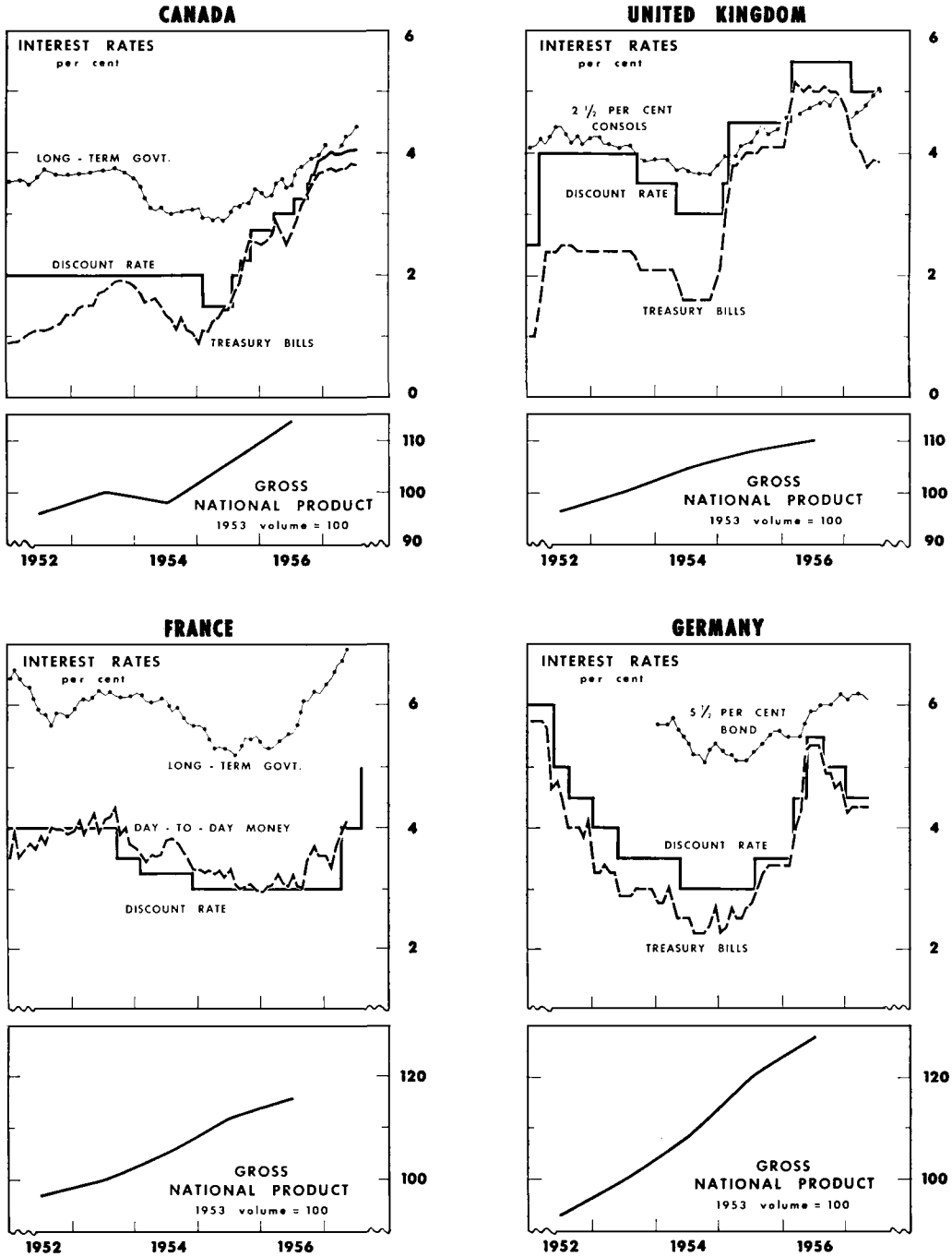
In a few countries where monetary authorities did not act promptly to restrain inflationary forces, market interest rates have risen nevertheless under the pressure of demands for funds. In some countries the expectation of continued advances in commodity prices may have contributed to the rise in long-term interest rates; such expec-



NOTE.—Interest rates on government securities are monthly, with latest figures for July 1957 except in the case of France and Germany, which are for May. Latest discount rates of central banks shown are for Aug. 16, 1957; beginning November 1956 the rate for Canada is a monthly average of weekly rates. For discount rates in the period 1954-57 and footnotes, see table on p. 865.

Country details on government security yields—*United States:* average of daily yields—long-term govt. (old series) including fully taxable, marketable 2½ per cent bonds due or first callable after 12 years through September 1955, and thereafter those due or callable in 10-20 years; Treasury bills, market yields on 90-day issues. *Canada:* Bank of Canada data—long-term govt., theoretical 15-year yield on Government of Canada bonds based on midmonth quotations; Treasury bills, average rate on last 3-month issue in month. *United Kingdom:* Bank of England data—2½ per cent consols, monthly average of daily yields; Treasury bills, average of weekly tenders on 3-month issues. *France:* end-of-month data from Institut National de la Statistique et des Etudes Economiques—long-term govt., average of 13 maturities of repayable and guaranteed issues; day-to-day money rate shown rather than Treasury bill rate. *Germany:* Bank deutscher Laender data for end of month—5½ per cent bond is tax-free; Treasury bills, market yield on 3-month issues.

Gross national product data are annual, with latest figures for 1956. *United States:* U. S. Department of Commerce figures converted to 1953=100 by Federal Reserve: *Other countries:* 8th report of the Organization for European Economic Cooperation.



tations may have induced lenders to ask for, and borrowers to concede, higher rates than would have been acceptable at a relatively stable price level.

Fiscal authorities in most leading countries have tried to achieve balance in their cash budgets, if not surpluses, in order to restrain aggregate demand. A budget surplus, when achieved, has also enabled the fiscal authorities to repay public debt and thereby to release funds to finance new private investments. In addition, the cash surplus has facilitated the refinancing of maturing government debt and thus has helped to moderate the rise in interest rates for treasury obligations at a time of capital stringency.

In the United States, for example, a cash surplus of about $5.5 billion in 1956 tended to restrain expansionist tendencies in the economy; and the repayment of nearly $6 billion of government debt made funds available to meet some of the strong private borrowing demands and thus helped to moderate the upward pressure on rates. In Canada also, the retirement of marketable government debt in 1955 and 1956 increased the volume of investable funds available to private borrowers.

In Germany, where substantial cash surpluses were realized in recent years, the Government followed a policy of sterilizing the surplus in the central bank. Accordingly, loan funds that might otherwise have reduced pressures on interest rates were impounded. On the other hand, Germany experienced a large balance-of-payments surplus, which substantially increased the domestic supply of investable funds.

A surplus in a country's current balance of international payments—unless offset by credits or grants to foreign countries—usually leads to an increase in the net supply of its investable funds and thus tends to moderate advances in interest rates; a deficit—unless offset by credits or grants from abroad—usually increases the net demand for such funds and thus tends to accentuate upward pressures on interest rates. In the United States the international balance plays a minor role because of the relatively small share of the country's foreign transactions in the national product; in many other countries, however, where this share is very large, changes in the foreign balance may have as important monetary effects as purely domestic factors.

PATTERNS OF INTEREST RATE MOVEMENTS

Changes in the pattern of interest rate movements from one country to another and within particular countries beginning in late 1954 have reflected variations in the timing and intensity of the expansion in economic activity and other economic factors, as well as changes in the demands of particular types of borrowers. Despite these variations, there has been a striking similarity of interest rate movements in the United States, Canada, the United Kingdom, and the leading financial countries of continental Europe—Belgium, France, Germany, the Netherlands, and Switzerland.

For the period 1954-57 as a whole, short-term rates generally rose more than medium-term rates, and medium-term more than long-term rates. After 1955, however, the momentum of the advance shifted from short-term to medium- and long-term rates.

At the beginning of the upswing in late 1954 and 1955, the relation between the rates on securities of different maturity followed a pattern that had been customary since the 1930's: short-term rates were lower than medium-term rates, and medium-term lower than long-term rates. The initially

stronger upward movement of shorter rates, therefore, led to a narrowing—and in some cases elimination—of the spread between rates of different maturities. In early 1956 short-term rates in the United Kingdom rose temporarily above medium- and long-term rates, and since mid-1956 yields on medium-term government securities in the United States and Canada have been above those on long-term securities. In the first half of 1957, however, the spread between short- and long-term rates widened again in some countries, particularly in the United Kingdom and Germany.

SHORT-TERM RATES

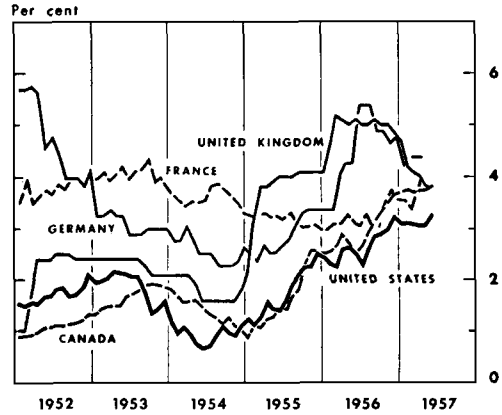
Short-term rates have risen in all leading countries since late 1954, but the timing, speed, and amplitude of movements have varied. Increases in Treasury bill rates were most marked in the United Kingdom, Germany, the Netherlands, and Canada; in each of these countries the rate moved over a range of 3 percentage points or more. In the United States the range was about 2.7 percentage points. In the United States and Canada much of the sharp initial advances represented recovery from the extreme lows established during the preceding recession.

Current differences in Treasury bill rates among leading countries are remarkably small. In the latest month for which comparable figures are available for all leading countries (June 1957), the lowest rate prevailed in the United States (3.3 per cent) and the highest in Germany (4.4 per cent).

Rates for short-term commercial paper in general moved parallel with the Treasury bill rate, but interest rates on short-term bank loans to business, which are normally higher than rates on readily marketable paper, rose in most cases less than the Treasury bill rate. In the United States the average rate on short-term business loans by banks increased only 1 percentage point between mid-1954 and mid-1957, less than half the increase in the Treasury bill rate.

Bank loan rates in the United States are typically slower to change than the Treasury bill rate; they also declined very little during the recession of 1953-54, when the bill

SHORT - TERM RATES BY COUNTRIES
GOVERNMENT SECURITIES



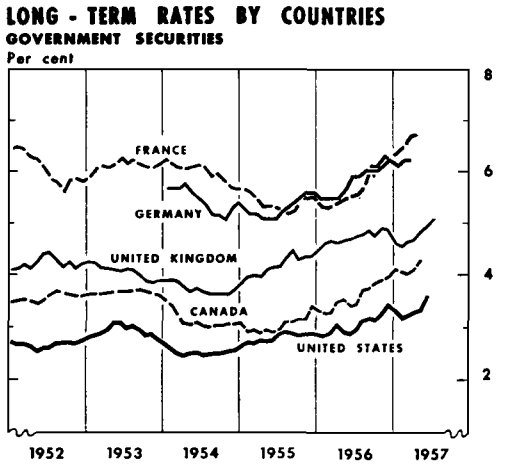
NOTE.—For France, day-to-day money rate; for other details see chart subscript on p. 860.

rate fell about 1.5 percentage points. The slower response of nonmarket rates such as those on bank loans results to some extent from the fact that other terms in the loan contract—such as the repayment schedule and collateral and minimum-balance provisions—also tend to vary; they are tightened at times of rising demand for funds and eased when demands decline.

In the United Kingdom and some continental European countries, bank rates on business loans are customarily tied to the central bank discount rate; in the United States banks often follow this practice in the case of term loans. Such rates, accordingly, moved parallel with the discount rate.

LONG-TERM RATES

Changes in long-term rates, as measured by yields on long-term government securities, were almost uniform in most leading countries during the 1954-57 period. The rise from the low to the high was generally not less than 1.0, and not more than 1.4, percentage points. It was largest in the United Kingdom and in Canada and amounted to 1.2 percentage points in the United States.



NOTE.—For details concerning series see chart subscript on p. 860.

Yields on outstanding long-term corporate bonds rose more than those on long-term government securities in some countries, including France, Germany, the Netherlands, and after mid-1956, the United States. In most other countries the increase in rates on corporate issues was about comparable with that on government bonds. In all countries, yields on new corporate issues have been higher than those on outstanding issues of similar quality and maturity.

Current differences in long-term interest rates among countries are more substantial than differences in short-term rates. In the latest month for which comparable figures are available for all leading countries (May 1957), the lowest yields on long-term government securities prevailed in the United States (3.4 per cent) and Switzerland (3.7 per cent). Yields were highest in France (6.9 per cent), Germany (6.1 per cent), and the United Kingdom (4.8 per cent). In general, these levels correspond to the relative availabilities of long-term capital funds, which in turn reflect the recent economic history of the countries concerned.

The United States has become a source of long-term capital funds for most of the free world, and Switzerland since the war has been the only European country in which capital funds were so abundant that the Government has stimulated foreign lending.

Germany's real and financial capital base, on the other hand, was virtually destroyed by the war. France emerged from the war in a somewhat better position but diverted large amounts of funds, that otherwise might have reconstituted its capital assets, to its military involvements, first in the Far East and then in North Africa. The United Kingdom has strained its resources in providing capital for the reconstruction and growth of its domestic economy and of the underdeveloped parts of the British Commonwealth as well as in undertaking large defense expenditures.

These differences in the scarcity of long-term capital funds do not determine the international distribution of short-term funds, however. Most countries keep part of their monetary reserves and international working balances in the form of deposits or other liquid assets in foreign currencies in which they have confidence. Just as a commercial banker receives deposits from his borrowers, the financial institutions of the United States, acting as bankers for much of the rest of the world, receive and hold balances from abroad, even though interest rates abroad are higher than in the United States.

Central Bank Discount Rates, Selected Countries, 1954-57

[Per cent]

Month effective	United States[1]	Canada	United Kingdom	Belgium	France	Germany	Nether-lands	Switzer-land
In effect Jan. 1, 1954	2.00	2.00	3.50	2.75	3.50	3.50	2.50	1.50
1954—Feb.	1.75				3.25			
Apr.	1.50							
May			3.00			3.00		
Dec.					3.00			
1955—Jan.			3.50					
Feb.		1.50	4.50					
Apr.	1.75							
Aug.	2.00	2.00		3.00		3.50		
Sept.	2.25							
Oct.		2.25						
Nov.	2.50	2.75						
1956—Feb.			5.50				3.00	
Mar.						4.50		
Apr.	2.75	3.00						
May						5.50		
Aug.	3.00	3.25					3.25	
Sept.						5.00		
Oct.		3.50					3.75	
Dec.		[2] 3.86		3.50				
1957—Jan.						4.50		
Feb.			5.00					
Mar.		[2] 3.96						
Apr.					4.00			
May								2.50
June		[2] 4.05						
July				4.50			4.25	
Aug.	[1] 3.50				5.00		5.00	
In effect Aug. 19, 1957	[1] 3.50	4.28	5.00	4.50	5.00	4.50	5.00	2.50

[1] Rate is that at the Federal Reserve Bank of New York, except for August, 1957 where it represents nine other Federal Reserve Banks.

[2] Beginning Nov. 1, 1956, Canada's discount rate has been pegged to the weekly Treasury bill rate; beginning December 1956, the rate shown is the average for the last month of each quarter.

NOTE.—Discount rates shown represent those at which the central bank (Federal Reserve Banks in the United States) either discounts or makes advances against eligible paper and/or government securities for commercial banks or brokers.

Interest Rates in Leading Countries

DECLINES IN INTEREST RATES during much of the past 12 months followed worldwide increases over a period of two years. In most industrial countries the declines continued through the summer of 1958, but in the United States rates began to rise after midyear. The general levels of interest rates in early September, although lower than the peaks reached in 1957, were higher in most industrial countries than they had been at the start of the 1955-57 economic expansion.

Interest rate movements in leading countries have reflected adjustments of credit markets to fluctuations in economic activity, to the impact of inflationary pressures, to foreign exchange positions, and to monetary and debt management policies. Differences among leading countries in the timing and extent of these factors have changed the international relationships of interest rates and influenced the flow of funds from one country to another.

Abatement of inflationary pressures in the United States and Canada shortly after the downturn in economic activity permitted prompt relaxation of restrictive financial policies and adoption of expansionary measures. In other countries the danger of further inflation delayed the relaxation of policies. European countries that sustained large foreign exchange losses in the summer of 1957 continued their restrictive monetary policies until exchange positions were substantially improved.

In the last phase of the economic expansion of 1955-57 the rise in interest rates was accelerated by the expectation of continuing inflation. Vigorous anti-inflationary actions by monetary authorities, including the increase in the Federal Reserve discount rate in August 1957 and the sharp increase in the Bank of England rate in the following month, contributed to a change in the market attitude toward further inflation and thus to the later downturn in market rates of interest.

Changes in the direction of monetary policy have involved adjustments in central bank discount rates in most countries and, in some instances, changes in open market operations and in reserve requirements. Short-term market rates, as usual, have moved over a wider range than medium- and long-term rates. As conditions in money and capital markets have eased, public and corporate borrowers have been able to fund short-term debt or to finance projects that had been postponed during the economic expansion.

BUSINESS FLUCTUATIONS AND INTEREST RATES

Industrial production in the United States turned down sharply toward the end of 1957 but was recovering rapidly by mid-1958. The decline was earlier and less pronounced in Canada, and recovery was well under way by late spring. Output in most other industrial countries, although it had declined only moderately from the peak levels attained in 1957, gave little indication of renewed expansion by mid-1958.

In the United States, seasonally adjusted

industrial production fell 13 per cent between the late summer of 1957 and the spring of 1958, but by August it had recovered more than one-half of the decline. In Canada, the production index fell 7 per cent from February to December 1957 and had recovered almost one-half of this loss by mid-1958.

In Germany and France, the largest industrial countries of Continental Western Europe, industrial output continued to rise until the first quarter of 1958. It has remained near its early 1958 high in Germany but has fallen off slightly in France. In the United Kingdom, production began to decline gradually in mid-1957 and was down 5 per cent by mid-1958. In Belgium and the Netherlands, the industrial production index began to decline in early 1957, but in the Netherlands it rose slightly during the first half of 1958.

With the end of rapid economic expansion, inventories and expenditures for capital goods declined, or at least leveled off. Imports of raw and semifinished materials were reduced in most industrial countries, and imports of capital goods were also curtailed in some places. Prices of raw materials went down, and the value of imports by Canada, the United Kingdom, and many Continental European countries declined proportionately more than industrial production.

The decline in economic activity, and especially the reduction of inventories and imports, curtailed the demand for credit. With imports reduced, the balance of payments of industrial countries other than the United States improved, contributing to bank liquidity and thus to the decline in interest rates.

Short-term interest rates generally declined more than medium- and long-term rates and resumed their usual position below long-term rates. The differential between short- and long-term rates had nearly disappeared in the latter part of the economic expansion, and in a few cases short-term rates had risen above long-term rates.

Strong demand for long-term credit helped to retard, and in some cases to halt, the decline in long-term interest rates. In many countries, demand was sustained by government and other institutional borrowing to fund short-term debt, and by financing of public and private construction projects that had been postponed owing to congested capital markets. Offerings of municipal and corporate bonds reached record postwar volumes in the United States and Germany during the first half of 1958 and were the largest since 1955 in the United Kingdom.

THE UNITED STATES

Market interest rates in the United States declined sharply from the fall of 1957 to the spring of 1958, reflecting changes in economic conditions and in Federal Reserve credit policies. Short-term rates declined throughout the period. Long-term rates had almost leveled off by mid-January but bond yields fell slightly further from then until late April. The Federal Reserve Banks reduced their discount rates from 3½ per cent to 1¾ per cent in four steps between November 1957 and April 1958.

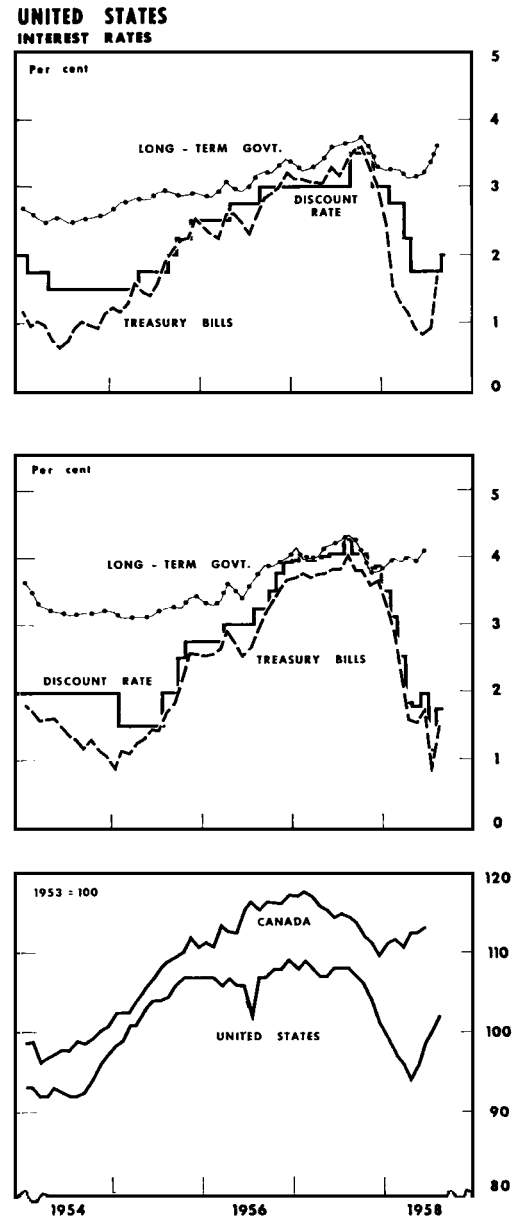
Heavy selling of United States Government securities in the market during June initiated a reversal in the trend of interest rates. Improved prospects for economic recovery and consequently for greater credit demand were reflected in a sharp change in expectations with respect to the future course of inflationary developments and of

monetary policy. The impact of the impending large Federal budget deficit on a business situation characterized by expanding activity was also a matter of concern.

To some extent the decline in Treasury bond prices resulted from, and was accelerated by, selling of large holdings that had been acquired, mainly in exchange for maturing issues, by temporary holders who had anticipated a continuation of the price rise. Some of these holdings had been acquired with borrowed funds on thin margins, and selling was forced by disappearance of the margins. In late June and early July the Treasury mitigated the impact of these sales by repurchasing $600 million of newly issued bonds.

In mid-July the situation was complicated by the emerging crisis in the Middle East, and by the announcement of a major Canadian Government refunding operation involving sharply higher coupon rates. At the same time, the United States Treasury announced two large financing operations. One was the refinancing of $16 billion of maturing securities, of which $10 billion were held by the public, and the other was a cash offering to raise $3 billion or more of new money. These developments hastened the decline in Government security prices.

In view of the disturbed atmosphere, the Federal Open Market Committee on July 18 decided to operate in medium- and long-term as well as in short-term Government securities. From July 18 to July 23 the System Account purchased $1.2 billion of "rights" and "when issued" new securities as well as $65 million of other bonds and notes. Thereafter, no further System action was taken outside the short-term area.



NOTE.—*United States:* Long-term government, monthly averages of daily yields on fully taxable, marketable bonds maturing or callable in 10 years or more; Treasury bills, monthly average market yields on 90-day issues. *Canada:* Long-term government, yields on theoretical 20-year Government of Canada bonds, based on end-of-month quotations; Treasury bills, average rate on last 3-month issue in month. For discount rates in 1956-58, see p. 1026.

Industrial production seasonally adjusted. Federal Reserve index for United States; Bank of Canada index, converted to 1953=100, for Canada.

Latest figures: August, except U. S. discount rate, Sept. 12; and long-term rates and production for Canada, June.

During the last week of July, System sales of bills, together with other factors absorbing reserves, more than offset the large volume of reserves supplied to the market as a result of this unusual intervention, and in August free reserves were further reduced as evidence mounted that economic activity was recovering rapidly. On August 14 the Board of Governors approved an increase in the discount rate of the Federal Reserve Bank of San Francisco from 1¾ per cent to 2 per cent. By September 19 ten other Federal Reserve Banks had similarly raised their discount rates.

Yields of long-term Government securities rose between mid-June and mid-September from 3.15 to 3.75 per cent, close to the peak level reached in the fall of 1957. Yields of medium-term Government securities increased from 2.17 to 3.56 per cent, compared with a 1957 high of about 4 per cent. Treasury bill rates rose from 0.84 to 2.60 per cent, for the most part after early August. Despite this rapid advance, the bill rate in mid-September was still one-fourth below the peak level of late 1957.

CANADA

Most Canadian rates began to decline in September 1957. The Treasury bill rate fell from 4 per cent in August 1957 to an average of 1¼ per cent in August 1958. The discount rate of the Bank of Canada, set weekly since November 1956 at one-fourth of one per cent above the bill tender rate, declined with the bill rate. The bill rate has recently been lower in Canada than in the United States for the first time in three years.

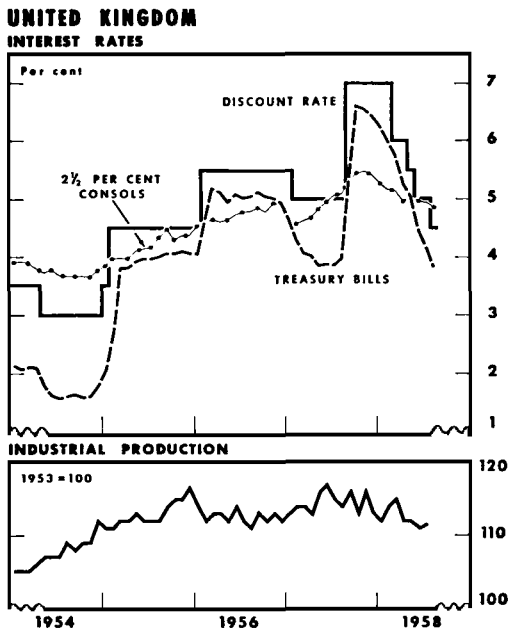
The decline in long-term rates ended in December 1957, when prospects of large Treasury borrowing connected with Canada's adoption of an anticyclical spending program became apparent. Bond yields moved approximately in line with corresponding yields in the United States and remained until the summer of 1958 about one-half of one per cent higher than in the United States.

Net purchases of Canadian securities by investors in the United States were only one-fourth smaller in the first half of 1958 than in the record first half of 1957. In July and August, bond yields rose less in Canada than in the United States, and the flow of funds from the United States to Canada slackened.

In July 1958 the Canadian Government announced a unique experiment in reconstructing its outstanding debt. It offered to convert bonds totaling $6.4 billion and representing 40 per cent of the entire Government debt into new securities with coupon rates up to 4½ per cent and maturities up to 25 years, and to give cash bonuses with such exchanges. The operation was aimed at lengthening the maturity of the public debt, stabilizing bond yields at higher levels than before, and making Government securities more attractive to nonbank investors. By early September, $5.2 billion had been converted into the new issues. The offer remained open until September 15.

THE UNITED KINGDOM

Long-term interest rates in the United Kingdom rose sharply in the spring and summer of 1957. Prospects of further inflation arising from large wage and price increases led investors to switch from bonds into equities. The country's gold and dollar reserves were depleted by a heavy speculative run on sterling that developed in connection with widespread expectations of a change in relationships among European exchange rates.



NOTE.—Bank of England data for monthly average yields, based on daily figures for consols and weekly tenders for 3-month Treasury bills. Industrial production seasonally adjusted, from Central Statistical Office. Latest figures: August, except for production, July.

In September the British authorities adopted a series of drastic monetary and fiscal measures to stop inflation and speculation. These included an increase from 5 to 7 per cent in the Bank of England rate, an intensification of direct credit controls, and a downward revision in Government plans for capital investment.

After these moves, cost and price increases slowed down and the attitude toward inflation changed. Gold and foreign exchange reserves increased sharply and continuously from their September low. While short-term interest rates moved up sharply with Bank rate, long-term rates rose little further.

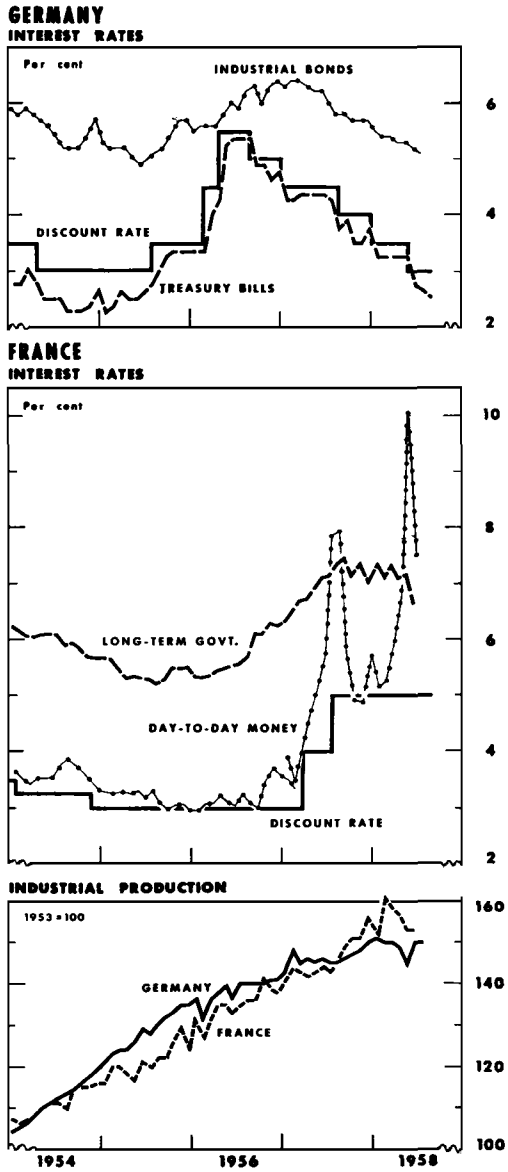
Restoration of financial stability and the rebuilding of reserves permitted some relaxation of monetary restraints in 1958. Between March and August, Bank rate was reduced by stages to 4½ per cent, the level prevailing in the year ended February 1956. Other short-term rates declined correspondingly. Long-term bond yields, however, declined only 0.6 percentage point from November 1957 to August 1958, as the Government pursued a vigorous policy of funding the public debt by means of bond sales in the open market.

GERMANY

Interest rates in Germany began to decline as early as September 1956, when the central bank first lowered its discount rate from 5½ to 5 per cent in order to stem the inflow of short-term foreign funds. The discount rate was further reduced in 1957 and 1958 until it reached 3 per cent in June 1958. Apparently the reductions were designed primarily to narrow the differential between interest rates in Germany and other Western European countries. Other central bank measures, especially open market operations in the first three quarters of 1957, continued to restrain expansion of bank liquidity.

The attempt to lower the general level of interest rates was supported by growing confidence that inflationary forces would be kept under control. From 1956 to mid-1958, average yields of medium-term Treasury bonds fell from a peak of 6¾ to 3½ per cent and yields of long-term industrial bonds from a peak exceeding 6¼ to 5¼ per cent. Bank lending rates changed little during this period, and remained above bond yields.

The domestic capital market revived as bank liquidity and savings increased and interest rates declined. The amount of bonds sold to the public in the first six months of 1958 nearly equaled that of any 12-month period since World War II.



NOTE.—*Germany:* Industrial bonds, German Federal Bank data for average yields on 8 per cent issues, adjusted to exclude capital yield tax from nominal interest; Treasury bills, rate on latest 60- to 90-day issue in month. *France:* Long-term government, average yield based on end-of-month data for 13 bonds of various maturities, from Institut National de la Statistique et des Etudes Economiques. Day-to-day money, end of month; beginning January 1957, rate on private securities.

Industrial production seasonally adjusted; index for Germany, from Federal Statistical Office (with seasonal adjustment and conversion to 1953=100 by Federal Reserve); for France, from Organization for European Economic Cooperation.

Latest figures: For Germany, July, and for France, June, except for discount rates (both countries) and short-term for Germany, August.

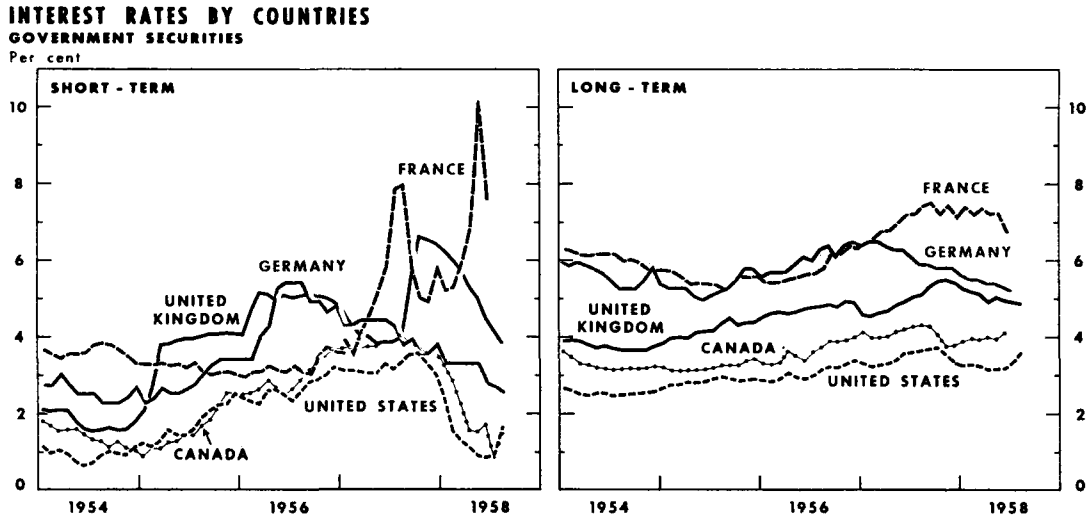
FRANCE AND THE LOW COUNTRIES

The economic upswing in France continued until early 1958 and brought mounting inflationary pressures that were reflected for the most part in balance-of-payments deficits. The discount rate of the Bank of France, which had been 3 per cent since December 1954, was gradually raised to 5 per cent between April and August 1957. Penalty rates on discounts above specified ceilings were also sharply increased beginning in April 1957 and were not lowered until July 1958. By that time a stabilization program had helped to reduce the budget deficit and to slow down the expansion of private credit, and the balance of payments had improved. Reflecting the tightening of credit and fiscal policies, the French discount rate in September 1958 was higher than that of any other financial center in North America or Europe. The same appeared to be true of market rates.

In Belgium and the Netherlands, production turned down in the first half of 1957 but restrictive monetary policies were maintained through the fall. They were not relaxed significantly until early 1958, after foreign exchange positions had improved. Central bank discount rates were progressively reduced from 4½ to 3½ per cent between March and August in Belgium and from 5 to 3½ per cent between January and June in the Netherlands. Market rates in both countries had begun to decline in the second half of 1957.

INTERNATIONAL RELATIONSHIPS

Although interest rates in leading countries have followed a similar pattern of movement in recent years, the international relationships of rates have changed. Rates in Germany have fallen below the level of French



NOTE.—Data on short-term series for France and long-term series for Germany represent yields on nongovernment issues. For details concerning all series see subscripts to charts on pp. 1021, 1023, and 1024.

rates and are little higher than rates in the United Kingdom. Germany appears to be changing from a capital importing to a capital exporting country.

Flexibility in market interest rates has helped to encourage stabilizing international flows of capital and to moderate domestic business fluctuations. In late summer 1957, central bank actions to raise the discount rate in the United Kingdom and in the Low Countries, and to lower it in Germany, were all directed in part toward arresting and reversing a speculative flow of funds into Germany. The fact that rates in the United States, with few exceptions, have remained lower than rates in other financial centers has facilitated the flow of dollars to the rest of the world.

For table of central bank discount rates, see following page.

CENTRAL BANK DISCOUNT RATES, SELECTED COUNTRIES, 1956-58

[Per cent]

Month effective	United States [1]	Canada [2]	United Kingdom	Belgium	Denmark	France	Germany	Netherlands	Sweden	Japan
In effect Jan. 1, 1956	2.50	2.75	4.50	3.00	5.50	3.00	3.50	2.50	3.75	7.30
1956—Jan.										
Feb.			5.50					3.00		
Mar.							4.50			
Apr.	2.75	3.00								
May							5.50			
June										
July										
Aug.	3.00	3.25						3.25		
Sept.							5.00			
Oct.		3.50						3.75		
Nov.		3.77							4.00	
Dec.		3.92		3.50						
1957—Jan.		3.95					4.50			
Feb.		4.01	5.00							
Mar.		3.95								7.67
Apr.		4.00				4.00				
May		4.01								8.40
June		4.06								
July		4.05		4.50				4.25	5.00	
Aug.	3.50	4.28				5.00		5.00		
Sept.		4.05	7.00				4.00			
Oct.		4.05								
Nov.	3.00	3.83								
Dec.		3.87								
1958—Jan.	2.75	3.50					3.50	4.50		
Feb.		3.11								
Mar.	2.25	2.52	6.00	4.25				4.00		
Apr.	1.75	1.83			5.00					
May		1.79	5.50						4.50	
June		1.97	5.00	4.00			3.00	3.50		7.67
July		1.12		3.75						
Aug.	2.00	1.74	4.50	3.50	4.50					
In effect mid-September, 1958	2.00	2.19	4.50	3.50	4.50	5.00	3.00	3.50	4.50	7.30

[1] Rate is that of the Federal Reserve Bank of New York, except for August 1958, where it represents four other Reserve Banks.

[2] Beginning with Nov. 1, 1956, Canada's discount rate has been set weekly at one-quarter of 1 per cent above the tender rate on Treasury bills; end-of-month rate shown.

NOTE.—Rates shown represent those at which the central bank (Federal Reserve Banks in the United States) either discounts or makes advances against eligible paper and/or government securities for commercial banks or brokers.

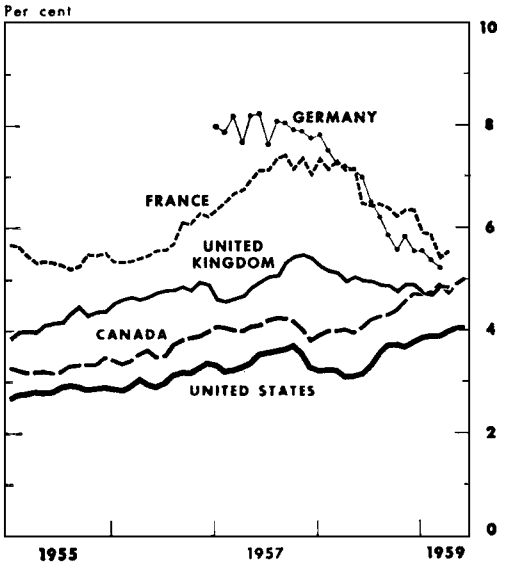
Interest Rates in Leading Countries

ADVANCE IN ECONOMIC ACTIVITY to new highs in the United States and Canada has engendered an upward movement of interest rates in these countries over the past year. Growing needs to finance private investment and government deficits have made the demand for all forms of credit rise faster than savings. Expectations of further economic expansion, coupled with fears of renewed inflationary pressures, have lessened the willingness of lenders to commit funds on fixed interest at existing yields. These forces have generated pressures for continued monetary expansion. The problem of monetary management here and in Canada has been to limit monetary expansion to growth needs so as to avoid inflationary effects.

In West Europe, where economic recession in 1957-58 and recovery in 1958-59 were less pronounced than in North America, reduced internal demand for funds to finance investment outlays, together with large balance-of-payments surpluses, increased the liquidity of financial markets. European central banks relaxed earlier credit restraints and encouraged some increase in the volume of bank credit and money. Under these conditions, interest rates declined from late 1957 through early 1959. In recent months, interest rates in Europe have remained stable or in some cases have increased slightly.

Postwar differentials between interest rates in the United States and West Europe have narrowed. In mid-1959, average yields on long-term U. S. Government bonds exceeded 4 per cent, more than one percentage point above yields on similar securities in Switzerland and close to those prevailing in the Netherlands. Although remaining well below rates in France, Germany, and the United Kingdom, yields in the United States were nearer to them than at any other time in recent years.

LONG-TERM INTEREST RATES



NOTE.—For details concerning these series, see subscripts to charts on following pages.

NORTH AMERICA

Both long- and short-term interest rates have risen in the United States and Canada. Between mid-1958 and mid-1959, rates on long-term Government securities advanced about one percentage point in both countries. Rates on three-month Treasury bills rose more than 4 percentage points in Canada and about 2½ percentage points in the

United States. The spread between bill rates in the two countries reached a record of more than 2 percentage points in early May and narrowed moderately in June.

United States. The rise of interest rates in the United States began in the summer of 1958 in connection with large sales of intermediate- and long-term Government securities by temporary holders. Some holders had built up thinly margined speculative positions in anticipation of continued increases in bond prices, by acquiring new bonds in an exchange offer and thereby greatly increasing the market supply of these issues. As expectations of recovery became more general and the large volume of Treasury borrowing more widely recognized, they acted to take profits or limit losses.

From June to October, yields on long-term Government and high-grade municipal and corporate bonds rose by about half a percentage point. Yields on intermediate-term Government bonds advanced nearly 1½ percentage points in this period, reflecting in part the efforts of investors to increase liquidity by shortening the maturities of their holdings. During the remainder of 1958, yields on all these securities fluctuated within narrow ranges.

Short-term rates climbed in August and September, reflecting the general rise in interest rates and to some extent the less easy monetary policies. Their rise, however, was relatively greater than in past periods of similar monetary action. During the remainder of 1958, short-term securities were in demand by purchasers seeking to maintain liquid positions, and short-term rates rose little further.

In August, Reserve Bank discount rates were raised from 1¾ per cent to 2 per cent and in October, following the steady advance of short-term market rates, to 2½ per cent. These actions reflected the need for aligning the speed of monetary expansion more closely with the pace of economic recovery.

Rates on both long- and short-term U. S. Government securities advanced somewhat around the turn of the year, but changed little further until April 1959. By that time it had become clear that the pace of the upswing was carrying output and national income to new record levels. By mid-1959, average rates on long-term Government bonds had risen above 4 per cent, the highest yield since the early 1930's, and those on some medium-term Government securities to nearly 4½ per cent. Short-term rates had advanced almost to the peaks reached in 1957 prior to the recession. In May commercial banks raised the rate on prime loans to 4½ per cent. Reserve Bank discount rates were established at 3 per cent in March and 3½ per cent late in May.

The rise in yields on intermediate-term Government securities above those of longer term bonds in 1959 restored a rate pattern that had prevailed during the second half of 1956 and most of 1957. Spreads between short- and intermediate-term rates, however, have been wider than in 1957.

During most of the second quarter of 1959 the rate on three-month Treasury bills remained below the 1957 peak, and below the Federal Reserve discount rate. This behavior reflected in part large purchases of short-term Government securities by nonfinancial corporations, whose profits had increased. Other investors also may have purchased such securities in preference to longer term investments in anticipation of further increases in long-term rates.

In June 1959 the President proposed to the Congress the elimination of the statutory maximum interest rate of 4¼ per cent on U. S. Treasury issues with a maturity of

more than five years. The change would enable the Treasury to issue some long-term securities and not depend entirely on the short-term market.

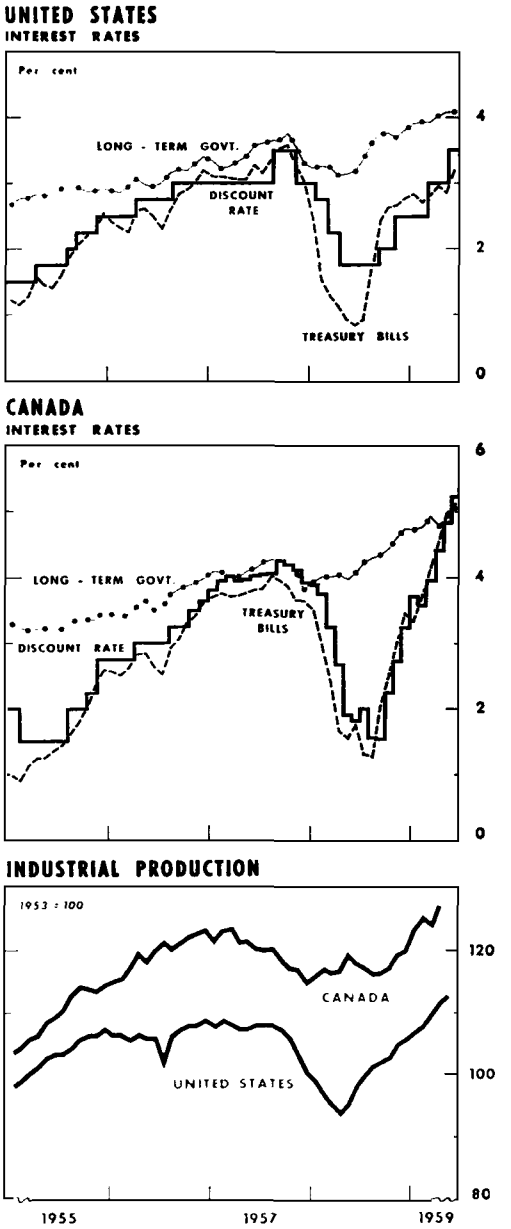
Canada. Between July and September 1958, the Canadian Government undertook a major debt management operation aimed at converting securities nearing maturity into bonds with interest rates up to 4½ per cent and maturities up to 25 years. The conversion affected more than half of the Government's marketable debt and greatly expanded the supply of intermediate- and long-term bonds.

Purchases of bonds by the Bank of Canada provided support for Government bond prices in connection with this operation. After the conversion, yields on long-term bonds rose as the Bank of Canada reduced and then discontinued its purchases, and the increase of half a percentage point during the last half of 1958 was about the same as that on Government bonds in the United States.

The Canadian three-month Treasury bill rate reached its lowest level in July 1958, as shown in the chart. At that time the Canadian rate fell below the U. S. bill rate for the first time since 1955. It remained below the U. S. rate until mid-October 1958.

In the first half of 1959 yields on long-term Canadian Government bonds edged above 5 per cent. Treasury bill and other short- and intermediate-term rates rose sharply, reflecting the increase in private credit demands on the chartered banks, the concentration of Government borrowing at the short end of the market, and the Bank of Canada's prevention of any increase in the money supply since October 1958.

At mid-June 1959 the bill rate reached nearly 5¼ per cent, and yields on other short- and intermediate-term Government



NOTE.—*United States:* Long-term government, monthly averages of daily yields on fully taxable, marketable bonds maturing or callable in 10 years or more; Treasury bills, monthly average market yields on 90-day issues. *Canada:* Long-term government, monthly averages of weekly quotations on 3¾ per cent bonds maturing in 1978; Treasury bills, average of weekly quotations on 3-month issues.

Industrial production seasonally adjusted. Federal Reserve index for the United States; Bank of Canada index, converted to 1953=100, for Canada.

Latest figures: June, except industrial production for Canada (April).

securities ranged from 5½ to 5¾ per cent. The increase in the Treasury bill rate pushed the Bank of Canada's discount rate, which is set every week automatically one-fourth of one per cent above the average tender on bills, to a record of nearly 5½ per cent. Later in June the bill rate dropped slightly, and in early July it stood at about 5 per cent.

WEST EUROPE

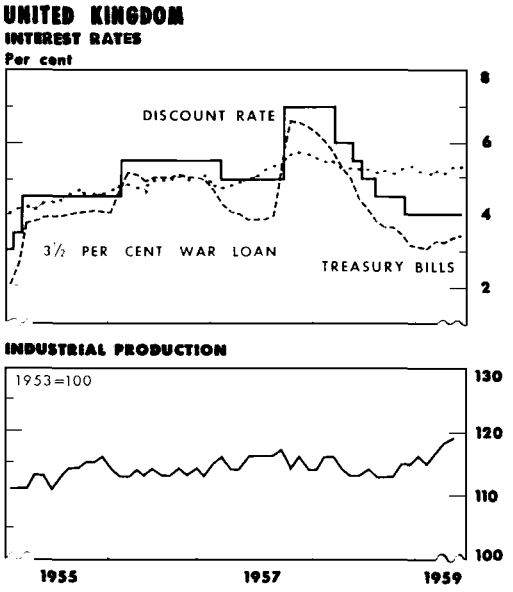
Interest rates in West European markets fell until the spring of 1959, continuing declines that began in late 1957 or early 1958. In several countries the decline came after the restoration of financial stability. Easing of domestic demand pressures and the strong balance-of-payments positions of most European countries increased liquidity in financial markets.

Industrial production in most West European countries did not exceed previous peak levels during most of 1958. Reduced investment spending by business led to a decline in corporate security offerings. Efforts to adjust inventories to declines in sales, or at least to less rapid increases, reduced demands for short-term credit. However, production turned upward before the end of the year. In 1959 the upswing gained momentum in many countries, and carried production to new highs.

Most West European countries had large surpluses in their over-all balances of international payments in 1958. Lower imports and well maintained exports, as well as capital inflows, increased their net receipts from abroad. Acquisitions of foreign exchange by central banks and Governments led to increased market liquidity.

In order to expedite the upturn in economic activity, central banks responded to the easing in financial markets in 1958 by further relaxing credit restrictions and lowering discount rates. Declines in long-term rates, however, have been limited in many countries by the continuing strength of private and Government demands for long-term funds. In recent months the resumption of a more rapid upswing in economic activity has been accompanied by a stoppage, and in many countries a reversal, of the decline in interest rates.

United Kingdom. Continued decline in short-term rates in 1958 from the peak reached during 1957 reflected increased liquidity in the United Kingdom. In mid-1958, measures to promote business expansion included elimination of ceilings on commercial bank loans, removal of instalment



NOTE.—Bank of England data for monthly average yields, based on daily figures for 3½ per cent War Loan and weekly tenders for 3-month Treasury bills. Industrial production seasonally adjusted, from Central Statistical Office. Latest figures: June, except for production (May).

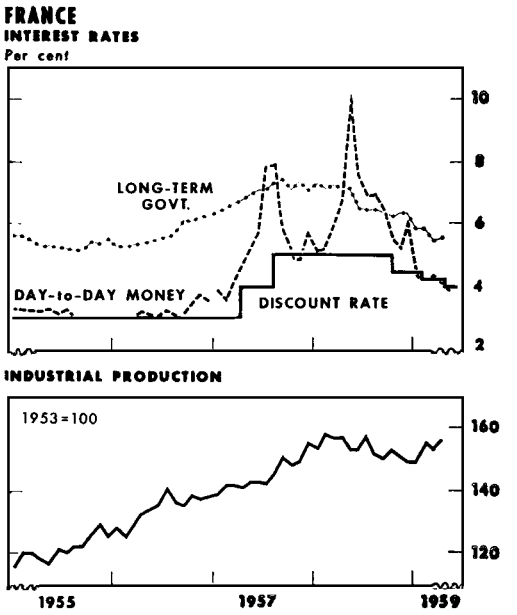
credit controls, and liberalization of controls on capital issues. A rapid rise in bank loans followed, particularly in loans to individuals and to sales finance companies.

The Bank of England discount rate was reduced in several steps from 7 per cent in March 1958 to 4 per cent in November, as shown in the chart on the preceding page. In June 1959 Treasury bill rates stood at about 3.45 per cent, 0.35 percentage point higher than the lows of early 1959.

Rates on long-term Government securities have changed little since mid-1958; in June 1959 they were only about 0.6 percentage point below the 1957 high. The yield on Consols was nearly 4.9 per cent in June, while yields on other long-term Government bonds were about 5.3 per cent. The Government sold substantial amounts of bonds to nonbank investors during 1958 and has announced its intention to continue its policy of keeping bond yields attractive to private investors.

France. After several years of inflation, France has moved to economic stability, having reinforced anti-inflationary measures twice in 1958 and devalued the franc by 15 per cent at the end of the year. Interest rates in the spring of 1959 were well under the levels of a year earlier.

Rates on long-term Government bonds declined by 1¾ percentage points to less than 5½ per cent between May 1958 and March 1959, and rose slightly thereafter. Day-to-day money rates fell from an average of more than 10 per cent in May 1958 to about 4 per cent in May 1959, as shown in the accompanying chart. In October 1958 the Bank of France lowered both the basic discount rate and the penalty rates for discounts exceeding the established ceilings.



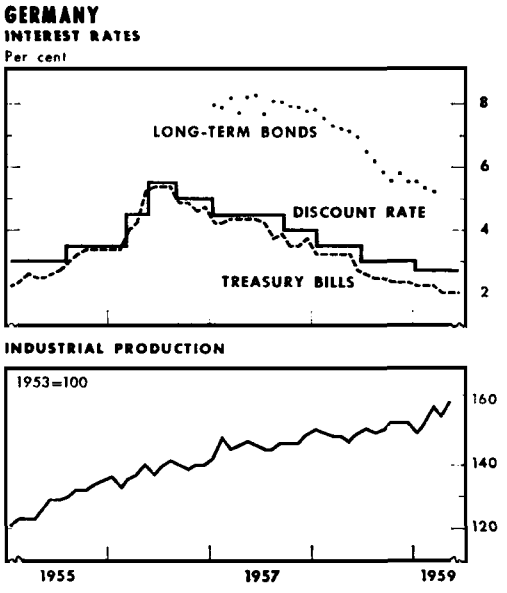
NOTE.—Long-term government, average yields based on end-of-month data for various maturities, excluding indexed bonds, from Institut National de la Statistique et des Etudes Economiques. Day-to-day money, end of month; beginning with 1957, rates on advances based on private securities.
Industrial production seasonally adjusted, from Organization for European Economic Cooperation.
Latest figures: Discount rate, June; day-to-day money, May; other series, April.

Further reductions in February and April 1959 brought the basic discount rate to 4 per cent. Many commercial rates, which are usually set with reference to the discount rates, declined as a result of these changes.

Germany. Rates on new issues of long-term fixed-interest securities in the German market have fallen about 3 percentage points since mid-1958, as shown in the chart on the following page. In April 1959 a 5 per cent bond issue of the International Bank for Reconstruction and Development was floated in Germany at par; domestic bonds have been issued at slightly higher yields. Long-term rates on new issues in recent months have been close to those of other leading countries.

Treasury bill rates have declined from 3¼ per cent to 2 per cent since early 1958. The German Federal Bank lowered the discount rate in three steps to 2¾ per cent. In the spring of 1959, most short-term rates were below those in many other leading countries.

The decline in long-term rates has reflected a continuing rise in private savings and a greater willingness to invest them at long term. Falling short-term rates have made investment in long-term securities more attractive. The Federal Bank encouraged the decline in interest rates primarily in order to discourage the inflow of foreign funds and thus to moderate further increases in liquidity and at the same time to facilitate Germany's transition from a capital importing country to a capital exporting country.



NOTE.—German Federal Bank data. Rates on long-term bonds represent yields on new issues. Treasury bills, rates on latest 60- to 90-day issues in month.

Industrial production, Federal Statistical Office (with seasonal adjustment and conversion to 1953=100 by Federal Reserve).

Latest figures: June, except long-term rates (April) and production (May).