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PART D

Begin: 20/11/86

DD: 25 years

Ends: 31/12/86

5/9/95

CHANCELLOR'S PAPERS ON  
MONEY FIGURES AND  
MONETARY TARGETTING

NI./0123

-CH

PO

PART D

41/20  
covering SECRET  
UNTIL 11.30 AM THURSDAY 20 NOVEMBER 1986

*PHB*

FROM: P H BROOK  
DATE: 20 NOVEMBER 1986

MR CULPIN

cc: PPS  
PS/Chief Secretary  
PS/Economic  
Secretary  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Cassell  
Mr Scholar  
Mr Peretz  
Mr Kelly  
Mr Grice  
Mr Pickford  
Mr Ross Gubey

CALENDAR OCOBTER: PROVISIONAL MONEY FIGURES

I attach the press briefing for today's provisionals. In addition to the changes suggested by Mr Cassell yesterday, the Chancellor has revised Defensive (viii).

2. The Bank's Press Notice is also attached. The regular Monthly Statement of the London and Scottish Banks is not yet available; any questions on it should be referred to the CLSB press office (01 626-8486).

\* Enclosed

*P. H. Brook*

P H BROOK

covering SECRET  
UNTIL 11.30 AM THURSDAY 20 NOVEMBER 1986

**MONEY SUPPLY IN CALENDAR OCTOBER: PRESS BRIEFING**

**LINE TO TAKE**

MO well within its target range. Bank lending and £M3 growth remain difficult to interpret. Last month's 1 per cent rise in interest rates corrected the easing of monetary conditions then indicated by measures such as MO and the exchange rate. Taking all evidence into account we do not now believe monetary conditions are too tight or too loose.

**A. FACTUAL**

See Bank's press notice. Additional points for use if ASKED:

- (i) **Policy**: See statements on monetary policy in Chancellor's Lombard Association and Mansion House speeches.
- (ii) **MO**: remains well within its 2-6 per cent target range. Effect of last month's rise in interest rates has probably not yet been felt.
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- (iv) **Sterling lending**: high figure in October counterbalanced by lower figure in September. Increase over last three months (average £2.3 billion) lower than in period May-July (average £2.8 billion). Financial developments make it increasingly difficult to read meaning into behaviour of individual counterparts. October figure may have been affected

by Big Bang as market makers borrowed from banks to finance their "books", and by low PSBR/overfunding. Should not look at single month's figures and NB health warnings about seasonal adjustment factors.

- (v) **Exchange rate:** Broadly steady since rise in interest rates.
- (vi) **Funding:** In the first 7 months of the financial year 1986-87 the PSBR totalled £5.7 billion. Sales of debt outside the monetary sector and external finance of the public sector totalled £5.4 billion. The PSBR was therefore under-funded by £500 million in this period.
- (vii) **Change to 11.30 am reporting:** to bring money supply figures into line with the standard release time for other major economic statistics.

#### **B. POSITIVE**

- (i) **Overall Strategy:** Experience confirms value of clear commitment to MTFs and ultimate objective of lower inflation. Record on money GDP and on inflation (around 3 per cent and expected to stay low) demonstrates success of strategy.
- (ii) **Commitment:** Government has repeatedly shown itself ready to act decisively when necessary for maintenance of sound financial conditions. Will certainly do so again if necessary.
- (iii) **Other countries:** Most other countries now operate in very similar way.

DEFENSIVE

- (i) Monetary policy too loose? (see line to take).
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- (iii) £M3 should be dropped? Decision on broad money target will be taken at time of Budget as usual. No decision yet taken. Both Chancellor (on a number of occasions) and Governor in Loughborough lecture have drawn attention to the difficulties in interpreting changes in broad money stock. Commitment to firm fiscal and monetary policy unchanged. That policy has brought combination of low inflation and sustained growth.
- (iv) Credit growth inflationary/credit boom? No evidence that high rate of lending is leading to excessive monetary expansion. "There is every sign that people are holding the increased amount of broad money quite willingly. And so long as this is so, its growth is not inflationary". (Chancellor's Mansion House speech). Government remains committed to securing monetary conditions that keep steady downward pressure on inflation. Short term interest rates held at level to secure this.

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- (vi) Funding policy Same as announced in 1985 Mansion House speech "to fund the PSBR over the year as a whole: no more, no less". (Not a full fund every month - impracticable - so temporary over/under funding will occur).
- (vii) Funding position See Factual (vi). Funding well on track. PSBR heavily front-end loaded; not the funding aim to mirror that pattern exactly.
- (viii) Experience with targets in other countries Financial innovation and behavioural changes have caused similar difficulties in other countries in interpreting monetary statistics. In Germany CBM is overshooting for the first time ever; M1 and M2 are overshooting in US, as is M3 in France.
- (ix) Interest rates Base rates 11 per cent. Down 1½ per cent since Budget despite recent rise.
- (x) NNDLs contractionary because of TSB sale? No. See Bank's press notice (refer to Bank for further information).
- (xi) September £M3 growth alarming £M3 at end September was distorted by the heavily oversubscribed TSB share issue.

MONEY SUPPLY FIGURES FACT SHEET

<u>MO</u>	CALENDAR OCTOBER Per cent	CALENDAR SEPTEMBER Per cent
12 month growth	4.9	4.8
1 month growth	-0.5 [0.0]	-0.6 [0.6]
<u>£M3</u>		
12 month growth	18.4	18.8
1 month growth	0.9 [0.0]	3.1 [3.1]
<u>£M3 Counterparts</u>	£ billion	£ billion
PSBR	-	+2.0
Debt sales to nbps and external flows to public sector (of which debt sales to nbps)	-1.8 (-1.3)	+0.6 (+0.5)
Sterling lending to private sector	+3.3 [+3.5]	+2.0 [+0.9]
Other counterparts	-0.2	-0.2
Change in £M3	+1.3	+4.4

Square brackets denote seasonally adjusted figures

CONFIDENTIAL



FROM: P D P BARNES  
DATE: 24 November 1986

MR PIKE

cc PS/Chancellor  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Scholar  
Mrs Lomax  
Mr Grice  
Mr C W Kelly  
Mr Richardson  
Mr Heath

M0 FIGURES

The Economic Secretary was grateful for your submission of 20 November.

2. The Economic Secretary agrees with Mr Grice that the trend is disturbing.

PB

P D P BARNES  
Private Secretary

CONFIDENTIAL

CONFIDENTIAL

pup

FROM: T PIKE  
DATE: 27 NOVEMBER 1986

1. MR GRICE
2. ECONOMIC SECRETARY

cc: PS/Chancellor —  
 Sir P Middleton  
 Sir G Littler  
 Sir T Burns  
 Mr Cassell  
 Mr Peretz  
 Mr Scholar  
 Mrs Lomax  
 Mr C W Kelly  
 Mr Richardson  
 Mr Heath

*[Handwritten in red ink:]*  
 This is done on  
 No. 10 Downing St  
 [last mtg] mty]

**M0 FIGURES**

The latest weekly figures for M0, covering the final week of ... November, are attached. They show that M0 grew by 5.2 per cent in the twelve months to November, compared to 4.9 per cent in October.

*[Handwritten signature:]* T. Pike

T PIKE

## CONFIDENTIAL

## MO, THE WIDE MONETARY BASE

Calendar months (weekly averaged*)	Levels £ million (changes in brackets)					% change on previous month		% change on year earlier		
	Notes (s.a.) and coin		Bankers' deposits		MO		Notes (s.a.) and coin	MO	Notes (s.a.) and coin	MO
April	14,242	(-29)	167	(-14)	14,409	(-43)	-0.2	-0.3	+2.8	+2.8
May	14,332	(+90)	208	(+41)	14,540	(+131)	+0.6	+0.9	+3.2	+3.5
June	14,407	(+75)	185	(-23)	14,592	(+52)	+0.5	+0.4	+3.3	+3.2
July	14,471	(+64)	129	(-56)	14,600	(+8)	+0.4	+0.1	+3.6	+3.2
August	14,587	(+116)	155	(+26)	14,742	(+142)	+0.8	+1.0	+4.2	+4.1
Sept	14,637	(+50)	190	(+35)	14,827	(+85)	+0.3	+0.6	+4.4	+4.8
Oct	14,695	(+58)	132	(-58)	14,827	(0)	+0.3	0.0	+4.8	+4.9
Nov (4 out of 4)	14,801	(+106)	166	(+34)	14,967	(+140)	+0.7	+0.9	+5.2	+5.2
Latest 4 weeks <sup>†</sup>	14,801	(+95)	166	(+23)	14,967	(+118)	+0.6	+0.8	+5.2	+5.2

## Weekly data

% change  
on previous week  
MO

## Calendar October

October	1st	14,648	(+15)	88	(-163)	14,736	(-148)	-1.0
	8th	14,668	(+20)	219	(+131)	14,887	(+151)	+1.0
	15th	14,678	(+10)	81	(-138)	14,759	(-128)	-0.9
	22nd	14,722	(+44)	49	(-32)	14,771	(+12)	+0.1
	29th	14,747	(+25)	223	(+174)	14,970	(+199)	+1.3

## Calendar November

November	5th	14,773	(+26)	172	(-52)	14,945	(-25)	-0.2
	12th	14,783	(+10)	164	(-8)	14,947	(+2)	+0.0
	19th	14,812	(+29)	215	(+51)	15,028	(+81)	+0.5
	26th	14,835	(+22)	114	(-101)	14,949	(-79)	-0.5

\* Except coin and unbacked issue

<sup>†</sup> Most recent data include estimates only for coin and unbacked note issues. The percentage changes for November so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

CONFIDENTIAL

SECRET  
UNTIL 11.30 AM ON MONDAY 1 DECEMBER

FROM: P H BROOK  
DATE: 1 DECEMBER 1986

*PHB*

MR PICKFORD

cc: PPS  
PS/Chief Secretary  
PS/Economic  
Secretary  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Scholar  
Mr Grice  
Mr Culpin  
Mr Kelly  
Mr Pike  
Mr Ross Goobey

**FULL MONEY FIGURES - CALENDAR OCTOBER**

I attach a final version of the brief for this morning's full money figures. This only change from the draft I circulated on 27 November is to Factual (vi) where the cumulative under-fund to date, at about £800 million, is slightly higher than previously forecast.



P H BROOK

SECRET  
UNTIL 11.30 AM ON MONDAY 1 DECEMBER

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*[no - money rate of law 6 weeks  
of same rate of power 6 weeks]*

SECRET

FROM: J W GRICE  
DATE: 2 DECEMBER 1986

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR OF THE EXCHEQUER

*(? how 2  
related  
real  
rate)*

- cc: Chief Secretary
- Economic Secretary
- Financial Secretary
- Sir T Burns
- Sir G Littler
- Mr Cassell
- Mr Lavelle
- Mr Monck
- Mr Peretz
- Mr Scholar
- Mr Odling-Smee
- Mr Sedgwick
- Mrs Lomax
- Mr S J Davies
- Mr Bottrill
- Mr Culpin
- Mr C W Kelly
- Mr Riley
- Mr Pike
- Mr Courtney
- Mr Westaway
- Mr Richardson
- Mr Heath
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey
- Mr George (B/E)
- Prof Griffiths (No.10)
- Mr Lankester (Washington)

*I hope that Ministers will find this new format helpful. The advice is in line with the accord at your meeting on 26 Nov.*

*Ch*

*Index  
(ditto)*

*Ch  
This will devy from basis of note to PM. But presumably with assessment will back to its old (ie many monetary) focus.*

*AA  
(Pete himself volunteered that thought)*

**MONTHLY MONETARY ASSESSMENT : NOVEMBER 1986**

This note records the main points made at Sir Peter Middleton's regular monthly meeting on monetary developments on 27 November. Attached is a note assessing monetary conditions and other developments that bear on decisions about interest rates. This is a new departure; the assessment has a somewhat wider coverage than the discussion of previous Monetary Prospects notes and looks at evidence for the real economy: activity and inflation. We are still developing and experimenting with this new format and hope to improve it over time.

**Sir Peter Middleton's Meeting**

2. Mr Cassell noted that there were still some temporary data difficulties associated with the changeover from banking to

calendar months. In particular, some of the building society data was provisional and liable to change. Nevertheless, there seemed to be no great change in monetary conditions since interest rates were raised in mid-October:

(i) M0 was growing marginally faster -  $5\frac{1}{4}$  per cent in November against nearly 5 per cent in October - but was expected to decelerate in coming months. The year-on-year rate would probably fall appreciably in December because of the very rapid growth in December 1985;

(ii) except for £M3 the broader aggregates had quickened a little;

(iii) the exchange rate was slightly firmer.

*not much*

3. Funding had proceeded well. After seven months of the financial year, virtual full funding had been achieved with the bulk of the expected PSBR for the year now behind us. November, however, had seen a sharp increase in sales of indexed gilts suggesting some upward revision of inflation expectations. On balance, there seemed no case for reducing interest rates. Given the fragility of financial markets and the experience in recent Januaries, there could be a case for a precautionary rise in rates. But tactical considerations did not all point in this direction.

4. Mr George suggested that it was hard to make a case for higher interest rates on the analysis of monetary conditions alone. Credit growth was showing signs of slowing down; building society new commitments, for example, had fallen sharply from nearly £4 billion in July to only £2 $\frac{3}{4}$  billion in October. House price rises did not seem to be accelerating. A case for higher rates must be based on market considerations. Financial confidence was clearly fragile. Markets were overhung with worries about pay, current account prospects, oil prices, public spending, the Government's continued commitment to its present policies. Many of these worries were irrational but they were widespread

and indicative of the state of financial confidence. Inflationary expectations had probably risen. Analysis of the brokers' circulars supported this view, as did the increased sales of indexed gilts though it should be noted that the increasingly attractive yields on these stocks relative to equities had also been a factor.

5. Sir Terence Burns said that he had felt it was right to confine the rise in interest rates in October to 1 per cent. But this was in part because we were then looking forward to the possibility of further moves associated with the Autumn Statement; and in part because it would be helpful to establish an expectation that generally rates did not move up in steps of more than one point. Moreover, the loosening of monetary conditions had then only just been perceived and there was inevitably some doubt whether the perception was correct. Since then the evidence had confirmed the judgement made in October:

(i) there had been an optimistic CBI Survey;

(ii) retail sales were some 6 per cent higher than a year ago;

(iii) some commodity prices were moving higher.

More generally, the situation had moved from one earlier in the year when different indicators were giving different signals to one where all the evidence was, in varying degrees, pointing in the same direction. The evidence now suggested a broadly based case for a further 1 per cent rise in interest rates.

6. The following points were made in discussion:

(a) a rise in interest rates could have particular short term impact on housing where there were already signs of slackening activity:

(b) Though the PSBR was so far on track, there were many uncertainties about the outturn for the year. There were

few grounds for optimism about public expenditure though the buoyancy of receipts had left a fiscal position better than might have been expected;

(c) only limited comfort could be taken from the expected fall in the year-on-year growth rate of M0, which in part depended on last year's events. Annualised growth in the three months to January was forecast to be over 6 per cent;

(d) if a further rise in interest rates was made, it should be presented as a response to a general assessment of monetary conditions and not to specific developments such as M0 growth or exchange rate weakness alone;

(e) it would help presentationally if the timing of a rise and the removal of mortgage lending guidance were to coincide, though there would be no need to make an explicit link between the two.

7. Summing up, Sir Peter Middleton said there was general agreement that a further rise in interest rates might be necessary. It was common ground that the rise should be justified by reference to monetary conditions in general. This was not only a presentational point, it was indeed the substance of the policy. But there remained the tactical question of the timing of any rise.

JWG

J W GRICE

## MONTHLY ASSESSMENT OF MONETARY CONDITIONS : END NOVEMBER 1986

Summary Assessment

Although there have been few significant changes over the last month in the main indicators of monetary conditions, the balance of evidence now confirms more clearly that conditions have been becoming looser.

- **The world background.** Evidence of activity in the major countries remains mixed, but in most (except Japan) interest rates have been edging up in recent weeks (para 1).
- In the UK the latest evidence suggest that activity has been more buoyant than expected (paras 4 and 5). Inflation appears to have changed little in October (para 7).
- The PSBR in the first seven months of 1986-87 was £0.7 billion below the profile projected at the time of the Budget, but this is expected to be reversed and overall the fiscal position is broadly as expected at Budget time (paras 9 and 11).
- M0 grew by 5.2 per cent in the year to November, about 2¼ per cent above the profile forecast at the time of the Budget. We are projecting some deceleration in the 12 month growth rate over the next two months, partly reflecting October's rise in interest rates and partly the more than usually rapid growth at Christmas last year (para 12).
- EM3 rose by 18.4 per cent over the twelve months to October, (projected rise to end November: 18.6 per cent). The 12 month growth of PSL2 was 15½ per cent in October - a rate of growth about 1 per cent higher than earlier in the year. Rates of growth of the broad aggregates in November and December may be affected by British Gas (paras 13, 16 and 17 and 19).
- Short term interest rates edged down in early November but have since moved closer to the peak levels of mid-October. Gilt yields have risen sharply (paras 23 and 24).
- The exchange rate strengthened at the end of October and early November, and some of the earlier reserve losses were recouped; but it has since fallen back to only just above the level at the time of the October rise in base rates. The exchange rate adjusted for oil price movements is unchanged since mid-October (paras 26, 28 and 29).

## A. External Developments

1. Main developments in the G5 countries are set out in tables 1-3. In particular:

- **Nominal GNP growth** in the G5 slowed in Q2 to 4½ per cent per annum. So far data for the third quarter are only available in the US, where the annual growth rate of nominal GNP slowed to 4¼ per cent from 5¼ per cent in Q2. **Industrial production** has picked up in Germany and France recently but for the G5 as a whole production in the latest three months was only ¼ per cent higher than in the same period six months earlier. The **current account imbalances** of the US, Japan and Germany continue to expand but the OECD as a whole could move into surplus in the third quarter.
- In most countries short term interest rates have tended to edge higher (see table 2). But on 31 October the Bank of Japan cut its **discount rate** by ½ per cent to 3 per cent.
- Of the various measures of **monetary growth** targetted by the G5 countries only M0 in the UK is growing within its target range, though M3 in the US is growing at the upper limit of its target range and the aggregate monitored by the Bank of Japan, M2 + CD's, is also growing within its expected range.

## B. Activity and Inflation

2. Table 4 summarises recent indicators of **activity and inflation**. Inflation appears little changed in October. Latest indicators suggest output has been unexpectedly buoyant though, oddly, this is not reflected in recorded expenditure.

### Projections of Money GDP

3. The Autumn Statement forecast shows a 5½ per cent increase of **money GDP** in 1986-87 on the previous year, compared with the Budget forecast of 6¾ per cent. For 1986Q3 the Autumn Statement also has a 5½ per cent annual increase in money GDP, compared with

6¾ per cent in the Budget forecast. In 1987-88, the annual increase is now put at 7 per cent, against 6½ per cent estimated at Budget time.

#### Recent Indicators of Activity

4. Output figures published during November suggest that the pick up in activity in recent months may have been a little stronger than previously realised. The preliminary figures for GDP(O) published on 19 November showed a 1 per cent rise in GDP in the third quarter of 1986, following an upward revised ¾ per cent rise in the second quarter; and give a level of GDP(O) in the third quarter about ½ per cent above the figure implicit in the Autumn Statement forecast.

5. The continuing high retail sales figures published for October are in line with earlier expectations. Provisional figures on company spending in the third quarter, however, were unexpectedly weak, with no change in business investment and a £270 million (1980 prices) fall in stocks. However, it is hard to know what to make of these figures given a substantial discrepancy in the national accounts figures currently available for the third quarter: the estimates that we currently have of demand in the third quarter are too low overall given what has happened to imports and output.

6. The unemployment and vacancies figures for October confirmed and reinforced the message of a stronger trend in the labour market. After discounting the probable effects of Restart, Special Employment Measures, and YTS the current trend in unemployment is more or less flat. Unfilled vacancies have now risen by almost 25 per cent since May. However, the CBI quarterly survey published in October did not indicate any increase in skilled labour shortages; the proportion of firms quoting lack of skilled labour as a constraint on output remained at a relatively low level.

#### Inflation

7. There were no surprises in the price inflation and average earnings figures published in November. We are hardly any wiser than we were a month ago about the likely trend in private sector

settlements in the new pay round. The few private sector settlements so far monitored by the Department of Employment show an average level about  $\frac{1}{4}$  per cent below the average for the last pay round as a whole. There is no evidence as yet to suggest a deceleration of earnings over the next pay round as large as that assumed in the Autumn Statement forecast.

### C. The Fiscal Position

8. Table 5 gives the main indicators of the fiscal stance.

9. The PSBR in the first seven months of 1986-87 was £5.7 billion, £0.7 billion below the profile projected at Budget time. This undershoot is almost entirely accounted for by lower than forecast borrowing by local authorities. There is no obvious explanation for this and the Autumn Statement assumes that the undershoot will largely unwind by the end of the year. Although central government own account borrowing is on track, its composition has been rather different from that expected. (See table 6.)

10. The public sector financial deficit (PSFD) was £2 $\frac{1}{4}$  billion in 1986 Q2, £ $\frac{1}{4}$  billion below the same quarter last year. The latest quarterly figures for the PSFD, PSBR and PSBR excluding privatisation proceeds are given in table 5, together with a long run of annual data.

11. Overall, the fiscal position seems to be broadly consistent with that envisaged at Budget time. The composition of the public finances, however, is different: Public expenditure is running above the levels allowed for and the fall in oil prices has meant lower oil revenues. But non-North Sea revenues have been above expectation even though domestic demand is not far removed from the levels predicted in the Budget forecast.

### D. Domestic Monetary and Financial Market Developments (see Tables 7 to 18)

#### Narrow Money

12. M0 (seasonally adjusted) provisionally grew by 5.2 per cent in the twelve months to November, compared to 4.9 per cent in October

and 2.8 per cent in April. Chart VI shows the outturn for M0 growth in each month of 1986-87 in comparison with a profile based on the 1986 Budget forecast. The chart shows that in November, M0 growth is about 2¼ per cent above its profile, which was based on significantly higher interest rates than were seen in the first half of the year. The latest M0 forecast shows the gap little changed in December and January, with the forecast growth rate falling back to 4.3 per cent and 4.8 per cent in the two respective months under the influence of abnormally high levels of M0 last Christmas together with some response of M0 in the forecast period to the October increase in base rates.

### Broad Money

13. **£M3** (unadjusted) rose by **£4.4 billion** in September and **£1.3 billion** in October, an average increase of **£2.8 billion** per month. The individual monthly figures are distorted by the TSB flotation. The twelve month growth rate was 18.4 per cent in October, just above its average rate during 1986-87. Chart VII shows the outturn growth rate of **£M3** each month (adjusted to allow for the estimated effect of special factors, such as the TSB flotation) against the Budget profile. The chart shows that, on average, **£M3** growth has exceeded its profile rate by about 4½ per cent per month.

14. It is estimated that the TSB flotation boosted **£M3** by up to **£2½ billion** in September, which would account for about 2 percentage points of the unadjusted twelve month growth rate of 18.8 per cent. We expect this to have been fully unwound during October. Looking at the counterparts to **£M3** in October shows that the **PSBR** was negligible; **debt sales to the nbps** were **£1.3 billion**; **bank lending** rose by **£3.3 billion**; **NNDL's** were contractionary by **£0.9 billion**; and the **externals** were expansionary by under **£0.2 billion**.

15. Within the components of **£M3**, in September/October **NIB sight deposits** rose by **£360 million** per month; **IB sight deposits** rose by **£1140 million** per month and **time deposits** rose by **£1400 million** per month. The growth in time deposits compares with an average of **£590 million** per month in the rest of 1986-87.

16. In November, the £M3 figures are likely to be affected both by the British Gas privatisation and by Government receipts from redemption of British Telecom preference shares. British Gas will continue to affect the figures in December as balances built up in advance are run down and the Government receives the proceeds of the privatisation. However, the 12 month growth rate of £M3 is expected to accelerate a little in December before falling back in January. Excluding privatisation proceeds, the PSBR would be higher than normal for December whilst funding is taken to be relatively light. Not only is December a short month in which to make gilt sales but target sales for the rest of the financial year are taken to be lower than to date since the bulk of the expected PSBR is now behind us. The following table summarises the forecast:-

#### £M3 Flows

	£ million (12 month growth rates in brackets)		
	November	December	January
Underlying Projection	1200	3835	1385
<u>plus</u> Seasonal Factors	280	17	-2814
<u>plus</u> Other Special Factors:			
BT	- 250	0	0
BGC	1100	-1950	0
<u>equals</u> Current Forecast	2330(18.6)	1902(19.4)	-1429(18.7)

17. PSL2 grew by 15.6 per cent in the twelve months to October, compared to 15.3 per cent in September and 13.6 per cent in April. The annual growth rate is expected to fall to about 15¼ per cent in November, fluctuating about this level in the next two months. (See table 18.)

#### Bank lending, debt and equities

18. Bank lending grew by 19.3 per cent in the twelve months to October, compared to 18.4 per cent last month and an average rate of 18.1 per cent this financial year. Lending growth has been noticeably higher since July. This may be due to home loan promotional campaigns, although lending growth was at similar rates in the same period last year.

19. Lending was inflated in October by £¼ billion as a result of banks lending to their non-bank subsidiaries to finance gilts purchases in preparation for Big Bang. (This is offset within the counterparts by higher debt sales to the nbps.) In addition, the contractionary effect of NNDL's is wholly explained by the interbank difference - that is, recorded banks' deposits exceeded their interbank lending - and it is possible that some of the recorded lending to the nbps was actually interbank lending. There may also have been some reaction of bank lending to the negligible PSBR in October, which was partly due to large receipts of Corporation Tax. We have no further evidence of Big Bang related lending, nor that lending was inflated by companies switching out of US commercial paper into issues of domestic bills (although for most of October it was profitable to switch into domestic bills of one month maturity).

#### Bank Lending Forecast

	£ million seasonally adjusted (12 month growth rates in brackets)		
	November	December	January
1. Current Forecast	2500(19.7)	2100(19.8)	1800(20.7)
2. Special Factors:			
British Gas	150	100	-100
Building Societies	150		-100
Big Bang	100		
House Purchase	100		
	500	100	-200
3. Underlying Fore cast	2000	2000	2000

20. Net domestic capital issues fell to £0.8 billion in October, from £1.4 billion in September. Eurosterling issues announced in October were £105 million and the stock of commercial paper outstanding rose by £180 million in the month, to £510 million at the end of October.

#### Funding

21. The PSBR was overfunded by £1.8 billion in October, giving a cumulative underfund of £0.8 billion this financial year (both figures unadjusted). Gilt sales to the nbps were £1.1 billion

in October - a strong recovery from the funding pause in September when there were net redemptions of gilts. Cumulative gilt sales to the nbps are £2.9 billion in 1986-87. **National Savings** were also strong in October, with a total inflow of £300 million, giving a cumulative inflow of £1.8 billion in the first seven months of the financial year. **External and foreign currency finance** of the PSBR, net of overseas purchases of gilts, was contractionary by £220 million in October due to an equal rundown in the reserves. The stock of **money market assistance** was £10.2 billion at the end of October, nearly £1.9 billion higher than at end September. Under the usual seasonal influences, the projections suggest this may have risen to about £12¾ billion by end-January, after being broadly unchanged in December.

#### Building societies

22. The outlook for the societies' **liquidity** may have improved slightly during October, as the adjustment of their rates following the base rate rise increased their margins and improved their competitiveness with the banks. But there may have been some net loss of funds due to the TSB flotation and the societies are likely to resort to the wholesale markets again in the run up to the British Gas privatisation. **New commitments to lend** - a forward indicator of actual mortgage lending - have fallen from nearly £4 billion in July to £2.7 billion in October.

#### Other indicators of monetary conditions

23. The annual rate of **house price inflation** (measured by the Halifax index) was 13.6 per cent both in October and November, giving an almost flat path since July. **Equity prices** (measured by the FT-30 index) have risen very slightly since the time of the last Monetary Prospects report (circulated on 24 October), but are still 10 per cent below their April peak. The **Government Securities** index has fallen by 1½ per cent since the last report, with yields rising most at the long end, and is now back to its level in January, over 14 per cent down on its April peak. The yield curve on short-dated stock is now upward sloping, having been virtually flat in October, but remains downward sloping at the longer end with par yields falling from 11.2 per cent at ten years to 11.0 per cent at twenty.

24. Money market rates edged down in early November, but have since been firmer and are now back to their levels of 20 October. The three month interbank rate is currently at 11<sup>7</sup>/16. Real rates would appear to have fallen recently, since there is some evidence of a significant upward revision in the market's inflation expectations. The demand for index-linked stock has been particularly strong during November, accounting for 60 per cent of total gilt sales, compared to a normal average of only about 10 per cent.

#### E. Exchange Rate and External Accounts

25. Tables 18 and 19 summarise developments in the exchange rate and the current account.

26. The sterling index strengthened at the end of October and in early November, reaching 69.5 on 6 November - the day of the Autumn Statement. Since then it has fallen back to about 68, still slightly higher than at the time of last month's report. The \$/£ and DM/£ rates have changed little over this period but sterling has appreciated by about 4 per cent against the Yen.

27. Interest rate differentials against the eurodollar and euro-DM, which widened sharply in September and early October, have changed little over the past month. The October trade figures confirmed the widening of the visible trade deficit which, at £835 million, was only a little smaller than in September. The upward trend in non-oil export volume continued while the underlying rate of growth of import volume may have slowed a little. Combined with a projected improvement in the invisibles surplus - anticipated in the Autumn Statement and now reflected in the CSO figures - the current account is projected to have been in small surplus in October following deficits in the previous two months.

28. Substantial intervention was undertaken to support sterling in October, but in November the reserve losses were partially recouped. Market and off-market net currency purchases were \$128 million (£90 million) in November, compared to net sales of \$1000 million (£700 million) in October.

29. In part the stronger pound earlier in the month reflected a firming of oil prices as a result of OPEC's decision to extend its production agreement to the end of the year and indications that the Saudis might press for an \$18 per barrel oil price following the dismissal of Yamani. The Brent oil price rose from \$14¼ in early October to \$15¼ in mid-November, but has since slipped back to about \$14½. The slight rise in the sterling index over the past month has been sufficient to offset the inflation implications of slightly higher oil prices: the oil adjusted reference ratio is unchanged since mid-October.

MG2 Division  
December 1986

SECRET

Monetary developments since last month's report

Latest outturns available at time of:

	May 1986	Oct report	Nov report
<b>Monetary aggregates (12 month % growth)</b>	(cal May)	(cal Sep)	(cal Oct)
M0(sa)	3.5	4.8	4.9(5.2 <sup>+</sup> )
£M3	19.0	18.9	18.4
PSL2	14.5	15.3	15.6
Bank lending	16.6	18.4	19.3
Bank + building society lending(est)	17.3	19.1	19.5
<b>Interest rates (%)</b>	8 May	20 Oct	1 Dec
3 month interbank	10.4	11.4	11.4
20 year gilt-edged	8.9	10.7	11.0
Yield gap	1.5	0.7	0.4
3 month overseas basket	6.7	6.3	6.2
3 month interbank/euro dollar differential	3.7	5.4	5.3
Real 3 month interbank	6.9	7.2	7.2
Equity dividend yield (all-share)	3.9	4.1	4.1
IG yields (1996) assuming 5% inflation	3.8	4.2	4.2
<b>Exchange rate</b>			
ERI	76.2	67.5	67.9
Oil adjusted reference index*	70.0	69.9	70.3
ERI/reference rate ratio	108.9	96.6	96.6
<b>Asset prices</b>			
FT-30 Index (% pa)	33.2	22.3	15.8
FT-30 Level (April peak : 1426)	1337	1264	1273
Halifax house index (% pa)**	11.0	13.6	13.6

+ calendar November (provisional)

\* indicates what ERI would be if exchange rate simply responded to oil prices in the ratio 1:4. In determining the reference rate the base taken is the Jan '83 - Nov '85 average for the ERI and oil price.

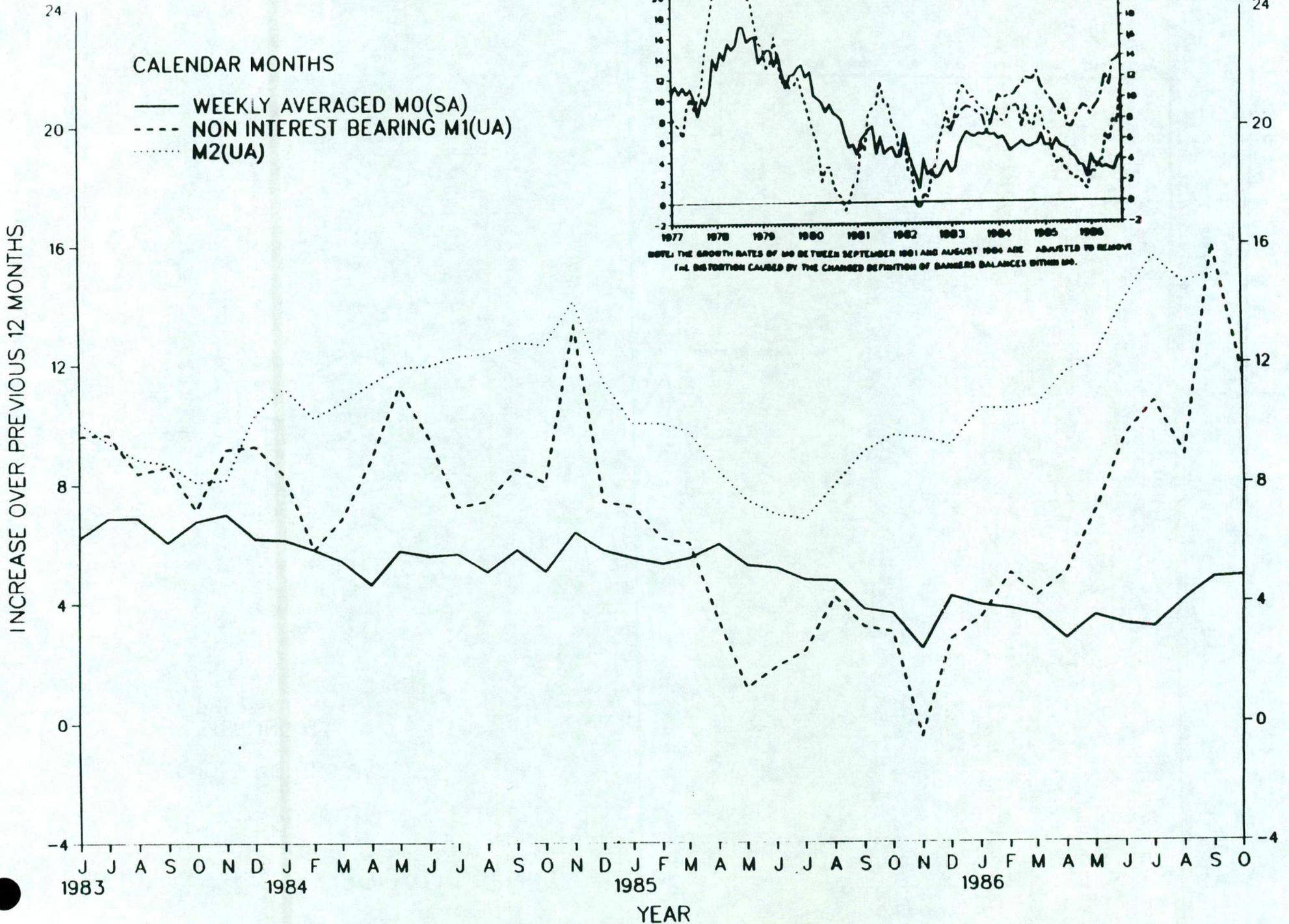
\*\* figures are for May, October and November

SECRET

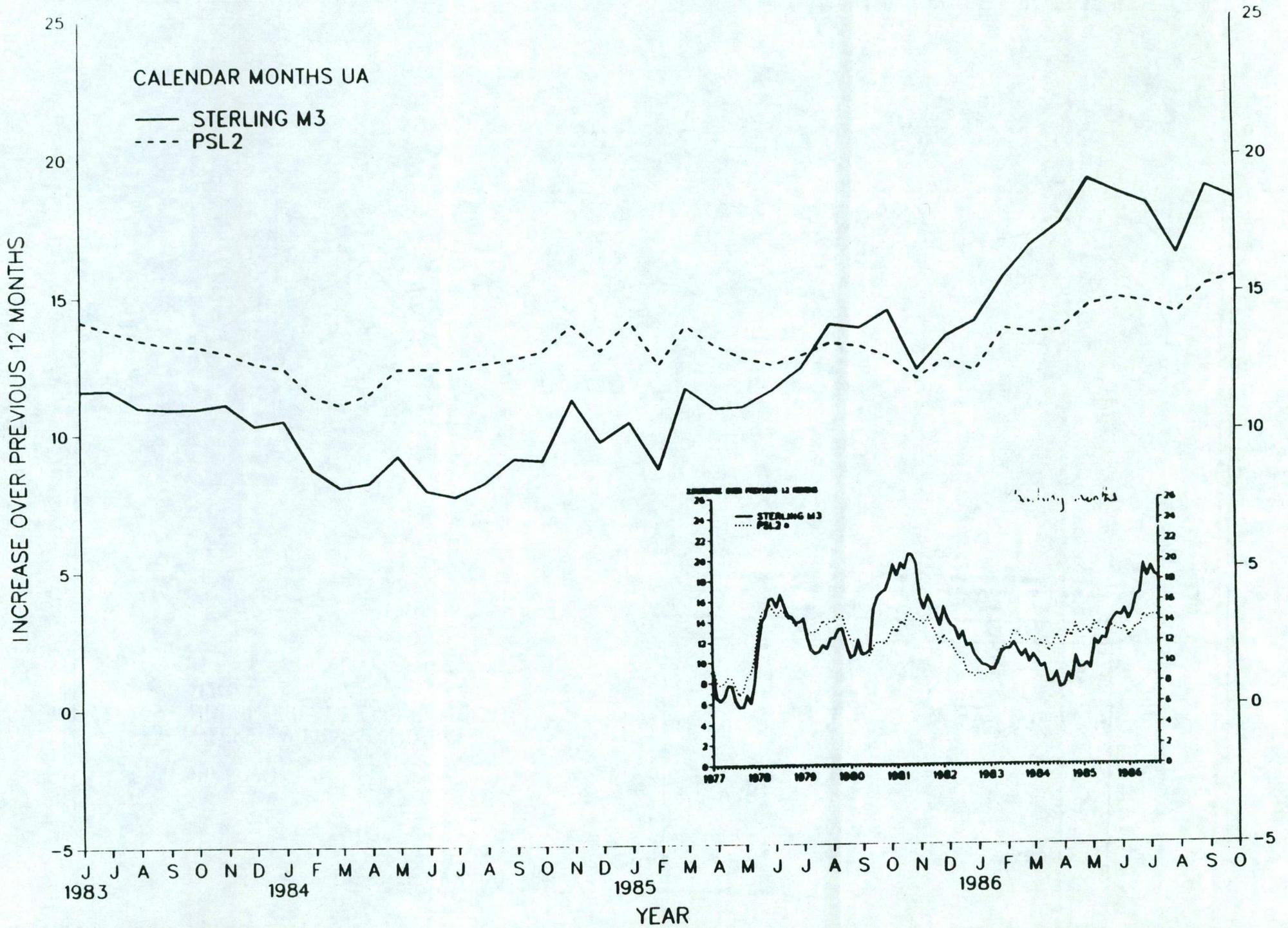
MONTHLY MONETARY REPORT : CHARTS

- I Narrow money growth
- II Broad money growth
- III Real M0 growth
- IV Real £M3 growth
- V Target Aggregates
- VI M0 and the Budget Forecast
- VII £M3 and the Budget Forecast
- VIII Exchange Rate Short Term
- IX Bill Mountain
- X Bank and Building Society Lending
- XI £ Corporate bond issues
- XII Retail Deposits
- XIII Nominal Interest Rates
- XIV Yield Curve
- XV Real Yields
- XVI UK/US interest rate differential
- XVII House prices
- XVIII Capital markets
- XIX Real FT Index

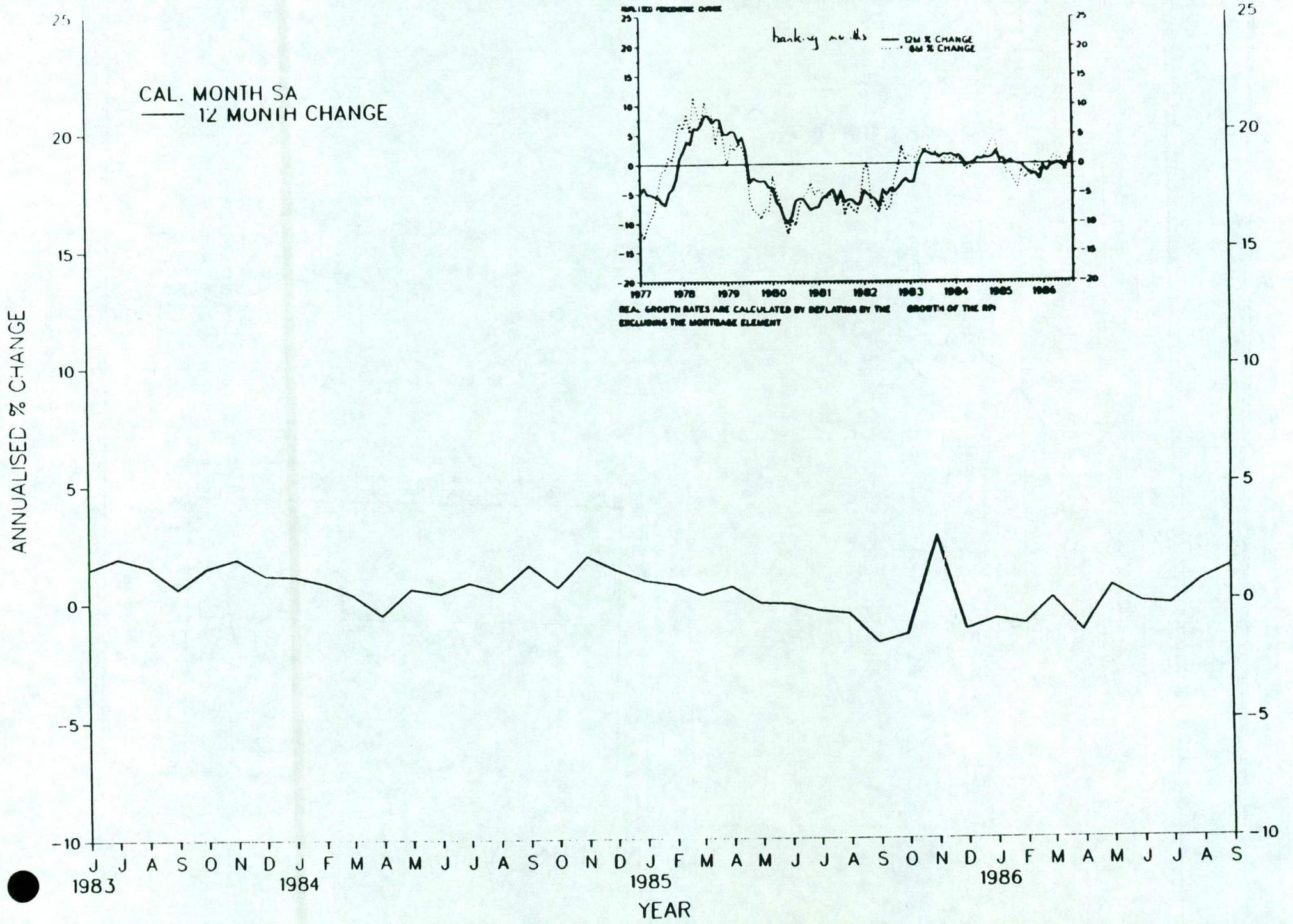
# NARROW MONEY



# BROAD MONEY



# REAI WEEKLY AVERAGED MO



# REAL STERLING M3

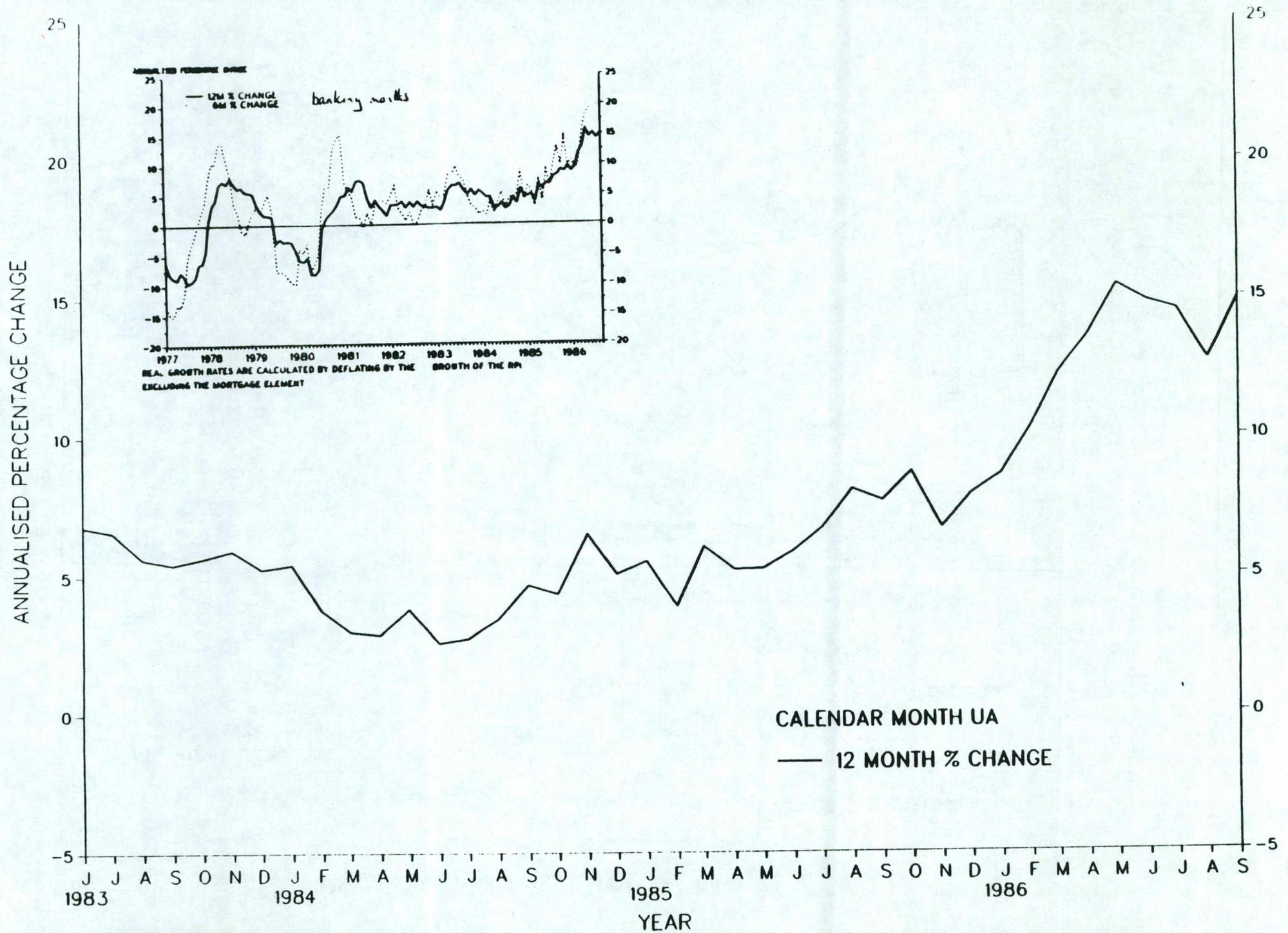
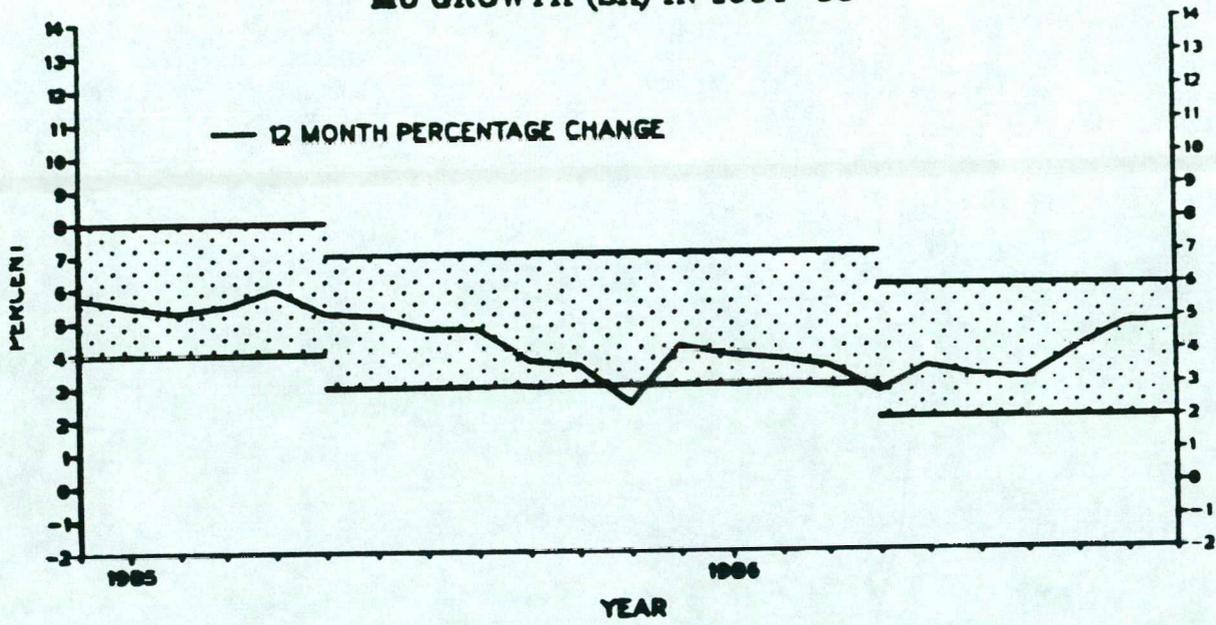
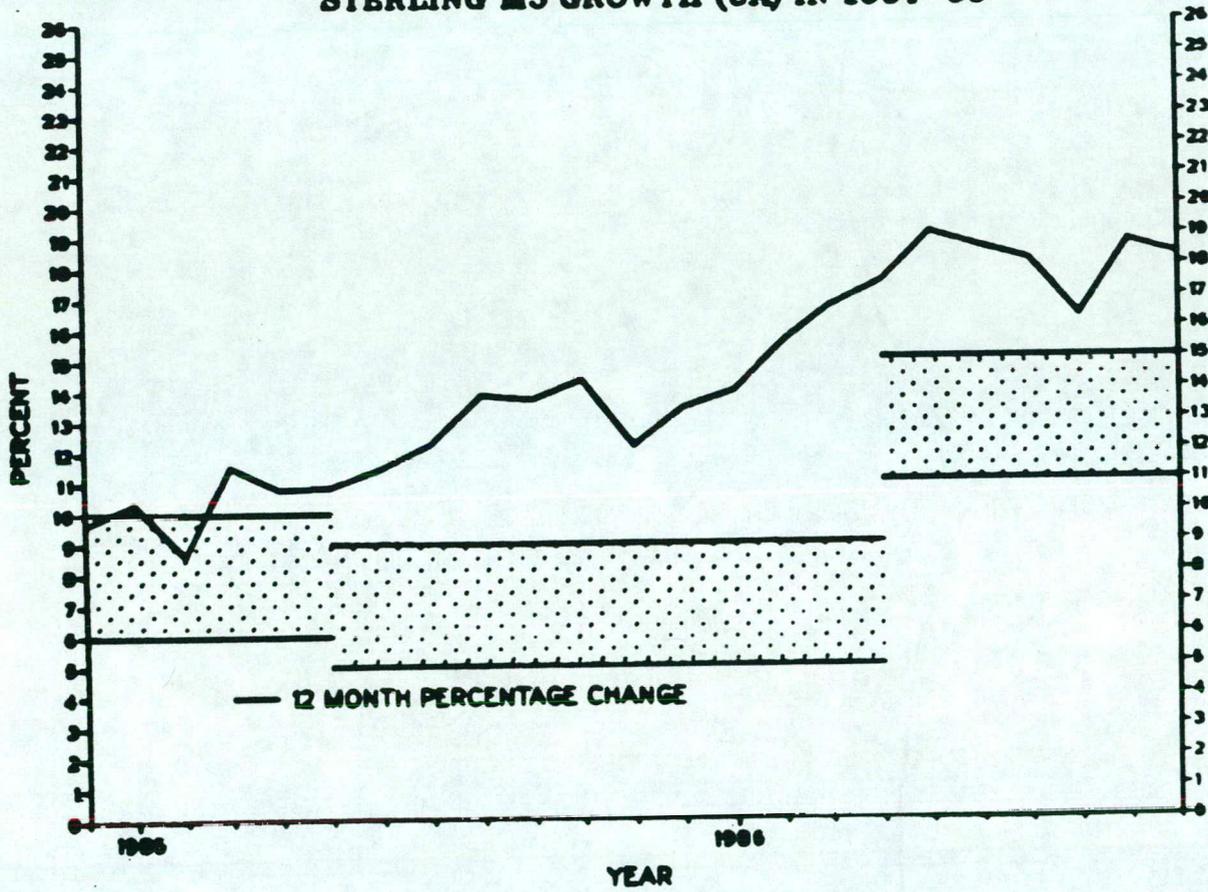


CHART V

### M0 GROWTH (SA) IN 1984-86



### STERLING M3 GROWTH (UA) IN 1984-86



# COMPARISON OF 1986 BUDGET FORECAST WITH OUT-TURN FOR MO

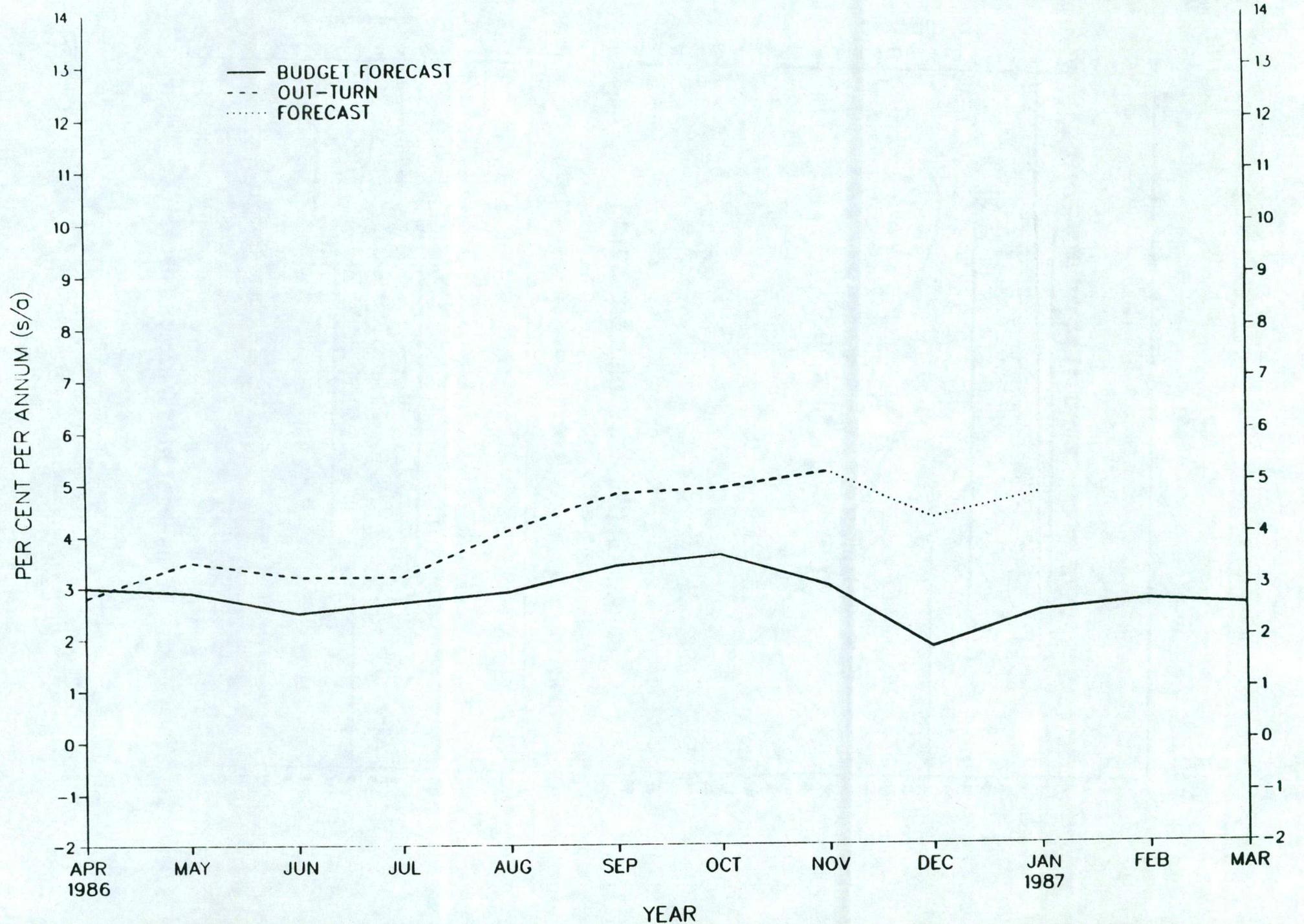
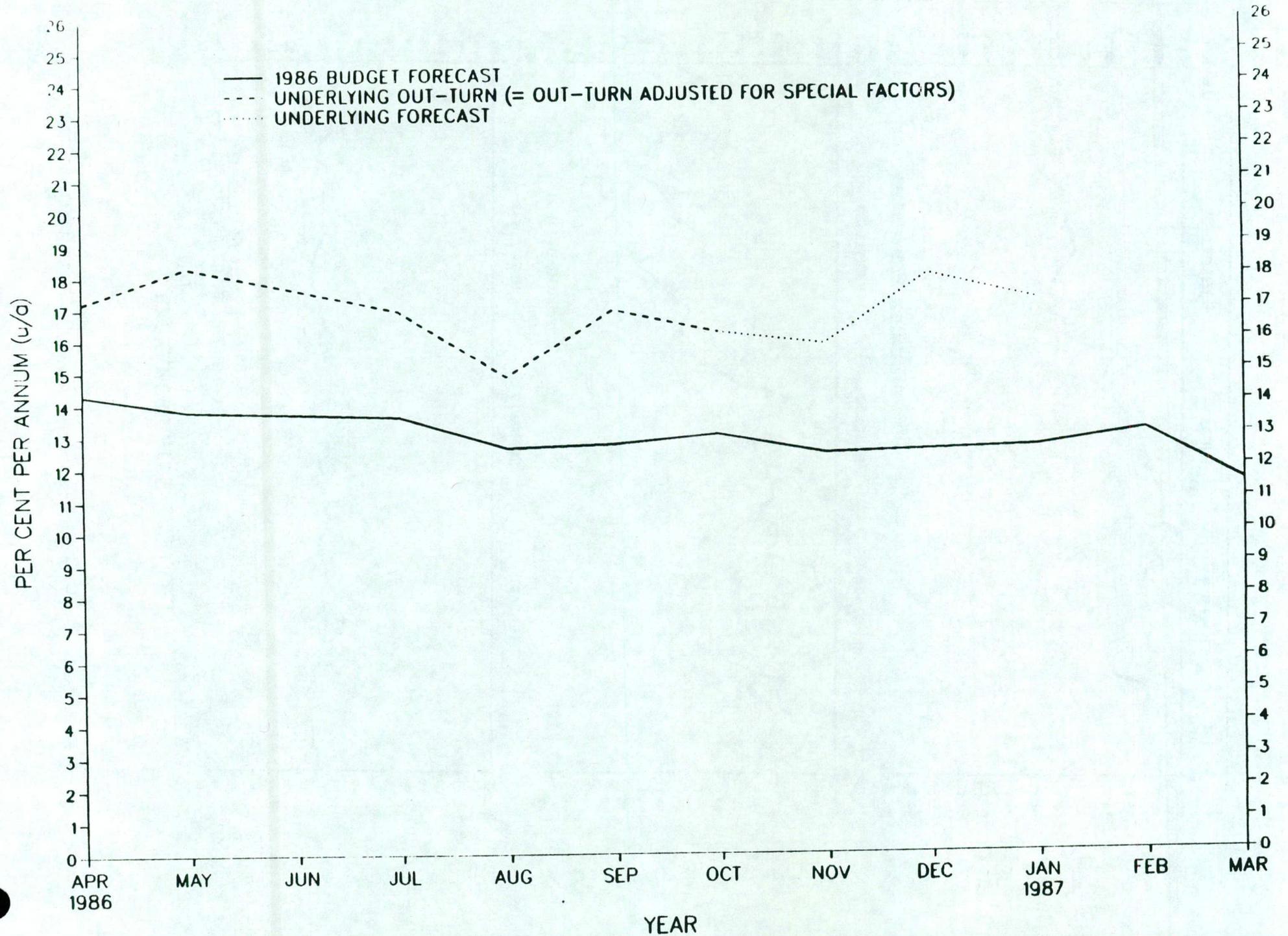
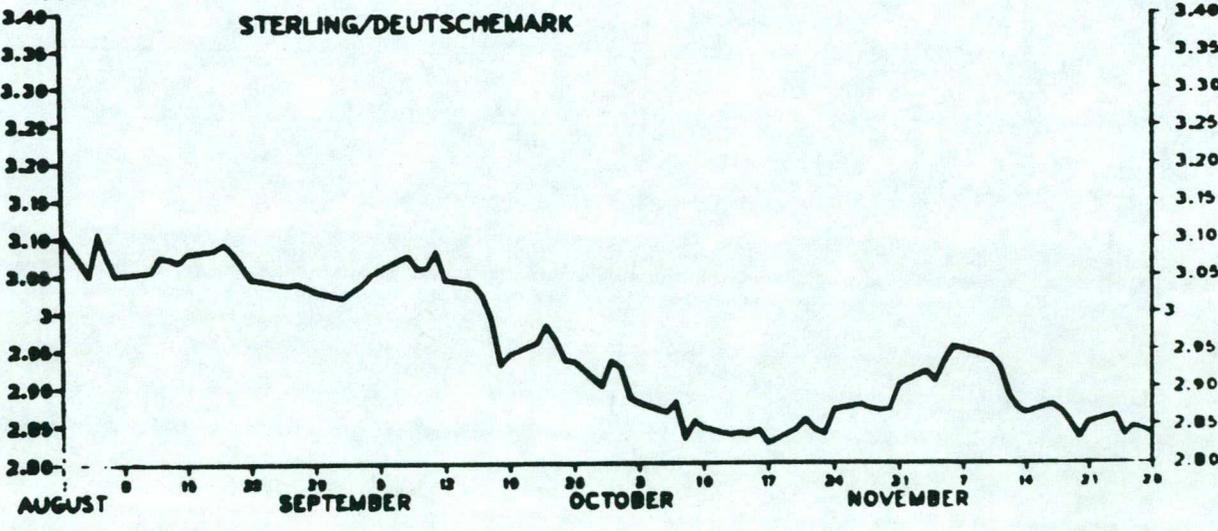
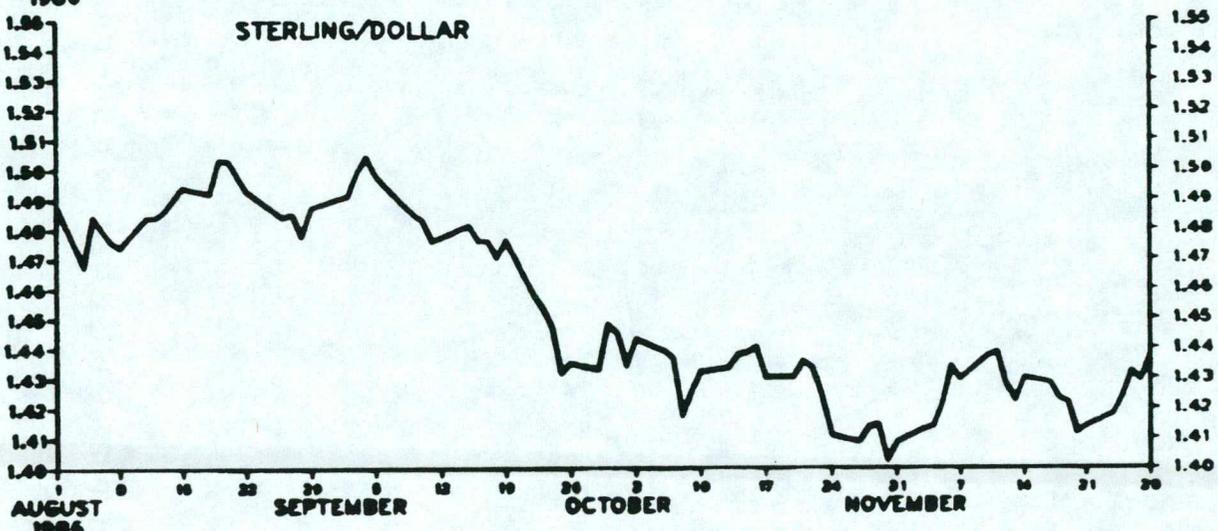
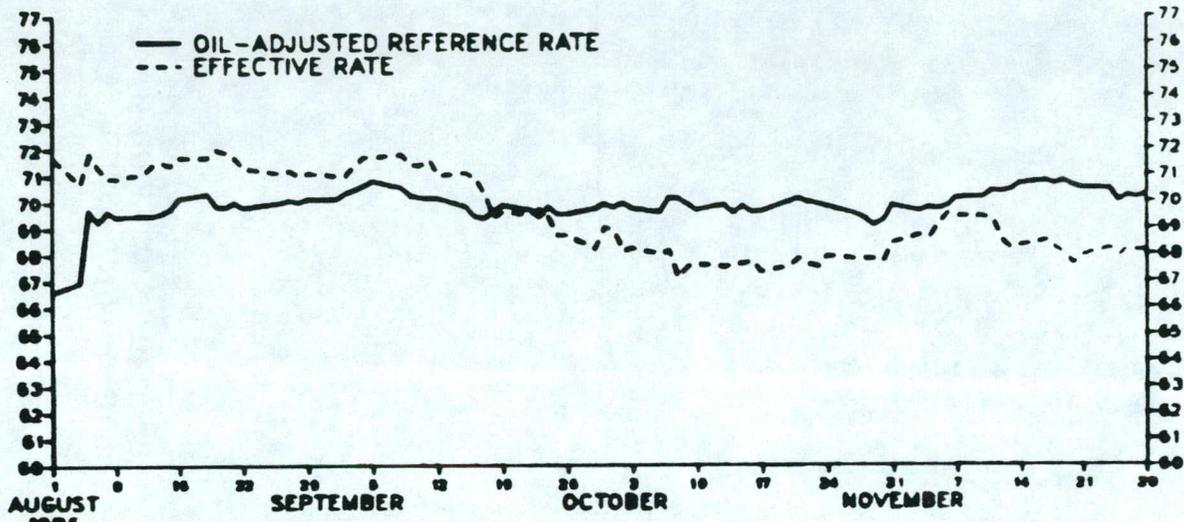


CHART VII

# COMPARISON OF 1986 BUDGET FORECAST WITH OUT-TURN FOR £M3

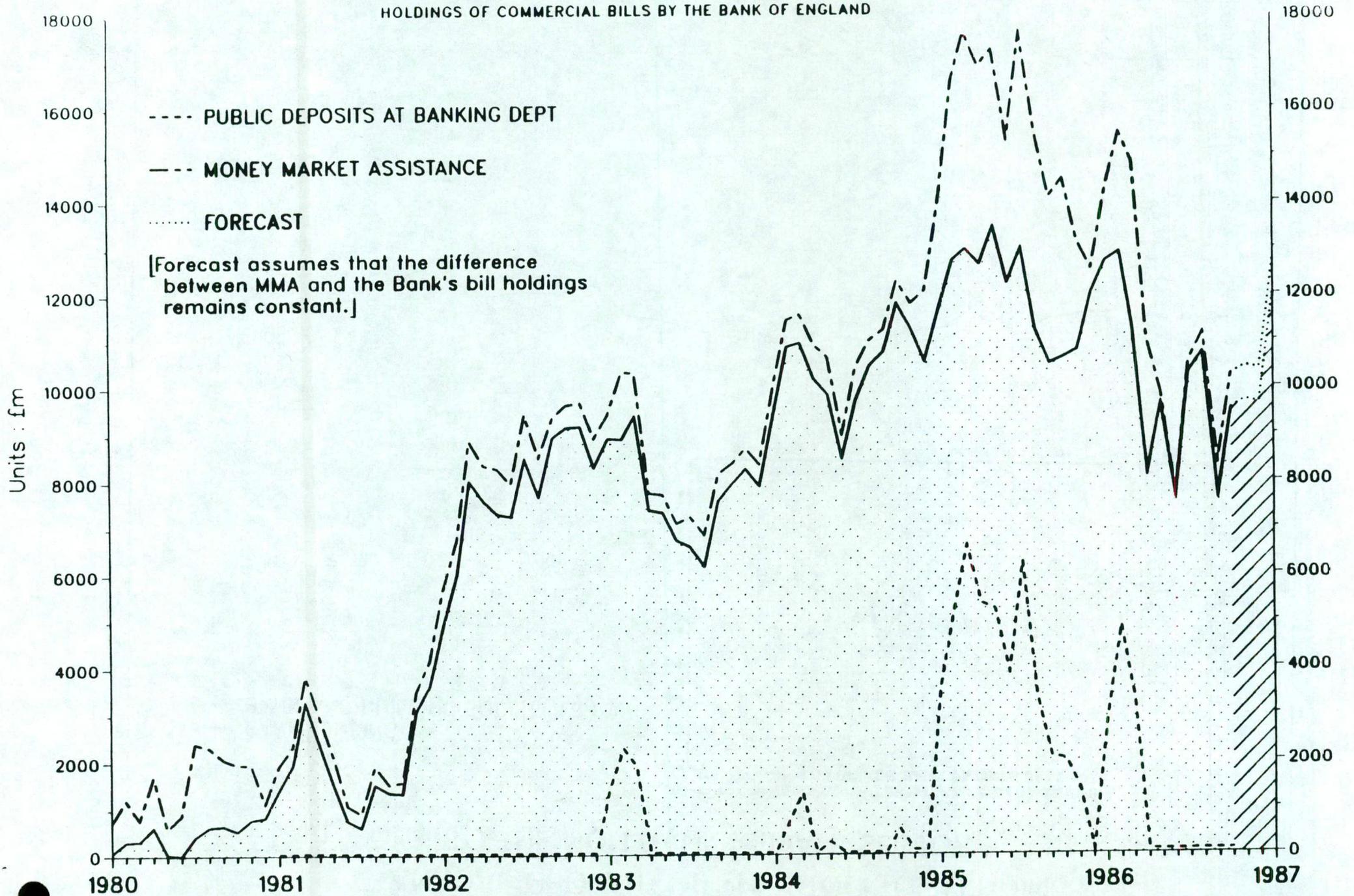


EXCHANGE RATE



# BILL MOUNTAIN RANGE

HOLDINGS OF COMMERCIAL BILLS BY THE BANK OF ENGLAND



--- PUBLIC DEPOSITS AT BANKING DEPT

— MONEY MARKET ASSISTANCE

..... FORECAST

[Forecast assumes that the difference between MMA and the Bank's bill holdings remains constant.]

Units : £m

1980

1981

1982

1983

1984

1985

1986

1987

\* end banking months until August 1986 thereafter end calendar months

YEAR

# ANNUAL GROWTH OF THE STOCK OF LENDING TO THE NON BANK PRIVATE SECTOR

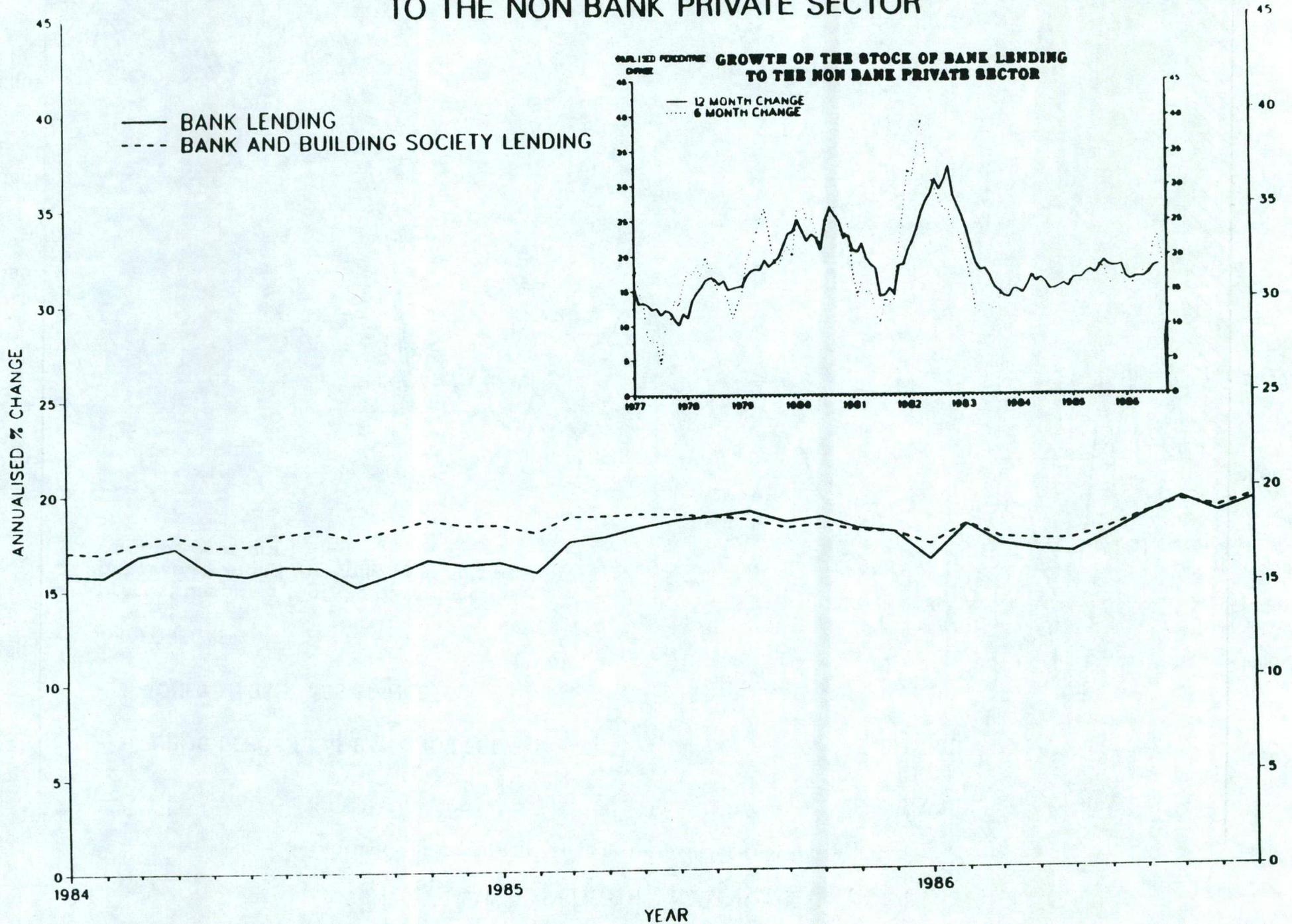
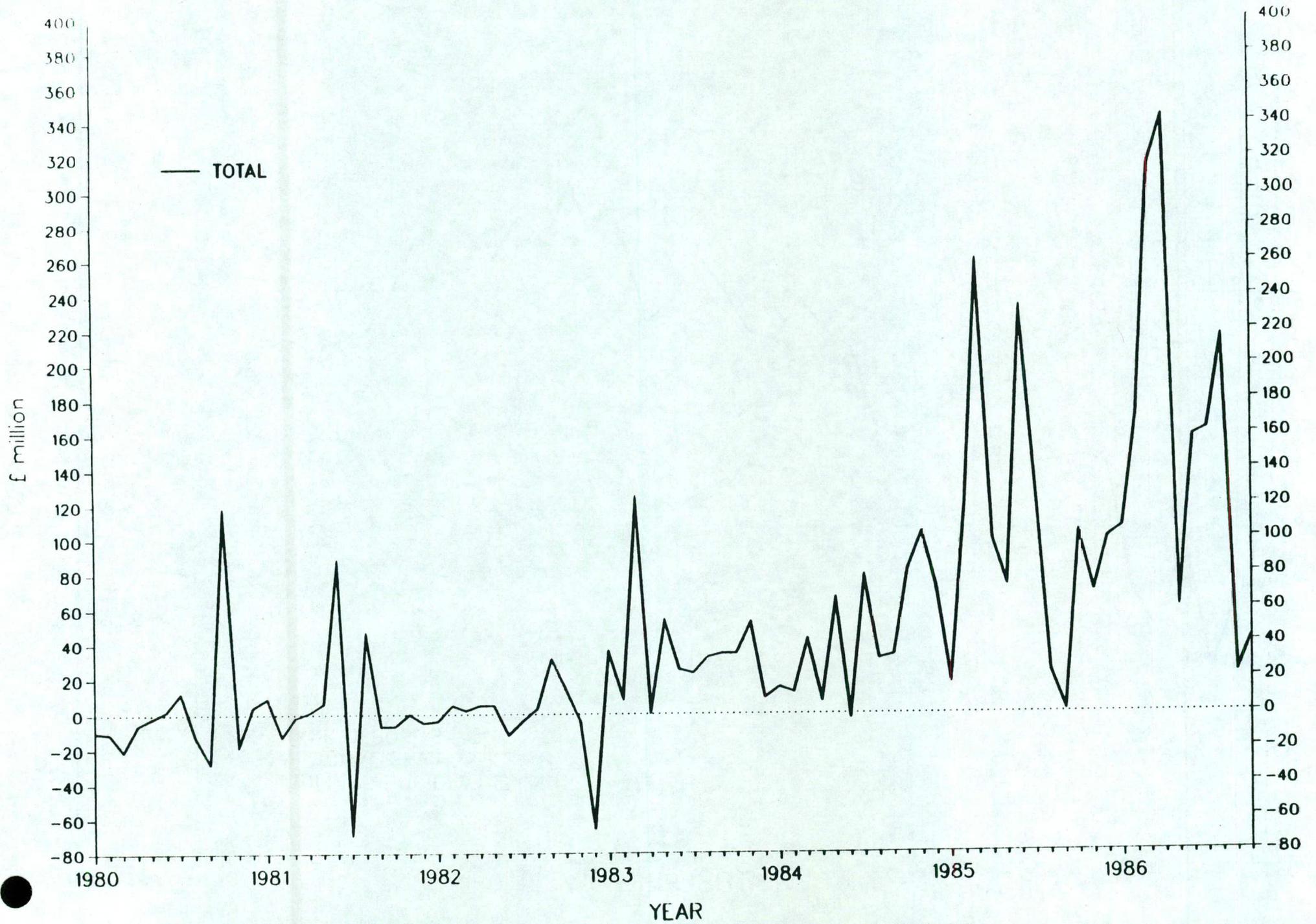
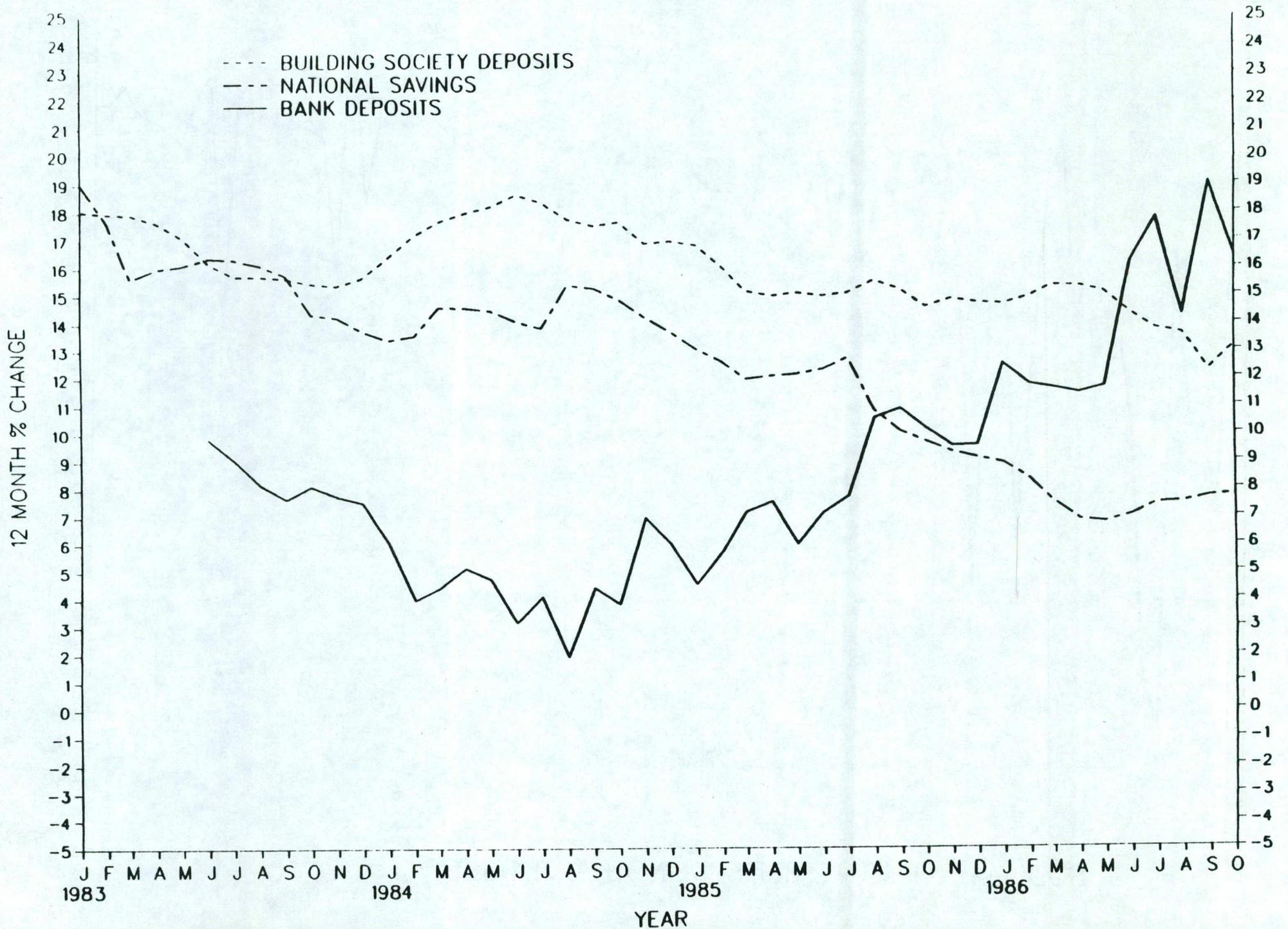


CHART XI

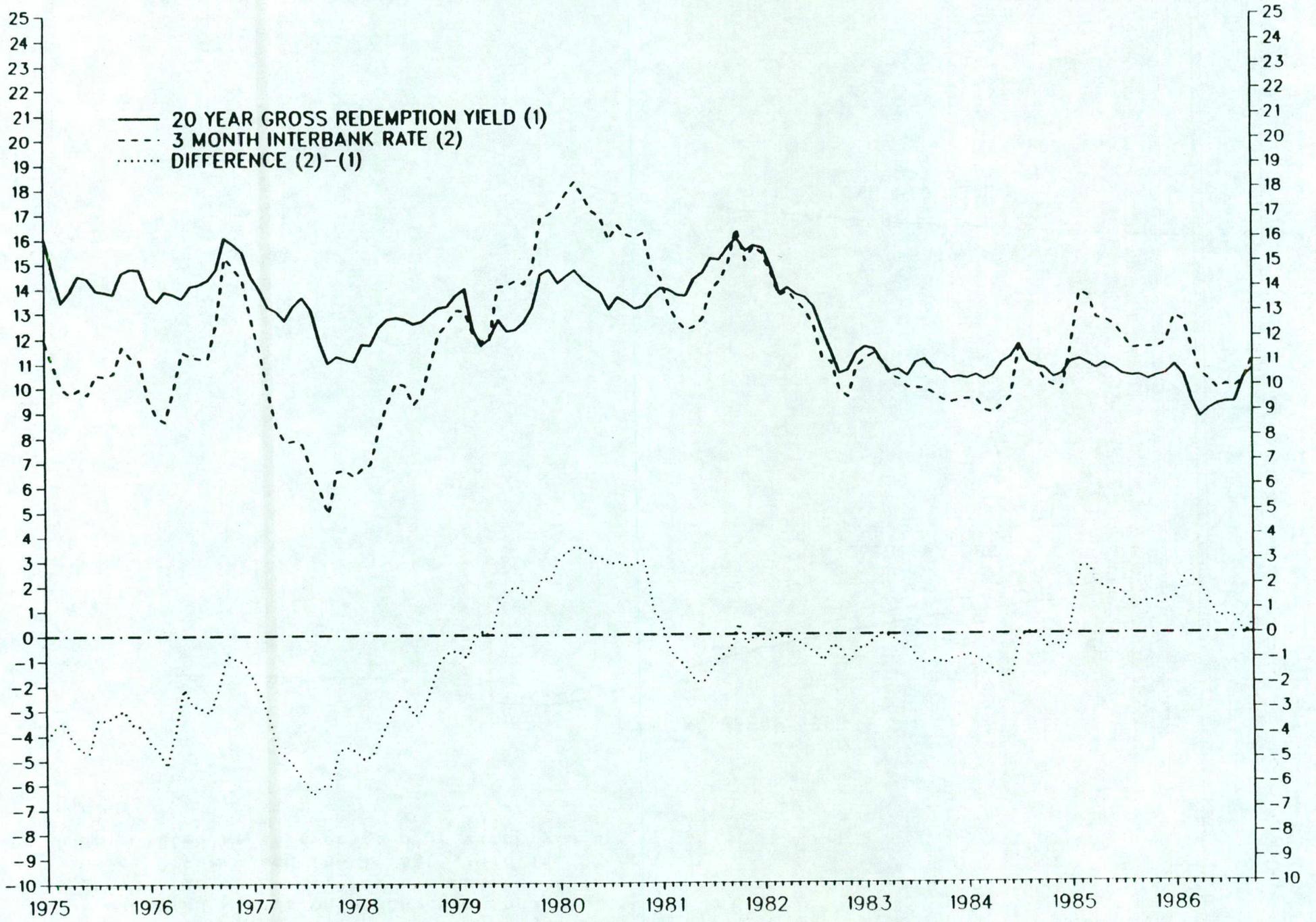
# £ CORPORATE BOND ISSUES BY UK LISTED ICCS



# RETAIL DEPOSITS



# NOMINAL INTEREST RATES



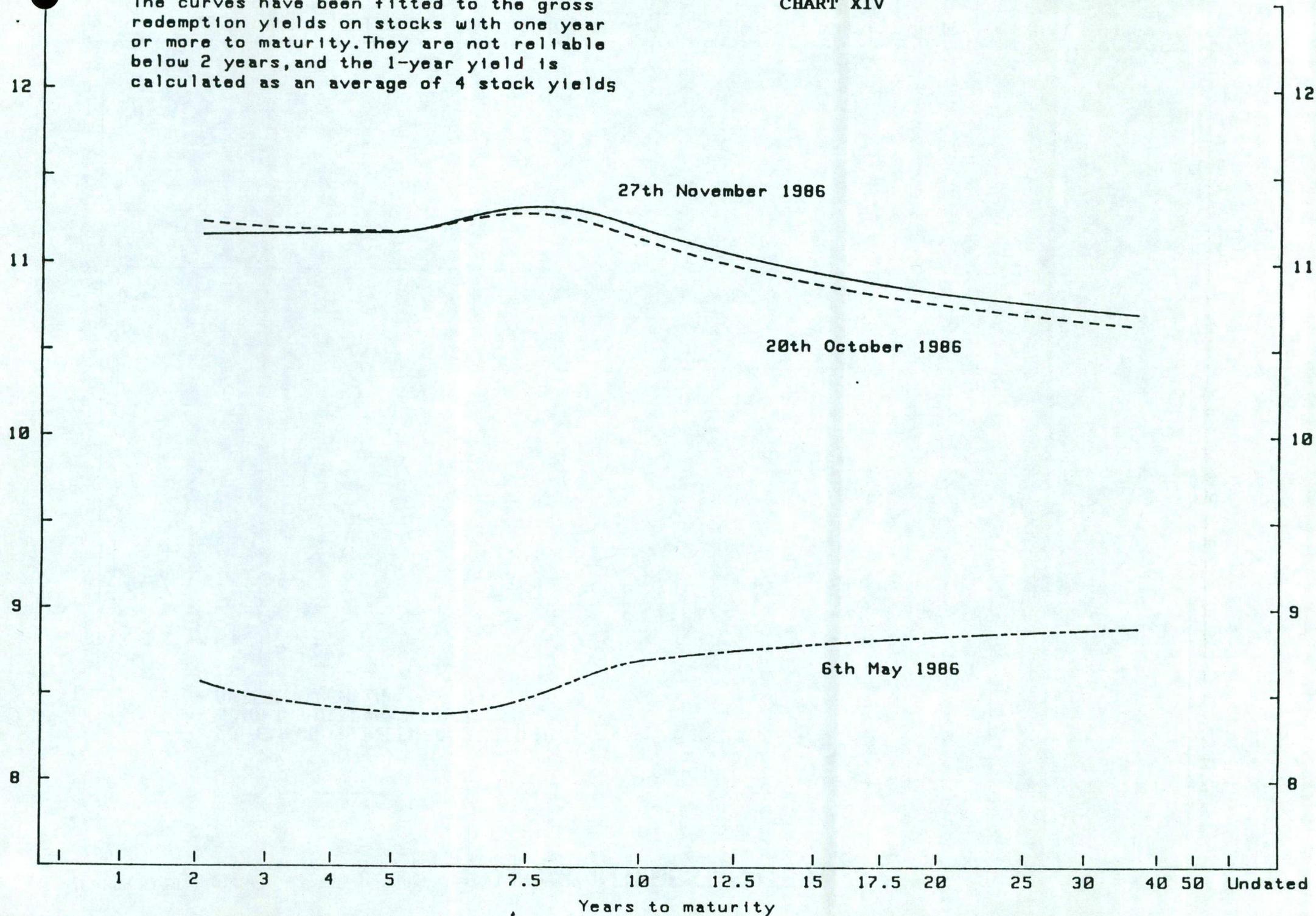
Per cent

# Time / Yield Curves of British Government Stocks

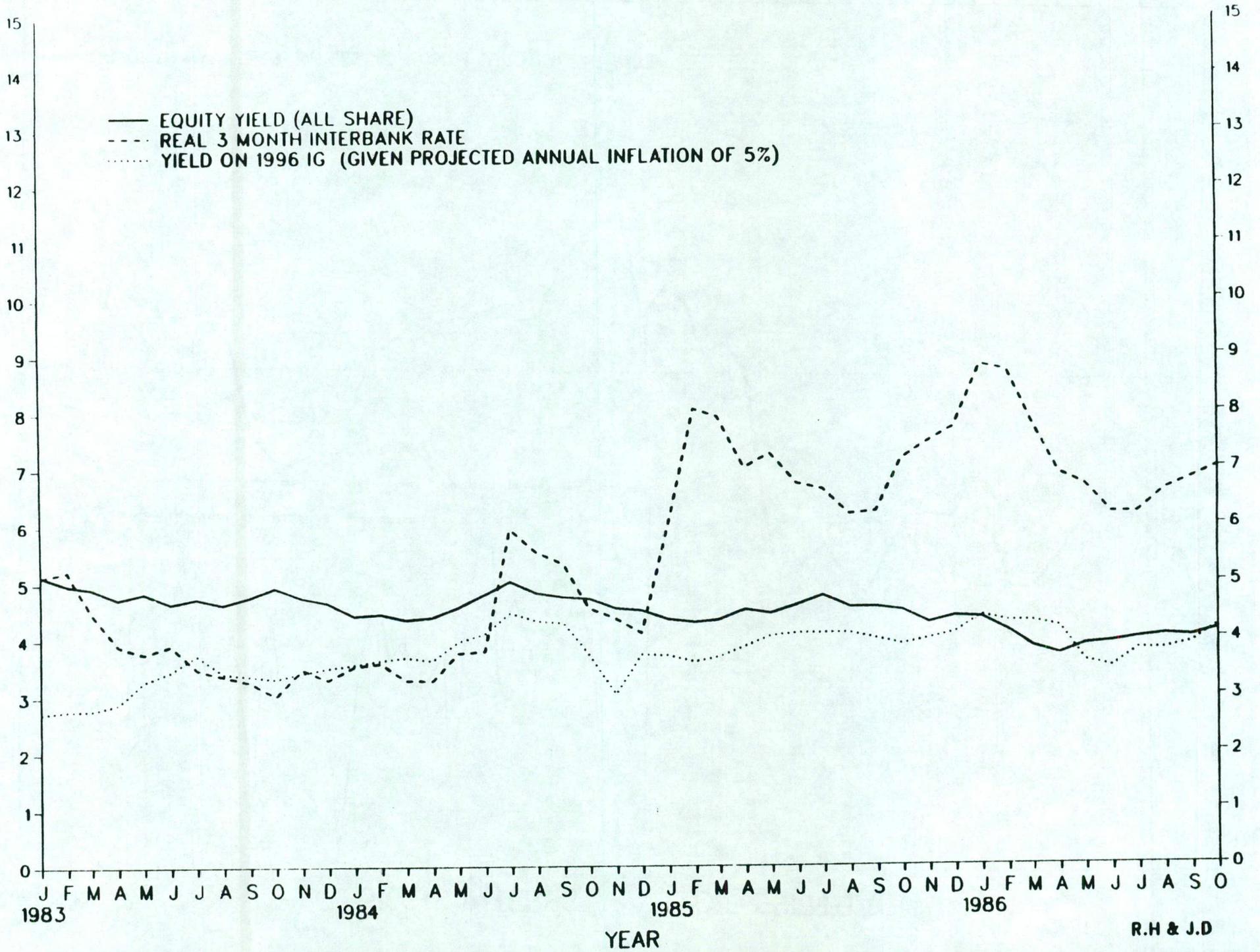
The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields

CHART XIV

27th November 1986



# REAL YIELDS



# UK/US INTEREST RATE DIFFERENTIAL

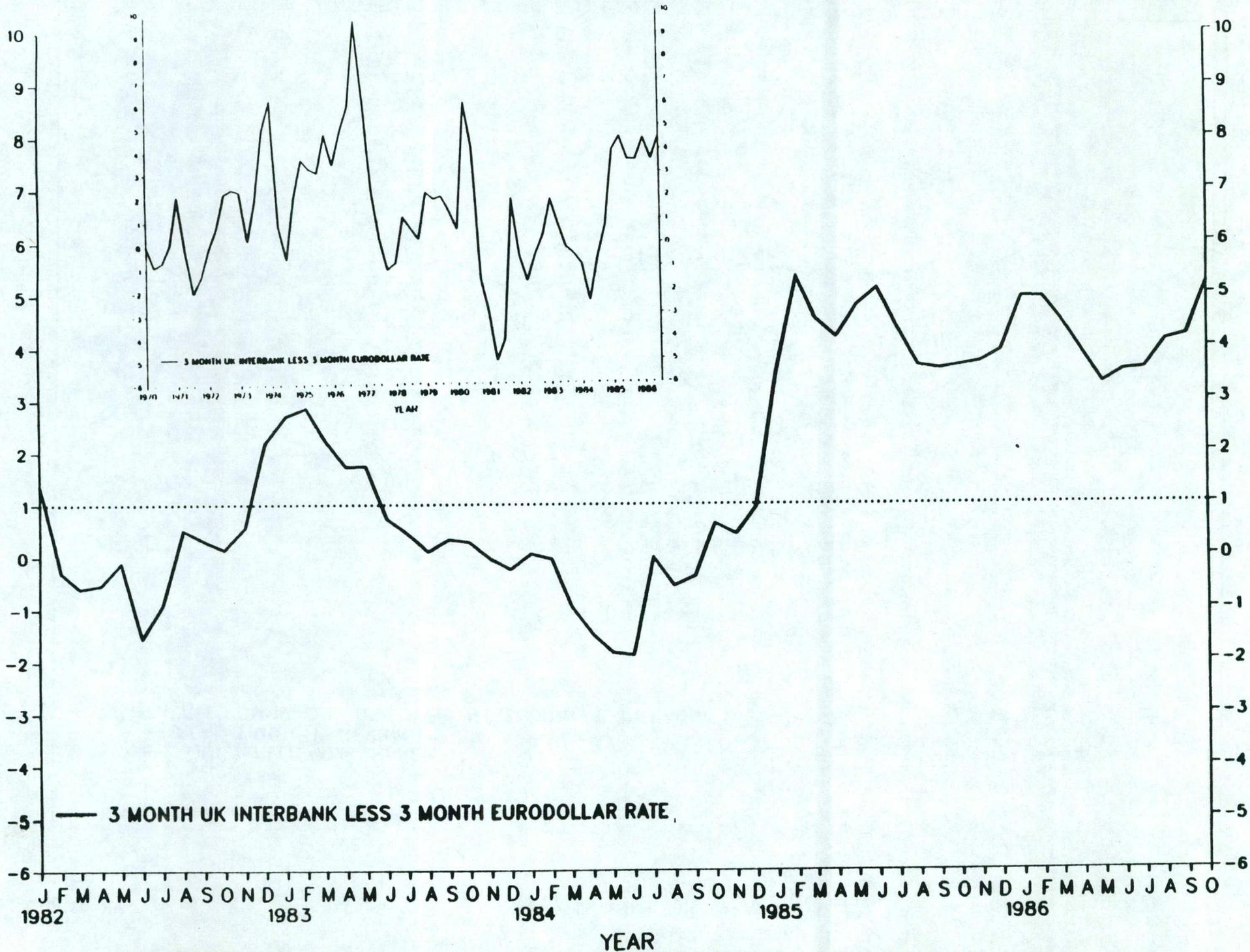


CHART XVII

# ANNUAL HOUSE PRICE INFLATION

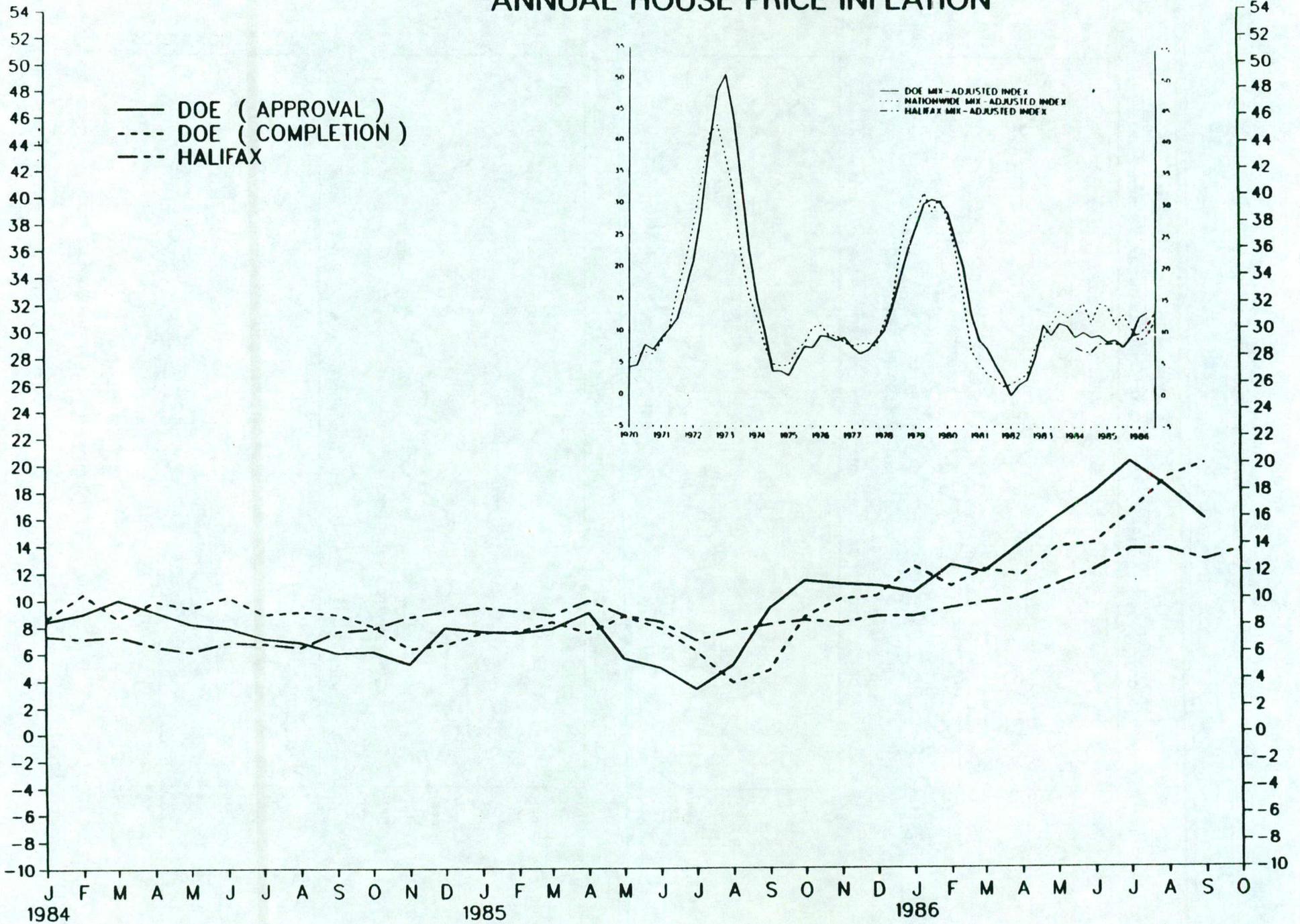


CHART XVIII

CAPITAL MARKET INDICES

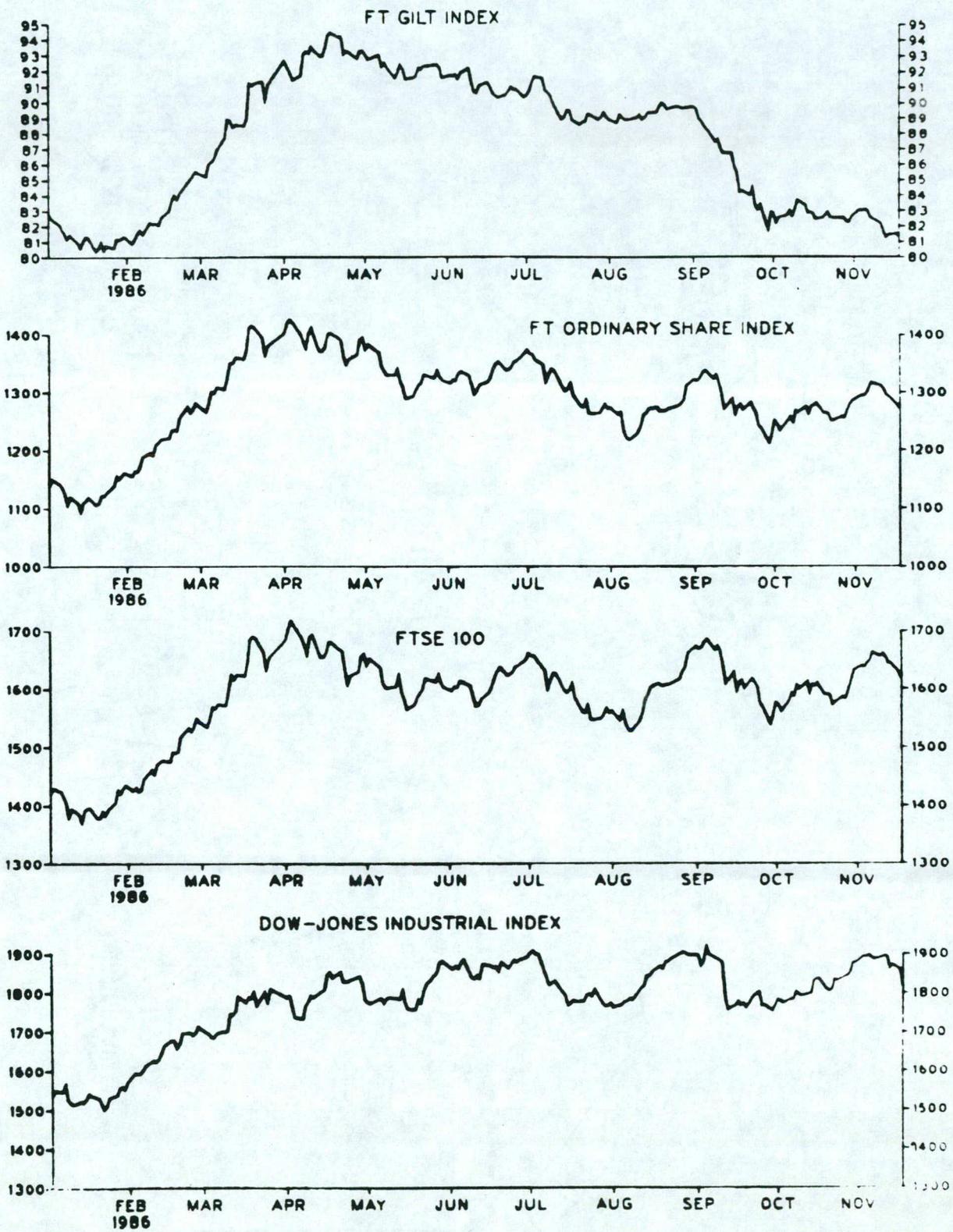
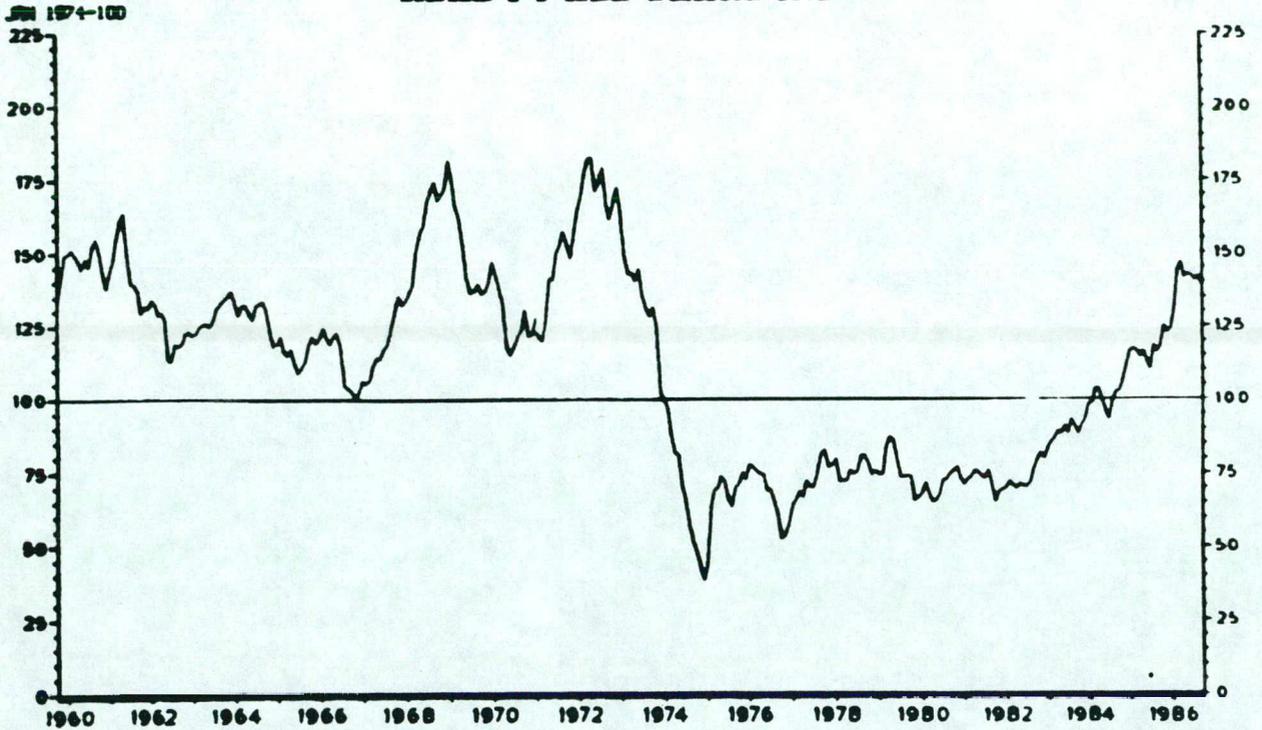


CHART XIX

REAL FT ALL SHARE INDEX



See also Asset Price Chart

SECRET

MONTHLY MONETARY REPORT : TABLES

External

- Table 1 - Economic Developments in G5
- Table 2 - Interest rates in G5
- Table 3 - Exchange rates in G5

Real Economy and Fiscal Policy

- Table 4 - Recent indicators of activity and inflation
- Table 5 - Fiscal Stance
- Table 6 - CGBR(O)

Monetary Aggregates

- Table 7 - Summary
- Table 8 - Main Aggregates
- Table 9 - Other Aggregates
- Table 10 - M0 Historical
- Table 11 - £M3 and PSL2 historical
- Table 12 - Components of £M3
- Table 13 - Retail Deposits
- Table 14 - Building Society Balance Sheet
- Table 15 - Summary Of Forecast
- Table 16 - M0 Forecast
- Table 17 - £M3 Forecast
- Table 18 - Broad Aggregates Forecast

Other Indicators/Aspects

- Table 19 - Nominal interest Rates
- Table 20 - Bill Mountain
- Table 21 - Exchange Rates
- Table 22 - Current Account
- TABLE 23 - Privatisation Issues and Mergers

TABLE 1

## DEVELOPMENTS IN THE G5 COUNTRIES

(per cent change on same period a year earlier)

	Nominal GNP	OUTPUT		TRADE VOLUMES		PRICES		MONEY	
		Real GNP	Industrial production	Exports	Imports	GNP Deflator	Consumer prices	Narrow money	Broad money
1982	5.7	-0.5	-3.5	-1.4	1.3	6.1	6.1	7.3	10.8
1983	7.1	3.0	3.8	0.3	3.0	3.9	3.9	9.6	8.5
1984	8.5	4.7	8.1	9.1	12.4	3.5	4.1	6.7	8.6
1985	6.5	3.0	3.1	3.6	3.6	3.4	3.7	8.2	8.4
1985Q1	6.1	2.7	3.4	5.9	5.3	3.3	3.6	7.1	9.1
Q2	6.6	3.1	4.1	6.4	3.6	3.4	3.8	7.3	8.6
Q3	6.7	3.2	2.6	2.3	2.5	3.3	3.5	8.8	8.2
Q4	6.6	2.9	2.2	-0.2	3.1	3.5	3.2	9.6	7.8
1986Q1	6.2	2.7	1.8	-1.7	3.3	3.3	2.6	9.8	7.6
Q2	6.0	2.6	0.8	-1.5	7.0	3.3	1.4	11.3	7.9
Q3							1.2		
1986 Jan			2.5				3.2	9.7	7.6
Feb			2.0				2.7	9.5	7.5
Mar			0.8				2.0	10.3	7.8
April			1.9				1.4	10.8	7.8
May			-0.3				1.4	11.7	8.0
June			0.8				1.4	11.4	7.9
July			0.5				1.1	11.9	8.4
Aug			0.5				1.1	12.0	8.4
Sept			0.5				1.3		

## THREE MONTH INTEREST RATES IN THE G5 COUNTRIES

	United States	Japan	Germany	France	UK
1982	12.2	6.9	8.9	14.7	12.3
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	6.3	6.0	11.7	9.9
1985	8.1	6.5	5.5	10.0	12.2
1985 Q1	8.7	6.3	6.2	10.6	13.0
Q2	8.0	6.3	5.9	10.4	12.6
Q3	7.8	6.3	5.0	9.9	11.7
Q4	7.9	7.1	4.9	9.1	11.6
1986 Q1	7.6	6.0	4.6	8.7	12.4
Q2	6.7	4.7	4.6	7.4	10.2
Q3	6.0	4.7	4.6	7.2	10.0
1986 Jan	7.9	6.6	4.7	9.0	12.8
Feb	7.7	6.1	4.5	8.9	12.6
Mar	7.3	5.5	4.5	8.4	11.6
April	6.6	4.8	4.5	7.7	10.5
May	6.7	4.7	4.6	7.3	10.2
June	6.7	4.6	4.6	7.3	9.8
July	6.4	4.6	4.6	7.2	10.0
Aug	6.0	4.7	4.6	7.2	9.9
Sept	5.7	4.7	4.5	7.1	10.2
Oct	5.7	4.8	4.6	7.5	11.2
Nov	5.8	4.4	4.7	7.6	11.1
Nov 28	5.8	4.3	4.7	7.6	11.4

TABLE 3

## EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK
1980	93.7	126.4	128.8	94.4	96.0
1981	105.6	142.9	119.2	84.3	94.8
1982	118.0	134.6	124.4	76.6	90.4
1983	124.8	148.4	127.1	70.0	83.2
1984	134.6	156.7	123.8	65.7	78.6
1985	140.7	160.5	123.6	66.3	78.2
1985 Q1	149.7	154.3	119.3	63.4	72.1
Q2	145.8	155.2	121.6	65.2	78.9
Q3	138.4	157.6	125.0	67.2	82.1
Q4	128.8	174.9	128.5	69.3	79.8
1986 Q1	121.2	186.8	133.1	71.0	75.1
Q2	116.0	202.8	134.7	69.0	76.0
Q3	111.4	214.8	138.6	69.5	71.9
1986 Jan	125.2	177.8	132.0	70.4	76.6
Feb	120.5	189.2	133.2	71.1	74.2
Mar	117.8	193.1	134.2	71.5	74.6
Apr	117.4	197.5	134.4	69.1	76.2
May	114.9	205.5	134.7	69.0	76.1
June	115.8	205.4	134.9	69.0	75.8
July	113.1	214.5	136.2	69.2	74.0
Aug	110.8	213.4	139.3	69.6	71.4
Sept	110.4	216.6	140.3	69.8	70.4
Oct	109.9	213.3	142.0	70.6	67.8
Nov	111.4	205.7	142.3	70.7	68.5
Nov 28	110.0	204.6	143.9	71.3	68.1
% Change since dollar peak (Feb 85)	-30.2	+30.3	+22.7	+14.9	-3.0
% Change since Plaza (Sept 85)	-21.2	+30.7	+14.6	+6.1	-17.0

TABLE 4

RECENT INDICATORS OF ACTIVITY AND INFLATION  
per cent changes on year earlier

MONEY				OUTPUT			PRICES AND UNIT LABOUR COSTS					
GDP		AS		Manufacturing		RPI	RPI excluding mortgage payments	PPI Output	PPI Input	Unit Wage Costs		
				GDP(O))	Output					Manufacturing	whole economy	
1984-85	7.3			1984	3.3	3.9	5.0	4.4	5.6	8.7	3.8	4.0
1985-86	9.6			1985	3.8	3.2	6.1	5.2	6.3	4.2	6.0	5.2
1986	2	7.8	5.5	1986	1	2.5	4.9	4.6	5.0	- 11.9	8.3	6.0
	3	6.7	5.5		2	2.3	2.8	3.3	4.3	- 12.4	7.3	6.4
	4	6.2	4.9		3	3.1	2.6	3.3	4.0	- 13.1	4.4	
1987	1	6.5	5.9									
1986-87	6.8		5.5									
1987-88	6.4		7.1									
				January		- 0.6	5.5	4.9	5.4	- 8.3	8.4	
				February		- 0.3	5.1	4.8	5.0	- 12.3	7.7	
				March		- 1.6	4.2	4.0	4.7	- 14.9	8.7	
				April		- 0.2	3.0	3.4	4.4	- 12.8	7.0	
				May		- 1.1	2.8	3.1	4.3	- 12.2	7.1	
				June		- 1.4	2.5	3.3	4.3	- 12.4	7.8	
				July		1.1	2.4	3.2	4.0	- 14.3	3.9	
				August		0.2	2.5	3.3	4.0	- 13.2	5.8	
				September		1.5	3.0	3.4	4.0	- 11.6	3.5	
				October			3.0	3.4	4.0	- 8.1		

TABLE 5 : INDICATORS OF FISCAL STANCE

(a) Annual Data

	PSBR		PSBR excluding privatisation proceeds		PSFD	
	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)
1970-71	0.8	1½	0.8	1½	-0.2	-½
1971-72	1.0	1¾	1.0	1¾	0.7	1
1972-73	2.4	3½	2.4	3½	2.0	3
1973-74	4.3	5¾	4.3	5¾	3.5	4¾
1974-75	8.0	9	8.0	9	6.0	6¾
1975-76	10.3	9½	10.3	9½	8.1	7¾
1976-77	8.3	6½	8.3	6½	7.4	5¾
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5¾	9.2	5¾	8.5	5
1979-80	10.0	4¾	10.4	5	8.2	4
1980-81	12.7	5½	13.1	5½	11.9	5
1981-82	8.6	3¾	9.1	3½	5.7	2½
1982-83	8.9	3¾	9.3	3¾	8.4	3
1983-84	9.8	3¾	10.9	3½	12.1	4
1984-85*	10.2	3	12.3	3¾	13.8	4½
1985-86*	5.8	1½	8.5	2½	7.8	2½
1986-87 (AS forecast)	7	1¾	11½	3	[12.7]	[3¾]

\* If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.3 per cent lower in 1985-86.

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		s.a.	u.a.	s.a.	u.a.	s.a.	u.a.
1985	Q2	1.4	2.6	2.7	3.9	2.3	3.5
	Q3	1.9	3.0	2.4	3.4	1.8	2.4
	Q4	1.2	2.1	1.8	2.7	1.8	0.4
1986	Q1	1.3	-1.9	1.7	-1.4	2.4	1.4
	Q2	2.1	2.2	3.2	3.3	1.9	2.7
	Q3	2.5	3.5	2.5	3.5	n.a.	n.a.

TABLE 6

CGBR(O) April to October: Changes  
From Budget Profile - £ billion

1. Customs and Excise Receipts	0.5
2. Inland Revenue Receipts: Oil	- 0.8
3. Inland Revenue Receipts: Non-oil	0.7
4. National Insurance Contributions	0.5
5. Supply Expenditure	0.1
6. Interest and Dividend Receipts	- 0.3
7. Privatisation proceeds	- 0.2
8. Other receipts (net)	- <u>0.3</u>
9. CGBR(O)	<u>0.0</u>

(=-1-2-3-4+5-6-7-8)

TABLE 7

Key Monetary Indicators

		1985-86						calendar months					1986-87	
		<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>
Monetary Aggregates														
12 month	(MO	3.7	2.4	3.8	4.1	3.8	4.1	2.1	3.7	3.2	3.1	4.1	4.8	4.9
% changes	(£M3	14.3	12.2	13.4	13.9	15.6	16.7	17.5	19.1	18.6	18.2	16.3	18.7	18.3
u.a	(PSL2	12.7	11.8	12.6	12.1	13.7	13.5	13.6	14.5	14.8	14.6	14.2	15.2	15.5
Sterling lending (sa) 12 month % change														
Banks lending		18.6	18.0	17.8	16.3	18.1	17.1	16.8	16.6	17.5	18.6	19.4	18.7	19.3
Bank and building societies		18.2	17.8	17.8	17.1	18.2	17.4	17.3	17.3	17.9	18.6	19.3	19.0	19.5
Cumulative Overfunding from bk April: £mn (--over funding)														
u/a		657	543	2,072	-1,924	-2,254	435	-3 17	1,911	1,571	-15	-27	2,614	778
Money Market Assistance/ Level outstanding														
	£mn	14,463	13,117	12,540	14,238	15,464	14,828	11,010	9,890	7,682	10,523	11,168	8,390	10,247
Interest Rates														
3 months*		11.5	11.6	11.8	12.8	12.6	11.6	10.5	10.2	9.8	10.0	9.9	10.2	11.2
20 year <sup>φ</sup>		10.2	10.4	10.4	10.8	10.4	9.4	8.7	9.0	9.2	9.2	9.4	10.3	10.6
Effective Exchange Rate		80.4	80.0	79.1	76.6	74.2	74.6	76.3	76.1	75.9	74.0	71.4	70.4	67.8

\* Inter bank

<sup>φ</sup> par yield

/ banking months until August thereafter end calendar months

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TABLE 8: PERCENTAGE GROWTH RATES IN SELECTED MONETARY AGGREGATES

	Weekly averaged				Real	Real	RPI less	
	MO	M2	£M3	PSL2/-	MO	£M3	Mortgage Element	
(a)	Financial Years (12 month changes to Calendar March)(%)							
	1981-82 <sup>†</sup>	2.9*		12.2	10.9	-6.6	2.8	9.1
	1982-83 <sup>†</sup>	6.1	9.3	10.9	11.4	1.2	5.7	4.9
	1983-84	4.9	10.3	7.9	11.0	0.0	2.9	4.9
	1984-85	6.0	8.8	12.1	13.8	0.7	6.4	5.3
	1985-86	4.1	11.1	16.7	13.5	0.1	12.2	4.0
(b)	Changes in 12 months to (%) (u.a except MO)							
1984	March	5.4	10.7	8.0	11.0	0.5	3.0	4.9
	June	5.6	11.9	7.9	12.3	0.4	2.6	5.2
	September	5.8	12.7	9.0	12.7	1.5	4.6	4.2
	December	5.8	11.4	9.6	12.9	1.4	5.1	4.3
1985	March	5.5	9.7	11.5	13.8	0.3	6.0	5.2
	May	5.2	7.4	10.8	12.6	-0.1	5.2	5.3
	June	5.1	6.9	11.4	12.4	-0.2	5.8	5.3
	July	4.8	6.8	12.2	12.7	-0.4	6.7	5.2
	August	4.7	7.9	13.8	13.2	-0.6	8.1	5.3
	September	3.8	9.0	13.7	13.1	-1.7	7.7	5.6
	October	3.6	9.6	14.3	12.7	-1.5	8.7	5.2
	November	2.5	9.5	12.2	11.8	-2.6	6.7	5.2
	December	4.2	9.3	13.4	12.6	-0.9	7.9	5.1
1986	January	3.9	10.5	13.9	12.1	-1.0	8.6	4.9
	February	3.8	10.5	15.6	13.7	-1.0	10.3	4.8
	March	3.6	10.6	16.7	13.5	-0.4	12.2	4.0
	April	2.8	11.7	17.5	13.6	-0.6	13.6	3.4
	May	3.5	12.2	19.0	14.5	0.4	15.4	3.1
	June	3.2	14.0	18.6	14.8	-0.1	14.8	3.3
	July	3.2	15.6	18.2	14.6	-0.2	14.5	3.2
	August	4.1	14.7	16.3	14.2	0.8	12.6	3.3
	September	4.8	14.9	18.7	15.2	1.4	14.8	3.4
	October	4.9		18.3	15.5	1.5	14.4	3.4
(c)	Changes in month to (%) (u.a.) (sa figures in brackets)							
1985	October	-0.6(-0.1)	0.7(0.6)	1.2(0.6)	0.8(0.5)			
	November	0.6(0.6)	2.0(1.9)	1.4(1.0)	1.0(1.1)			
	December	7.7(1.3)	1.0(0.5)	0.7(0.7)	1.1(0.8)			
1986	January	-5.5(-0.3)	0.2(1.4)	0.4(1.8)	0.7(1.6)			
	February	-1.5(0.1)	0.7(0.8)	0.8(1.1)	0.9(1.1)			
	March	1.3(0.4)	1.6(0.7)	4.4(3.5)	2.4(1.7)			
	April	0.5(-0.3)	0.9(0.9)	0.8(1.1)	0.7(0.8)			
	May	1.1(0.9)	1.0(0.7)	3.3(3.1)	2.0(2.0)			
	June	-0.4(0.4)	2.5(2.1)	0.9(0.9)	1.4(1.3)			
	July	1.7(0.1)	1.8(1.5)	1.1(0.8)	1.1(1.0)			
	August	0.9(1.0)	0.2(0.5)	0.3(0.3)	0.4(0.3)			
	September	-0.6(0.6)	1.6(2.0)	3.1(3.0)	1.7(1.3)			
	October	-0.5(-0.0)		0.9(0.1)	1.1(0.7)			

\* The growth rate of MO over the twelve months to banking April 1982 is adjusted to remove the distortion caused by the changed definition of bankers' balances within MO.

† Banking month financial years except MO in 1982-83.

TABLE 9

<u>OTHER AGGREGATES</u>		<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<u>NIBMI</u>	Monthly change (£ million, u.a)	+559	+1005	-123	943	767	473	-57	2594	-2005
	Monthly % change (u.a)	+1.6	+2.8	-0.3	-2.5	+2.0	+1.2	-0.1	+6.6	-4.8
	(s.a)	+1.1	-1.0	-0.1	+1.7	+3.0	+0.5	-0.2	+8.3	-6.3
	12 Monthly % change (u.a)	+5.0	+4.2	+5.0	+7.1	+9.6	+10.7	+8.9	+15.9	+11.5
<u>M1</u>	Monthly change (£ million, u.a)	+1327	+2856	+160	+2152	+1617	+1466	+221	+3166	-298
	Monthly % change (u.a)	+2.2	+4.6	+0.2	+3.3	+2.4	+2.2	+0.3	+4.5	-0.4
	(s.a)	+2.0	+2.2	+0.4	+2.9	+2.8	+1.8	+0.3	+5.3	-1.3
	12 Monthly % change (u.a)	+22.1	+19.6	+20.1	+20.8	+21.5	+23.3	+20.6	+24.2	+23.3

TABLE 10

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## MO, THE WIDE MONETARY BASE

Calendar months (weekly averaged*)	Levels £ million (changes in brackets)						% change on previous month		% change on year earlier	
	Notes (s.a.) and coin		Bankers' deposits		MO		Notes (s.a.) and coin	MO	Notes (s.a.) and coin	MO
April	14,242	(-29)	167	(-14)	14,409	(-13)	-0.2	-0.1	+2.8	+2.8
May	14,332	(+90)	208	(+41)	14,540	(+131)	+0.6	+0.9	+3.2	+3.5
June	14,407	(+75)	185	(-23)	14,592	(+52)	+0.5	+0.4	+3.3	+3.2
July	14,471	(+64)	129	(-56)	14,600	(+8)	+0.4	+0.1	+3.6	+3.2
August	14,587	(+116)	155	(+26)	14,742	(+142)	+0.8	+1.0	+4.2	+4.1
Sept	14,637	(+50)	190	(+35)	14,827	(+85)	+0.3	+0.6	+4.4	+4.8
Oct	14,695	(+58)	132	(-58)	14,827	(0)	+0.3	0.0	+4.8	+4.9
Nov (4 out of 4)	14,801	(+106)	166	(+34)	14,967	(+140)	+0.7	+0.9	+5.2	+5.2
Latest 4 weeks <sup>f</sup>	14,801	(+95)	166	(+23)	14,967	(+118)	+0.6	+0.8	+5.2	+5.2

## Weekly data

Calendar								% change on previous week MO	
<b>October</b>									
October	1st	14,648	(+15)	88	(-163)	14,736	(-148)	-1.0	
	8th	14,668	(+20)	219	(+131)	14,887	(+151)	+1.0	
	15th	14,678	(+10)	81	(-138)	14,759	(-128)	-0.9	
	22nd	14,722	(+44)	49	(-32)	14,771	(+12)	+0.1	
	29th	14,747	(+25)	223	(+174)	14,970	(+199)	+1.3	
<b>November</b>									
November	5th	14,773	(+26)	172	(-52)	14,945	(-25)	-0.2	
	12th	14,783	(+10)	164	(-8)	14,947	(+2)	+0.0	
	19th	14,812	(+29)	215	(+51)	15,028	(+81)	+0.5	
	26th	14,835	(+22)	114	(-101)	14,949	(-79)	-0.5	

\* Except coin and unbacked issue

<sup>f</sup> Most recent data include estimates only for coin and unbacked note issues. The percentage changes for November so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

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**TABLE 11**  
**BROAD AGGREGATES**

	£million, Actual		
	OCTOBER	APRIL TO OCTOBER	APRIL TO OCTOBER
		1986	1985
PSBR	9	5709	5291
Debt sales to nbps	-1316	-3171	-2827
External and foreign currency finance of the public sector	-529	-1760	-1807
Over(-)/under(+) funding	-1836	778	657
Bank lending	3298	15663	10765
Other Counterparts	-178	-2257	-1019
£M3	1284	14184	10403
Building Societies			
Retail	2243	6513	7581
Wholesale	269	500	381
Liquid Assets	-760	-1048	-3533
Other	-54	1574	123
PSL2	2982	21723	14955

TABLE 12

## The Components of £M3

		Banking Deposits				Change in £M3
		Notes and Coins	Retail		Wholesale	
			nib	ib		
<u>% change</u>		A	B	C	D	E
1984-85 <sup>1</sup>		5.2	6.5	7.7	19.1	11.5
1985-86 <sup>1</sup>		3.7	4.4	16.8	26.0	16.7
over 12 months (u.a)						
1985	October	5.3	1.8	16.4	21.7	14.3
	November	2.7	-2.1	19.0	18.0	12.2
	December	4.8	1.8	15.5	20.3	13.4
1986	January	4.9	2.7	19.6	18.0	13.9
	February	5.3	4.8	16.7	22.9	15.6
	March	3.7	4.4	16.8	26.1	16.7
	April	3.8	5.7	15.5	28.2	17.5
	May	3.3	9.1	13.4	31.7	19.1
	June	1.1	14.2	17.5	25.8	18.6
	July	5.3	13.5	20.6	21.8	18.2
	August	4.2	11.4	16.2	21.6	16.3
	September	2.8	22.5	16.6	22.2	18.7
	October	5.6	14.6	17.6	23.3	18.3
over 6 month at annual rate (s.a.)						
1986	May	5.9	7.8	6.6	52.2	24.9
	June	2.3	17.2	17.0	41.2	25.3
	July	-1.8	18.5	19.7	33.4	23.0
	August	5.6	9.4	17.6	32.5	21.2
	September	-1.7	47.1	17.2	16.7	20.1
	Oct	8.0	16.1	14.1	23.1	17.8
<u>£mn changes</u>						
monthly average (u.a)						
1984-85 <sup>1</sup>		42	56	238	683	1017
1985-86 <sup>1</sup>		15	180	525	1093	1813
monthly change (s.a)						
1986	May	446	194	-441	4017	4216
	June	-230	1353	1529	-1431	1221
	July	-10	192	1694	-689	1137
	Aug	412	-495	-659	1179	437
	September	-397	3598	462	681	4344
	October	265	-2938	38	2807	172

<sup>1</sup> March on March

SECRET

TABLE 13 : RETAIL DEPOSITS

	Banks	Building <sup>1</sup> Societies	National <sup>2</sup> Savings	Total
<u>% change</u>	O	P	R	T
<b>Seasonally unadjusted</b>				
1984-85 <sup>3</sup>	7.2	15.1	11.9	12.0
1985-86 <sup>3</sup>	11.6	15.3	7.5	12.9
<b>Over 12 months</b>				
1985 October	10.2	14.5	9.7	12.4
November	9.5	14.8	9.3	12.2
December	9.5	14.7	9.1	12.2
1986 January	12.5	14.6	8.9	13.0
February	11.7	14.9	8.3	12.9
March	11.6	15.3	7.5	12.9
April	11.4	15.3	6.9	12.7
May	11.7	15.1	6.8	12.7
June	16.1	14.3	7.0	13.7
July	17.7	13.8	7.4	14.0
August	14.3	13.6	7.5	12.8
September	19.0	12.3	7.7	13.6
October	16.4	13.1	7.8	13.3
<b>Over 6 months at annual rate</b>				
	(sa)	(sa)	(ua)	
1986 May	7.1	14.5	4.8	
June	17.2	13.6	6.2	
July	18.8	12.7	7.3	
Aug	14.1	12.1	8.8	
September	28.4	8.2	10.0	
October	14.9	10.0	11.1	
<b><u>£mn changes</u></b>				
monthly average	(ua)	(ua)	(ua)	
1984-85	294	1053	266	
1985-86	568	1170	187	
monthly change	(sa)	(sa)	(ua)	
1986 May	-247	987	211	
June	2882	902	320	
July	1886	846	357	
Aug	-1154	1068	274	
September	4060	-494	230	
October	-2900	2033	290	

**Notes**

1. Total retail funds, including terms shares and SAYE.
2. Total inflows
3. April on April.

SECRET

TABLE 14

## BUILDING SOCIETY BALANCE SHEET FLOWS

(Unadjusted, £m)

		Assets				Liabilities				
		Total flow	Net Advances	Liquid assets	Fixed assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)	
1984*		1357	1214	120	(18.3)	23	714	387	148	108
1985*		1449	1193	239	(18.0)	17	592	495	205	157
1985	Q1*	501	1030	-548	(16.5)	19	504	354	-30	-327
	Q2*	1475	1219	241	(16.5)	15	508	583	112	272
	Q3*	1654	1157	479	(17.0)	18	590	384	157	523
	Q4*	2167	1367	783	(18.0)	17	766	660	581	160
1986	Q1*	858	1271	-431	(16.6)	18	740	462	187	-531
	Q2*	1587	1645	-74	(16.0)	16	478	522	230	357
	Q3*	1782	1884	-112	(15.1)	10	56	402	1104	220
	Oct	3293	1877	1406	(15.5)	10	1951	400	654	288

\* Monthly Averages  
 Figures in ( ) liquidity ratio, unadjusted end period.

## SECRET

Table 15 Monetary Aggregates: recent experience and forecast

	per cent				
	M0 (sa)	£M3 (ua)	(sa)	PSL2 (ua)	(sa)
<b>Monthly change to:</b>					
calendar Sept	0.6	3.1	3.0	1.7	1.3
calendar Oct	0.0	0.9	0.1	1.1	0.7
calendar Nov )	0.9*	1.6	1.4	0.7	0.9
calendar Dec ) forecast	0.3	1.2	1.3	1.4	1.0
calendar Jan )	0.2	-0.8	0.9	-0.1	0.8
<b>growth in 12 months to:</b>					
calendar Sept	4.8	18.7	19.5	15.2	14.8
calendar Oct	4.9	18.3	18.9	15.5	15.0
calendar Nov )	5.2*	18.6	19.4	15.3	14.9
calendar Dec ) forecast	4.3	19.4	20.1	15.6	15.0
calendar Jan )	4.8	18.7	19.1	14.6	14.1

\* provisional outturn

Table 16 M0 Forecast

	LEVELS £ MILLION			% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
	Notes (s.a) and coin	Bankers' Deposits	M0	Notes (s.a) and coin	M0	Notes (s.a) and coin	M0
<b>Actual</b>							
Aug	14,587	155	14,742	+0.8	+1.0	+4.2	+4.1
Sept	14,637	190	14,827	+0.3	+0.6	+4.4	+4.8
Oct	14,695	132	14,827	+0.4	+0.0	+4.8	+4.9
Nov	14,801	166	14,967	+0.7	+0.9	+5.2	+5.2*(+5.1)
<b>FORECAST</b>							
Dec	14,833	192	15,025	+0.3	+0.3	+4.3	+4.3*(+4.0)
Jan	14,858	192	15,050	+0.2	+0.2	+4.7	+4.8

\* Last month's forecast in brackets

TABLE 17

## MONTHLY CHANGES IN MONEY SUPPLY AND COUNTERPARTS

s.a, £ million

	FORECAST	OUTTURN	FORECASTS		
	OCTOBER		NOV	DEC	JAN
1. CG (OA) (SURPLUS-)	-121	-529	110	60	375
2. LABR	74	-7	255	245	395
3. PCBR	13	290	-25	-160	-90
	-----	-----	-----	-----	-----
4. PSBR (1+2+3)	-34	-246	340	145	680
5. NET PURCHASE (-) OF NON-BANK PRIVATE SECTOR					
GILTS	-1365	-1123	-600	50	-425
TREASURY BILLS		34			
NATIONAL SAVINGS	-246	-356	-360	-335	-260
CTDs etc	228	323	20	145	400
QPS DEBT	80	-190	-110	25	-115
	-----	-----	-----	-----	-----
TOTAL	-1303	-1312	-1050	-115	-400
6. EXTERNAL FINANCE THE PUBLIC SECTOR (-INCREASE)	-648	-553	75	60	-200
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	-1985	-2109	-635	90	80
8. STERLING LENDING TO U.K. NON-BANK PRIVATE SECTOR (INC. ID BILLS)	1971	3446	2500	2100	1800
9. PRIVATE NET EXTERNALS + NET NON-DEPOSIT					
LIABILITES	-1195	-1161	185	-305	-495
10. £M3 (7+8+9)	-1209	172	2050	1885	1385
(Unadjusted)	(-95)	(1284)	(2330)	(1902)	(-1429)
% change (sa)	-0.8	0.1	1.4	1.3	0.9
12 month % change (u/a)	17.4	18.3	18.6	19.4	18.7

TABLE 18  
BROAD AGGREGATES

	£million, (sa)			
	OCTOBER	NOVEMBER	DECEMBER	JANUARY
	1986	1986	1986	1987
PSBR	-246	340	145	680
Debt sales to nbps	-1312	-1050	-115	-400
External and foreign currency finance of the public sector	-553	75	60	-200
Over(-)/under(+) funding	-2109	-635	90	80
Bank lending	3446	2500	2100	1800
Other Counterparts	-1161	185	-305	-495
£M3	172	2050	1885	1385
Building Societies				
Retail	2032	220	1120	1430
Wholesale	269	200	100	100
Liquid Assets	-567	-100	-370	-500
Other	-138	110	-95	-185
PSL2	1768	2480	2640	2230
(ua)	(2982)	(1964)	(3787)	(-373)
% change (sa)	0.7	0.9	1.0	0.8
12 month % change(ua)	15.5	15.3	15.6	14.6

TABLE 19: NOMINAL AND REAL INTEREST RATES

		NOMINAL RATES				REAL RATES				
		Three month interbank	Three month Eurodollar	Base Rate	Long Rate (20 year Gilts)	Expected inflation over 12 months*	Real 3-month interbank rate	Yield on Index-linked Gilts**		
								1988	1996	2011
1983	(1)	11.1	9.2	10.8	11.5	6.3	4.8	2.7	2.6	2.5
	(2)	10.2	9.4	10.0	10.5	6.2	4.0	3.7	3.2	2.7
	(3)	9.8	10.1	9.5	10.9	6.3	3.5	4.2	3.6	3.1
	(4)	9.4	9.9	9.0	10.4	6.0	3.4	3.7	3.5	3.0
1984	(1)	9.2	10.1	8.9	10.3	5.8	3.4	4.1	3.6	3.2
	(2)	9.3	11.4	8.9	10.9	5.6	3.4	4.8	3.8	3.3
	(3)	11.1	11.7	11.0	11.2	5.5	3.7	5.6	4.4	3.7
	(4)	10.1	9.8	10.0	10.6	5.6	4.5	4.7	3.8	3.2
1985	(1)	13.0	8.9	12.9	10.9	5.7	7.1	5.0	3.7	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	7.0	4.7	4.0	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.4	4.8	4.1	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.5	4.3	4.0	3.6
1986	(1)	12.4	7.8	12.3	10.2	3.9	8.4	5.0	4.3	3.8
	(2)	10.2	6.9	10.4	9.0	3.6	6.6	3.7	3.8	3.4
1985	September	11.6	8.2	11.5	10.4	5.3	6.3	4.8	4.0	3.5
	October	11.5	8.2	11.5	10.2	4.4	7.1	4.4	3.9	3.4
	November	11.6	8.1	11.5	10.4	4.1	7.5	4.3	4.0	3.6
	December	11.8	8.1	11.5	10.4	4.0	7.8	4.6	4.1	3.6
1986	January	12.8	8.1	12.3	10.8	4.0	8.8	5.0	4.4	3.8
	February	12.6	7.9	12.5	10.4	3.9	8.7	5.0	4.3	3.8
	March	11.6	7.5	12.0	9.4	3.8	7.8	4.9	4.3	3.7
	April	10.5	6.8	11.0	8.7	3.6	6.9	3.5	4.2	3.5
	May	10.2	7.0	10.3	9.0	3.5	6.7	3.5	3.6	3.3
	June	9.8	7.0	10.0	9.2	3.6	6.2	4.0	3.5	3.3
	July	10.0	6.6	10.0	9.3	3.6	6.2	4.1	3.8	3.5
	August	9.9	6.0	10.0	9.4	3.3	6.6	3.8	3.8	3.5
	September	10.2	6.0	10.0	10.3	3.4	6.8	4.5	3.9	3.6
	October	11.2	6.0	11.0	10.6	4.2	7.0	4.9	4.2	3.7
	November 28	11.4	6.1	11.0	10.8	4.2	7.2	3.7	4.3	3.8

\* Unweighted average of forecasts by Phillips and Drew, National Institute and the London Business School; the expected rate of inflation for a given month is the change in the price level between six months earlier and six months ahead. This is assumed to approximate roughly to average inflation expectations over the three months immediately ahead.

\*\* Average of yields calculated for each Friday of month or quarter. Assumes inflation averages 5 per cent per annum to redemption. Date of redemption for 1988 Gilt is 30 March 1988.

TABLE 20: MONEY MARKET INFLUENCES

£ million  
not seasonally adjusted

	ACTUAL	Forecast		
	CAL OCT	CAL NOV	CAL DEC	CAL JAN
<b>A. <u>Money market influences</u></b>				
CGBR (increase +)	-242	+1045	+560	-3605
Reserves etc (+)	-202	+275	+260	0
Notes and coin (-)	-431	-235	-310	+645
National Savings (-)	-290	-340	-295	-285
CTDs (-)	+214	-180	-	+1340
Gilts (-)	-1548	-750	-150	-525
Other Exchequer items etc	+347	-	-	-
	-----	-----	-----	-----
TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	-2152	-185	+65	-2430
	-----	-----	-----	-----
<b>B. <u>Money market operations</u></b>				
Commercial bills (purchase +)				
- Issue Department	+1597			
- Banking Department	+156			
LA bills (purchase +)				
- Issue Department	+152			
- Banking Department	+4			
Treasury bills (purchase +)	+231			
Market advances	-52			
Export Credit Repos	-			
Gilt Repos	-			
Other				
	-----	-----	-----	-----
TOTAL MONEY MARKET OPERATIONS	-2088	+185	-65	+2430
	-----	-----	-----	-----
Change in bankers balances	-64			
TOTAL ASSISTANCE OUTSTANDING*	+10247	+10432	10367	12797
of which commercial bills				
* excluding Treasury bills				

TABLE 21

		EXCHANGE RATES							
		Exchange Rate Index*	Real Exchange Rate	ERI/(Oil Price Adjusted) ERI ratio <sup>†</sup>	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currencies*	US-UK Interest rate differential	Brent spot price (\$/bl)
1983	(1)	80.6	108.5	1.002	1.53	3.69	92.4	+1.9	29.1
	(2)	84.3	114.8	1.043	1.55	3.86	100.0	+0.8	29.7
	(3)	84.9	114.7	1.042	1.53	3.94	103.4	-0.3	30.9
	(4)	83.2	112.5	1.035	1.47	3.93	102.9	-0.5	29.6
1984	(1)	81.7	110.5	1.012	1.44	3.87	101.9	-0.9	29.7
	(2)	79.8	109.2	0.988	1.40	3.78	99.6	-2.1	29.7
	(3)	78.0	106.9	0.979	1.30	3.78	99.5	-0.6	28.5
	(4)	75.0	103.7	0.946	1.21	3.72	97.5	+0.3	28.6
1985	(1)	72.1	100.2	0.908	1.12	3.63	95.2	+4.4	27.7
	(2)	78.9	111.4	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	117.7	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	116.2	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	112.0	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	118.0	1.101	1.51	3.39	91.4	+3.3	12.8
	(3)	71.9	112.1	1.049	1.5	3.1	84.9	(+3.7)	12.4
1985	September	81.4	117.0	1.026	1.37	3.87	102.9	+3.4	27.7
	October	80.4	116.4	1.006	1.42	3.76	100.0	+3.3	28.5
	November	80.0	116.5	0.990	1.44	3.73	99.3	+3.5	29.7
	December	79.1	115.8	1.006	1.45	3.63	96.9	+3.7	26.6
1986	January	76.6	111.7	1.015	1.42	3.47	92.9	+4.7	22.1
	February	74.2	111.0	1.019	1.43	3.33	89.3	+4.7	17.3
	March	74.6	113.4	1.078	1.47	3.33	89.0	+4.1	13.8
	April	76.3	117.4	1.114	1.50	3.40	91.8	+3.7	12.4
	May	76.1	118.5	1.088	1.52	3.39	91.4	+3.2	14.1
	June	75.9	118.1	1.110	1.51	3.37	91.0	+2.8	11.9
	July	74.0	115.7	1.109	1.51	3.2	88.1	+3.4	9.6
	August	71.4	113.7	1.033	1.5	3.1	84	+3.6	13.5
	September	70.4	107.0	1.004	1.5	3.0	82.6	+4.2	14.2
	October	67.8	105.4	0.971	1.43	2.86	78.8	+5.2	13.9
	28 November	68.1		0.970	1.44	2.84	78.2	+5.3	14.6

<sup>†</sup> Oil price adjusted ERI has same inflation implications as does an ERI of 80 given an oil price of \$29 (their average values for January 1983 - November 1985)

\* 1975=100

TABLE 22 CURRENT ACCOUNT

Percentage Change On Previous Year

	Export Volume less oil and erratics	Import Volume less oil and erratics	Terms* of Trade(AVI) 1980=100	Current balance £mn
1982	0.1	8.6	1.2	3938
1983	-1.1	9.5	-0.5	3133
1984	9.6	11.0	-2.1	1212
1985	6.9	4.2	1.7	3602
1985 Q1	11.4	7.0	-2.4	-22
2	9.6	5.1	-0.2	1566
3	7.1	2.4	3.8	1447
4	0.2	2.4	6.0	612
1986 Q1	-3.0	2.9	2.6	619
2	-0.3	2.8	4.0	379
3	2.3	8.5	-1.8	-634
Jan	-2.8	0.9	3.5	1076
Feb	-3.0	2.3	2.9	185
Mar	-2.8	5.6	4.6	-642
Apr	-2.4	-1.5	-0.7	385
May	-0.3	7.5	2.7	-29
Jun	2.0	2.6	0.6	23
Jul	2.4	5.3	1.2	164
Aug	-0.9	11.3	-2.0	-714
Sep	5.6	9.0	-2.1	-85
Oct	7.6	6.6	-2.7	65

\* excluding oil and erratics

SECRET

## TABLE 23

## GOVERNMENT SHARE SALES : TIMETABLE

1986

21 November (Lists Day: 3 December)	BGC I
-------------------------------------	-------

1987

27 January (Lists Day: 6 February*)	BA I
-------------------------------------	------

6 May (Lists Day: 13 May)	Rolls Royce <sup>+</sup>
---------------------------	--------------------------

9 June	BGC II
--------	--------

30 June (Lists Day: 7 July)	BAA <sup>+</sup>
-----------------------------	------------------

18 August	BA II
-----------	-------

8 September	TSB II
-------------	--------

October (first half)	BP I
----------------------	------

\* Lists Day could be 4 5, or 6 February

<sup>+</sup> No decision on whether more than one call

SECRET

**SECRET**

FROM: A C S ALLAN  
DATE: 4 December 1986

SP

SIR P MIDDLETON

cc: Mr Cassell

**PAPER FOR THE PRIME MINISTER**

You discussed with the Chancellor this morning the shape of a paper for the Prime Minister analysing of monetary conditions and how they have been developing. The specific points which the Chancellor thought should be covered were:

- (i) A description of how M0 growth has accelerated during the year - covering not just the monthly figures, but also three-month and six-month figures.
  - (ii) The gap between UK and overseas real interest rates (apparently the Prime Minister believes this has widened recently).
2. The Chancellor subsequently rang me with a few other points:
- (i) He felt this should be a joint Bank/Treasury paper.
  - (ii) It would be worth including a mention that if we put up interest rates, the improvement in market sentiment would enable us to replenish the reserves.
  - (iii) It would be worth considering whether to include a discussion on whether we see interest rates going up and staying up, or going up and later coming down - and if so when.
  - (iv) It would also be worth covering the market tactics, and in particular the point that raising interest rates before Christmas would be designed to help pre-empt the usual market problems in January.

SECRET



3. The Chancellor said he would be very grateful if you could get as full a draft as possible ready for his weekend box. I realise it will not be possible to clear anything with the Bank by then.

A handwritten signature in black ink, appearing to read "A C S Allan", with a long horizontal stroke extending to the right.

A C S ALLAN

RUP

CONFIDENTIAL

FROM: T PIKE  
4 December 1986

- 1. MR GRICE JW G 4/12/86
- 2. ECONOMIC SECRETARY

- cc PS/Chancellor
- Sir P Middleton
- Sir G Littler
- Sir T Burns
- Mr Cassell
- Mr Peretz
- Mr Scholar
- Mrs Lomax
- Mr C W Kelly
- Mr Richardson
- Mr Heath

*(Handwritten red checkmark)*

**M0 FIGURES**

The latest weekly figures for M0, covering the first week of December, are attached. They show that in the latest four week period, M0 grew at an annual rate of 5.3 per cent. Notes and coin continue to grow strongly. (The 12 month growth rates in December so far are artificially low because, by convention, we make comparisons with the whole of the calendar month a year ago and the December figures last year were abnormally high.)

First Guess estimates of M0 in November will be available next week.

*(Handwritten signature: T. Pike)*

T PIKE

## CONFIDENTIAL

## MO, THE WIDE MONETARY BASE

Calendar months (weekly averaged*)	Levels £ million (changes in brackets)						% change on previous month		% change on year earlier	
	Notes (s.a.) and coin		Bankers' deposits		MO		Notes (s.a.) and coin	MO	Notes (s.a.) and coin	MO
April	14,242	(-29)	167	(-14)	14,409	(-43)	-0.2	-0.3	+2.8	+2.8
May	14,332	(+90)	208	(+41)	14,540	(+131)	+0.6	+0.9	+3.2	+3.5
June	14,407	(+75)	185	(-23)	14,592	(+52)	+0.5	+0.4	+3.3	+3.2
July	14,471	(+64)	129	(-56)	14,600	(+8)	+0.4	+0.1	+3.6	+3.2
August	14,587	(+116)	155	(+26)	14,742	(+142)	+0.8	+1.0	+4.2	+4.1
Sept	14,637	(+50)	190	(+35)	14,827	(+85)	+0.3	+0.6	+4.4	+4.8
Oct	14,695	(+58)	132	(-58)	14,827	(0)	+0.3	0.0	+4.8	+4.9
Nov	14,801	(+106)	166	(+34)	14,967	(+140)	+0.7	+0.9	+5.2	+5.2
Dec (1 out of 5)	14,891	(+90)	127	(-39)	15,017	(+50)	+0.6	+0.3	+4.8	+4.2
Latest 4 weeks <sup>f</sup>	14,831	(+99)	155	(+24)	14,986	(+123)	+0.7	+0.8	+5.1	+5.3

## Weekly data

% change  
on previous week  
MO

## Calendar November

November	5th	14,773	(+26)	172	(-52)	14,945	(-25)	-0.2
	12th	14,783	(+10)	164	(-8)	14,947	(+2)	+0.0
	19th	14,812	(+29)	215	(+51)	15,028	(+81)	+0.5
	26th	14,837	(+25)	114	(-101)	14,951	(-77)	-0.5

## Calendar December

	3rd	14,891	(+54)	127	(+12)	15,017	(+66)	+0.4
--	-----	--------	-------	-----	-------	--------	-------	------

\* Except coin and unbacked issue

<sup>f</sup> Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

FROM: ROBERT CULPIN  
DATE: 5 DECEMBER 1986

CHANCELLOR

cc Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Peretz  
Mr Pickford

MO

I don't know if journalists are any better at reporting the City than the Treasury. But I am told by a couple that one current buzz is this:

- MO is growing faster
- MO was a trigger for the last interest rate rise
- so watch out.

This is the first time I can remember any of my customers citing MO in this sense.



ROBERT CULPIN

*Notes:  
Int'l. ✓*

psl/8A

UNCLASSIFIED



*psl*

FROM: A C S ALLAN

DATE: 9 December 1986

MR CULPIN

cc Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Pickford

MO

The Chancellor was grateful for your interesting minute of 5 December.

*ACSA*

A C S ALLAN

SECRET AND PERSONAL

FROM: P H BROOK  
DATE: 9 December 1986

1. MR KELLY <sup>صك</sup> 9.12.  
2. CHANCELLOR

cc: Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Grice  
Mr Richardson  
Mr Pike  
Mr Heath  
Mr Ross Goobey

Ch  
Bank lending £1.9bn (sa)  
versus £3.4bn (sa) in October.  
Average over last year is £2.2bn.  
AA

Thanks: I am with chair of  
of B&C, now  
what offer  
was expect  
2 to  
JRC  
minutes.

### MONEY SUPPLY IN NOVEMBER: "FIRST GUESS"

(All figures are unadjusted unless specified otherwise)

This note summarises the Bank's "first guess" at the money supply figures for November.

#### Summary

2. The growth rate of M0 to November was 5.2 per cent (5.3 per cent seasonally adjusted), in line with expectations. In November M0 rose by 1.0 per cent (1.0 per cent seasonally adjusted).

3. The annual growth rate of £M3 to November is estimated to be 18.4 per cent. This suggests that the final outturn will be in the range 18.3 to 19.1 per cent compared with a forecast of 18.6 per cent. In November £M3 is estimated to have increased by 1.5 per cent (1.3 per cent seasonally adjusted). On this basis the final outturn is estimated to be in the range 1.3 to 2.1 per cent (1.1 to 1.9 per cent seasonally adjusted). It should be noted that the "first guess" had consistently underestimated the growth of £M3 over the six months prior to banking September.

SECRET AND PERSONAL

Table 1: Monetary Aggregates - November

	per cent	
	<u>MO</u>	<u>£M3</u>
<u>Target range</u>	2-6	11-15
<u>Annual growth rate</u>		
First guess	5.2 (5.3)	18.4
Likely outturn	5.2 (5.3)	18.3-19.1
<u>Change in month</u>		
First Guess	1.0 (1.0)	1.5 (1.3)
Likely outturn	1.0 (1.0)	1.3-2.1 (1.1-1.9)

NB Figures in brackets are seasonally adjusted

£M3 components

4. The outturn in calendar November is affected by the British Gas share sale. Application forms were posted to potential subscribers on 25 November, but applications could be made up to 10am on Wednesday 3rd December. In total, applications by the UK public amounted to some £3.2 billion for shares worth only £1.3 billion in partly paid form (the remaining shares, worth £0.7 billion in partly paid form, were taken up by UK institutions and overseas investors). It is not possible to estimate to what extent applicants had built up funds by end-November, but comparing the increase in deposits in the final 10 days of the month with the average "end month surge" suggests substantially increased deposits (SID) by British Gas applicants at end November of £1/2 billion to £1 billion.

5. Among the components of £M3, notes and coin increased by 410, and private sector non-interest-bearing sight deposits increased by 530. Private sector interest bearing sight deposits increased by 1160. Private sector time deposits (including CDs) decreased by 130.

£M3 counterparts

6. Table 2 (attached) compares £M3 counterparts in the first guess with the average monthly change over the twelve months to October.

7. Overall the growth of £M3, even with the effects of BGC, is not out of line with recent months. The "PSBR" is estimated at £440 million, somewhat lower than average. Central Government net debt sales, to the nbps, at £1,120 million ~~are~~ higher than the average over the previous 12 months of around £520 million. Sterling lending at £1,330 million is lower than the average over the previous year, which is about £2,200 million. However, seasonally adjusted sterling lending is increased by £590 million to £1,920 million.

8. At this stage, the division between NNDLs and private externals <sup>is</sup> complicated by the treatment of the residual error, which is included in NNDLs. But the externals and NNDLs taken together were expansionary by £1,860 million compared with an average contractionary influence over the previous 12 months of £317 million.

9. Wide overfunding was £950 million.

Timetable

10. We hope to receive provisional November figures on Tuesday 16 December, and they will be published on Thursday 18 December. Full money and banking figures will appear on Wednesday 31 December.

11. I am sending a copy of this minute to Mr Norgrove at No 10 Downing Street on a personal basis.



P H BROOK

TABLE 2 : CALENDAR NOVEMBER 1986

"First guess" compared with average monthly change in the last year

£ millions, unadjusted		
	FIRST GUESS	AVERAGE MONTHLY CHANGE IN YEAR TO OCTOBER
CGBR (0) (ex bank deposits)	+820	+457
Other public sector: LABR <sup>+</sup>	-30	+70
PCBR	-350	-5
OPS debt sales	-	+195
	-----	-----
	-380	+260
CG debt: Gilts	NA	-314
Treasury Bills	NA	)
National Savings	NA	) -209
CTD's etc.	NA	)
	-----	) -----
	-1,120	-523
External and fc. finance of the public sector	-280	-147
Sterling lending to UK private sector (inc. Issue Dept, commercial bills)	+1,330	+2,180
Net private externals **	-440	)
Residual (includes NNDLs** and reporting differences)	+2300	) -317
	-----	) -----
£M3	+2,240	+1910
	-----	-----
(Monthly percentage change)	(+1.5%)	(+1.4%)
(12 Month percentage change)	(+18.4%)	(+1.4%)
Wide over(-)/underfunding(+)	-950	+47

-----

+ Modified local authority contribution in November

\* As circulated in Mr Grice's "Monetary Prospects" submission of 2 December 1986.

\*\* For the first guess, foreign currency NNDLs cannot be separately identified and are included with £NNDLs and the residual. In the forecast they are attributed to the Externals, in line with the convention used for the published figures.



Ch

Provisional money numbers show same annual growth rate as first guess (£M3 18.4%, M0 5.2%). But major upward revision to bank lending:

<u>£bn</u>	ua	sa
First guess	1.3	1.9
Provisional	3.4	4.0

(cf average over last 12 months of £2.2bn)

Seems to be US of special factors (it's almost all non-retail), but nonetheless will shake out.

Gov may raise at lunch, in any discussion about market

AA

BR 16/12



FROM: A C S ALLAN

DATE: 10 December 1986

MR BROOK

cc PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Grice  
Mr Kelly  
Mr Richardson  
Mr Pike  
Mr Heath  
Mr Ross Goobey

**MONEY SUPPLY IN NOVEMBER: "FIRST GUESS"**

The Chancellor was grateful for your note of 9 December. He noted that you estimated the increased deposits by British Gas applicants might have amounted to £½ billion and £1 billion. Is this your estimate of the net impact on £M3? He would also be grateful for your estimates of what we expect the effects on the December money numbers to be.

ACSA

A C S ALLAN

CONFIDENTIAL

FROM: T PIKE  
DATE: 11 DECEMBER 1986

1. MR GRICE ✓
2. ECONOMIC SECRETARY

cc: PS/Chancellor  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Scholar  
Mrs Lomax  
Mr C W Kelly  
Mr Richardson  
Mr Heath

Notes and coin, seasonally adjusted, showed a welcome fall in the last week. But it is too early to attach any great significance to this.

JWA 11.12.86 ✓✓

#### M0 FIGURES

The latest weekly figures for M0, covering the second week of December, are attached. They show that in the latest four week period, M0 grew at an annual rate of 5.4 per cent.

T. Pike

T PIKE

## CONFIDENTIAL

## MO, THE WIDE MONETARY BASE

Calendar months (weekly averaged*)	Levels £ million (changes in brackets)				MO		% change on previous month		% change on year earlier	
	Notes (s.a.) and coin		Bankers' deposits				Notes (s.a.) and coin	MO	Notes (s.a.) and coin	MO
April	14,242	(-29)	167	(-14)	14,409	(-43)	-0.2	-0.3	+2.8	+2.8
May	14,332	(+90)	208	(+41)	14,540	(+131)	+0.6	+0.9	+3.2	+3.5
June	14,407	(+75)	185	(-23)	14,592	(+52)	+0.5	+0.4	+3.3	+3.2
July	14,471	(+64)	129	(-56)	14,600	(+8)	+0.4	+0.1	+3.6	+3.2
August	14,587	(+116)	155	(+26)	14,742	(+142)	+0.8	+1.0	+4.2	+4.1
Sept	14,637	(+50)	190	(+35)	14,827	(+85)	+0.3	+0.6	+4.4	+4.8
Oct	14,695	(+58)	132	(-58)	14,827	(0)	+0.3	0.0	+4.8	+4.9
Nov	14,811	(+116)	166	(+34)	14,977	(+150)	+0.8	+1.0	+5.3	+5.3
Dec (2 out of 5)	14,869	(+58)	158	(-8)	15,027	(+30)	+0.4	+0.3	+4.6	+4.3
Latest 4 weeks <sup>†</sup>	14,849	(+92)	162	(+9)	15,011	(+101)	+0.6	+0.7	+5.2	+5.4

## Weekly data

% change  
on previous week  
MO

## Calendar November

November	5th	14,773	(+26)	172	(-52)	14,945	(-25)	-0.2
	12th	14,783	(+10)	164	(-8)	14,947	(+2)	+0.0
	19th	14,812	(+29)	215	(+51)	15,028	(+81)	+0.5
	26th	14,837	(+25)	114	(-101)	14,951	(-77)	-0.5

## Calendar December

	3rd	14,908	(+72)	107	(-8)	15,015	(+64)	+0.4
	10th	14,829	(-80)	210	(+103)	15,039	(+24)	+0.2

\* Except coin and unbacked issue

† Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

## SECRET AND PERSONAL

FROM: P H BROOK

DATE: 16 December 1986

1. MR ~~KELLY~~ <sup>CL</sup>  
 2. CHANCELLOR

cc: Economic Secretary  
 Sir P Middleton  
 Sir G Littler  
 Sir T Burns  
 Mr Cassell  
 Mr Scholar  
 Mr Culpin  
 Mr Peretz  
 Mr Grice  
 Mr Richardson  
 Mr Pike  
 Mr Heath  
 Mr Ross Goobey

*CL*  
*A few correct a press brief*

*I agree with you  
 Committee: who are in  
 two years ago.*

*AA*

## PROVISIONAL MONEY FIGURES - NOVEMBER

(All figures are unadjusted unless specified otherwise)

1. The provisional money supply figures for November will be published by the Bank at 11.30 am on Thursday 18 December. Because of further problems with the Bank's computer systems the figures are likely to be subject to revision.

## SUMMARY

2. The annual growth rate of M0 to November was 5.2 per cent, the same as estimated in the "first guess". This will appear in the press notice as "about 5½ per cent". In November M0 increased by 0.9 per cent (1.0 per cent seasonally adjusted), 0.1 per cent lower than the "first guess".

3. The annual growth rate of £M3 to November is estimated to be 18.4 per cent, as forecast in the "first guess". This will appear in the press notice as "18¼-18½ per cent". In November £M3 is estimated to have increased by 1.4 per cent (1.2 per cent seasonally adjusted), slightly below the estimate in the "first guess", but the same as the average over the previous 12 months.

4. Table 1 (overleaf) gives the implied growth rates in both

aggregates for November. Table 4 (attached) gives historical growth rates for these and other monetary aggregates for which data are available.

Table 1: Monetary Aggregates (provisonal)

Calendar month	Aggregate	Annual Growth rate	in Press Notice	per cent	
				1 month increase	in Press Notice
November	MO	5.2	"about 5 $\frac{1}{4}$ "	0.9 (1.0)	" $\frac{3}{4}$ -1" ("about 1")
	£M3	18.4	"18 $\frac{1}{4}$ - $\frac{1}{2}$ "	1.4 (1.2)	"1 $\frac{1}{4}$ - $\frac{1}{2}$ " ("about 1 $\frac{1}{4}$ ")

Nb figures in brackets are seasonally adjusted.

*I suppose they've always done this, but "1 $\frac{1}{4}$ - $\frac{1}{2}$ " makes me wonder why we don't just say 1.4.*

5. Sterling lending to the npbs increased by £3,410 million (£4,000 million seasonally adjusted) in November. This is well above the average level of sterling lending (about £2.2 billion) during the previous year. Higher figures for sterling lending were recorded in both June and March this year, but after seasonal adjustment sterling lending at £4,000 million is the highest for any calendar month for which data are available.

6. Figures for the growth of PSL2 are not yet available because of the slower timetable for receipt of calendar month data from building societies.

*Why?*

#### £M3 COMPONENTS

7. Table 2 (overleaf) shows the components of £M3 compared to the average growth over the previous 12 months.

Table 2: The Components of £M3

	£m unadjusted		
			growth in previous 12 months to October
	<u>November</u>	<u>Monthly rate</u>	<u>Percentage increase</u>
Notes and coins in circulation	295	58	5.6
Bank deposits			
retail a) non interest bearing	600	286	14.7
b) interest bearing	484	540	18.3
Wholesale	724	1027	22.8
Change in £M3	2103	1910	18.3

8. The outturn for £M3 in November is affected by the British Gas share sale. Application forms were posted to potential subscribers on 25 November, but applications could be made up to 10.00am on Wednesday 3 December. In total, applications by the UK amounted to some £3.2 billion for shares worth only £1.3 billion in partly paid form (the remaining shares, worth £0.7 billion in partly paid form, were taken up by UK institutions and overseas investors). It is not possible to estimate exactly to what extent applicants had built up funds by end-November, but comparing the increase in deposits in the final 10 days of the month with the average "end month surge" in deposits suggests that £M3 was swollen at end-November by £½ billion to £1 billion (ie 0.3% to 0.6% of the stock of £M3). Thus, in the absence of the British Gas sale, the increase in £M3 in November might have been in the range of 0.8% to 1.1% and the 12 month growth rate in the range 17.8% to 18.1%. The majority of the build up of deposits should be unwound during December although there may be a residual effect of up to £¼ billion at end-December.

9. Both the increase in notes and coins at £295 million and NIB sight deposits at £600 million, which will have been inflated by the British Gas issue, are higher than the average over the previous 12 months. Wholesale deposits have risen by £724 million,

somewhat less than the average during the last year.

### £M3 COUNTERPARTS

10. Table 3 (attached) compares the provisional counterparts of growth in £M3 with the average monthly change over the twelve months to October.

11. It is not possible to say to what extent the effects of the British Gas share sale are reflected in the individual counterparts. There is no direct benefit to the PSBR; sale proceeds are received in December. Applicants could have built up bank deposits by borrowing from banks or net selling of government debt, which would have obvious expansionary effects on the £M3 counterparts. But they might also have transferred funds from Building Societies, in which case the effect on the counterparts would depend upon the way the societies made good the loss of funds. Applicants who withdrew funds from societies in the form of cheques made out directly to the British Gas sale would have caused no immediate loss of funds to the societies, as the cheques would not have been presented at end-November (though societies might have built up precautionary liquidity against their subsequent presentation).

12. Of the counterparts, the PSBR is low at £56 million, net purchases of CG debt by the nbps is well above average at £938 million, LAs and public corporations repurchased £329 million of debt from the nbps and external finance of the public sector is more contractionary than the average over the last year at £341 million. Taken together these give a total for wide overfunding in November of £894 million. In the current financial year to end-November the PSBR was overfunded by £70 million.

13. Sterling lending is high at £3,413 million (£4,000 million after seasonal adjustment). Advances were very strong at £2,320 million, compared to £960 million in October. Of this £2,030 million was accounted for by non-retail banks and only £300 million by retail banks. This adds to the difficulty in explaining the high bank lending figure. For example it would seem to suggest that it was not mortgage lending/consumer credit;

and that although borrowing by British Gas subscribers in advance of the issue may have increased the level of advances, direct borrowing for this purpose is unlikely to have been particularly significant. Advances by non-retail banks are known to include one special factor. One bank took some £300 million of loans into its balance sheet from its non-bank parent, offset by a corresponding increase in its capital. Lending to money brokers and gilt edged market makers rose strongly by £360 million.

14. Apart from these particular factors, the high figure may more generally reflect the contractionary public sector and other counterparts. Taken together NNDLs and externals at £416 million were slightly more contractionary than the average over the previous 12 months.

#### PRESENTATION OF FIGURES

15. Commentators' forecasts of the November money figures are fairly wide spread, particularly as far as £M3 is concerned, but not nearly as erratic as last month. Commentators' have generally continued to estimate on a seasonally adjusted basis, in order to draw comparison, paragraphs 17 and 18 of this note concentrate more on seasonally adjusted figures than hitherto.

16. The annual growth rate of M0 has increased for the fourth successive month and now stands at 5.2 per cent compared to 3.2 per cent in July. Annual growth is also at the top end of the range of commentators' forecasts which were generally between  $4\frac{3}{4}$  and  $5\frac{1}{4}$  per cent. There is some evidence that commentators' may be beginning to pay more attention to M0, as Mr Culpin suggests in his minute of 5 December. The fact that M0 is now growing towards the top end of its target range might therefore be expected to attract some adverse comment, though most of the information about M0 growth in November is already available.

17. The annual growth of £M3 at 18.4 per cent is only slightly higher than last month and about the same as the average over the last six months. The seasonally adjusted annual growth rate at 19.1 per cent is well within the spread of commentators' forecasts which range between about  $17\frac{3}{4}$  and  $19\frac{3}{4}$  per cent. The

SECRET AND PERSONAL

£M3 figures in themselves should not therefore be particularly unfavourably received even though growth remains well above the target range.

18. As was the case last month, what may attract attention is the continued high level of sterling lending. At £3.4 billion sterling lending is well above the average in recent months. The seasonally adjusted figure for lending of £4 billion is the highest for any month for which calendar data are available. It is also well above commentators' forecasts which were generally in the range £2-2¼ billion.

19. After good net debt sales in both November and October and low PSBR figures the authorities' funding position will now appear very favourable. The funding news lifted the gilts market a month ago, and might lighten some of the gloom again this time.

20. The attached draft press briefing has been discussed in draft with Mr Cassell and Sir Peter Middleton. As you will see it avoids any comment on whether conditions are loose or tight, and sticks to the line that all indicators of monetary conditions continue to be monitored and that corrective action will be taken if necessary. We may need to look at it again in the light of the final text of your speech tomorrow.

PRESS BRIEFING

21. The Bank's draft press notice for publication at 11.30<sup>am</sup> on Thursday 18 December is attached.

22. Can I please have comments on the draft press notice by lunchtime on Wednesday 17 December, and on the draft press briefing by close on that day.



P H BROOK

cc: Mr Norgrove No 10 (Personal)  
B of E  
Mr George  
Mr Mann (Fin Stats)

TABLE 3: PROVISIONAL STERLING M3 IN

NOVEMBER 1986

£ million *unadjusted*

<u>DOMESTIC COUNTERPARTS</u>		<u>Provisional</u>	<u>Previous 12 months monthly average<sup>1</sup></u>
CGBR:	own account	+758	+458
	on-lending to LAs	-65	+541
	on-lending to PCs	-189	72
		<u>+504</u>	<u>1071</u>
Other public sector:	Local Authorities	} -448	-472
	Public Corporations		-77
	PC currency deposits		-
		<u>-448</u>	<u>-549</u>
OPS debt sales to nbps		<u>+329</u>	<u>+195</u>
Net purchases of CG debt by non-bank private sector (inc -):			
	Gilts	-582	-315
	Treasury bills	+27	)
	National Savings	-281	)
	Certificates of tax deposit	-102	) -209
	Other	-	-
		<u>-938</u>	<u>-524</u>
External and fc finance of public sector		-341	-142
Sterling lending to the private sector:			
	Bank lending to private sector	+2102	
	Issue Department Commercial bills <sup>2</sup>	+1311	
		<u>+3413</u>	<u>+2200</u>
Sub-total: Domestic Counterparts plus external and fc finance of the public sector		<u>+2519</u>	<u>+2251</u>
<u>EXTERNAL COUNTERPARTS<sup>3</sup></u>			
External and foreign currency finance			
	£ deposits net from banks abroad (inc -)	-688	
	Other overseas £ deposits (inc -)	+143	
	£ lending to overseas non-banks	+9	
	Banks' net foreign currency liabs (inc -)	+731	
	Foreign Currency net non-dep liabilities	-156	
		<u>+39</u>	<u>-341</u>
<u>NET NON-DEPOSIT LIABILITIES (inc -)</u>		<u>-455</u>	<u>-341</u>
<u>STERLING M3</u>		<u>+2103</u>	<u>1910</u>
(monthly % change)		(1.4%)	(+1.4%)
OVER(-)/UNDERFUNDING(+) <sup>4</sup>		-894	+51

1 12 months to October 1986.

2. This increase more than offset a reduction in Banking department holdings.  
Total holdings by the Bank rose £1149 million.

3. Excluding external flows to the public sector.

4. Wide definition.

SECRET

TABLE 4

## 1986 KEY AGGREGATES

## TARGET AGGREGATES

	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV
<u>£M3</u>									
(Exc Public sector deposit)									
Monthly change (£ million)	+5662	+1005	+4442	+1282	+1449	+364	+4361	1304	2103
Monthly % change	+4.4 (+3.5)	+0.8 (+1.1)	+3.3 (+3.1)	+0.9 (+0.9)	+1.0 (+0.8)	+0.3 (+0.3)	+3.1 (+3.0)	+0.9 (+0.1)	+1.4 (+1.2)
12 Monthly % change	+16.7	+17.5	+19.1	+18.6	+18.2	+16.3	+18.7	+18.3	+18.4
<u>MO</u>									
Averaged weekly									
Monthly change (£ million)	186	72	160	-60	243	136	-86	-77	134
Monthly % change	+1.3 (+0.5)	+0.5 (-0.3)	+1.1 (+0.9)	-0.4 (+0.4)	+1.7 (+0.1)	+0.9 (+1.0)	-0.6 (+0.6)	-0.5 (0.0)	+0.9 (+1.0)
12 Monthly % change	+4.1	+2.1	+3.7	+3.2	+3.1	+4.1	+4.8	+4.9	+5.2
<u>OTHER AGGREGATES</u>									
<u>NIBMI</u>									
Monthly change (£ million)	+1005	-123	943	767	485	-45	2607	-1985	895
Monthly % change	+2.8 (-1.0)	-0.3 (-0.1)	+2.5 (+1.7)	+2.0 (+3.0)	+1.3 (+0.5)	-0.1 (-0.2)	+6.7 (+8.3)	-4.7 (-6.3)	+2.2 (+1.0)
12 Monthly % change	+4.2	+5.0	+7.1	+9.6	+10.7	+8.9	+16.0	+11.6	+9.6
<u>M1</u>									
Monthly change (£ million)	+2855	159	+2151	+1616	+1466	+221	+3166	-278	2138
Monthly % change	+4.6 (+2.2)	+0.2 (+0.4)	+3.3 (+2.9)	+2.4 (+2.8)	+2.1 (+1.8)	+0.3 (+0.3)	+4.5 (+5.3)	-0.4 (-1.2)	+2.9 (+2.3)
12 Monthly % change	+19.6	+20.1	+20.8	+21.5	+23.3	+20.6	+24.2	+23.4	+23.0

NB Figures in brackets are seasonally adjusted.

SECRET

SECRET AND PERSONAL  
UNTIL 11.30 AM ON THURSDAY 18 DECEMBER 1986

**MONEY SUPPLY IN NOVEMBER: PRESS BRIEFING**

**LINE TO TAKE**

*within target range though*  
M<sup>0</sup> towards the top end [of its target range]. Growth of broad money and bank lending remains difficult to interpret. Exchange rate slightly above level before last base rate rise. Continue to monitor all indicators of monetary conditions carefully. Will not hesitate to act *if necessary.*

*we judge it*

**A. FACTUAL**

See Bank's press notice. Additional points for use:

- (i) **Policy:** see statements on monetary policy in Chancellor's Lombard Association, Mansion House and House of Commons (17 December) speeches.
- (ii) *within target range though*  
**M<sup>0</sup>:** towards the top end [of its 2-6 per cent target range.]
- (iii) **£M3:** growth remains high but difficult to interpret. Twelve month growth rate about the same as the average since early summer. November figure likely to have been increased by  $\frac{1}{4}$ - $\frac{1}{2}$  per cent by build-up of deposits in advance of British Gas issue.
- (iv) **Sterling lending:** well above the average in recent months (£4 billion seasonally adjusted highest monthly figure recorded). May in part reflect special factors and is unusually concentrated in non-retail banks. Financial developments make it increasingly difficult to read meaning into behaviour of individual counterparts.

SECRET AND PERSONAL  
UNTIL 11.30 AM ON THURSDAY 18 DECEMBER 1986

(v) **Funding:** in the first 8 months of the financial year 1986-87 the PSBR totalled £5.7 billion. Sales of debt outside the monetary sector and external finance of the public sector totalled [£5.8] billion. The PSBR was therefore <sup>(approximately fully)</sup> ~~over-funded~~ ~~by~~ ~~about~~ ~~£70 million~~ in this period.

(vi) **Exchange rate:** recent firming of exchange rate <sup>(possibly)</sup> probably reflects rise in oil price.

(vii) **Seasonal adjustment:** dangers in using seasonally adjusted figures stressed in Bank article released with October figures - "seasonal adjustments applied to calendar month figures will be less reliable than those for banking months have been. Moreover they will be subject to greater revisions .... They should therefore be used with considerable caution."

*or omit ✓  
(mainly a \$ wrt,  
with in strk  
to \$)*

B. POSITIVE

(i) **Overall Strategy:** Experience confirms value of clear commitment to MTFs and ultimate objective of lower inflation. Record on money GDP and on inflation (around 3.5 per cent and expected to stay low) demonstrates success of strategy.

(ii) **Other countries:** Most other countries now operate in very similar way.

C. DEFENSIVE

(i) **£M3 annual growth well above target range published in 1986 MTFs.** £M3 increasingly erratic indicator; growth difficult to interpret. Affected by changes in financial system over recent years. Uncertainties over £M3 and reasons for choice of 1986-87 range explained by Chancellor in Lombard Association

*Need something on line: M3 growth accelerating?  
Will continue to monitor growth of M3 carefully,  
alongside other indicators. Will cut supply if we judge  
it necessary.*

speech and Governor in Loughborough lecture. Need to weigh developments in £M3 carefully against other evidence (including PSL2 measure of broad money).

- (ii) £M3 should be dropped? Decision on broad money target will be taken at time of Budget as usual. No decision yet taken. Both Chancellor (on a number of occasions) and Governor in Loughborough lecture have drawn attention to the difficulties in interpreting changes in broad money stock. Commitment to firm fiscal and monetary policy unchanged. That policy has brought combination of low inflation and sustained growth.
- (iii) Credit growth inflationary/credit boom? No evidence that high rate of lending is leading to excessive laxity of monetary conditions. Every sign that people holding the increased amount of broad money quite willingly. So long as this is so, its growth is not inflationary. Government remains committed to securing monetary conditions that keep steady downward pressure on inflation. Short term interest rates held at level to secure this.
- (iv) Personal debt Ratio of personal debt to personal income has risen. But rise matched by similar growth in personal holdings of liquid assets. Personal debt ratio still below comparable figure in US.
- (v) Funding policy Same as announced in 1985 Mansion House speech "to fund the PSBR over the year as a whole no more, no less". (Not a full fund every month - impracticable - so temporary over/under funding will occur).

- (vi) Experience with targets in other countries Financial innovation and behavioural changes have caused similar difficulties in other countries in interpreting monetary statistics. In Germany CBM is overshooting for the first time since 1978; M1 and M2 are overshooting in US, as is M3 in France.
- (vii) Interest rates Base rates 11 per cent. Down 1½ per cent since Budget despite recent rise.
- (viii) Government wishes both to prevent interest rates from rising and exchange rate from falling Government's objective is to maintain monetary conditions necessary to keep downward pressure on inflation. Involves neither interest rate nor exchange rate target. Of course do not want interest rates any higher than necessary but will not hesitate to act decisively should circumstances require it. Chancellor made views on exchange rate clear most recently in 'Better Made in Britain' speech, 2 December.

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES:  
CALENDAR NOVEMBER 1986

Preliminary information suggests that, in the 12 months to end-November 1986, M0 rose by about 5 1/4% and £M3 rose by 18 1/4%-18 1/2%.

In November, M0 rose by 3/4%-1% and £M3 rose by 1 1/4%-1 1/2%, before seasonal adjustment. After seasonal adjustment, M0 rose by about 1% and £M3 rose by about 1 1/4% - see paragraph 5 below.

Note for Editors

1 £M3 rose by about £2.1 billion (not seasonally adjusted) in November. Provisional counterparts to the change in £M3 are as follows:

£ billion, not seasonally adjusted

	November	Latest 12 months
PSBR	+0.1	+ 5.6
Debt sales to nbps(1) and external flows to public sector(2) (of which, debt sales to nbps)	-1.0 (-0.6)	- 5.8 (-3.7)
Sterling lending to private sector (3)	+3.4	+28.8
Other counterparts(4)	<u>-0.4</u>	<u>- 5.3</u>
	<u>+2.1</u>	<u>+23.3</u>

- (1) Net purchases (-) of public sector debt by the non-bank private sector.
- (2) External and foreign currency finance of the public sector (-).
- (3) Including Issue Department holdings of commercial bills.
- (4) The banks' external and foreign currency transactions and net non-deposit sterling liabilities.

2 In November, the PSBR was about £0.1 billion. Debt sales to the non-bank private sector, after redemptions amounting to £0.6 billion, were about £0.6 billion; external flows to the public sector were about £0.3 billion. The public sector contribution to the growth in £M3 was therefore contractionary by about £0.9 billion. Bank lending, after seasonal adjustment, grew by about £4.0 billion in November, compared with an average of about £2.6 billion a month (seasonally adjusted) over the preceding six months.

3 £M3 at the end of November was inflated to some extent by the oversubscribed British Gas share issue; although applications could be made up to 3 December, some building up of deposits would have occurred by the end of November. Oversubscription monies were returned on 15 December.

4 Full money and banking figures for November, including revised estimates of the figures given above, will be published on 31 December.

5 Monetary statistics were published for the first time on a calendar month basis in October. A note in the Bank's December 1986 Quarterly Bulletin (page 519) set out reasons for the change and presented statistics back to mid-1982. As explained in the note, the interpretation of most monetary statistics will for some time be subject to a greater range of uncertainty than hitherto. Seasonal adjustment poses particular difficulties, and an inquiry is being set up to review the method of seasonal adjustment of the monetary aggregates. Meanwhile, the only monthly figures shown in seasonally adjusted form will be the main measures of money, and bank lending.

## SECRET AND PERSONAL

FROM: DAVID PERETZ  
17 December 1986

CHANCELLOR

cc Economic Secretary  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Cassell  
Mr Scholar  
Mr Kelly  
Mr Culpin  
Mr Grice  
Mr Richardson  
Mr Pike  
Mr Heath  
Mr Brook  
Mr Ross Goobey

Ch  
OK?  
AA  
OK as a whole

**PROVISIONAL MONEY FIGURES: NOVEMBER**

The Bank of England has now identified a further, large, special factor that will have boosted bank lending in November, and will also have added to the growth of £M3. This is lending of around £¾ billion to £1 billion associated with a take-over transaction. The Bank believe that most of the proceeds of this lending was held on deposit at the end of November, thereby adding a similar amount to £M3.

2. It would be normal practice for the Bank's press office, and IDT, to mention this as a special factor in presenting the figures tomorrow, and I think they should do so. Against this one of the (smaller) special factors we thought was there last night has now disappeared. It seems that the new lending to money brokers and gilt edged market makers (paragraph 13 of Mr Brook's minute of yesterday) was offset by repayments of previous loans to brokers and market makers of a similar order.

3. All this implies we should redraft Factual (iii) and (iv) in the press briefing as follows:-

- (iii) £M3: growth remains high but difficult to interpret. Twelve month growth rate about the same as the average since early summer. November figure likely to have been increased by build-up of deposits in advance

SECRET AND PERSONAL

of British Gas issue, and by proceeds of the bank lending related to take-over activity (see below) being held on deposit at the end of the month. Estimates are very uncertain, but taken together these factors could have added  $\frac{3}{4}$ - $\frac{1}{4}$ % to £M3 in November.

- (iv) **Sterling lending:** well above the average in recent months, ~~(seasonally adjusted highest monthly figure recorded)~~. But influenced by special factors: in particular an estimated £ $\frac{3}{4}$ -1 billion lending associated with take-over activity; and around £ $\frac{1}{4}$  billion representing a switch of lending to a bank from a non-bank parent, matched by an offsetting increase in the bank's capital. More generally financial developments make it increasingly difficult to read meaning into behaviour of individual counterparts.

*Do we need to say this ourselves?*

4. I think we should avoid going out of our way to stress these factors. The estimates are in any case fairly uncertain, and there are often special factors of one kind or another. But it would be normal practice to mention them.

5. I should also report some small revisions to the figures (yesterday's note warned of this possibility). Because of revisions to back figures the 12 month growth for £M3 has been revised up, slightly, to 18.5% ("about 18½" in the press notice). Bank lending has been revised down to £3.3 billion (£3.9 billion seasonally adjusted, which is still a record) - with an offsetting change in the other counterparts.

*DLCP*

D L C PERETZ

cc Mr Norgrove No 10 (personal)  
Mr George (B/E)  
Mr Mann (B/E)



FROM: A C S ALLAN

DATE: 17 December 1986

MR BROOK

cc PS/Economic Secretary  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Cassell  
Mr Scholar  
Mr Culpin  
Mr Peretz  
Mr Kelly  
Mr Grice  
Mr Richardson  
Mr Pike  
Mr Heath  
Mr Ross Goobey

**PROVISIONAL MONEY FIGURES - NOVEMBER**

The Chancellor was grateful for your note of 16 December and the attached press briefing. He is content with the draft press notice, but has the following comments on the briefing.

- (i) The first sentence of the line to take should read "M0 within target range though towards the top end".
- (ii) The last sentence of the line to take should read "Will not hesitate to act if we judge it necessary".
- (iii) Factual (ii) should read "Within its target range of 2-6 per cent though towards the top end".
- (iv) The last sentence of factual (v) should read "The PSBR was therefore approximately fully funded in this period".
- (v) Factual (vi) on the exchange rate should be omitted (the Chancellor feels that the firming of the exchange rate just as much reflects the rise in the dollar, with us sticking to it).
- (vi) The Chancellor feels a new defensive point is needed - near the beginning - on the lines "M0 growth accelerating? Will continue to monitor growth of M0



carefully, alongside other indicators. Will act swiftly if we judge it necessary".

*ACSA*

A C S ALLAN

covering SECRET  
UNTIL 11.30 AM THURSDAY 18 DECEMBER 1986

*ppp*

FROM: P H BROOK  
DATE: 18 December 1986

MR CULPIN

cc: PPS  
PS/Chief Secretary  
PS/Economic Secretary  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Cassell  
Mr Scholar  
Mr Peretz  
Mr Kelly  
Mr Grice  
Miss O'Mara  
Mr Pickford  
Mr Richardson  
Mr Ross Goobey

NOVEMBER: PROVISIONAL MONEY FIGURES

I attach the press briefing for today's provisionals. In addition to the changes made by the Chancellor, factuals (iii) and (iv) have been amended to take account of a special factor which has been identified since my minute of 16 December. Bank lending associated with takeover activity is thought to have boosted Bank lending and £M3 by £¼-1 billion in November.

2. Also attached are the Banks's Press Notice (the 12 month growth of £M3, sterling lending and external flows to the public sector have all been revised slightly from the draft) and the regular Monthly Statement of the London and Scottish Banks. Any questions on <sup>the latter</sup> L should be referred to the CLSB press office 01-626-8486.



P H BROOK

covering SECRET  
UNTIL 11.30 AM THURSDAY 18 DECEMBER 1986

SECRET AND PERSONAL  
UNTIL 11.30 AM ON THURSDAY 18 DECEMBER 1986

MONEY SUPPLY IN NOVEMBER: PRESS BRIEFING

LINE TO TAKE

MO within target range though towards the top end. Growth of broad money and bank lending remains difficult to interpret. Exchange rate slightly above level before last base rate rise. Continue to monitor all indicators of monetary conditions carefully. Will not hesitate to act if we judge it necessary.

A. FACTUAL

See Bank's press notice. Additional points for use:

- (i) Policy: see statements on monetary policy in Chancellor's Lombard Association, Mansion House and House of Commons (17 December) speeches.
- (ii) MO: within its target range of 2-6 per cent though towards the top end.
- (iii) £M3: growth remains high but difficult to interpret. Twelve month growth rate about the same as the average since early summer. November figure likely to have been increased by build-up of deposits in advance of British Gas issue, and by proceeds of the bank lending related to take-over activity (see below) being held on deposit at the end of the month. Estimates are very uncertain, but taken together these factors could have added  $\frac{3}{4}$ -1 $\frac{1}{4}$ % to £M3 in November.
- (iv) Sterling lending: well above the average in recent months. But influenced by special factors: in particular an estimated £ $\frac{3}{4}$ -1 billion lending associated with take-over activity; and around

SECRET AND PERSONAL  
UNTIL 11.30 AM ON THURSDAY 18 DECEMBER 1986

£¼ billion representing a switch of lending to a bank from a non-bank parent, matched by an offsetting increase in the bank's capital. More generally financial developments make it increasingly difficult to read meaning into behaviour of individual counterparts.

- (v) **Funding:** in the first 8 months of the financial year 1986-87 the PSBR totalled £5.7 billion. Sales of debt outside the monetary sector and external finance of the public sector totalled around £5.8 billion. The PSBR was therefore approximately fully funded in this period.
- (vi) **Seasonal adjustment:** dangers in using seasonally adjusted figures stressed in Bank article released with October figures - "seasonal adjustments applied to calendar month figures will be less reliable than those for banking months have been. Moreover they will be subject to greater revisions .... They should therefore be used with considerable caution."

#### B. POSITIVE

- (i) **Overall Strategy:** Experience confirms value of clear commitment to MTFS and ultimate objective of lower inflation. Record on money GDP and on inflation (around 3.5 per cent and expected to stay low) demonstrates success of strategy.
- (ii) **Other countries:** Most other countries now operate in very similar way.

#### C. DEFENSIVE

- (i) **MO growth accelerating?** Will continue to monitor growth of MO carefully, alongside other indicators. Will act swiftly if we judge it necessary.

- (ii) £M3 annual growth well above target range published in 1986 MTFIS? £M3 increasingly erratic indicator; growth difficult to interpret. Affected by changes in financial system over recent years. Uncertainties over £M3 and reasons for choice of 1986-87 range explained by Chancellor in Lombard Association speech and Governor in Loughborough lecture. Need to weigh developments in £M3 carefully against other evidence (including PSL2 measure of broad money).
- (iii) £M3 should be dropped? Decision on broad money target will be taken at time of Budget as usual. No decision yet taken. Both Chancellor (on a number of occasions) and Governor in Loughborough lecture have drawn attention to the difficulties in interpreting changes in broad money stock. Commitment to firm fiscal and monetary policy unchanged. That policy has brought combination of low inflation and sustained growth.
- (iv) Credit growth inflationary/credit boom? No evidence that high rate of lending is leading to excessive laxity of monetary conditions. Every sign that people holding the increased amount of broad money quite willingly. So long as this is so, its growth is not inflationary. Government remains committed to securing monetary conditions that keep steady downward pressure on inflation. Short term interest rates held at level to secure this.
- (v) Personal debt. Ratio of personal debt to personal income has risen. But rise matched by similar growth in personal holdings of liquid assets. Personal debt ratio still below comparable figure in US.

- (vi) Funding policy. Same as announced in 1985 Mansion House speech "to fund the PSBR over the year as a whole no more, no less". (Not a full fund every month - impracticable - so temporary over/under funding will occur).
- (vii) Experience with targets in other countries. Financial innovation and behavioural changes have caused similar difficulties in other countries in interpreting monetary statistics. In Germany CBM is overshooting for the first time since 1978; M1 and M2 are overshooting in US, as is M3 in France.
- (viii) Interest rates. Base rates 11 per cent. Down 1½ per cent since Budget despite recent rise.
- (ix) Government wishes both to prevent interest rates from rising and exchange rate from falling? Government's objective is to maintain monetary conditions necessary to keep downward pressure on inflation. Involves neither interest rate nor exchange rate target. Of course do not want interest rates any higher than necessary but will not hesitate to act decisively should circumstances require it. Chancellor made views on exchange rate clear most recently in 'Better Made in Britain' speech, 2 December.

**PROVISIONAL ESTIMATES OF MONETARY AGGREGATES:  
CALENDAR NOVEMBER 1986**

Preliminary information suggests that, in the 12 months to end-November 1986, M0 rose by about 5 1/4% and £M3 rose by about 18 1/2%.

In November, M0 rose by 3/4%-1% and £M3 rose by 1 1/4%-1 1/2%, before seasonal adjustment. After seasonal adjustment, M0 rose by about 1% and £M3 rose by about 1 1/4% - see paragraph 5 below.

**Note for Editors**

1 £M3 rose by about £2.1 billion (not seasonally adjusted) in November. Provisional counterparts to the change in £M3 are as follows:

£ billion, not seasonally adjusted

	November	Latest 12 months
PSBR	+0.1	+ 5.5
Debt sales to nbps(1) and external flows to public sector (2) (of which, debt sales to nbps)	-0.9 (-0.6)	- 5.7 (-3.7)
Sterling lending to private sector (3)	+3.3	+28.6
Other counterparts (4)	<u>-0.4</u>	<u>- 4.9</u>
	<u>+2.1</u>	<u>+23.5</u>

- (1) Net purchases (-) of public sector debt by the non-bank private sector.
- (2) External and foreign currency finance of the public sector (-).
- (3) Including Issue Department holdings of commercial bills.
- (4) The banks' external and foreign currency transactions and net non-deposit sterling liabilities.

2 In November, the PSBR was about £0.1 billion. Net sales of debt to the non-bank private sector, after redemptions amounting to £0.6 billion, were about £0.6 billion; external flows to the public sector were about £0.3 billion. The public sector contribution to the growth in £M3 was therefore contractionary by about £0.8 billion. Bank lending, after seasonal adjustment, grew by about £3.9 billion in November, compared with an average of about £2.6 billion a month (seasonally adjusted) over the preceding six months.

3 £M3 at the end of November was inflated to some extent by the oversubscribed British Gas share issue; although applications could be made up to 3 December, some building up of deposits would have occurred by the end of November. Oversubscription monies were returned on 15 December.

4 Full money and banking figures for November, including revised estimates of the figures given above, will be published on 31 December.

5 Monetary statistics were published for the first time on a calendar month basis in October. A note in the Bank's December 1986 Quarterly Bulletin (page 519) set out reasons for the change and presented statistics back to mid-1982. As explained in the note, the interpretation of most monetary statistics will for some time be subject to a greater range of uncertainty than hitherto. Seasonal adjustment poses particular difficulties, and an inquiry has been set up to review the method of seasonal adjustment of the monetary aggregates. Meanwhile, the only monthly figures shown in seasonally adjusted form will be the main measures of money, and bank lending.

# PRESS INFORMATION from Banking Information Service

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10 Lombard Street, London EC3V 9AR  
Telephone 01-626 8486

NOT FOR PUBLICATION BEFORE 11.30 am

Thursday, 18th December 1986

## MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS

NOVEMBER 1986

Sterling advances to the U.K. private sector by the London and Scottish banks' groups rose by £325 million in November. After allowing for seasonal and other factors, the underlying rise was probably over £900 million; this was still below the monthly average of the previous six months of around £1,300 million, but short-term interest rates suggest that there may have been further switching from overdrafts into market-related borrowing. Analysis of the unadjusted figures shows a similar picture to last month with the majority of lending to persons (+£420 million) and to business and other services (+£260 million), partly offset by further falls in lending to agriculture (-£120 million) and to manufacturers (-£73 million), who also reduced their bill finance. Within the personal lending figure, house purchase finance continued to grow strongly (+£327 million), but there was only a moderate rise in lending for other purposes (+£92 million, of which credit card credit rose by only £15 million).

Within the banks' other assets, lending to the L.D.M.A. fell by £390 million and other market loans, mainly to banks overseas, fell back after last month's rise. Holdings of Treasury bills rose by £97 million and commercial and local authority bills by £302 million.

On the liabilities side of the balance sheet, deposits from the U.K. private sector rose by £1,816 million. After allowing for an expected seasonal rise and for transit items, the underlying rise was of the order of some £1,400 million. Although this was somewhat higher than the recent monthly average, there appears to have been a relatively small inflow of 'retail' deposits preparing for the British Gas share issue, since much of the rise was of a 'wholesale' nature. Inflows into the high interest personal accounts fell back quite sharply - as they did before the TSB share issue. Both public sector deposits and overseas residents' deposits reversed last

month's rises, falling by £138 million and by £250 million respectively. The banks also reduced their net borrowing in the CD and inter-bank markets by over £700 million.

Eligible liabilities rose by £1,079 million to £116,311 million.

#### QUARTERLY ANALYSIS OF ADVANCES

##### MID-AUGUST TO END-NOVEMBER

The latest period covers the changeover from banking months to calendar months. This analysis therefore relates to a 15-week period, from mid-August to end-November, and the figures are not therefore directly comparable with previous quarterly changes. Furthermore, no seasonal movements are available for this period. Total advances rose by £4,008 million, of which £3,823 million was in sterling. However, bill finance fell by £300 million over the period.

Personal lending accounted for nearly half of the total rise in sterling advances of £3,823 million. Lending for house purchase rose by £1,386 million, while other personal lending rose by £552 million. "Big Bang" took place during the period, possibly explaining the rise in lending to "Other financial" (+£302 million and +£87 million in foreign currency) and in lending to "Securities dealers". The latter, previously included in "Business and other services", was classified for the first time at end-September, and borrowed £279 million in sterling and £98 million in foreign currency in the two succeeding months. Lending to property companies also rose, by £377 million. Manufacturers borrowed £211 million in sterling advances and £252 million in foreign currency, but repaid £185 million of bill finance. Distribution, hotels and catering increased their borrowing by £324 million, but agriculture repaid £247 million.

For further information, please contact:

John Ecklin, Head of C.L.S.B. Statistical Unit (01-283 8866)

Edwin Lawton, Press and Information Manager (01-626 8486)

## BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT END-NOVEMBER, 1986

These tables cover the business of the offices of members of the Committee of London and Scottish Bankers and their subsidiaries in the United Kingdom (including the Channel Islands and the Isle of Man) which are listed by the Bank of England as falling within the monetary sector. The items are defined as in Table 3 of the Bank of England's Quarterly Bulletin.

f millions

TABLE 1. AGGREGATE BALANCES

	Total Outstanding	Change on Month
<b>LIABILITIES</b>		
<b>STERLING DEPOSITS :</b>		
U.K. monetary sector	26,269	- 241
U.K. private sector	105,086	+ 1,816
U.K. public sector	3,041	- 138
Overseas residents	14,489	- 250
Certificates of deposit	7,930	- 1,132
	156,815	+ 54
of which : Sight	67,960	+ 1,860
Time (inc. C.D.'s)	88,855	- 1,805
<b>FOREIGN CURRENCY DEPOSITS :</b>		
U.K. monetary sector	18,722	- 585
Other U.K. residents	8,044	+ 111
Overseas residents	46,722	- 91
Certificates of deposit	5,360	- 200
	78,848	- 765
TOTAL DEPOSITS	235,663	- 711
NOTES IN CIRCULATION	959	+ 19
OTHER LIABILITIES (a)	41,331	- 232
<b>TOTAL LIABILITIES</b>	<b>277,953</b>	<b>- 923</b>
<b>ASSETS</b>		
<b>STERLING</b>		
Cash & balances with Bank of England:		
Cash ratio deposits	492	0
Other balances	2,297	+ 39
	2,789	+ 39
Market loans :		
Discount houses	4,230	- 390
Other U.K. monetary sector	27,723	+ 37
U.K. monetary sector C.D.'s	4,201	- 680
Local authorities	1,478	- 43
Other	5,095	- 390
	42,726	- 1,467
Bills :		
Treasury bills	181	+ 97
Other bills	3,188	+ 302
	3,369	+ 399
Investments :		
British Government stocks	6,298	+ 18
Other	5,170	+ 24
	11,468	+ 43
Advances :		
U.K. private sector	101,102	+ 325
U.K. public sector	307	+ 9
Overseas residents	6,128	+ 134
	107,537	+ 468
Other sterling assets (a)	16,263	+ 84
<b>FOREIGN CURRENCIES</b>		
Market loans :		
U.K. monetary sector	18,406	- 375
Certificates of deposit	515	- 50
Other	37,863	- 311
	56,783	- 736
Bills	727	- 49
Advances :		
U.K. private sector	7,059	- 95
U.K. public sector	899	- 23
Overseas residents	18,536	- 63
	26,494	- 181
Other foreign currency assets (a)	9,797	+ 477
<b>TOTAL ASSETS</b>	<b>277,953</b>	<b>- 923</b>
<b>ACCEPTANCES</b>	<b>5,402</b>	<b>- 121</b>
<b>ELIGIBLE LIABILITIES</b>	<b>116,311</b>	<b>+ 1,079</b>

(a) includes items in suspense and in transit

FOR TABLE 2 SEE OVER

TABLE 2. INDIVIDUAL GROUP BALANCES

£ millions	C.L.S.B. GROUPS	BANK OF SCOTLAND	BARCLAYS	LLOYDS	MIDLAND	NATIONAL WESTMINSTER	ROYAL BANK OF SCOTLAND	STANDARD CHARTERED	TSB
<b>LIABILITIES</b>									
Sterling deposits									
outstanding	156,815	6,195	34,905	24,589	25,412	42,783	8,788	3,526	10,617
change on month	+ 54	+ 42	+ 152	+ 318	- 543	- 274	+ 144	+ 103	+ 113
Foreign currency deposits									
outstanding	78,848	1,180	15,434	11,089	15,192	23,020	3,919	8,931	83
change on month	- 765	- 69	- 621	- 218	- 23	+ 318	+ 67	- 210	- 10
Total deposits									
outstanding	235,663	7,375	50,339	35,678	40,604	65,803	12,707	12,457	10,701
change on month	- 711	- 27	- 469	+ 100	- 566	+ 44	+ 211	- 106	+ 102
<b>STERLING ASSETS</b>									
Cash and Balances with the Bank of England									
outstanding	2,789	346	418	206	566	549	553	12	138
change on month	+ 39	+ 1	+ 49	- 149	+ 14	+ 60	+ 68	+ 1	- 6
Market loans :									
U.K. monetary sector									
outstanding	31,953	854	6,795	4,204	4,283	11,852	773	887	2,305
change on month	- 354	+ 121	- 276	- 54	- 240	- 129	- 31	- 47	+ 302
Other									
outstanding	10,774	133	2,239	1,453	1,186	3,387	320	316	1,740
change on month	- 1,113	- 33	- 224	- 70	- 343	- 270	+ 55	+ 10	- 238
Bills									
outstanding	3,369	89	932	920	137	747	261	52	232
change on month	+ 399	- 49	+ 120	+ 200	- 16	+ 235	- 19	- 13	- 58
British government stocks									
outstanding	6,298	293	1,142	579	1,116	916	227	211	1,814
change on month	+ 18	+ 5	+ 94	- 20	+ 32	- 88	- 3	- 3	+ 1
Advances									
outstanding	107,537	5,262	24,902	17,144	18,314	26,510	7,361	2,709	5,334
change on month	+ 468	+ 91	+ 174	+ 182	- 7	- 169	+ 73	+ 88	+ 35
<b>FOREIGN CURRENCY ASSETS</b>									
Market loans and bills									
outstanding	57,511	483	11,418	9,085	8,698	18,502	2,986	6,301	37
change on month	- 784	- 107	- 303	- 446	- 309	+ 271	+ 136	- 15	- 11
Advances									
outstanding	26,494	891	4,119	3,453	6,636	6,322	1,238	3,780	54
change on month	- 181	- 13	- 205	+ 97	+ 214	- 142	- 69	- 62	- 1
<b>ACCEPTANCES</b>									
outstanding	5,402	274	1,165	488	1,350	1,088	494	409	134
change on month	- 121	+ 53	- 220	+ 57	+ 27	- 148	+ 41	+ 78	- 8
<b>ELIGIBLE LIABILITIES</b>									
outstanding	116,311	5,262	26,215	18,693	19,876	28,271	7,530	2,573	7,893
change on month	+ 1,079	+ 4	+ 518	+ 533	- 342	- 69	+ 107	+ 125	+ 203

**COMPOSITION OF GROUPS (U.K. offices only)**

The Bank of Scotland Group comprises Bank of Scotland, Commercial Bank of Wales plc, North West Securities Ltd. and The British Linen Bank Ltd.

The Barclays Group comprises Barclays Bank PLC, Barclays Bank Finance Company (Jersey) Ltd., Barclays Bank Trust Company Ltd., Barclays de Zoete Wedd Ltd., Barclays Finance Company (Guernsey) Ltd., Barclays Finance Company (Isle of Man) Ltd. and Mercantile Credit Company Ltd.

The Lloyds Group comprises Lloyds Bank PLC, Cedar Holdings Ltd., Lloyds Bank Finance (Jersey), Ltd., Lloyds Bowmaker Ltd., Lloyds Bowmaker Finance Ltd., Lloyds Merchant Bank Ltd. and The National Bank of New Zealand Ltd.

The Midland Group comprises Midland Bank PLC, Clydesdale Bank PLC, Clydesdale Bank Finance Corporation Ltd. Forward Trust Ltd., Midland Bank Trust Company Ltd., Midland Bank Trust Corporation (Guernsey) Ltd., Midland Bank Trust Corporation (Isle of Man) Ltd., Midland Bank Trust Corporation (Jersey) Ltd., Northern Bank Ltd., Northern Bank Development Corporation Ltd., Samuel Montagu & Co. Ltd. and Samuel Montagu & Co. (Jersey) Ltd.

The National Westminster Group comprises National Westminster Bank PLC, Coutts & Co., Coutts Finance Co., International Westminster Bank PLC, Lombard Bank (Isle of Man) Ltd., Lombard & Ulster Ltd., Lombard Banking (Jersey) Ltd., Lombard North Central PLC, National Westminster Bank Finance (C.I.) Ltd., NatWest Investment Bank Ltd., Ulster Bank Ltd. and Ulster Investment Bank Ltd.

The Royal Bank of Scotland Group comprises The Royal Bank of Scotland PLC, Charterhouse Bank Ltd., Charterhouse Japhet Credit Ltd. and St. Margaret's Trust Ltd.

The Standard Chartered Group comprises Standard Chartered Bank, Chartered Trust plc and Standard Chartered Merchant Bank Ltd.

The TSB Group comprises TSB England & Wales plc, TSB Northern Ireland plc, TSB Scotland plc and United Dominions Trust Ltd.

ANALYSIS OF ADVANCES TO U.K. RESIDENTS BY THE LONDON & SCOTTISH BANKS' GROUPS  
AS AT END-NOVEMBER, 1986

The table covers advances in both sterling and foreign currencies by offices of members of the Committee of London and Scottish Bankers and their subsidiaries which are listed by the Bank of England as falling within the monetary sector.

Loans under the special schemes for shipbuilding, other than those refinanced with the Bank of England, are included within item 3 "Other transport equipment"; but lending under the special export schemes is not included, since this is classified as advances to overseas residents.

£ millions

	Total Outstanding	Change since mid-August
1. <u>AGRICULTURE, FORESTRY &amp; FISHING</u>	5,777	- 248
of which sterling	5,765	- 247
2. <u>ENERGY &amp; WATER SUPPLY INDUSTRIES</u>		
Oil & extraction of natural gas	789	+ 26
Other energy industries	511	- 54
Water supply	267	+ 10
Total item 2	1,567	- 18
of which sterling	471	- 102
3. <u>MANUFACTURING INDUSTRY</u>		
Extraction of minerals and ores	255	- 108
Metal manufacturing	456	- 37
Non-metallic mineral product manufacture	574	- 70
Chemical industry	845	+ 146
Mechanical engineering	1,336	+ 71
Electrical & electronic engineering	1,607	+ 149
Motor vehicles	455	+ 37
Other transport equipment	962	- 63
Other engineering & metal goods	1,275	+ 12
Food, drink & tobacco	2,466	+ 175
Textiles, leather, clothing & footwear	1,063	- 111
Other manufacturing	3,091	+ 262
Total item 3	14,385	+ 463
of which sterling	12,280	+ 211
4. <u>CONSTRUCTION</u>	4,330	+ 41
of which sterling	4,219	+ 42
5. <u>GARAGES, DISTRIBUTION, HOTELS &amp; CATERING</u>		
Garages & retail motor trade	1,993	- 20
Other retail distribution	4,777	+ 145
Wholesale distribution	2,960	+ 70
Hotels & catering	2,926	+ 124
Total item 5	12,657	+ 320
of which sterling	12,029	+ 324
6. <u>TRANSPORT</u>		
Air transport	236	+ 47
Other transport	1,790	- 19
Total item 6	2,026	+ 29
of which sterling	1,627	+ 28
7. <u>POSTAL SERVICES &amp; TELECOMMUNICATIONS</u>	68	- 8
of which sterling	67	- 2
8. <u>FINANCIAL</u>		
Building societies	81	- 4
Investment & unit trusts etc.	1,408	- 5
Insurance companies, pension funds etc.	1,265	- 69
Leasing companies	4,969	- 99
Other financial	4,595	+ 389
Securities dealers etc.	877	+ 377*
Total item 8	13,195	+ 589*
of which sterling	10,531	+ 754*
9. <u>BUSINESS &amp; OTHER SERVICES</u>		
Central & local government	490	+ 4
Property companies	4,911	+ 424
Hiring of movables	676	+ 33
Other services	8,547	+ 443 <sup>†</sup>
Total item 9	14,625	+ 904 <sup>†</sup>
of which sterling	13,726	+ 880 <sup>†</sup>
10. <u>PERSONS</u>		
Bridging finance for house purchase	871	+ 14
Other house purchase	20,843	+ 1,372
Other advances to persons	19,024	+ 552
Total item 10	40,739	+ 1,938
of which sterling	40,695	+ 1,936
<u>TOTAL ADVANCES TO U.K. RESIDENTS</u>	109,368	+ 4,008
of which in sterling	101,409	+ 3,823
in foreign currencies	7,959	+ 186

\* Change since end-September

<sup>†</sup> After reclassification of 'Securities dealers' at end-September

*ps*

FROM: A C S ALLAN

DATE: 18 December 1986

MR PERETZ

cc PS/Economic Secretary  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Cassell  
Mr Scholar  
Mr Kelly  
Mr Culpin  
Mr Grice  
Mr Richardson  
Mr Pike  
Mr Heath  
Mr Brook  
Mr Ross Goobey

**PROVISIONAL MONEY FIGURES: NOVEMBER**

The Chancellor was grateful for your note of 17 December. He is content with the redrafting of the press briefing, subject to leaving out the "(seasonally adjusted highest monthly figure recorded)" from (iv).

*A CSA*

A C S ALLAN

CONFIDENTIAL

FROM: T PIKE  
DATE: 18 DECEMBER 1986

1. MR GRICE

2. ECONOMIC SECRETARY

cc: PS/Chancellor  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Scholar  
Mrs Lomax  
Mr C W Kelly  
Mr Richardson  
Mr Heath

Seasonally adjusted, M0 is at the top of its target range and notes and coin - arguably a better underlying guide - a little above it. This may owe something to failure of the seasonal adjustment at a time of year when seasonality is strong. The unadjusted annual growth rate is apparently only 4.9 per cent. But it wd. perhaps be

M0 FIGURES unwise to rely too heavily on this explanation. JWG 18/12

The latest weekly figures for M0, covering the third week of December, are attached. They show that in the latest four week period, M0 grew at an annual rate of 6.0 per cent.

2. The note issue (seasonally adjusted) grew by £533 million in the latest week after falling by £75 million in the previous week. Movements are generally volatile at this time of the year. This may mean that M0 could fall again during the rest of December, but the average M0 figure for the next two weeks would have to fall by £160 million compared to the latest week if the 6 per cent target is not to be exceeded.

T. Pike

T PIKE

## CONFIDENTIAL

## MO, THE WIDE MONETARY BASE

Calendar months (weekly averaged*)	Levels £ million (changes in brackets)				MO		% change on previous month		% change on year earlier	
	Notes (s.a.) and coin		Bankers' deposits				Notes (s.a.) and coin	MO	Notes (s.a.) and coin	MO
April	14,242	(-29)	167	(-14)	14,409	(-43)	-0.2	-0.3	+2.8	+2.8
May	14,332	(+90)	208	(+41)	14,540	(+131)	+0.6	+0.9	+3.2	+3.5
June	14,407	(+75)	185	(-23)	14,592	(+52)	+0.5	+0.4	+3.3	+3.2
July	14,471	(+64)	129	(-56)	14,600	(+8)	+0.4	+0.1	+3.6	+3.2
August	14,587	(+116)	155	(+26)	14,742	(+142)	+0.8	+1.0	+4.2	+4.1
Sept	14,637	(+50)	190	(+35)	14,827	(+85)	+0.3	+0.6	+4.4	+4.8
Oct	14,695	(+58)	132	(-58)	14,826	(-1)	+0.3	0.0	+4.8	+4.9
Nov	14,808	(+113)	166	(+34)	14,973	(+147)	+0.8	+1.0	+5.3	+5.3
Dec (3 out of 5)	15,036	(+225)	170	(+4)	15,026	(209)	+1.5	+1.5	+5.8	+5.5
Latest 4 weeks†	14,988	(+208)	156	(-38)	15,143	(+171)	+1.4	+1.1	+6.2	+6.0

## Weekly data

% change  
on previous week  
MO

## Calendar November

November	5th	14,773	(+26)	172	(-52)	14,945	(-25)	-0.2
	12th	14,783	(+10)	164	(-8)	14,947	(+2)	+0.0
	19th	14,812	(+29)	215	(+51)	15,028	(+81)	+0.5
	26th	14,837	(+25)	114	(-101)	14,951	(-77)	-0.5

## Calendar December

	3rd	14,908	(+72)	107	(-8)	15,015	(+64)	+0.4
	10th	14,834	(-75)	210	(+103)	15,044	(+29)	+0.2
	17th	15,366	(+533)	(+193)	(-17)	15,560	(+516)	+3.4

\* Except coin and unbacked issue

† Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

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*Handwritten signature*

FROM: T PIKE

DATE: 29 DECEMBER 1986

- 1. MR GRICE
- 2. ECONOMIC SECRETARY

- cc PS/Chancellor
- Sir P Middleton
- Sir G Littler
- Sir T Burns
- Mr Cassell
- Mr Peretz
- Mr Scholar
- Mrs Lomax
- Mr C W Kelly
- Mr Richardson
- Mr Heath

*Late and unexpected transactions towards the close of business on Christmas Eve appear to have left banks' deposits well above target. The large rise in this item has prevented MO's growth rate from showing the dip expected by end December. Even so, it seems likely banks will reduce these unremunerative deposits as rapidly as possible.*

MO FIGURES

JWG 29-12-86

The latest weekly figures for MO, covering the fourth week of December, are attached. They show that in the latest four week period, MO grew at an annual rate of 5.3 per cent.

*T Pike*

T PIKE

## CONFIDENTIAL

Table 10

## MO, THE WIDE MONETARY BASE

Calendar months (weekly averaged*)	Levels £ million (changes in brackets)						% change on previous month		% change on year earlier	
	Notes (s.a.) and coin		Bankers' deposits		MO		Notes (s.a.) and coin	MO	Notes (s.a.) and coin	MO
April	14,242	(-29)	167	(-14)	14,409	(-43)	-0.2	-0.3	+2.8	+2.8
May	14,332	(+90)	208	(+41)	14,540	(+131)	+0.6	+0.9	+3.2	+3.5
June	14,407	(+75)	185	(-23)	14,592	(+52)	+0.5	+0.4	+3.3	+3.2
July	14,471	(+64)	129	(-56)	14,600	(+8)	+0.4	+0.1	+3.6	+3.2
August	14,587	(+116)	155	(+26)	14,742	(+142)	+0.8	+1.0	+4.2	+4.1
Sept	14,637	(+50)	190	(+35)	14,827	(+85)	+0.3	+0.6	+4.4	+4.8
Oct	14,695	(+58)	132	(-58)	14,826	(-1)	+0.3	0.0	+4.8	+4.9
Nov	14,808	(+113)	166	(+34)	14,973	(+147)	+0.8	+1.0	+5.3	+5.3
Dec (4 out of 5)	14,945	(+137)	239	(+73)	15,183	(+210)	+0.9	+1.4	+5.2	+5.3
Latest 4 weeks <sup>†</sup>	14,945	(+137)	239	(+73)	15,183	(+210)	+0.9	+1.4	+5.2	+5.3

## Weekly data

% change  
on previous week  
MO

## Calendar November

November	5th	14,773	(+26)	172	(-52)	14,945	(-25)	-0.2
	12th	14,783	(+10)	164	(-8)	14,947	(+2)	+0.0
	19th	14,812	(+29)	215	(+51)	15,028	(+81)	+0.5
	26th	14,837	(+25)	114	(-101)	14,951	(-77)	-0.5

## Calendar December

	3rd	14,908	(+72)	107	(-8)	15,015	(+64)	+0.4
	10th	14,834	-75	210	(+103)	15,044	+29	+0.2
	17th	14,923	(+89)	193	(-17)	15,116	(+72)	+0.5
	24th	15,114	(+191)	445	(252)	15,559	(+443)	+2.9

\* Except coin and unbacked issue

† Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

CONFIDENTIAL

SECRET  
UNTIL 11.30 AM ON WEDNESDAY 31 DECEMBER

*Handwritten initials*

FROM: M G RICHARDSON  
DATE: 30 DECEMBER 1986

MR CASSELL

*Red checkmark*

cc: PPS  
PS/Chief Secretary  
PS/Economic Secretary  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Peretz  
Mr Scholar  
Mr Grice  
Mr Culpin  
Mr Kelly  
Mr Pike  
Mr Brook o/r  
Mr Ross Goobey

FULL MONEY FIGURES - CALENDAR NOVEMBER

I attach the Bank's draft press release on the full money figures which will be published at 11.30 am on Wednesday 31 December. The accompanying banking statistics are not yet available.

2. The £M3 12 month growth figure is marginally higher than implied by the rounded figure published in the provisional press release this results from a late adjustment to September figures. The PSBR is now £20m, having previously rounded up to £0.1bn.

3. The attached press briefing is as agreed for the provisional press notice apart from a minor amendment to defensive (vii).

4. Could I please have comments on the Bank's draft press release by noon today, and any comments on the press briefing by close.

*Handwritten signature of M G Richardson*

M G RICHARDSON

SECRET  
UNTIL 11.30 AM ON WEDNESDAY 31 DECEMBER

## MONEY SUPPLY IN NOVEMBER: PRESS BRIEFING

LINE TO TAKE

MO within target range though towards the top end. Growth of broad money and bank lending remains difficult to interpret. Exchange rate slightly above level before last base rate rise. Continue to monitor all indicators of monetary conditions carefully. Will not hesitate to act if we judge it necessary.

A. FACTUAL

See Bank's press notice. Additional points for use:

- (i) Policy: see statements on monetary policy in Chancellor's Lombard Association, Mansion House and House of Commons (17 December) speeches.
- (ii) MO: within its target range of 2-6 per cent though towards the top end.
- (iii) £M3: growth remains high but difficult to interpret. Twelve month growth rate about the same as the average since early summer. November figure likely to have been increased by build-up of deposits in advance of British Gas issue, and by proceeds of the bank lending related to take-over activity (see below) being held on deposit at the end of the month. Estimates are very uncertain, but taken together these factors could have added  $\frac{3}{4}$ - $1\frac{1}{4}$ % to £M3 in November.
- (iv) Sterling lending: well above the average in recent months. But influenced by special factors: in particular an estimated £ $\frac{3}{4}$ -1 billion lending associated with take-over activity; and around

£¼ billion representing a switch of lending to a bank from a non-bank parent, matched by an offsetting increase in the bank's capital. More generally financial developments make it increasingly difficult to read meaning into behaviour of individual counterparts.

(v) Funding: in the first 8 months of the financial year 1986-87 the PSBR totalled £5.7 billion. Sales of debt outside the monetary sector and external finance of the public sector totalled around £5.8 billion. The PSBR was therefore approximately fully funded in this period.

(vi) Seasonal adjustment: dangers in using seasonally adjusted figures stressed in Bank article released with October figures - "seasonal adjustments applied to calendar month figures will be less reliable than those for banking months have been. Moreover they will be subject to greater revisions .... They should therefore be used with considerable caution."

#### B. POSITIVE

(i) Overall Strategy: Experience confirms value of clear commitment to MTFs and ultimate objective of lower inflation. Record on money GDP and on inflation (around 3½ per cent and expected to stay low) demonstrates success of strategy.

(ii) Other countries: Most other countries now operate in very similar way.

#### C. DEFENSIVE

(i) MO growth accelerating? Will continue to monitor growth of MO carefully, alongside other indicators. Will act swiftly if we judge it necessary.

- (ii) £M3 annual growth well above target range published in 1986 MTFIS? £M3 increasingly erratic indicator; growth difficult to interpret. Affected by changes in financial system over recent years. Uncertainties over £M3 and reasons for choice of 1986-87 range explained by Chancellor in Lombard Association speech and Governor in Loughborough lecture. Need to weigh developments in £M3 carefully against other evidence (including PSL2 measure of broad money).
- (iii) £M3 should be dropped? Decision on broad money target will be taken at time of Budget as usual. No decision yet taken. Both Chancellor (on a number of occasions) and Governor in Loughborough lecture have drawn attention to the difficulties in interpreting changes in broad money stock. Commitment to firm fiscal and monetary policy unchanged. That policy has brought combination of low inflation and sustained growth.
- (iv) Credit growth inflationary/credit boom? No evidence that high rate of lending is leading to excessive laxity of monetary conditions. Every sign that people holding the increased amount of broad money quite willingly. So long as this is so, its growth is not inflationary. Government remains committed to securing monetary conditions that keep steady downward pressure on inflation. Short term interest rates held at level to secure this.
- (v) Personal debt. Ratio of personal debt to personal income has risen. But rise matched by similar growth in personal holdings of liquid assets. Personal debt ratio still below comparable figure in US.

- (vi) Funding policy. Same as announced in 1985 Mansion House speech "to fund the PSBR over the year as a whole no more, no less". (Not a full fund every month - impracticable - so temporary over/under funding will occur).
- (vii) Experience with targets in other countries. Financial innovation and behavioural changes have caused similar difficulties in other countries in interpreting monetary statistics. In Germany CBM is overshooting for the first time since 1978; M1 is overshooting in US, as is M3 in France.
- (viii) Interest rates. Base rates 11 per cent. Down 1½ per cent since Budget despite recent rise.
- (ix) Government wishes both to prevent interest rates from rising and exchange rate from falling? Government's objective is to maintain monetary conditions necessary to keep downward pressure on inflation. Involves neither interest rate nor exchange rate target. Of course do not want interest rates any higher than necessary but will not hesitate to act decisively should circumstances require it. Chancellor made views on exchange rate clear most recently in 'Better Made in Britain' speech, 2 December.

## MONEY &amp; BANKING FIGURES: CALENDAR NOVEMBER 1986

- 1 In the 12 months to end-November 1986, M0 rose by 5.2% and £M3 rose by 18.6%.
- 2 In November, M0 rose by 0.9% and £M3 rose by 1.4%, before seasonal adjustment. After seasonal adjustment, M0 rose by 1.0% and £M3 rose by 1.2%.
- 3 £M3 at the end of November was inflated to some extent by the oversubscribed British Gas share issue; although applications could be made up to 3 December, some building up of deposits would have occurred by the end of November. Oversubscription monies were returned on 15 December.
- 4 Within £M3 there was a rise in November of £300 million in notes and coin, a rise of £610 million in non-interest-bearing sight deposits and a rise of £1,230 million in interest-bearing sight deposits. M1 rose by £2,140 million (+2.9%) (Table C) before seasonal adjustment; after seasonal adjustment, M1 rose by 2.3%. Time deposits (including sterling certificates of deposit) of the UK private sector fell by £20 million.
- 5 The sterling value of private sector foreign currency deposits rose by £920 million, comprising a rise of £1,090 million reflecting transactions and a fall of £170 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £3,030 million (+1.7%) (Table C) before seasonal adjustment; after seasonal adjustment, total M3 rose by 1.6%.
- 6 PSL2 rose by £2,770 million (+1.0%) (Table E) before seasonal adjustment; after seasonal adjustment, PSL2 rose by 1.2%. Data for M2 in November are not yet available. In October, M2 rose by £1,450 million (+0.9%); after seasonal adjustment, M2 rose by 0.5% in October.
- 7 Rates of growth of monetary and liquidity aggregates over the last twelve months are summarised in the table below:

M0	+ 5.2%
M1	+23.4%
of which, non-interest-bearing M1	+10.1%
£M3	+18.6%
PSL1	+18.1%
PSL2	+15.3%

In the twelve months to end-October, M2 rose by 15.4%.

It is not possible to calculate the growth of total M3 over the last twelve months, because there is insufficient information to calculate its level at end-November 1985.

8 Amongst the counterparts to the change in £M3, the net effect of public sector transactions (the PSBR less debt sales to the non-bank private sector and external flows to the public sector) was contractionary by £890 million (see columns 1-7 of Table A). The central government borrowing requirement was £500 million and the direct contribution of local authorities and public corporations to the public sector borrowing requirement was contractionary by £480 million. The PSBR amounted to £20 million. There were net purchases of central government debt by the non-bank private sector of £910 million; within this gilt-edged stock accounted for £580 million, National Savings for £260 million and CTDs for £100 million. There were net sales of local authorities' and public corporations' debt by the non-bank private sector of £350 million, an expansionary influence. External and foreign currency finance of the public sector was contractionary by £340 million.

9 Sterling lending to the private sector rose by £3,310 million, before seasonal adjustment; after seasonal adjustment, it rose by £3,900 million. Foreign currency lending to the private sector rose by £910 million in transactions terms.

10 The external and foreign currency transactions of UK banks were expansionary by £50 million (see columns 9-12 of Table A). Net non-deposit sterling liabilities rose by £360 million, a contractionary influence.

11 Tables I, J, K and L show the details of the banks' and discount market's balance sheets. Transactions of the UK monetary sector during the month, excluding inter-bank items and valuation changes on foreign currency items, are given in Table F.

12 Monetary statistics were published for the first time on a calendar month basis in October. The reasons for the change, and statistics back to mid-1982, were set out in the note "Banking and Monetary Statistics: a change in reporting dates" in the December 1986 Bulletin (page 519). As explained in the note, the interpretation of most monetary statistics will for some time be subject to a greater range of uncertainty than hitherto. Seasonal adjustment poses particular difficulties, and an inquiry has been set up to review the method of seasonal adjustment of the monetary aggregates. Meanwhile, the only monthly figures shown in seasonally adjusted form will be the main measures of money, and bank lending.

Estimated seasonal movements in December 1986

13 The provisional seasonal movements for calendar December 1986 are shown below. Bearing in mind the difficulties referred to in paragraph 12 above, the figures should be regarded as more uncertain and more subject to revision than were the figures formerly given for banking months.

	£ million
M0 (averaged series)	+910
£M3	+ 20
Bank lending in sterling to the private sector	+850

The seasonally-adjusted changes are obtained by subtracting (with due regard to sign) the seasonal movement from the unadjusted changes.

## Sterling Commercial Paper

14 In November the amount of sterling commercial paper outstanding increased by an estimated £160 million, from £530 million to an estimated £690 million. The monetary sector reported an increase in holdings of commercial paper issued by UK companies of £60 million, to a level of £190 million; changes in holdings of such paper are included in sterling lending to the private sector (Tables A and F). Monetary sector holdings of commercial paper issued by overseas companies, changes in which are included in sterling lending to the overseas sector (Table F) and within the external and foreign currency transactions of UK banks (Table A), increased by £10 million to a level of £80 million.

*Ref*

FROM: N M DAWSON  
DATE: 31 December 1986

CHANCELLOR'S OFFICE	12/2
CST OFFICE	36/2
EST OFFICE	43A/2
SIR P MIDDLETON	78A/2
MR SCHOLAR	90/1
MISS O'MARA	97/2
MR P SEDGEWICK	83/G
MR P SPENCER	89/3
MR CULPIN	93/2
MISS SINCLAIR	89/1
MR B NAISBITT	43/3
MR HACCHE	98/2
MR PICKERING	99/2
MR PICKFORD	95/2
MR J CARR	112/G
MR B S KALEN	98/3
MR HUNT	42/3
MR KERLEY	98/2
MR BROOKS	41/3
MR WILLIAMS	90/2
MS HATTER	112/2
MR CROPPER	17/2
MR ROSS-GOOBEY	117/2
MR TYRIE	15A/2
THE DUTY CLERK	10 DOWNING STREET
MR S SHERBOURNE	10 DOWNING STREET
MR J R CALDER	I/R SOMERSET HOUSE
MR D H ROBINSON	DEPT OF FINANCE AND PERSONNEL ECONOMICS DIVISION RM249A STORMONT BELFAST 3S15
MR P MAKEHAM	ENTERPRISE DEREGULATION UNIT RM 636 CAXTON HOUSE
MR DENT	ROOM 536A, DHSS, NEW COURT, CAREY STREET, LONDON

RELEASE DATES FOR ECONOMIC STATISTICS IN JANUARY 1987

I attach the release dates for economic statistics in December.

2 Any enquiries please contact me on 5212, 99/2 HM Treasury.

  
N M DAWSON

## RELEASE DATES FOR ECONOMIC STATISTICS IN JANUARY 1987

WEEK 1

Mon 5	11.30	UK official reserves (Dec)
Tues 6	11.30	Personal income expenditure and saving (3rd qtr)
"	"	Industrial and commercial companies (3rd quarter)
Wed 7	11.30	Housing starts and completions (Nov)
Thurs 8	21.00	Employment gazette (Jan)

WEEK 3

Mon 19	11.30	Retail sales (Dec-prov)
"	"	Public sector borrowing requirement (Dec)
"	"	Index of output of the production industries (Nov)
Tues 20	11.30	Cyclical indicators for the UK economy (Dec)
"	"	Provisional estimates of monetary aggregates
Thurs 22	11.30	Preliminary estimate of consumers' expenditure (4th Qtr-prov)

WEEK 2

Mon 12	11.30	Credit business (Nov)
"	"	Retail sales (Nov-final)
"	"	Producer price index numbers (Dec-prov)
Wed 14	12.00	Building societies' monthly figures (Dec)
Thurs 15	00.30	CBI/F survey of distributive trade (end-Dec)
"	11.30	Quarterly analysis of bank advances (end-Nov)
"	"	Labour market statistics: Unemployment and unfilled vacancies (Dec-prov); average earnings indices (Nov-prov); employment, hours, productivity and unit wage costs; industrial disputes.

Fri 16	11.30	Tax and prices index (Dec)
"	"	Retail prices index (Dec)

WEEK 4

Tues 27	11.30	CBI Industrial Trends Survey (1st Qtr)
Wed 28	11.30	Balance of payments current account and overseas trade figures (Dec)
Thurs 29	11.30	London sterling certificates of deposit (Dec)
"	"	UK banks' assets and liabilities and the money stock (Dec)

N M DAWSON  
HM TREASURY  
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