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PART B

Part. B.

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PART B

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PART B

Chancellor's (Lawson) Papers:

MONTHLY MONETARY
ASSESSMENTS

Disposal Directions: 25 Years

6/9/87.

SECRET AND PERSONAL
UNTIL 11.30 AM TUESDAY 20 OCTOBER 1987

FROM: P H BROOK
DATE: 20 October 1987

MR R I G ALLEN

cc: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler o/r
Sir T Burns
Mr Cassell
Mr Scholar
Mr Peretz
Mr Kelly o/r
Mr Grice
Mr Richardson
Mr Pike/Ms Bronk

SEPTEMBER: PROVISIONAL MONEY FIGURES

I attach the press briefing for today's provisionals. This is as circulated under cover of my minute of 19 October apart from minor amendments to the funding arithmetic. The Chancellor has commented, however, that the point recorded in shorthand in defensive (ii), second indent, should be included as an additional point to make in Section A.

2. There have been no changes to the main figures circulated in my minute of 19 October.

3. Also attached are the Bank's Press Notice and the regular Monthly Statement of the London and Scottish Banks. Any questions on this should be referred to the CLSB press office 01-626-8486.

P. Brook.

P H BROOK

SECRET AND PERSONAL
UNTIL 11.30 AM ON TUESDAY 20 OCTOBER 1987

MONEY SUPPLY IN AUGUST: PRESS BRIEFING

A. POINTS TO MAKE

- Stable and firm exchange rate against DM scarcely suggests resurgence of inflationary pressures. But continue to watch all the indicators carefully.

- Bank lending. Too soon to have analysed last month's figures. But analysis of previous 3 months suggests major factors were (a) sharp rise in mortgage lending (with banks increasing their share of a growing market at the expense of the building societies) and (b) heavy lending to OFIs perhaps associated with activity in financial markets. These trends likely to have continued in September.

- Confirms tendency of private sector borrowing to rise as public sector borrowing declines (see FSBR chart 2.4)

B. FACTUAL

(i) Changes in main monetary aggregates

per cent

	MO	M3	M4	M5
Annual growth rate	+ 5.2	+ 19.5	+ 15.2	+ 14.7
one month change	+ 0.1	+ 1.0	+ 1.0	+ 1.0
	(+ 0.8)	(+ 0.8)	(+ 0.5)	(+ 0.5)

(figures in brackets seasonally adjusted)

(ii) **Monetary Policy - Recent Statements**

(a) **Chancellor's speech to CBI annual dinner 19 May**

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) **Chancellor's speech to FHA annual dinner, 17 June**

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"....the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(c) **Chancellor in response to question whether "too much consumer credit" was reason for rise in interest rates in August (BBC TV News 6 August)**

"No, it's looking at the economic and financial indicators as a whole and deciding that to maintain the sound monetary conditions which have brought inflation down and kept it down it's necessary to have a slight tightening of monetary conditions which means putting interest rates up by 1%."

(d) **Chancellor in press briefing on Washington IMF/World Bank meeting 30 September**

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining" exchange rate stability.

(e) **Chancellor in interview on future economic claims (BBC Radio 4, Today, 7 October)**

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(f) **Chancellor in response to question whether interest rates in UK would rise following increases in Japan, US etc (ITV Channel 4, Business Daily, 15 October)**

"No we are very comfortable with the position at present."

(iii) **Funding:** overfund in September of around £.3 billion. Underfund of PSBR so far in this financial year around £1.9 billion. PSBR April/September 1987 about £1.5 billion; debt sales outside monetary sector and external finance of public sector minus £.4 billion.

C. POSITIVE

(i) **Commitment:** Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation.

(ii) **Sterling**. Remained stable and firm since February Louvre agreement.

D. DEFENSIVE

(i) **Interest rates should be increased?** No. Right to tighten financial conditions a little in August when interest rates raised by 1 per cent. But very comfortable with position now.

(ii) **Bank lending in September evidence of overheating?** **'See points to make'** Also -

- Bank identified a special factor associated with the takeover of a foreign firm which boosts bank lending by £500 million.

- Growth of broad money lower than growth of bank lending: individual counterparts need very careful interpretation nowadays.

(iii) **But bank lending high for a number of months**. Recent growth of lending/liquidity confirms trend of which Government fully aware when decision made to tighten financial conditions a little by raising interest rates by 1 per cent in August. Believe that that increase was enough.

(iv) **Interest rates solely driven by exchange rates?** Not at all. Interest rates continue to be set in the light of a range of factors affecting financial conditions. But for all G7 countries exchange rate stability is an important objective.

(v) <u>Growth of credit/liquidity inflationary</u>? Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has not hesitated to act if necessary.

(vi) <u>Consumer credit boom</u>?

- No evidence that rate of lending to consumers accelerating in recent months.

- Vast bulk of personal borrowing takes form of mortgages, which represented over ¾ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).

(vii) <u>Role of MO</u>? MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

(viii) **Role of exchange rate**. Continuing desire to see exchange rate stability. Balance struck between exchange rate and domestic monetary growth consistent with aims for money GDP and inflation.

(ix) **Role of broad money**. With changes in financial practices, no simple relationship between broad money rowth and money GDP. Government therefore decided should be no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions.

(x) **Funding policy** remains to fund PSBR fully, and no more, over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur). Intervention included in funding - buying dollars equals negative funding.

(xi) **Does Baker's statement show Louvre Accord is dead**. No. Secretary Baker simply pointing out that achieving exhange rate stability requires consistent domestic policy as well as central bank intervention in the foreign exchange markets.

(xii) **Contractionary other counterparts due to September Current Account deficit?** Not necessarily. Wait for full banking figures and September current account figures. £nddls boosted by quarterly interest charging and £0.7 billion Midland rights issue.

PRESS INFORMATION from Banking Information Service

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

NOT FOR PUBLICATION BEFORE 11.30 am
Tuesday, 20th October, 1987

MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS
SEPTEMBER 1987

Sterling advances to the U.K. private sector by the C.L.S.B. groups rose by £3,577 million in September. A large seasonal rise (reflecting quarterly interest charging) was expected, so that after allowing for this and for transit items, the underlying increase was around £2,400 million, much in line with the average monthly rise over the last six months. Bill finance was probably fairly flat this month (although C.L.S.B. holdings of bills rose by some £600 million, acceptances fell by over £200 million).

The analysis of advances, which is not seasonally-adjusted, shows increases in most categories as would be expected with the incidence of quarterly interest charging. The main influence, however, continued to be lending to persons, which accounted for £1,656 million (house purchase +£993 million, including £45 million of bridging finance and lending 'for consumption' +£664 million, including over £150 million of credit card credit after last month's rare fall). These increases were almost exactly the same as in June, the previous interest charging month. Other notable increases this month were to 'other services' (+£712 million), to property companies (+£359 million), to securities dealers (+£208 million), to manufacturers (+£202 million) and to construction (+£202 million). There were, however, reductions in lending in foreign currency (-£273 million, largely to financial companies) and in acceptance finance (-£282 million, largely to manufacturers).

Within the banks' other assets, lending to the L.D.M.A. rose by £379 million and holdings of gilts rose for the first time since March (+£448 million).

On the liabilities side of the balance sheet, deposits from the U.K. private sector rose by £1,244 million. After adjusting for seasonal and other factors, the underlying rise was probably only around £550 million, well down on the recent average monthly increase. Within this, there was a large fall in time deposits, possibly reflecting payments for the Rolls Royce, Midland Bank and other issues. Deposits from the public sector were little changed, but overseas residents' deposits rose by £259 million. The banks' net liabilities in the CD and inter-bank markets also rose, by some £1,600 million.

Within the large increase of £3,604 million in 'Other liabilities', there was a rise of over £2,000 million in the banks' "capital and other funds". This reflected not only the quarterly interest charging but also Midland Bank's £700 million rights issue (the proceeds of the TSB issue did not affect the banks' capital as they were raised by TSB Group plc - a non-monetary sector institution - and were then initially placed on deposit).

Eligible liabilities rose by £3,334 million to £136,952 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)

CONFIDENTIAL UNTIL 11.30 A.M. ON TUESDAY, 20th OCTOBER, 1987

BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT END-SEPTEMBER, 1987

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.

TABLE 1. AGGREGATE BALANCES

£ millions

	Total Outstanding		Change on Month	
LIABILITIES				
STERLING DEPOSITS :				
U.K. monetary sector	32,281		+ 816	
U.K. private sector	118,090		+ 1,238	
U.K. public sector	4,011		- 16	
Overseas residents	16,061		+ 259	
Certificates of deposit	10,433	180,875	- 364	+ 1,933
of which : Sight		81,869		+ 3,548
Time (inc. C.D.'s)		99,006		- 1,615
FOREIGN CURRENCY DEPOSITS :				
U.K. monetary sector	17,356		- 657	
Other U.K. residents	8,222		+ 59	
Overseas residents	42,366		- 893	
Certificates of deposit	4,525	72,469	- 69	- 1,559
TOTAL DEPOSITS		253,345		+ 374
NOTES IN CIRCULATION		1,010		+ 13
OTHER LIABILITIES (a)		47,077		+ 3,666
TOTAL LIABILITIES		301,431		+ 4,053
ASSETS				
STERLING				
Cash & balances with Bank of England:				
Cash ratio deposits	528		0	
Other balances	2,356	2,883	- 84	- 84
Market loans :				
Discount houses	4,861		+ 379	
Other U.K. monetary sector	31,297		- 510	
U.K. monetary sector C.D.'s	3,935		- 699	
Local authorities	1,103		- 17	
Other	6,138	47,334	+ 358	- 489
Bills :				
Treasury bills	373		- 42	
Other bills	4,915	5,288	+ 698	+ 657
Investments :				
British Government stocks	5,355		+ 448	
Other	5,299	10,654	+ 10	+ 458
Advances :				
U.K. private sector	122,016		+ 3,577	
U.K. public sector	300		- 42	
Overseas residents	6,040	128,356	- 88	+ 3,447
Other sterling assets (a)		17,877		+ 1,140
FOREIGN CURRENCIES				
Market loans :				
U.K. monetary sector	17,010		- 560	
Certificates of deposit	402		- 29	
Other	37,659	55,072	- 28	- 618
Bills		433		+ 16
Advances :				
U.K. private sector	8,945		- 273	
U.K. public sector	765		+ 3	
Overseas residents	15,236	24,947	- 287	- 557
Other foreign currency assets (a)		8,588		+ 83
TOTAL ASSETS		301,431		+ 4,053
ACCEPTANCES		5,285		- 192
ELIGIBLE LIABILITIES		136,946		+ 3,328

(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
LIABILITIES									
Sterling deposits									
outstanding	180,875	6,933	40,899	27,253	29,086	49,726	10,390	3,844	12,744
change on month	+ 1,933	+ 177	- 78	+ 159	+ 553	+ 884	- 286	+ 95	+ 429
Foreign currency deposits									
outstanding	72,469	1,063	13,807	9,024	12,948	22,556	4,324	8,545	201
change on month	- 1,559	+ 43	- 753	- 152	+ 133	- 418	- 353	- 85	+ 25
Total deposits									
outstanding	253,345	7,996	54,706	36,278	42,035	72,282	14,715	12,389	12,945
change on month	+ 374	+ 219	- 831	+ 7	+ 686	+ 467	- 638	+ 10	+ 454
STERLING ASSETS									
Cash and Balances with the Bank of England									
outstanding	2,883	289	493	301	517	558	554	28	143
change on month	- 84	- 36	+ 26	+ 34	- 73	- 39	- 2	+ 7	- 2
Market loans :									
U.K. monetary sector									
outstanding	36,157	900	6,671	4,365	5,192	13,567	1,361	1,140	2,961
change on month	- 131	+ 166	- 563	+ 75	+ 191	- 282	- 316	+ 196	+ 402
Other									
outstanding	11,176	135	2,854	1,253	1,330	3,158	509	282	1,656
change on month	- 358	- 1	- 198	- 108	+ 252	- 3	- 128	- 3	- 169
Bills									
outstanding	5,288	214	1,245	1,252	252	1,297	414	69	544
change on month	+ 657	- 10	+ 125	- 50	+ 170	+ 447	+ 58	+ 5	- 88
British government stocks									
outstanding	5,355	128	1,196	548	830	560	253	208	1,632
change on month	+ 448	- 47	+ 137	+ 12	+ 226	+ 15	+ 6	+ 3	+ 96
Advances									
outstanding	128,356	5,959	30,134	19,920	21,784	32,142	8,490	3,386	6,541
change on month	+ 3,447	+ 46	+ 786	+ 336	+ 640	+ 1,398	+ 229	- 127	+ 138
FOREIGN CURRENCY ASSETS									
Market loans and bills									
outstanding	55,505	504	10,979	7,321	8,057	18,936	3,225	6,156	328
change on month	- 602	+ 129	- 345	+ 68	+ 292	- 659	+ 8	- 193	+ 98
Advances									
outstanding	24,947	772	3,676	3,475	6,247	5,806	1,493	3,405	74
change on month	- 557	- 45	- 123	- 51	- 55	- 99	- 286	+ 108	- 6
ACCEPTANCES									
outstanding	5,285	211	1,445	333	1,113	1,305	444	238	196
change on month	- 192	- 41	- 70	- 50	- 73	+ 96	- 48	- 18	+ 12
ELIGIBLE LIABILITIES									
outstanding	136,946	5,897	32,410	21,604	23,196	33,576	8,549	2,597	9,118
change on month	+ 3,328	- 32	+ 1,044	+ 216	+ 522	+ 1,195	+ 294	- 94	+ 184

COMPOSITION OF GROUPS (U.K. offices only)

The Bank of Scotland Group comprises Bank of Scotland, 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, 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 RoyScot 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.

THE COMMITTEE of LONDON and SCOTTISH BANKERS'
STATISTICAL UNIT
10 Lombard Street, London EC3V 9AP
Telephone : 01-283-8866

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: SEPTEMBER 1987

1 Provisional information suggests the following:

% changes	M0	M3	M4	M5
12 months to September (not seasonally adjusted)	+5.2	+19.5	+15.2	+14.7
September - not seasonally adjusted	+0.1	+ 1.0	+ 1.0	+ 1.0
seasonally adjusted	+0.8	+ 0.8	+ 0.5	+ 0.5

2 Provisional counterparts to the changes in September in broad money (M3, M4 and M5) are:

£ billion, not seasonally adjusted	M3 Sept	M3 Latest 12 months	M4 Sept	M4 Latest 12 months	M5 Sept	M5 Latest 12 months
A PSBR	-	- 1.0	-	- 1.0	-	- 1.0
B debt sales to private sector(-)(1)	-	+ 0.3	-0.1	- 2.9	+0.2	- 2.6
C external flows to public sector(-)	-0.3	+ 0.4	-0.3	+ 0.3	-0.3	+ 0.3
D public sector contribution (A+B+C)	-0.3	- 0.3	-0.4	- 3.6	-0.1	- 3.3
E sterling lending(2)	+5.4	+37.1	+6.8	+53.9	+6.6	+54.3
F other counterparts(3)	-3.4	- 8.1	-3.4	-11.8	-3.4	-11.8
Total (D+E+F)	+1.7	+28.7	+3.0	+38.5	+3.1	+39.2
Sterling lending (seasonally adjusted)	+4.4		+5.9		+5.7	
(average of previous 6 months)	+2.9		+4.2		+4.3	

(1) Sales of public sector debt to the private sector other than banks (and, for M4 and M5, building societies), with an adjustment in the case of M5 for private holdings of certain liquid government debt.

(2) Lending by banks (and, for M4 and M5, by building societies) to the rest of the private sector; includes Issue Department holdings of commercial bills. For M5, an adjustment is necessary for private holdings of certain money-market instruments etc.

(3) External and foreign currency transactions and net non-deposit liabilities of banks (and, for M4 and M5, of building societies).

3 In September, a rights issue by Midland Bank (£0.7 bn) will have increased net non-deposit sterling liabilities (a negative contribution within "other counterparts"). The final payment under the TSB offer-for-sale will not have affected the monetary sector's non-deposit liabilities because the payment relates to shares in the TSB Group plc, which is not a monetary sector institution.

4 Full money and banking figures for September, including revised estimates of the figures given above, will be published on 29 October.

BANK OF ENGLAND
20 October 1987

FROM: CATHY RYDING
DATE: 20 October 1987

MR PERETZ

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr R I G Allen
Mr Grice
Mr Richardson
Mr Pike
Mr P Brook
Mr Cropper

PROVISIONAL MONEY FIGURES

The Chancellor was grateful for your minute of 19 October and is content with the draft press briefing.

2. On your paragraph 4 the Chancellor thinks that both (a) and (b) are points worth making - but the latter in a low key way, and the former, on reflection, need not be in a low key way at all.

CR

CATHY RYDING

45/024

CONFIDENTIAL

RD

FROM: MS V F BRONK
DATE: 22 October 1987

1. MR GRICE ✓
2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz
Mrs Lomax
Mr C W Kelly o/r
Mr Bottrill
Mr Richardson
Mr Westaway
Mr Pike

The acceleration in the 12 month growth rate to just below the target range ceiling was expected. It should decline again in November, though there is a potential presentational difficulty in the interim.

JWG 22.10.87

M0 FIGURES

The latest weekly figures for M0, covering the third week of October, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 5.5 per cent (5.5 per cent not seasonally adjusted). This annual rate is distorted upwards by abnormally low bankers' deposits a year ago. The annual growth rate of notes and coin to the latest four week period is 5.1 per cent. Annualised growth of notes and coin to the latest three month period was 6½ per cent, compared with about 9½ per cent a month ago.

Vyvien Bronk

MS V F BRONK

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets) Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month Notes (sa) and coin	MO (sa)	% change on year earlier Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)
1987													
April	14,930	14,902	(+94)	204	15,134	15,106	(+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,972	14,975	(+73)	204	15,176	15,179	(+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,946	15,070	(+95)	137	15,083	15,207	(+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,153	(+83)	235	15,506	15,388	(+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,337	15,258	(+105)	182	15,519	15,440	(+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,374	(+116)	184	15,533	15,558	(+118)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October† (3 of 4)	15,290	15,438	(+64)	202	15,492	15,640	(+82)	+0.4	+0.5	+5.0	+5.1	+5.4	+5.5
Latest 4 weeks†	15,294	15,425	(+54)	182	15,476	15,606	(36)	+0.3	+0.2	+5.1	+5.1	+5.5	+5.5

Weekly data	Notes and coin (sa)		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
September						
2nd	15,405	(+89)	325	15,730	(+212)	+1.4
9th	15,374	(-31)	214	15,588	(-142)	-0.9
16th	15,336	(-38)	165	15,501	(-87)	-0.6
23rd	15,368	(+32)	96	15,464	(-37)	-0.2
30th	15,385	(+17)	122	15,507	(+43)	+0.3
October†						
7th	15,431	(+46)	190	15,621	(+114)	+0.7
14th	15,415	(-16)	192	15,607	(-14)	-0.1
21st	15,467	(+52)	223	15,690	(+83)	+0.5

† Most recent data include estimates only for coin and unbacked note issues. The percentage changes for October 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

FROM: P H BROOK

DATE: 23 October 1987

MR D L C PERETZ

cc: APS/Chancellor
Mr Cassell
Mr Grice
Mr Kelly o/r
Mr Richardson
Mr Pike
Ms Bronk

"FIRST GUESS" RESIDUAL

In view of the Chancellor's comments on September's "first guess" (Ms Ryding's minute of 13 October, copy attached), I think that it is worth setting out a brief explanation of how the "residual" arises.

2. The "first guess" is based on weekly reports from a sample of about 100 banks from the full bank population of 600+. Transactions with the sample banks normally account for about 90 per cent of the increase in M3. The sample will, however, always account for a different proportion of the components of M3 than it does of the individual and total counterparts. For instance those banks chosen as major deposit takers from the nbps do not necessarily account for the majority of lending to the nbps. And total counterparts would not equal total components because of inter-bank activity between weekly reporting and other banks.

3. As well as being completed by only a sample of banks, the weekly returns do not provide a full balance sheet, and exclude inter-bank activity as well as a number of other items such as net sterling and foreign currency non-deposit liabilities. The "residual" is a balancing item accounting for these items. I attach at Annex A a very simple example of how this might arise in practice.

4. There is no "residual", as such, in the provisional money figures because they are based on full balance sheet returns from all but the smallest banks. At this stage however, the "interbank

differences" come into play. Because of misreporting by banks, when all the inter-bank activity is added up, total lending reported to other banks never equals total borrowing reported from other banks. The difference between the two, the "interbank difference", is included in the counterparts as a balancing item. For transactions in sterling the "interbank difference" is added in to sterling net non-deposit liabilities, for transactions in foreign currency into the externals.

5. I attach at Annex B a list of the "residual" in the "first guess" and the sterling and foreign currency "interbank differences" in the provisional money figures over the last nine months. In September the total "interbank difference" at minus £257 million was much smaller than the "residual" of minus £3654 million. This is by no means always true, the total "interbank difference" being on occasions considerably larger and sometimes in the opposite direction to the "residual". Generally, however, when the total "interbank difference" is large it is concentrated in the foreign currency "interbank difference". This is one of the reasons why great care is necessary when trying to interpret the behaviour of the externals.

P H BROOK

ANNEX A

SAMPLE WEEKLY BANK RETURN:

Assets		Liabilities	
£ lending to nbps	+50	£ deposits from nbps	+100
£ lending to overseas	+40		
	+90		+100

Difference of 10 accounted for by unreported items.

FIRST GUESS WOULD SHOW:

Counterparts		Components	
£ lending to nbps	+ 50	£ deposits	+100
Externals	+ 40		
Residual	+ 10		
M3	+100		+100

ANNEX B

(Change in)
(£ million)

	FIRST GUESS "RESIDUAL"	PROVISIONAL "INTERBANK DIFFERENCES"		
		Sterling	Foreign Currency	Total
September	-3654	-356	99	- 257
August	604	-175	816	641
July	192	- 42	270	228
June	-1301	392	- 536	- 144
May	- 433	-402	- 936	-1338
April	Not available	73	- 436	- 363
March	612	-288	-1161	-1449
February	1046	-292	+ 589	297
January	-1529	-118	+ 559	441

RC6.22 SECRET AND PERSONAL

155/10.

FROM: CATHY RYDING
DATE: 13 October 1987

MR P H BROOK

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Grice
Mr C W Kelly
Mr Pike
Mr Richardson
Ms Bronk

MONEY SUPPLY IN SEPTEMBER: "FIRST GUESS"

The Chancellor was grateful for your minute of 12 October.

2. The Chancellor has noted that the Bank lending figure would cause a stir unless the negative residual reduces it. He thinks it is most important that every effort is made to allocate most of the massive negative residuals.

CR

CATHY RYDING

Mr Brooke

I assume the message has been passed to the Bank.

[signature] 14/10

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 29 OCTOBER

pup

FROM: P H BROOK
DATE: 27 OCTOBER 1987

MR CASSELL

cc: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr R I G Allen
Mr Peretz
Mr Grice
Mr Kelly
Mr Pickford
Mr Pike
Mr Richardson
Ms Bronk
Mr Cropper

FULL MONEY FIGURES - SEPTEMBER

I attach the Bank's draft press release on the full money figures which will be published at 11.30 am on Thursday 29 October.

2. There are a number of changes to the provisional figures released on 20 October. The PSBR in September has been revised from flat to £0.2 billion. This does not affect the growth rate of M3 in September. The twelve month growth rates of M4 and M5 have been revised down by 0.3 per cent and 0.4 per cent respectively to 14.9 per cent and 14.3 per cent. These revisions are due to alterations to earlier data rather than changes to the September figures.

3. The attached press briefing has been revised slightly from that agreed for the provisional figures. I have included at factual (ii) (f) the Chancellor's explanation of the interest rate cut on 'World at One' on 23 October. The funding arithmetic factual (iii) has been affected by the amendment to the PSBR. I have include a line - provided by PSF - on the revision to the PSBR at factual (iv). Some of the defensive material was redundant in the light of recent developments and has been deleted.

4. I would be grateful for comments on the Bank's draft press release by noon on Wednesday 29 October and any comments on the press briefing by close that day.

P H BROOK

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 29 OCTOBER 1987

MONEY SUPPLY IN SEPTEMBER: PRESS BRIEFING

A. POINTS TO MAKE

- Stable and firm exchange rate against DM scarcely suggests resurgence of inflationary pressures. But continue to watch all the indicators carefully.

- Bank lending. Too soon to have analysed last month's figures. But analysis of previous 3 months suggests major factors were (a) sharp rise in mortgage lending (with banks increasing their share of a growing market at the expense of the building societies) and (b) heavy lending to OFIs perhaps associated with activity in financial markets. These trends likely to have continued in September.

- Confirms tendency of private sector borrowing to rise as public sector borrowing declines (see FSBR chart 2.4)

B. FACTUAL

(i) **Changes in main monetary aggregates**

	per cent			
	MO	**M3**	**M4**	**M5**
Annual growth rate	+ 5.2	+ 19.4	+ 14.9	+ 14.3
one month change	+ 0.1 (+ 0.8)	+ 1.0 (+ 0.8)	+ 1.1 (+ 0.5)	+ 1.0 (+ 0.5)

(figures in brackets seasonally adjusted)

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 29 OCTOBER 1987

(ii) **Monetary Policy - Recent Statements**

(a) **Chancellor's speech to CBI annual dinner 19 May**

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) **Chancellor's speech to FHA annual dinner, 17 June**

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"....the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(c) **Chancellor in response to question whether "too much consumer credit" was reason for rise in interest rates in August (BBC TV News 6 August)**

"No, it's looking at the economic and financial indicators as a whole and deciding that to maintain the sound monetary conditions which have brought inflation down and kept it down it's necessary to have a slight tightening of monetary conditions which means putting interest rates up by 1%."

(d) **Chancellor in press briefing on Washington IMF/World Bank meeting 30 September**

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining" exchange rate stability.

(e) **Chancellor in interview on future economic claims (BBC Radio 4, Today, 7 October)**

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(f) **Chancellor on ½ per cent cut in interest rates (World at One 23 October)**

"We have a policy of keeping inflation down, that is vitally important .... that does from time to time involve a higher rate of interest in order to keep conditions sufficiently tight. But at other times we can make do with a lower interest rate ...... I think even those who were saying earlier that there was a danger of the economy over-heating are unlikely to make any such judgements now in the light of what has happened in equity markets in this country and throughout the world. So I believe that within the prudent policy we have been pursuing it was right to reduce interest rates. I think that one has to take conditions, all conditions, into account all the time and that is what we do."

(iii) **Funding:** overfund in September of around £.2 billion. Underfund of PSBR so far in this financial year around £2.0 billion. PSBR April/September 1987 about £1.6 billion; debt sales outside monetary sector and external finance of public sector minus £.4 billion.

(iv) **PSBR in September revised up from zero to £0.2 billion** Revisions are not uncommon and are the result of later information (in this case full quarterly information from the banks). This revision is slightly larger than usual but does not significantly change the overall fiscal position. Excluding privatisation proceeds PSBR in first 6 months of 1987-88 is £1¼ billion below correspondingly period in 1986-87.

C. POSITIVE

(i) **Commitment:** Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation.

(ii) **Sterling.** Remained stable and firm since February Louvre agreement.

D. DEFENSIVE

(i) **Why were interest rates lowered?** See factual (ii) (f).

(ii) **Bank lending in September evidence of overheating?** **'See points to make'** Also -

- Bank identified a special factor associated with the takeover of a foreign firm which boosts bank lending by £500 million.

- Growth of broad money lower than growth of bank lending: individual counterparts need very careful interpretation nowadays.

(iii) **Interest rates solely driven by exchange rates?** Not at all. Interest rates continue to be set in the light of a range of factors affecting financial conditions. But for all G7 countries exchange rate stability is an important objective.

(iv) **Growth of credit/liquidity inflationary?** Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has not hesitated to act if necessary.

(v) **Consumer credit boom?**

- No evidence that rate of lending to consumers accelerating in recent months.

- Vast bulk of personal borrowing takes form of mortgages, which represented over ¾ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).

(vi) **Role of MO?** MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

(vii) **Role of exchange rate**. Continuing desire to see exchange rate stability. Balance struck between exchange rate and domestic monetary growth consistent with aims for money GDP and inflation.

(viii) **Role of broad money**. With changes in financial practices, no simple relationship between broad money rowth and money GDP. Government therefore decided should be no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions.

(ix) **Funding policy** remains to fund PSBR fully, and no more, over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur). Intervention included in funding - buying dollars equals negative funding.

MONETARY AGGREGATES & BANKING STATISTICS: SEPTEMBER 1987

1 The changes in the monetary aggregates are summarised below:

	12 months to September 1987	September 1987	
	not seasonally adjusted	not seasonally adjusted	seasonally adjusted
M0	5.2%	0.1%	0.8%
M1	20.4%	1.8%	1.9%
of which, non-interest-bearing M1	6.3%	1.1%	1.5%
M2	10.1%	1.1%	1.1%
M3	19.5%	1.0%	0.8%
M3c	18.4%	0.8%	0.6%
M4	14.9%	1.1%	0.5%
M5	14.3%	1.0%	0.5%

2 Tables A-G and I show the components and counterparts of the monetary aggregates. Tables K-N show the details of the banks' and discount market's balance sheets. Transactions of the consolidated UK monetary sector, excluding interbank items and valuation changes on foreign currency items, are shown in Table H. An article in the May 1987 Quarterly Bulletin ("Measures of broad money", page 212) discussed the construction of the broad monetary aggregates.

3 Details of the building societies' balance sheets are shown in "Financial Statistics" (Tables 7.6-7.8), published by the Central Statistical Office. The October 1987 edition incorporates newly-available data for end-December 1986: but, as mentioned in a note to those tables, the flows shown there for January 1987 may include some break in the series, and so the new data have not yet been incorporated in the money and banking statistics shown here.

4 In September, a rights issue by Midland Bank (£0.7 bn) will have increased net non-deposit sterling liabilities (a negative contribution within "other counterparts"). The final payment under the TSB offer-for-sale will not have affected the monetary sector's non-deposit liabilities because the payment relates to shares in the TSB Group plc, which is not a monetary sector institution.

5 Estimated seasonal movements in October 1987

As the annual review of the seasonal adjustments is currently in progress the provisional seasonal movements for October 1987 are not yet available. The revised adjustments are expected to be published for the first time with the provisional ~~November~~ October monetary aggregates on 19 November, together with any revisions to the main aggregates in previous months.

BANK OF ENGLAND
29 October 1987

PPS

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 29 OCTOBER 1987

PMP

MONEY SUPPLY IN SEPTEMBER: PRESS BRIEFING

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per cent

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	(+ 0.8)	(+ 0.8)	(+ 0.5)	(+ 0.5)

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"....the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

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(g) **Effect of fall in equity prices on monetary conditions, Chancellor's statement on financial situation 27 October**. "The sharp falls in share prices throughout the world over the past fortnight will tighten monetary conditions somewhat and are likely to have a dampening effect on world demand."

(iii) **Funding:** overfund in September of around £.2 billion. Underfund of PSBR so far in this financial year around £2.0 billion. PSBR April/September 1987 about £1.6 billion; debt sales outside monetary sector and external finance of public sector minus £.4 billion.

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D. DEFENSIVE

(i) **Why were interest rates lowered?** See factual (ii) (f).

(ii) **Was it part of an international (G7) concerted effort?** No, but Chancellor of course has kept in close contact with G7 colleagues during period of stock market votalitity.

(iii) **Are further cuts on the way?** Unhelpful to speculate.

(iv) **Bank lending in September evidence of overheating?** **'See points to make'** Also -

- Bank identified a special factor associated with the takeover of a foreign firm which boosts bank lending by £500 million.

- Growth of broad money lower than growth of bank lending: individual counterparts need very careful interpretation nowadays.

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Banking statistics

September 1987

A Public sector borrowing requirement, and other counterparts to changes in M3 [a]

£ millions

	Public sector borrowing requirement (surplus–): Central government borrowing requirement	Public sector borrowing requirement (surplus–): Other public sector contribution	Purchases (–) of public sector debt by UK private sector (other than banks): Other public sector debt	Purchases (–) of public sector debt by UK private sector (other than banks): Central government debt [b]: British government stocks	Purchases (–) of public sector debt by UK private sector (other than banks): Central government debt [b]: Other	External and foreign currency finance of public sector (increase–): Purchases of British government stocks by overseas sector	External and foreign currency finance of public sector (increase–): Other	Banks' sterling lending to UK private sector [c]	External and foreign currency transactions of UK banks: Sterling deposits from, net of market loans to, banks abroad (increase–)	External and foreign currency transactions of UK banks: Other overseas sterling deposits (increase–)	External and foreign currency transactions of UK banks: Other sterling lending to overseas sector[d]	External and foreign currency transactions of UK banks: Banks' net foreign currency liabilities (increase–)	Net non-deposit sterling liabilities (increase–)	M3 (columns 1-13)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Calendar month (unadjusted)														
1986 Sept. [e]	+ 2,570	– 381	+ 47	+ 329	+ 118	+ 300	– 237	+ 1,995			– 242			+ 4,499
Oct. [e]	– 158	– 6	– 27	– 1,147	– 80	– 240	– 184	+ 3,315	+ 689	–484	+ 786	– 289	– 897	+ 1,278
Nov.	+ 496	– 513	+ 426	– 628	– 321	– 254	– 21	+ 3,253	– 803	+255	+ 20	+ 656	– 341	+ 2,225
Dec. [f]	– 1,406	– 52	– 58	+ 135	– 19	– 231	+ 57	+ 3,973	– 719	–180	+ 560	– 2,072	+ 279	+ 267
1987 Jan.	– 3,280	– 421	+ 45	+ 511	+ 351	+ 166	+ 256	+ 1,435	– 1,004	–475	– 23	+ 963	+ 236	– 1,240
Feb.	+ 179	– 585	+ 184	+ 460	– 209	– 237	+ 152	+ 2,606	+ 845	–550	– 206	+ 100	+ 191	+ 2,930
Mar.	+ 4,341	– 1,070	+ 169	+ 745	– 282	– 719	+1,160	+ 3,374	+ 1,395	–742	– 494	+ 807	– 1,887	+ 6,797
Apr.	+ 2,459	– 571	+ 383	– 165	– 61	– 625	+1,777	+ 1,130	– 724	+194	– 18	– 559	– 35	+ 3,185
May	+ 1,623	– 1,863	+ 600	– 814	– 452	– 12	+2,865	+ 2,187	– 987	–765	– 31	+ 1,439	– 646	+ 3,144
June	– 38	– 586	+ 207	– 165	– 596	– 1,014	– 610	+ 4,686	+ 947	+428	– 301	– 231	– 842	+ 1,885
July	– 296	– 80	+ 196	+ 629	– 121	– 1,194	+ 424	+ 4,579	– 492	–491	+ 590	– 1,131	+ 1,586	+ 4,199
Aug.	+ 844	– 99	+ 357	+ 279	– 226	– 526	– 331	+ 1,159	+ 955	–198	– 517	+ 531	+ 44	+ 2,272
Sept.	– 198	+ 386	– 169	+ 233	– 76	– 551	+ 165	+ 5,434	+ 260	+ 61	– 34	– 1,134	– 2,620	+ 1,757

B Public sector borrowing requirement, and other counterparts to changes in M4 and M5

£ millions

	Public sector borrowing requirement (surplus–)	Purchases (–) of public sector debt by UK private sector (other than banks and building societies): Other public sector debt	Purchases (–) of public sector debt by UK private sector (other than banks and building societies): Central government debt: British government stocks	Purchases (–) of public sector debt by UK private sector (other than banks and building societies): Central government debt: Other	External and foreign currency finance of public sector (increase–)	Banks' sterling lending to UK private sector excluding building societies [c]	Building societies sterling lending to UK private sector	External and foreign currency transactions of banks and building societies [d]	Net non-deposit sterling liabilities (increase–): Banks	Net non-deposit sterling liabilities (increase–): Building societies	M4 (columns 15-24)	Purchases (–) of public sector debt [g]	Bank bills	M5 (columns 25 –16 –17 18 +26 +27)
	15=1+2	16	17	18	19=6+7	20	21	22	23	24	25	26	27	28
Calendar quarter (unadjusted)														
1986 Q1	– 1,849	+ 158	– 671	– 27	+ 313	+ 7,262	+ 3,867	+ 811	– 571	+ 880	+ 10,173	– 887	– 26	+ 9,800
Q2	+ 2,182	+ 1,391	– 1,405	– 810	– 381	+ 5,289	+ 5,083	+ 1,134	– 1,668	– 944	+ 9,871	– 984	+ 382	+10,093
Q3	+ 3,573	– 4	– 1,647	– 902	– 993	+ 5,218	+ 5,592	– 1,040	– 567	– 1,952	+ 7,278	– 2,209	+ 244	+ 7,866
Q4	– 1,639	+ 114	– 1,732	– 409	– 873	+ 10,228	+ 4,667	– 1,775	– 959	– 680	+ 6,942	– 2,118	– 54	+ 6,797
Calendar month (unadjusted)														
1987 Jan.	– 3,701	– 460	– 256	+ 81	+ 422	+ 1,390	+ 1,304	– 615	+ 236	+ 1,255	– 344	– 1,182	+ 205	– 686
Feb.	– 406	+ 173	+ 100	– 397	– 85	+ 2,600	+ 980	– 100	+ 191	– 601	+ 2,455	+ 51	– 29	+ 2,601
Mar.	+ 3,271	+ 81	+ 377	– 359	+ 441	+ 3,084	+ 1,180	+ 817	– 1,887	– 353	+ 6,652	+ 167	+ 241	+ 6,961
Apr.	+ 1,888	+ 149	– 586	– 48	+ 1,152	+ 1,288	+ 1,590	– 1,167	– 35	– 694	+ 3,537	– 523	+ 58	+ 3,557
May	– 240	+ 314	– 729	– 415	+ 2,853	+ 2,167	+ 1,295	– 404	– 646	– 860	+ 3,335	– 473	+ 309	+ 4,001
June	– 624	– 18	+ 247	– 504	– 1,624	+ 5,024	+ 1,355	+ 751	– 842	+ 260	+ 4,025	– 4	– 160	+ 4,136
July	– 376	+ 71	+ 832	– 145	– 770	+ 4,456	+ 1,302	– 1,655	+ 1,586	– 41	+ 5,260	+ 768	+ 34	+ 5,304
Aug.	+ 745	+ 305	+ 416	– 144	– 857	+ 1,060	+ 1,269	+ 705	+ 44	– 797	+ 2,746	+ 392	+ 53	+ 2,614
Sept.	+ 188	– 83	+ 141	– 256	– 386	+ 5,468	+ 1,318	– 962	– 2,620	+ 245	+ 3,053	+ 138	– 238	+ 3,151

[a] Up to September 1986, calendar month data are partly estimated (see the note 'Banking and monetary statistics: a change in reporting dates' in the December 1986 *Quarterly Bulletin* — page 519).

[b] Purchases (–) of central government debt by the UK private sector (other than banks) are analysed in Table G.

[c] Including net purchases by the Issue Department of commercial bills and of promissory notes relating to shipbuilding paper guaranteed by the Department of Trade and Industry.

[d] Including net purchases of ECGD-backed promissory notes by the Issue Department.

[e] The figures for September and October 1986 are heavily distorted by the large flow of funds associated with the oversubscription to the sale of shares in TSB Group p.l.c.

[f] British Gas was transferred from the public sector to the private sector during December 1986. To remove the distortion caused by this transfer, the *changes* in the aggregates in December 1986 have been stated, where appropriate, after the exclusion of some £3¾ billion of bank deposits and CDs, and a similar amount of certain other liquid assets.

[g] Excluding those instruments included within M5.

C M1, M3 and M3c: amounts outstanding [a]

£ millions

	Notes and coin in circulation with public	UK private sector sterling sight deposits: Non-interest-bearing [b]	Non-interest-bearing M1 (columns 1 + 2): Unadjusted	Non-interest-bearing M1 (columns 1 + 2): Seasonally adjusted	UK private sector sterling sight deposits: Interest bearing	M1 (columns 3 + 4): Unadjusted	M1 (columns 3 + 4): Seasonally adjusted	UK private sector sterling time deposits[c]	M3 (columns 5 + 6): Unadjusted	M3 (columns 5 + 6): Seasonally adjusted	UK private sector deposits in other currencies [c]	[illegible]umns 7 + 8): Unadjusted
	1	2	3		4	5		6	7		8	9
Calendar month												
1986 Aug.	13,211	26,270	39,481	39,012	31,103	70,584	70,194	72,105	142,689	142,841	. .	. .
Sept. [d]	12,465	29,687	42,152	42,278	31,669	73,821	73,957	73,177	146,998	147,110	27,147	174,145
Oct.	13,082	27,023	40,105	39,575	33,435	73,540	73,058	74,730	148,270	147,279	28,111	176,381
Nov.	13,414	27,618	41,032	40,005	34,706	75,738	74,785	74,758	150,496	149,220	29,035	179,531
Dec. [d]	13,353	28,089	41,442	40,317	33,802	75,244	74,120	76,484	151,728	150,422	28,596	180,324
1987 Jan.	13,065	26,538	39,603	40,719	35,387	74,990	76,139	75,498	150,488	151,991	28,949	179,437
Feb.	13,119	27,003	40,122	41,368	35,272	75,394	76,705	78,060	153,454	155,434	28,834	182,288
Mar. [d]	12,734	28,446	41,180	41,118	38,556	79,736	79,678	80,368	160,104	160,418	28,580	188,684
Apr.	13,159	28,497	41,656	40,960	38,788	80,444	79,789	82,846	163,290	163,388	29,987	193,277
May	13,418	29,405	42,823	42,357	40,587	83,410	83,022	83,023	166,433	166,720	29,281	195,714
June [d]	13,024	31,271	44,295	43,939	41,219	85,514	85,165	82,805	168,319	168,419	28,790	197,109
July	13,742	30,648	44,390	43,731	42,117	86,507	85,890	86,020	172,527	172,344	30,591	203,118
Aug.	13,760	30,550	44,310	43,928	43,359	87,669	87,372	87,130	174,799	174,918	30,615	205,414
Sept. [d]	13,206	31,587	44,793	44,573	44,463	89,256	89,046	87,309	176,565	176,383	30,433	206,998

D M1, M3 and M3c: changes[a][e]

£ millions: *percentages in italics*

	Notes and coin in circulation with public	UK private sector sterling sight deposits: Non-interest-bearing [b]	Non-interest-bearing M1 (columns 1 + 2)	12-month change	UK private sector sterling sight deposits: Interest-bearing	M1 (columns 3 + 4)	12-month change	UK private sector sterling time deposits [c]	M3 (columns 5 + 6)	12-month change	UK private sector deposits in other currencies[c]: Trans-actions	Valuation changes [f]	M3C (columns 7 + 8)
	1	2	3		4	5		6	7		8		9
Calender month (unadjusted)													
1986 Sept. [g]	− 733	+3,433	+2,700	+ *16.4*	+ 586	+3,286	+ *24.6*	+1,213	+4,499	+ *19.0*	. .	. .	. .
Oct.	+ 634	−2,663	−2,029	+ *12.0*	+1,766	− 263	+ *23.8*	+1,541	+1,278	+ *18.5*	+ 559	+ 405	+ 2,242
Nov.	+ 332	+ 594	+ 926	+ *10.0*	+1,271	+2,197	+ *23.5*	+ 28	+2,225	+ *18.6*	+1,181	− 257	+ 3,149
Dec. [g]	− 61	+ 471	+ 410	+ *11.2*	−1,281	− 871	+ *21.2*	+1,138	+ 267	+ *18.1*	+ 147	− 623	− 209
1987 Jan.	− 288	−1,551	−1,839	+ *10.8*	+1,585	− 254	+ *23.2*	− 986	−1,240	+ *17.6*	+ 464	− 111	− 887
Feb.	+ 54	+ 465	+ 519	+ *10.5*	− 127	+ 392	+ *21.2*	+2,538	+2,930	+ *19.0*	+ 349	− 464	+ 2,815
Mar.	− 385	+1,443	+1,058	+ *10.3*	+3,306	+4,364	+ *22.5*	+2,433	+6,797	+ *19.0*	+ 621	− 804	+ 6,614
Apr.	+ 425	+ 50	+ 475	+ *11.9*	+ 232	+ 707	+ *23.2*	+2,478	+3,185	+ *20.4*	+2,233	− 826	+ 4,592
May	+ 259	+ 909	+1,168	+ *12.1*	+1,799	+2,967	+ *23.7*	+ 177	+3,144	+ *18.8*	−1,065	+ 359	+ 2,438
June	− 394	+1,865	+1,471	+ *13.6*	+ 632	+2,103	+ *23.8*	− 218	+1,885	+ *19.1*	− 672	+ 180	+ 1,393
July	+ 718	− 620	+ 98	+ *12.4*	+ 886	+ 984	+ *22.5*	+3,215	+4,199	+ *20.8*	+1,617	+ 185	+ 6,001
Aug.	+ 18	− 98	− 80	+ *12.1*	+1,242	+1,162	+ *23.8*	+1,110	+2,272	+ *22.0*	+ 407	− 382	+ 2,297
Sept.	− 554	+1,037	+ 483	+ *6.3*	+1,104	+1,587	+ *20.4*	+ 170	+1,737	+ *19.5*	2	− 181	+ 1,574
Calendar month (seasonally adjusted)				1-month change			1-month change			1-month change			
1986 Sept. [g]	. .	. .	+3,307	+ *8.5*	+ 517	+3,824	+ *5.4*	+ 658	+4,482	+ *3.1*	. .	. .	. .
Oct.	. .	. .	−2,697	− *6.4*	+1,804	− 893	− *1.2*	+1,059	+ 166	+ *0.1*	+ 559	+ 405	+ 1,130
Nov.	. .	. .	+ 433	+ *1.1*	+1,297	+1,730	+ *2.4*	+ 215	+1,945	+ *1.3*	+1,181	− 257	+ 2,869
Dec. [g]	. .	. .	+ 327	+ *0.8*	−1,354	−1,027	− *1.4*	+1,277	+ 250	+ *0.2*	+ 147	− 623	− 226
1987 Jan.	. .	. .	+ 407	+ *1.0*	+1,617	+2,024	+ *2.7*	− 450	+1,574	+ *1.0*	+ 464	− 111	+ 1,927
Feb.	. .	. .	+ 676	+ *1.7*	− 95	+ 581	+ *0.8*	+2,850	+3,431	+ *2.3*	+ 349	− 464	+ 3,316
Mar.	. .	. .	− 227	− *0.5*	+3,245	+3,018	+ *3.9*	+2,132	+5,150	+ *3.3*	+ 621	− 804	+ 4,967
Apr.	. .	. .	− 92	+ *0.2*	+ 269	+ 177	+ *0.2*	+2,803	+2,980	+ *1.9*	+2,233	− 826	+ 4,387
May	. .	. .	+1,435	+ *3.5*	+1,836	+3,271	+ *4.1*	+ 87	+3,358	+ *2.1*	−1,065	+ 359	+ 2,652
June	. .	. .	+1,596	+ *3.8*	+ 561	+2,157	+ *2.6*	− 451	+1,706	+ *1.0*	− 672	+ 180	+ 1,214
July	. .	. .	− 166	− *0.4*	+ 921	+ 755	+ *0.9*	+3,194	+3,949	+ *2.3*	+1,617	+ 185	+ 5,751
Aug.	. .	. .	+ 250	+ *0.6*	+1,285	+1,535	+ *1.8*	+1,085	+2,620	+ *1.5*	+ 407	− 382	+ 2,645
Sept.	. .		+ 663	+ *1.5*	+1,029	+1,692	+ *1.9*	− 219	+1,473	+ *0.8*	+ 2	− 181	+ 1,294

E M2: amounts outstanding and changes [a][e]

£ millions: *percentages in italics*

	Non-interest-bearing M1: Amount outstanding	Change in month	Other UK private sector sterling retail deposits with banks [h]: Amount outstanding	Change in month	UK private sector retail shares and deposits with building societies [h]: Amount outstanding	Change in month	National Savings Bank ordinary account: Amount outstanding	Change in month	M2 (columns1-4) Unadjusted: Amount outstanding	Change in month	12-month change	M2 Seasonally adjusted: Amount outstanding	Change in month	1-month change
	1		2		3		4		5			6		
1986 Sept. [d][g]	42,152	+ 2,700	41,130	+ 554	80,030	− 431	1,658	− 2	164,970	+ 2,821	+ *15.2*	165,655	+3,463	+ *2.1*
Oct.	40,105	− 2,029	42,180	+ 1,163	81,983	+ 1,953	1,660	+ 2	165,928	+ 1,089	+ *15.1*	166,145	+ 606	+ *0.4*
Nov.	41,032	+ 926	42,664	+ 484	81,889	− 94	1,646	− 14	167,231	+ 1,302	+ *13.7*	167,512	+1,370	+ *0.8*
Dec. [d][g]	41,442	+ 410	42,897	+ 233	83,438	+ 1,549	1,664	+ 18	169,441	+ 2,210	+ *14.1*	168,710	+1,214	+ *0.7*
1987 Jan.	39,603	− 1,839	42,900	+ 3	84,294	+ 102	1,663	− 1	168,460	− 1,735	+ *12.8*	169,520	+ 61	—
Feb.	40,122	+ 519	43,141	+ 241	83,640	− 654	1,665	+ 2	168,568	+ 108	+ *12.0*	169,988	+ 495	+ *0.3*
Mar. [d]	41,180	+ 1,058	43,919	+ 778	84,785	+ 1,145	1,666	+ 1	171,550	+ 2,982	+ *12.2*	171,709	+1,743	+ *1.0*
Apr.	41,656	+ 475	44,529	+ 610	85,493	+ 708	1,664	− 2	173,342	+ 1,791	+ *12.4*	173,023	+1,380	+ *0.8*
May	42,823	+ 1,168	45,138	+ 609	85,436	− 57	1,660	− 4	175,057	+ 1,716	+ *12.4*	174,943	+1,957	+ *1.1*
June [d]	44,295	+ 1,471	45,956	+ 818	86,781	+ 1,345	1,660	—	178,692	+ 3,634	+ *12.0*	178,078	+3,150	+ *1.8*
July	44,390	+ 98	46,432	+ 476	87,148	+ 367	1,656	− 4	179,626	+ 937	+ *10.6*	178,557	+ 521	+ *0.3*
Aug.	44,310	− 80	46,606	+ 174	87,663	+ 515	1,651	− 5	180,230	+ 604	+ *10.8*	180,128	+1,624	+ *0.9*
Sept. [d]	44,793	+ 483	46,854	+ 248	88,909	+ 1,246	1,646	− 5	182,202	+ 1,972	+ *10.1*	182,086	+1,976	+ 1.1

[a] Up to September 1986, calendar month data are partly estimated (see the note 'Banking and monetary statistics: a change in reporting dates' in the December 1986 *Quarterly Bulletin* — page 519).
[b] After deducting 60% of net debit transit items (see additional notes to Table 6 of the *Quarterly Bulletin*).
[c] Including certificates of deposit.
[d] Changes in the monthly-reporting population occurred in these months.
[e] Changes in the money stock may differ from those which can be calculated by reference to amounts outstanding. (See additional notes to Table 11 of the *Quarterly Bulletin.*)
[f] See additional notes to Tables 6 and 11 of the *Quarterly Bulletin.*
[g] See footnotes [e] and [f] to Tables A and B on page 1.
[h] See the June 1982 *Quarterly Bulletin* (page 225) for definitions of retail deposits.

F M4 and M5: amounts outstanding, and changes [a][b]

£ millions: percentages in italics

	M3	UK private sector holdings of building society deposits: Shares and deposits	Other [c]	Building societies holdings of M3	M4 (columns 1 + 2 + 3 − 4): Unadjusted	M4: Seasonally adjusted	Holdings of money-market instruments by UK private sector other than building societies	National savings deposits and securities	M5 (columns 5 + 6 + 7): Unadjusted	M5: Seasonally adjusted
	1	*2*	*3*	*4*	*5*		*6*	*7*	*8*	
Amount outstanding										
1986 Aug.	142,689	112,849	1,910	7,921	249,527	250,229	5,153	9,441	264,121	264,861
Sept.	146,998	112,542	1,939	8,124	253,355	253,222	5,014	9,503	267,872	267,653
Oct.	148,270	114,719	2,165	9,090	256,064	254,858	4,926	9,584	270,574	269,204
Nov.	150,496	114,927	2,208	8,984	258,647	257,682	4,890	9,626	273,163	272,397
Dec.	151,728	117,109	2,435	9,828	261,444	259,391	5,235	9,693	276,372	274,366
1987 Jan.	150,488	118,357	2,333	9,414	261,764	261,470	3,997	9,789	275,550	275,934
Feb.	153,454	118,848	2,271	10,318	264,255	265,089	4,059	9,873	278,187	279,514
Mar.	160,104	119,760	2,135	11,239	270,760	270,576	4,273	9,968	285,001	284,702
Apr.	163,290	120,715	2,176	11,883	274,298	274,203	4,222	10,039	288,559	288,020
May	166,433	121,383	2,276	12,460	277,632	277,834	4,827	10,100	292,559	292,476
June	168,319	122,767	2,104	11,707	281,483	281,184	4,864	10,174	296,521	296,181
July	172,527	123,819	2,348	11,942	286,752	286,084	4,844	10,238	301,834	301,122
Aug.	174,799	124,539	2,386	12,226	289,498	290,036	4,651	10,299	304,448	305,071
Sept.	176,565	125,290	2,817	12,112	292,560	291,606	4,701	10,347	307,608	306,555

Changes in calendar month	M3	Shares and deposits	Other [c]	Building societies holdings of M3	M4 Unadjusted	12-month change	M4 Seasonally adjusted	1-month change	Money-market instruments	National savings	M5 Unadjusted	12-month change	M5 Seasonally adjusted	1-month change
1986 Sept.	+ 4,499	− 307	+ 29	+ 203	+ 4,018	+ *15.7*	+ 3,198	+ *1.3*	− 139	+ 62	+ 3,941	+ *14.9*	+ 2,995	+ *1.1*
Oct.	+ 1,278	+ 2,177	+ 227	+ 966	+ 2,716	+ *15.8*	+ 1,637	+ *0.6*	− 88	+ 81	+ 2,709	+ *15.1*	+ 1,552	+ *0.6*
Nov.	+ 2,225	+ 208	+ 43	− 106	+ 2,582	+ *15.6*	+ 2,839	+ *1.1*	− 36	+ 42	+ 2,588	+ *15.1*	+ 3,206	+ *1.2*
Dec.	+ 267	+ 2,182	+ 39	+ 844	+ 1,644	+ *15.2*	+ 574	+ *0.2*	− 211	+ 67	+ 1,500	+ *14.4*	+ 275	+ *0.1*
1987 Jan.	− 1,240	+ 1,653	− 122	+ 635	− 344	+ *13.9*	+ 1,428	+ *0.6*	− 437	+ 95	− 686	+ *13.3*	+ 1,713	+ *0.6*
Feb.	+ 2,930	+ 491	− 62	+ 904	+ 2,455	+ *13.9*	+ 3,621	+ *1.4*	+ 62	+ 84	+ 2,601	+ *13.3*	+ 3,573	+ *1.3*
Mar.	+ 6,797	+ 912	− 136	+ 921	+ 6,652	+ *13.9*	+ 5,665	+ *2.1*	+ 214	+ 95	+ 6,961	+ *13.4*	+ 5,357	+ *1.9*
Apr.	+ 3,185	+ 955	+ 41	+ 644	+ 3,537	+ *14.5*	+ 3,653	+ *1.4*	− 51	+ 71	+ 3,557	+ *14.0*	+ 3,332	+ *1.2*
May	+ 3,144	+ 668	+ 100	+ 577	+ 3,335	+ *13.6*	+ 3,656	+ *1.3*	+ 605	+ 61	+ 4,001	+ *13.4*	+ 4,475	+ *1.6*
June	+ 1,885	+ 1,384	+ 3	− 753	+ 4,025	+ *13.8*	+ 3,539	+ *1.3*	+ 37	+ 74	+ 4,136	+ *13.5*	+ 3,890	+ *1.3*
July	+ 4,199	+ 1,052	+ 244	+ 235	+ 5,260	+ *14.8*	+ 4,924	+ *1.8*	− 20	+ 64	+ 5,304	+ *14.3*	+ 4,959	+ *1.7*
Aug.	+ 2,272	+ 720	+ 38	+ 284	+ 2,746	+ *15.5*	+ 3,992	+ *1.4*	− 193	+ 61	+ 2,614	+ *14.9*	+ 3,987	+ *1.3*
Sept.	+ 1,757	+ 751	+ 431	− 114	+ 3,053	+ *14.9*	+ 1,576	+ *0.5*	+ 50	+ 48	+ 3,151	+ *14.3*	+ 1,489	+ *0.5*

[a] See footnotes (a) and (e) to Tables C, D and E on page 2.
[b] See footnotes (e) and (f) to Tables A and B on page 1.
[c] Includes certificates of deposit and time deposits issued by building societies.

G Supplementary detail

Purchases (increase −) of central government debt by UK private sector other than banks (Table A, columns 4 + 5)
£ millions

Calendar month	Marketable debt: Stocks	Treasury bills	Tax instruments	National savings	Other	Total	Banks' sterling lending to UK private sector (a): Seasonally adjusted	Bank and building society sterling lending to the rest of the UK private sector (b): Seasonally adjusted	Sterling borrowing by the private sector (c): Seasonally adjusted
1986 Sept.	+ 329	+ 8	+ 278	− 168		+ 447	+ 897	. .	. .
Oct.	− 1,147	+ 10	+ 218	− 303	− 5	− 1,227	+ 3,486	. .	. .
Nov.	− 628	+ 40	− 102	− 257	− 2	− 949	+ 3,838	. .	. .
Dec.	+ 135	− 100	+ 302	− 236	+ 15	+ 116	+ 3,125	. .	. .
1987 Jan.	+ 511	− 55	+ 819	− 410	− 3	+ 862	+ 1,771	+ 3,198	+ 3,403
Feb.	+ 460	− 61	+ 177	− 353	+ 28	+ 251	+ 2,880	+ 4,146	+ 4,117
Mar.	+ 745	− 92	+ 89	− 283	+ 4	+ 463	+ 2,082	+ 2,965	+ 3,206
Apr.	− 165	+ 103	+ 57	− 224	+ 3	− 226	+ 1,973	+ 3,702	+ 3,760
May	− 814	− 91	− 184	− 179	+ 2	− 1,266	+ 2,650	+ 3,869	+ 4,178
June	− 165	− 244	− 117	− 242	+ 7	− 761	+ 3,931	+ 5,476	+ 5,316
July	+ 629	− 10	+ 88	− 192	− 7	+ 508	+ 4,875	+ 5,710	+ 5,744
Aug.	+ 279	− 23	+ 20	− 228	+ 5	+ 53	+ 2,187	+ 3,284	+ 3,337
Sept.	+ 233	+ 124	− 99	− 107	+ 6	+ 157	+ 4,383	+ 5,887	+ 5,649

(a) A counterpart to M3; unadjusted figures appear in Table A (column 8).
(b) A counterpart to M4; unadjusted figures appear in Table B (column 20 + 21).
(c) A counterpart to M5; unadjusted figures appear in Table B (column 20 + 21 + 27)

H UK monetary sector: transactions in liabilities and assets

[**Table 6** in the *Quarterly Bulletin*]

£ millions

Liabilities

Calendar month	Total	Domestic deposits: Total: Unadjusted	Domestic deposits: Total: Seasonally adjusted	Public sector: Sterling: Unadjusted	Public sector: Sterling: Seasonally adjusted	Public sector: Other currencies	Private sector: Sterling: Unadjusted	Private sector: Sterling: Seasonally adjusted	Private sector: Other currencies	Overseas sector deposits: Sterling	Overseas sector deposits: Other currencies	Non-deposit liabilities (net)
1986 Oct.	– 4,914	+ 1,256	. .	+ 88	. .	– 35	+ 644	. .	+ 559	+ 1,286	– 8,598	+ 1,142
Nov.	+ 11,605	+ 2,979	. .	– 163	. .	+ 68	+ 1,893	. .	+ 1,181	– 468	+ 8,859	+ 235
Dec.	+ 10,857	+ 1,052	. .	+ 520	. .	+ 57	+ 328	. .	+ 147	+ 1,033	+ 8,666	+ 106
4th qtr	+ 17,548	+ 5,287	. .	+ 445	. .	+ 90	+ 2,865	. .	+ 1,887	+ 1,851	+ 8,927	+ 1,483
1987 Jan.	+ 236	– 940	. .	– 417	. .	– 35	– 952	. .	+ 464	– 191	+ 1,183	+ 184
Feb.	+ 7,975	+ 3,524	. .	+ 247	. .	+ 52	+ 2,876	. .	+ 349	+ 999	+ 3,503	– 51
Mar.	+ 16,883	+ 8,708	. .	+ 867	. .	+ 38	+ 7,182	. .	+ 621	+ 1,674	+ 4,524	+ 1,977
1st qtr	+ 25,094	+ 11,292	. .	+ 697	. .	+ 55	+ 9,106	. .	+ 1,434	+ 2,482	+ 9,210	+ 2,110
Apr.	+ 6,530	+ 4,973	. .	– 27	. .	+ 7	+ 2,760	. .	+ 2,233	+ 152	+ 1,677	– 272
May	+ 17,470	+ 3,146	. .	+ 1,344	. .	– 18	+ 2,885	. .	– 1,065	+ 2,102	+ 11,938	+ 284
June	+ 7,644	+ 1,847	. .	+ 228	. .	+ 12	+ 2,279	. .	– 672	– 925	+ 5,435	+ 1,287
2nd qtr.	+ 31,644	+ 9,966	. .	+ 1,545	. .	+ 1	+ 7,924	. .	+ 496	+ 1,329	+ 19,050	+ 1,299
July	+ 11,047	+ 5,003	. .	– 112	. .	+ 17	+ 3,481	. .	+ 1,617	+ 2,129	+ 3,416	+ 499
Aug.	– 5,339	+ 2,226	. .	– 436	. .	+ 1	+ 2,254	. .	+ 407	+ 210	– 8,615	+ 840
Sept.	+ 20,742	+ 2,495	. .	+ 156	. .	+ 30	+ 2,311	. .	– 2	+ 81	+ 15,520	+ 2,646
3rd qtr.	+ 26,450	+ 9,724	. .	– 392	. .	+ 48	+ 8,046	. .	+ 2,022	+ 2,420	+ 10,321	+ 3,985

Assets

Calendar month	Total	Lending to public sector: Sterling: Total: Unadjusted	Sterling: Total: Seasonally adjusted	Sterling: Central government	Sterling: Other	Lending to public sector: Other currencies	Lending to private sector: Sterling: Unadjusted	Sterling: Seasonally adjusted	Lending to private sector: Other currencies	Lending to overseas sector: Sterling	Lending to overseas sector: Other currencies
1986 Oct.	– 4,914	– 787	. .	– 324	– 463	– 61	+ 1,717	. .	– 974	+ 2,277	– 7,086
Nov.	+ 11,605	+ 4	. .	– 94	+ 98	– 37	+ 1,942	. .	+ 1,014	– 996	+ 9,678
Dec.	+ 10,857	+ 979	. .	+ 847	+ 132	+ 1	+ 2,004	. .	+ 550	+ 694	+ 6,629
4th qtr	+ 17,548	+ 196	. .	+ 429	– 233	– 97	+ 5,663	. .	+ 590	+ 1,975	+ 9,221
1987 Jan.	+ 236	– 3,050	. .	– 2,764	– 286	+ 85	+ 3,664	. .	+ 1,369	– 3,381	+ 1,549
Feb.	+ 7,975	+ 583	. .	+ 482	+ 101	– 14	+ 2,209	. .	+ 2,402	+ 1,035	+ 1,760
Mar.	+ 16,883	+ 1,954	. .	+ 1,935	+ 19	– 56	+ 6,216	. .	+ 3,584	+ 2,623	+ 2,562
1st qtr	+ 25,094	– 513	. .	– 347	– 166	+ 15	+ 12,089	. .	+ 7,355	+ 277	+ 5,871
Apr.	+ 6,530	– 395	. .	– 263	– 132	– 36	+ 3,317	. .	+ 1,236	+ 555	+ 1,853
May	+ 17,470	+ 433	. .	+ 237	+ 196	+ 62	+ 4,801	. .	+ 2,693	+ 319	+ 9,162
June	+ 7,644	– 547	. .	– 270	– 277	+ 44	+ 3,079	. .	+ 719	+ 149	+ 4,200
2nd qtr.	+ 31,644	– 509	. .	– 296	– 213	+ 70	+ 11,197	. .	+ 4,648	+ 1,023	+ 15,215
July	+ 11,047	+ 79	. .	+ 31	+ 48	– 1	+ 3,205	. .	– 2,191	+ 1,736	+ 8,219
Aug.	– 5,339	– 503	. .	– 402	– 101	– 28	+ 1,508	. .	+ 1,006	+ 450	– 7,772
Sept.	+ 20,742	– 26	. .	+ 57	– 83	– 21	+ 5,964	. .	+ 56	+ 368	+ 14,401
3rd qtr.	+ 26,450	– 450	. .	– 314	– 136	– 50	+ 10,677	. .	– 1,129	+ 2,554	+ 14,848

I M0, the wide monetary base

[**Table 2** in the *Quarterly Bulletin*]

£ millions: *percentages in italics*

Monthly-average series

	Notes and coin in circulation outside the Bank of England: Unadjusted	Notes and coin: Seasonally adjusted	Bankers' operational deposits with the Banking Department: Unadjusted	M0 (wide monetary base) (columns 1 + 2): Unadjusted	M0: Seasonally adjusted	
	1		*2*	*3*		
Average amount outstanding in calendar month						
1986 Aug.	14,701	14,587	155	14,856	14,742	
Sept.	14,579	14,636	191	14,770	14,827	
Oct.	14,561	14,694	132	14,693	14,826	
Nov.	14,661	14,807	166	14,827	14,973	
Dec.	15,706	14,938	250	15,956	15,188	
1987 Jan.	14,765	14,947	157	14,922	15,104	
Feb.	14,529	14,811	165	14,694	14,976	
Mar.	14,577	14,808	232	14,809	15,040	
Apr.	14,930	14,902	204	15,134	15,106	
May	14,972	14,975	204	15,176	15,179	
June	14,946	15,070	137	15,083	15,207	
July	15,271	15,153	235	15,506	15,388	
Aug.	15,337	15,258	182	15,519	15,440	
Sept.	15,349	15,374	184	15,533	15,558	
Change between average amounts outstanding						
1986 Sept.	– 122	+ 49	+ 36	– 86	+ 85	*+0.6*
Oct.	– 18	+ 58	– 59	– 77	– 1	—
Nov.	+ 100	+ 113	+ 34	+ 134	+ 147	*+1.0*
Dec.	+ 1,045	+ 131	+ 84	+ 1,129	+ 215	*+1.4*
1987 Jan.	– 941	+ 9	– 93	– 1,034	– 84	*–0.6*
Feb.	– 236	– 136	+ 8	– 228	– 128	*–0.8*
Mar.	+ 48	– 3	+ 67	+ 115	+ 64	*+0.4*
Apr.	+ 353	+ 94	– 28	+ 325	+ 66	*+0.4*
May	+ 42	+ 73	—	+ 42	+ 73	*+0.5*
June	– 26	+ 95	– 67	– 93	+ 28	*+0.2*
July	+ 325	+ 83	+ 98	+ 423	+ 181	*+1.2*
Aug.	+ 66	+ 105	– 53	+ 13	+ 52	*+0.3*
Sept.	+ 12	+ 116	+ 2	+ 14	+ 118	*+0.8*

J Bank of England transactions in commercial bills and in guaranteed export credit and shipbuilding paper

£ millions

Transactions in:	Banking Department: Commercial bills [a]	Issue Department: Commercial bills [a]	Issue Department: Shipbuilding paper [a]	Issue Department: Export credit paper [b]
Calendar month				
1986 Sept.	– 275	– 3,462	—	—
Oct.	+ 156	+ 1,598	—	—
Nov.	– 162	+ 1,311	—	—
Dec.	+ 90	+ 1,969	—	—
1987 Jan.	+ 2,025	– 2,360	+ 131	+ 1,688
Feb.	– 842	+ 403	– 6	+ 53
Mar.	– 2,224	– 2,720	– 122	– 790
Apr.	+ 1,078	– 2,184	– 3	– 951
May	– 171	– 2,614	—	—
June	– 47	+ 1,607	—	—
July	+ 515	+ 1,374	—	—
Aug.	– 463	– 349	—	—
Sept.	– 116	– 530	—	—
Amount outstanding at end-September 1987	846	4,319	—	—

[a] Included within column 8 of Table A.
[b] Included within column 11 of Table A.

K Banks: balance sheet of monthly reporting institutions [a]

[Table 3.1 in the *Quarterly Bulletin*]

£ millions

Sterling liabilities

	Notes outstanding	Total deposits	Sight deposits: UK monetary sector	Sight deposits: UK public sector	Sight deposits: UK private sector	Sight deposits: Overseas	Time deposits: UK monetary sector	Time deposits: UK public sector	Time deposits: UK private sector	Time deposits: Overseas	CDs etc and other short-term paper issued	Items in suspense and transmission	Capital and other funds
Amount outstanding													
1987 Apr.	1,074	268,536	12,308	1,663	68,166	8,894	45,435	3,520	73,972	31,738	22,841	9,182	34,518
May	1,103	279,635	14,487	1,852	71,237	10,303	47,526	4,330	73,817	32,632	23,451	9,871	34,846
June [b]	1,094	280,474	13,746	1,980	72,767	10,138	48,043	4,496	73,459	31,793	24,052	10,658	36,129
July	1,117	290,921	13,914	1,685	73,833	9,477	50,899	4,684	75,546	34,227	26,657	9,441	34,784
Aug.	1,091	293,215	13,381	1,465	74,631	9,342	51,882	4,505	76,650	34,534	26,825	8,305	34,490
Sept. [c]	1,103	294,561	14,554	1,851	76,653	9,531	49,408	4,303	75,919	34,684	27,658	9,673	36,876

Other currency liabilities

	Total deposits	Sight and time deposits: UK monetary sector	Sight and time deposits: Other United Kingdom	Sight and time deposits: Overseas	CDs etc and other short-term paper issued	Items in suspense and transmission	Capital and other funds	Total liabilities/ assets	*of which sterling*: *Liabilities*	*of which sterling*: *Assets*
Amount outstanding										
1987 Apr.	555,897	93,499	29,414	361,662	71,321	11,049	14,568	894,824	*313,310*	*312,881*
May	571,615	92,489	28,781	375,657	74,688	10,030	14,309	921,409	*325,455*	*323,586*
June [b]	580,626	93,710	28,214	383,894	74,807	9,200	14,541	932,722	*328,355*	*326,716*
July	590,171	94,443	30,013	388,810	76,905	6,830	15,676	948,940	*336,263*	*335,748*
Aug.	572,680	90,733	29,906	374,762	77,280	7,550	16,627	933,959	*337,102*	*336,045*
Sept. [c]	588,871	93,113	30,035	385,809	79,914	7,921	16,434	955,440	*342,189*	*342,262*

Sterling assets

	Notes and coin	Balances with Bank of England: Cash ratio deposits	Balances with Bank of England: Special deposits	Balances with Bank of England: Other	Market loans: LDMA: Secured	Market loans: LDMA: Unsecured	Market loans: Other UK monetary sector	Market loans: UK monetary sector CDs	Market loans: Building society CDs and time deposits	Market loans: UK local authorities	Market loans: Overseas
Amount outstanding											
1987 Apr.	2,155	803	—	189	7,397	65	55,043	8,705	1,215	2,166	15,587
May	2,348	803	—	168	7,692	45	58,669	9,072	1,273	2,101	15,954
June [b]	2,263	803	—	241	6,525	44	58,662	9,875	1,160	1,991	16,369
July	2,289	803	—	298	7,437	65	61,563	10,173	1,224	1,967	17,556
Aug.	2,324	803	—	274	6,784	40	61,725	10,297	1,250	1,923	18,521
Sept. [c]	2,352	803	—	118	7,276	38	60,497	9,636	1,268	1,897	18,879

Sterling assets *continued*

	Bills: Treasury bills	Bills: Eligible local authority bills	Bills: Eligible bank bills	Bills: Other	Advances: Total	Advances: UK public sector	Advances: UK private sector	Advances: Overseas	Banking Department lending to central government (net)
Amount outstanding									
1987 Apr.	478	349	5,152	678	169,650	1,462	154,978	13,209	477
May	502	460	5,106	786	173,512	1,605	158,715	13,192	471
June [b]	921	392	5,168	702	178,143	1,551	163,484	13,109	512
July	809	438	5,840	784	180,439	1,597	165,628	13,214	814
Aug.	517	443	4,679	910	182,647	1,522	168,068	13,057	845
Sept. [c]	457	442	5,256	1,022	188,092	1,473	173,747	12,872	717

	Sterling assets *continued*						**Other currency assets**						
	Investments: British government stocks	Investments: Other public sector	Investments: Other	Miscellaneous assets: Items in suspense and collection	Miscellaneous assets: Assets leased	Miscellaneous assets: Other	Market loans and advances: Total	Market loans and advances: *of which advances*	Market loans and advances: UK monetary sector	Market loans and advances: UK monetary sector CDs	Market loans and advances: UK public sector	Market loans and advances: UK private sector	Market loans and advances: Overseas
Amount outstanding													
1987 Apr.	8,210	385	12,332	13,840	1,249	6,754	527,999	*127,274*	89,815	10,106	1,303	47,241	379,534
May	8,069	389	12,809	15,194	1,246	6,916	543,645	*131,929*	87,730	10,404	1,347	50,747	393,417
June [b]	7,450	385	12,646	14,212	1,322	6,929	553,273	*132,637*	88,263	10,856	1,385	51,977	400,791
July	7,189	383	12,728	14,611	1,301	7,036	562,440	*130,396*	89,292	10,916	1,367	50,022	410,842
Aug.	7,159	389	12,811	13,336	1,300	7,067	546,923	*131,221*	86,401	10,486	1,343	50,431	398,262
Sept. [c]	7,581	392	12,724	14,352	1,300	7,191	561,851	*130,402*	89,047	10,494	1,361	50,285	410,663

	Other currency assets *continued*								*Acceptances*			*Eligible liabilities*
	Bills	Investments: Total	Investments: United Kingdom	Investments: Overseas	Miscellaneous assets: Items in suspense and collection	Miscellaneous assets: Assets leased	Miscellaneous assets: Other	*Sterling*: *Total*	*Sterling*: *of which by eligible Banks*	*Other currencies*	
Amount outstanding											
1987 Apr.	2,681	38,636	3,152	35,484	10,110	8	2,510	*17,530*	*16,920*	*2,807*	193,285
May	2,774	39,356	3,079	36,277	9,404	8	2,637	*15,579*	*14,954*	*2,715*	198,530
June [b]	2,928	39,348	2,923	36,426	8,022	8	2,427	*16,107*	*15,413*	*2,690*	202,248
July	2,950	39,168	2,895	36,272	5,955	4	2,673	*18,336*	*17,783*	*2,762*	207,124
Aug.	3,007	38,907	2,749	36,158	6,678	4	2,394	*16,374*	*15,815*	*3,021*	209,364
Sept. [c]	3,017	38,315	2,578	35,737	7,376	2	2,592	*16,376*	*15,802*	*3,221*	212,807

[a] These tables include all monthly reporting institutions other than members of the London Discount Market Association—see page 562 of the December 1983 *Quarterly Bulletin*.

[b] Three contributors joined the series and three left the series at end-June, the net effect was an increase of £63 million in sterling assets and an increase of £417 million in other currency assets.

[c] Four contributors joined the series and four left at end-September, the net effect was a decrease of £235 million in sterling assets and a decrease of £150 million in other currency assets.

L Banks: group detail[a]

£ millions

Liabilities

		Notes outstanding	Sterling deposits: Total	*of which sight deposits*	UK monetary sector	UK public sector	UK private sector	Overseas	CDs etc and other short-term paper issued	Other currency deposits: Total	UK monetary sector	Other United Kingdom	Overseas	CDs etc and other short-term paper issued
British banks:	Amount outstanding													
Retail banks	1987 Aug.	1,091	148,022	*73,148*	13,566	3,276	109,529	12,550	9,101	47,431	7,145	6,183	29,254	4,849
	Sept.	1,103	149,033	*75,913*	13,539	3,327	110,637	12,744	8,787	46,177	6,710	6,272	28,515	4,679
Accepting houses	1987 Aug.	—	17,850	*4,427*	3,067	473	10,372	1,548	2,389	13,603	3,427	2,386	7,365	425
	Sept.	—	18,009	*4,268*	2,929	519	10,327	1,594	2,640	13,190	3,384	2,273	7,112	421
Other British banks	1987 Aug.	—	42,832	*9,615*	19,996	1,496	12,233	4,858	4,249	26,676	8,151	1,879	14,313	2,333
	Sept.	—	42,988	*10,237*	19,954	1,556	12,409	4,826	4,243	26,186	7,836	1,841	14,183	2,326
Overseas banks:														
American banks	1987 Aug.	—	15,555	*3,918*	4,709	5	5,221	4,268	1,352	81,439	8,756	9,969	45,150	17,564
	Sept.	—	14,753	*3,388*	4,261	20	4,662	4,114	1,697	83,427	8,277	10,344	46,320	18,485
Japanese banks	1987 Aug.	—	16,273	*701*	7,637	114	3,016	2,694	2,812	215,329	34,271	3,918	145,382	31,757
	Sept.	—	16,289	*846*	6,981	174	3,472	2,842	2,821	227,076	35,979	3,615	154,275	33,207
Other overseas banks	1987 Aug.	—	52,684	*7,010*	16,299	606	10,907	17,949	6,922	188,202	29,198	5,567	133,087	20,351
	Sept.	—	53,489	*7,938*	16,370	558	11,062	18,028	7,471	192,814	31,128	5,687	135,204	20,795
Total	1987 Aug.	1,091	293,216	*98,819*	65,274	5,970	151,278	43,867	26,825	572,680	90,948	29,902	374,551	77,279
	Sept.	1,103	294,561	*102,590*	64,034	6,154	152,569	44,148	27,659	588,870	93,314	30,032	385,609	79,913

		Sterling and other currency liabilities: Items in suspense and transmission, capital and other funds	Total liabilities/ assets	Sterling assets: Notes and coin	Balances with Bank of England (including cash ratio deposits)	Market loans: Secured money with LDMA	Other UK monetary sector [b]	UK monetary sector CDs	UK local authorities	Overseas
British banks:	Amount outstanding									
Retail banks	1987 Aug.	36,555	233,100	2,291	689	4,379	22,070	3,487	1,054	3,216
	Sept.	39,988	236,302	2,316	532	4,838	21,305	2,764	1,055	3,473
Accepting houses	1987 Aug.	4,968	36,421	4	41	263	6,251	2,019	134	1,520
	Sept.	5,016	36,216	4	41	394	6,715	1,913	127	1,223
Other British banks	1987 Aug.	10,097	79,605	3	116	327	11,634	1,451	288	1,677
	Sept.	10,376	79,550	3	121	311	11,599	1,552	283	1,641
Overseas banks:										
American banks	1987 Aug.	4,318	101,311	3	63	519	2,697	403	42	1,444
	Sept.	4,680	102,859	4	58	410	2,352	412	42	1,434
Japanese banks	1987 Aug.	1,526	233,127	—	43	392	4,144	71	45	3,498
	Sept.	1,493	244,858	—	43	406	3,843	95	46	3,637
Other overseas banks	1987 Aug.	9,508	250,395	23	126	904	14,969	2,867	361	7,165
	Sept.	9,331	255,634	25	125	916	14,721	2,900	343	7,470
Total	1987 Aug.	66,972	933,959	2,324	1,078	6,784	61,765	10,298	1,924	18,520
	Sept.	70,904	955,439	2,352	920	7,275	60,535	9,636	1,896	18,878

[a] Some smaller institutions report at end-quarters only; the coverage of some of the groups in these tables will therefore not be complete. The groups affected are Accepting houses, Other British, American and Other overseas, but in no case is the coverage of total liabilities/assets less than 97%. For an analysis of end-quarter reporting institutions see Table N.

[b] Including unsecured money with LDMA.

[c] Including holdings of sterling time deposits placed with, and sterling certificates of deposit issued by, building societies.

M Discount market: balance sheet

£ millions

Liabilities: borrowed funds

	Sterling: Total	*of which Call and overnight*	*of which Other*	Bank of England	Other UK monetary sector	Other United Kingdom	Overseas	Other currencies: Total	UK monetary sector	Other United Kingdom	Overseas
Amount outstanding											
1987 Mar.	10,772	*9,613*	*1,160*	1,492	6,795	2,480	5	229	97	77	55
Apr.	9,911	*9,126*	*785*	—	7,517	2,363	31	221	103	96	23
May.	10,311	*9,406*	*905*	111	7,687	2,499	14	220	110	98	12
June	9,143	*8,178*	*965*	246	6,396	2,495	6	207	72	106	29
July	10,274	*9,496*	*778*	169	7,591	2,498	15	203	65	108	30
Aug.	9,528	*8,824*	*704*	97	6,741	2,681	10	198	67	104	27
Sept.	10,035	*9,338*	*697*	97	7,315	2,578	45	197	68	111	18

Sterling assets

	Total	Cash ratio deposits with the Bank of England	Bills: Treasury bills	Local authority bills	Other public sector bills	Other bills	Funds lent: UK monetary sector	UK monetary sector CDs	Building society CDs and time deposits	UK local authorities	Other United Kingdom	Overseas
Amount outstanding												
1987 Mar.	11,090	8	313	117	—	6,001	258	2,930	467	78	255	13
Apr.	10,261	8	267	117	—	5,551	199	2,669	400	77	285	25
May.	10,694	8	470	99	—	5,841	456	2,547	359	76	261	2
June	9,504	8	516	66	—	4,844	537	2,261	347	69	336	33
July	10,582	8	494	21	—	5,106	791	2,788	361	59	386	—
Aug.	9,819	8	281	4	—	4,572	622	2,839	312	61	531	13
Sept.	10,370	8	132	32	—	4,652	429	3,714	400	55	300	69

[Tables 3.2 to 3.8 in the *Quarterly Bulletin*]

Sterling assets *continued*

Amount outstanding		Bills: Treasury bills	Bills: Eligible local authority bills	Bills: Eligible bank bills	Bills: Other	Advances: UK public sector	Advances: UK private sector	Advances: Overseas	Banking Department lending to central government (net)	Investments: British government stocks	Investments: Other
British banks:											
Retail banks	1987 Aug.	408	422	4,224	176	497	98,532	4,474	845	5,192	4,012
	Sept.	351	419	4,681	234	457	101,763	4,331	717	5,578	3,962
Accepting houses	1987 Aug.	10	12	157	232	59	5,671	1,230	—	457	1,330
	Sept.	10	13	216	234	61	5,829	1,295	—	386	1,258
Other British banks	1987 Aug.	16	—	204	218	48	27,952	1,642	—	361	1,900
	Sept.	32	—	193	230	46	28,354	1,670	—	355	1,969
Overseas banks:											
American banks	1987 Aug.	10	—	16	60	34	8,896	1,385	—	599	747
	Sept.	10	—	72	67	19	9,064	1,370	—	574	735
Japanese banks	1987 Aug.	1	—	7	—	468	4,065	914	—	82	2,428
	Sept.	1	—	2	17	430	4,469	821	—	80	2,392
Other overseas banks	1987 Aug.	71	10	71	225	416	22,950	3,411	—	468	2,783
	Sept.	53	10	90	241	460	24,268	3,385	—	608	2,800
Total	1987 Aug.	516	444	4,679	911	1,522	168,066	13,056	845	7,159	13,200
	Sept.	457	442	5,254	1,023	1,473	173,747	12,872	717	7,581	13,116

Other currency assets

Amount outstanding		Market loans and advances: Total	*of which advances*	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector	Overseas	Bills	Invest-ments	**Sterling and other currencies** Miscel-laneous assets[c]	*Accept-ances*	*Eligible liabilities*
British banks:													
Retail banks	1987 Aug.	52,431	*16,365*	11,563	287	151	6,886	33,543	209	6,238	18,251	*4,736*	*114,421*
	Sept.	51,893	*15,750*	11,394	275	154	6,479	33,590	214	6,160	19,257	*4,548*	*117,068*
Accepting houses	1987 Aug.	13,171	*3,787*	4,264	580	11	1,318	6,998	61	1,096	2,705	*3,083*	*9,718*
	Sept.	12,701	*3,719*	3,710	625	12	1,244	7,110	76	1,020	2,699	*3,172*	*9,286*
Other British banks	1987 Aug.	29,149	*9,060*	6,652	141	611	2,433	19,312	208	1,023	1,387	*802*	*27,841*
	Sept.	28,385	*9,066*	6,309	127	610	2,526	18,814	210	987	1,609	*766*	*27,982*
Overseas banks:													
American banks	1987 Aug.	77,109	*25,820*	7,017	1,113	11	14,547	54,421	70	2,183	5,029	*1,798*	*12,036*
	Sept.	78,380	*26,087*	7,264	1,141	5	14,897	55,073	139	2,165	5,552	*1,792*	*11,733*
Japanese banks	1987 Aug.	197,859	*33,260*	21,233	1,210	447	12,844	162,126	136	17,889	1,087	*1,892*	*11,314*
	Sept.	209,866	*33,413*	22,846	1,082	461	12,894	172,584	119	17,347	1,242	*1,985*	*11,427*
Other overseas banks	1987 Aug.	177,203	*42,929*	35,672	7,155	112	12,402	121,862	2,324	10,477	3,571	*7,084*	*34,035*
	Sept.	180,625	*42,367*	37,525	7,243	119	12,245	123,493	2,258	10,635	3,720	*7,335*	*35,311*
Total	1987 Aug.	546,922	*131,221*	86,401	10,486	1,343	50,430	398,262	3,008	38,906	32,030	*19,395*	*209,365*
	Sept.	561,850	*130,402*	89,048	10,493	1,361	50,285	410,664	3,016	38,314	34,079	*19,598*	*212,807*

[**Table 4** in the *Quarterly Bulletin*]

Sterling assets *continued* — Investments: British government stocks	Investments: Local authorities	Investments: Other	Other sterling assets	**Other currency assets**: Total	Certificates of deposit	Bills	Other	**Total assets/liabilities**	
100	9	473	70	238	35	27	176	11,328	1987 Mar.
142	8	439	71	224	39	10	175	10,485	Apr.
135	5	376	57	221	23	17	181	10,915	May
51	6	372	57	208	37	31	140	9,712	June
174	6	326	62	199	27	17	155	10,781	July
209	5	298	63	194	38	15	141	10,013	Aug.
154	5	361	59	202	33	42	127	10,572	Sept.

N Banks: balance sheet of quarterly reporting institutions

[**Table 3.9** in the *Quarterly Bulletin*]

Liabilities

	Sterling deposits					Other currency deposits						
	Total	UK monetary sector	Other UK residents	Overseas residents	CDs etc and other short-term paper issued	Total	UK monetary sector	Other UK residents	Overseas residents	CDs etc and other short-term paper issued	Sterling and other currency non-deposit liabilities	**Total liabilities/ assets**
1986 3rd qtr.	1,702	181	1,135	379	7	1,377	367	140	833	37	937	4,017
4th ..	1,779	236	1,163	371	8	1,547	402	126	982	36	665	3,990
1987 1st qtr.	1,803	282	1,098	411	13	1,647	488	130	1,007	21	657	4,108
2nd ..	1,815	259	1,088	457	11	1,454	432	131	868	22	621	3,889
3rd ..	1,785	234	1,139	404	9	1,428	472	155	772	29	662	3,876

Sterling assets

		Balances with and loans to		Bills		Advances			Investments		
	Cash and balances with the Bank of England	UK monetary sector	Overseas	Treasury bills	Other	UK public sector	UK private sector	Overseas	British government stocks	UK local authorities and other public sector	Other
1986 3rd qtr.	3	1,388	50	—	18	20	544	43	61	2	201
4th ..	5	1,360	48	—	21	11	651	43	68	1	108
1987 1st qtr.	2	1,405	55	—	19	7	599	44	30	2	126
2nd ..	3	1,471	72	—	17	4	529	57	32	2	91
3rd ..	3	1,499	39	1	6	8	530	47	37	2	100

Currency assets

	Market loans and advances				Bills	Investments	
	UK monetary sector	UK public sector	Other UK residents	Overseas residents			Sterling and other currencies miscellaneous assets
1986 3rd qtr.	692	1	51	606	31	172	132
4th ..	678	1	77	654	46	71	147
1987 1st qtr.	695	—	95	688	117	59	164
2nd ..	660	—	74	620	86	10	162
3rd ..	573	2	88	677	81	17	166

Symbols and conventions
– nil or less than £½ million.
- - - figures above and below are not strictly comparable.
. . not available.
Owing to rounding of figures, the sum of the separate items will sometimes differ from the total shown.

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MONETARY AGGREGATES & BANKING STATISTICS: SEPTEMBER 1987

1 The changes in the monetary aggregates are summarised below:

	12 months to September 1987	September 1987	
	not seasonally adjusted	not seasonally adjusted	seasonally adjusted
M0	5.2%	0.1%	0.8%
M1	20.4%	1.8%	1.9%
of which, non-interest-bearing M1	6.3%	1.1%	1.5%
M2	10.1%	1.1%	1.1%
M3	19.5%	1.0%	0.8%
M3c	18.4%	0.8%	0.6%
M4	14.9%	1.1%	0.5%
M5	14.3%	1.0%	0.5%

2 Tables A-G and I show the components and counterparts of the monetary aggregates. Tables K-N show the details of the banks' and discount market's balance sheets. Transactions of the consolidated UK monetary sector, excluding interbank items and valuation changes on foreign currency items, are shown in Table H. An article in the May 1987 Quarterly Bulletin discussed the construction of the broad monetary aggregates.

3 Details of the building societies' balance sheets are shown in "Financial Statistics" (Tables 7.6-7.8), published by the Central Statistical Office. The October 1987 edition incorporates newly-available data for end-December 1986: but, as mentioned in a note to those tables, the flows shown there for January 1987 may include some break in the series, and so the new data have not yet been incorporated in the money and banking statistics shown here.

4 In September, a rights issue by Midland Bank (£0.7 bn) will have increased the monetary sector's net non-deposit sterling liabilities (a negative contribution within the counterparts of M3, M4 and M5). The final payment under the TSB offer-for-sale will not have affected the monetary sector's non-deposit liabilities because the payment relates to shares in the TSB Group plc, which is not a monetary sector institution.

5 Estimated seasonal movements in October 1987

As the annual review of the seasonal adjustments is currently in progress the provisional seasonal movements for October 1987 are not yet available. The revised adjustments are expected to be published for the first time with the provisional October monetary aggregates on 19 November, together with any revisions to the main aggregates in previous months.

BANK OF ENGLAND
29 October 1987

1783.41

Papers PSO

CONFIDENTIAL

FROM: P H BROOK

DATE: 27 October 1987

CHANCELLOR

Nigel

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Peretz
Mr Kelly
Mr Grice
Mr Richardson
Mr Pike
Ms Bronk

STERLING LENDING TO THE NON-BANK PRIVATE SECTOR

You asked to see a sectoral analysis of sterling lending in Q3 as soon as this was available (Mrs Ryding's minute of 2 September).

2. I attach a table showing this and comparable figures for Q1 and Q2. An annex to October's Monthly Monetary Assessment will provide a further analysis of recent bank and building society lending.

P H BROOK

CONFIDENTIAL

ANNEX

TABLE 1

QUARTERLY ANALYSIS OF STERLING LENDING TO PRIVATE SECTOR

£ billion

	1987 Q1	1987 Q2	1987 Q3
TOTAL CHANGE	7.1	8.1	11.2
PERCENTAGE CHANGE	(4.3%)	(4.5%)	(6.0%)
OF WHICH PERSONS: FOR HOUSE PURCHASE	1.4	2.4	3.2
FOR CONSUMPTION	0.6	1.7	1.3
FINANCIAL INSTITUTIONS	3.0	2.8	2.4
UNINCORPORATED BUSINESSES	1.4	0.5	0.5
INDUSTRIAL AND COMMERCIAL COMPANIES	1.1	0.6	3.8

45/024

CONFIDENTIAL

FROM: MS V F BRONK

DATE: 29 October 1987

1. MR GRICE

2. ECONOMIC SECRETARY

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

This may be the peak year-on-year growth rate for the present. But a sizeable deceleration is not likely until the second half of November.

JWG 29.10.87

M0 FIGURES

The latest weekly figures for M0, covering the final week of October, are attached. They show that the twelve month growth rate of M0 rose to 5.6 per cent (5.5 per cent not seasonally adjusted) in October from 4.9 per cent in September. This annual rate is distorted upwards by abnormally low bankers' deposits a year ago. The annual growth rate of notes and coin rose to 5.2 per cent from 5.0 per cent in September.

2. The figures include returns from the Scottish and Northern Irish issuing banks and are thus unlikely to be revised.

Vyvien Bronk

MS V F BRONK

MO, THE WIDE MONETARY BASE

Calendar months	Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month: Notes (sa) and coin	% change on previous Month: MO (sa)	% change on year earlier: Notes and Coin (nsa)	% change on year earlier: Notes and Coin (sa)	% change on year earlier: MO (nsa)	% change on year earlier: MO (sa)
	Levels £ million (changes in brackets)												
1987													
April	14,930	14,902	(+94)	204	15,134	15,106	(+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,972	14,975	(+73)	204	15,176	15,179	(+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,946	15,070	(+95)	137	15,083	15,207	(+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,153	(+83)	235	15,506	15,388	(+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,337	15,258	(+105)	182	15,519	15,440	(+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,374	(+116)	184	15,533	15,558	(+118)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October†	15,299	15,451	(+77)	202	15,500	15,653	(+95)	+0.5	+0.6	+5.1	+5.2	+5.5	+5.6

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
September						
2nd	15,405	(+89)	325	15,730	(+212)	+1.4
9th	15,374	(-31)	214	15,588	(-142)	-0.9
16th	15,336	(-37)	165	15,501	(-87)	-0.6
23rd	15,368	(+32)	96	15,464	(-37)	-0.2
30th	15,385	(+17)	122	15,507	(+43)	+0.3
October†						
7th	15,428	(+46)	190	15,618	(+114)	+0.7
14th	15,412	(-16)	192	15,604	(-14)	-0.1
21st	15,465	(+52)	223	15,688	(+83)	+0.5
28th	15,498	(+33)	202	15,700	(+12)	+0.1

† Most recent data include estimates only for coin

MR 5/2

UNCLASSIFIED

PP

FROM: N G FRAY

DATE: 2 November 1987

MR P H BROOK

STERLING LENDING TO THE NON-BANK PRIVATE SECTOR

The Chancellor has seen and was grateful for your minute of 27 October.

Nigel Fray

N G FRAY

4561/007

SECRET

FROM: J W GRICE

DATE: 4 November 1987

PM 5/11

1. SIR PETER MIDDLETON

2. CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary
Economic Secretary
Sir T Burns
Sir G Littler
Mr Cassell
Mr Lavelle
Mr Monck
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr R I G Allen
Mr Bottrill
Mr S J Davies
Mr Hibberd
Mr C W Kelly
Mr Riley
Mr Pike
Mr Richardson
Mr Cropper
Mr Tyrie
Mr Call

Mr George - B/E

Prof Griffiths - No 10

Mr Lankester - Washington

File: MAMC F1

MONTHLY MONETARY ASSESSMENT: OCTOBER 1987

This note reports the discussion at Sir Peter Middleton's regular meeting on monetary conditions on 2 November. Attached is the usual Monthly Assessment containing this month special annexes on (i) the fall in equity prices and (ii) analysing bank lending.

Sir Peter Middleton's Meeting

2. Opening the discussion, Mr Peretz said that it might be helpful to consider the traditional factors bearing on monetary conditions separately from the effect of the fall in equity prices. Of the usual factors:

(a) M0 had grown by 5½ per cent in the year to October. The rate was projected to fall by the end of the year but, reflecting the profile in early 1987, to exceed the 2-6 per cent target range by February 1988. About ¼-½ per cent of the extra M0 growth might be explained by better supply side performance than had been anticipated when the target range had been chosen;

(b) the 12 month growth rate for M4 was 15 per cent in September, in the middle of the 14-16 per cent corridor in which it had remained for some 18 months. Some pick-up, to about 16 per cent, was expected in October as a result of intervention and BP effects. One curiosity in the figures was that up to September, there was no sign of any build-up in overseas residents' sterling bank deposits, despite the apparent large foreign exchange inflows;

(c) bank lending had been a record in September. It was hard to explain this, or the strongly negative other counterparts to broad money. Annex II of the Assessment looked at the sectoral breakdown of lending in the third quarter. The main points seemed to be: (i) bank and building society lending to the personal sector had not changed significantly between the second and third quarters; (ii) company borrowing had picked up sharply in the third quarter with an even bigger increase in equity issues. Such issues had been used to build up liquidity rather than repay bank lending; (iii) it was hard to sustain the idea that high sterling borrowing had been used to repay foreign currency borrowing. It was different sectors that had borrowed sterling from those which had repaid foreign currency;

(d) the fall in the dollar had pushed the exchange rate index up from 72.8 a month ago to 74.6 now. This represented a clear tightening of conditions.

3. Annex I of the Assessment put the equity market fall in context. Broadly equity prices were back to their level of a year ago. But this bald conclusion needed amplification. Even if stock exchanges stabilise at present levels, the shock to confidence will take some time to fade, particularly given the world-wide nature of the fall. It was notable that continental

stock markets had fallen by more than others. The German market, for example, was now 20 per cent below its level a year ago. In the UK, the fall in financial wealth represented by lower equity prices might eventually lead to both reduced bank lending and deposit growth. This would be reinforced if activity were also attenuated. On the other hand, particularly in the short term, distress borrowing could work in the opposite direction.

4. On balance, Mr Peretz saw a case for lower interest rates, at least temporarily, especially if other countries reduced their rates. Should it be ½ per cent or 1 per cent fall? The strongest argument for the bigger move was that it would give the best prospect for the ending of intervention, and provide a climate in which it would be sensible to mop up liquidity by renewed funding.

5. Mr George noted that the background to the present situation was one where substantial liquidity had been poured into the economy by means of intervention and not mopped up by funding. At the same time, the Treasury's latest projections for the GDP deflator gave little comfort. He agreed with the Annex to the Assessment that the direct effects of the fall in equity prices so far were probably quite small for both companies and persons. But the full effects were virtually impossible to assess, suggesting that dramatic policy changes should be avoided. It was true that further falls in equities or upward pressure on the exchange rate could require a temporary reversible change in our stance. But this did not imply an immediate need to lower interest rates, which might indeed give an unhelpful signal to the Stock Market. Waiting-and-seeing seemed the best course at this point.

6. Sir Terence Burns shared the view that the full impact of the equity price falls was hard to assess. Even so, it had been difficult to explain why demand had been so strong in both the UK and the United States and the buoyancy of equity prices was probably a contributory factor. This would now be less important while, in the short term, the shock to the confidence could have much greater contractionary effect on demand. The immediate need was to pursue policies which minimised the risk of further sell-off

in equities. Past experience suggested that the danger was of too small a policy response in the short term but of too great a reaction over a longer period of say 6-12 months.

7. There was also the question of the response to a sharp decline in the dollar. If the effective rate index were to rise sharply in consequence, because of a rigid linkage of the pound to the deutschemark, the effects on the economy would be unhelpful. The implication was that we should use exchange rate appreciation as a trigger for potentially reversible falls in interest rates.

8. There followed a more general discussion about the appropriate policy response in these circumstances. The main points were:

(i) the decline in financial wealth was a key to the likely state of the world economy. The upward pressures on commodity prices had already eased and the inflationary threat had receded somewhat;

(ii) maintaining confidence was not straightforward. There were obviously risks of not lowering rates quickly enough in response to short term changes in financial confidence which, if ignored, could feed on themselves. But there were also risks of damaging longer term confidence in government policy by not reversing short run measures soon enough when they were no longer appropriate;

(iii) although recent events may have diminished inflation pressures it would be wrong to assume that the outcome would be lower interest rates. The root cause of the recent disturbances was the structural problems in the US economy and its public finances. Given the sluggishness with which other measures were likely to be taken, higher interest rates in the US might be their only way out, in the short run at least, with knock-on effects for the rest of the world;

(iv) in the UK, the tension between external and domestic factors continued. Intervention now seemed to have been used up to its effective limit. If we were not prepared to see the exchange rate rise, there was probably no alternative to cutting interest rates. But it was essential that any action should be speedily reversible if circumstances changed;

(v) the prospect of further falls in the dollar affected the picture. If they were to occur, then the range for sterling against the mark might need to be re-assessed. It was possible that dollar weakness could force an EMS realignment and again sterling's position would need to be considered carefully.

9. Summing up the discussion, Sir Peter Middleton said that the present juncture was particularly difficult because, temporarily, tactics had to take precedence over strategy. There was an overriding need to maintain confidence. But looking to the longer term, the buoyancy of the monetary aggregates was disturbing. The exchange rate looked strong for the moment but that could change quickly. What would best maintain market confidence was not entirely clear-cut; there were risks both from acting precipitately and from being seen not to act quickly or energetically enough. In the circumstances, it was important not to base policy on wild guesses about short term conditions and ignore the risk that these could have longer term deleterious effects. Rather the short run tactics needed to be adopted and presented in relation to the Government's longer term stance and objectives. In this context, it should help to take available opportunites to reiterate and clarify the Government's exchange rate policy.

T. Pike

pp J W GRICE

Done in Man Ho Speech

4561/013

SECRET

MONTHLY MONETARY ASSESSMENT: OCTOBER 1987

Summary Assessment

Leaving aside recent movements in equity markets, which must imply some tightening, the indicators would suggest little change in monetary conditions since the last Assessment (2 October). The most recent indicators of activity still look more buoyant than expected at Budget time, with that reflected in relatively rapid growth in M0. Broad money growth has continued to moderate, although credit growth was exceptionally strong in September. Against this the exchange rate has continued to be very firm, even after the base rate cut, and intervention has been substantial.

Main Points

The 12 month growth rate of M0 rose to 5.6 per cent in October, from 4.9 per cent in September, although this largely reflects an abnormally low level of bankers' balances in October 1986. (Paras 18-20).

M4 and M3 both grew relatively modestly in September, by 1.0 and 1.1 per cent respectively. The 12 month rates fell back - to 15 per cent from 15½ per cent in the case of M4 and to 19½ per cent from 22 per cent in the case of M3 (these figures are distorted downwards by abnormally high growth in September 1986). (Paras 22-23).

Bank lending rose sharply in September, and the 12 month growth rate rose to 23½ per cent, from 21½ per cent in August. High personal and company borrowing were both evident in Q3. Building societies continue to lose share in the mortgage market so that bank and building society lending together has been growing less rapidly - the 12 month rate rose to 20 per cent in September, from about 18¾ per cent in August. (Paras 27-29 and Annex ii).

Public sector borrowing remains well below the Budget profile. (Paras 12-13).

The exchange rate has been very firm, especially against a weak dollar. Sterling's appreciation is despite intervention of about \$8¼ billion in October, and the base rate cut on 23 October. (Paras 14-17).

Latest indicators suggest activity remains above the levels expected at Budget time. But there is no sign yet that this is manifesting itself in renewed inflation. (Paras 2-11).

Implications of the fall in equity prices are hard to assess. There is a special annex (Annex i) on this.

MG2 Division
4 November 1987

SECRET

A. External Developments

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

- **Short term interest rates** rose in the early part of October in all countries except the UK. Following the crash in world stock markets, rates have fallen but they are still marginally higher than at the end of September in all countries except the UK.

- **Share prices** have crashed in all the major stock markets since 15 October following large falls in the US. Between 15 and 29 October the US stock market fell by 19 per cent, while losses in Germany, Japan and France were 25 per cent, 16 per cent and 20 per cent respectively.

- The **dollar** has fallen against other major currencies since the beginning of October, losing 6 per cent against the yen and 6½ per cent against the deutschemark. Since the Louvre Accord the dollar has fallen by 10 per cent against the yen, and 5½ per cent against the DM. Total market intervention by the G5 and the rest of the EEC has been +$69 billion since the February Paris Accord (to the close of 22 October); in addition these countries have carried out non-dollar market intervention equivalent to $7½ billion over the same period.

- In the second quarter, **GNP** grew more slowly in the US and was unchanged in Japan. But it picked up in France and Germany after a bad first quarter.

- **Consumer price inflation** in the six other major countries has risen from about 1 per cent at the end of 1986 to 3 per cent this August.

- **Non-oil commodity prices,** shown in table 3a, are currently about 15 per cent higher (in SDR terms) than a year ago. Prices of industrial commodities have risen by one-third but food prices have hardly changed. **Oil spot prices** are about 35 per cent higher (in dollar terms) than a year ago.

B. Activity and Inflation

2. Table 4 summarises recent indicators of **activity and inflation.** The labour market indicators remain particularly buoyant. Recent growth of manufacturing output has been, if anything, a little faster than expected. The latest set of inflation figures have been broadly as anticipated.

Recent indicators of activity

3. The latest figures for production industry output show a further ½ per cent rise in **manufacturing output** in August, following a sharp 1½ per cent increase in July. Despite associated downward revisions to the level of output in the first seven months of 1987 the index of manufacturing output in August stood almost 6½ per cent higher than a year earlier. The October CBI Survey of manufacturers showed order books remaining very buoyant. However, both export orders and output expectations have eased somewhat from peak Summer levels. The CBI conclude that manufacturing growth, while strong, is no longer accelerating. Construction output is estimated to have fallen 3½ per cent in the second quarter but remains 7½ per cent higher in the first half of 1987 than a year earlier.

4. Preliminary estimates of third quarter **consumers' expenditure** show a sharp 2½ per cent increase from the second quarter to a level 5¼ per cent higher than a year earlier. **Retail sales** provisionally fell ¾ per cent in September following a 1 per cent rise to record levels in August. Retail sales in the three months to September stand 2¾ per cent higher than a quarter earlier. New car sales were exceptionally high in September following record sales in August. Private housing starts in August are provisionally estimated to have shown little change from July, and remain below the high level of starts seen in the first quarter.

5. **Unemployment** fell by 54,000 in September, somewhat more than the average decline seen over the last six months. **Overtime working** rose slightly in August and remains at a historically high level. Vacancies in August rose a further 14,000 - considerably more than the average 3000 monthly increase seen over the latest twelve month period.

Inflation

6. The outturn for **retail price inflation** in September was 4.2 per cent, 0.2 per cent lower than in August. This was in line with expectations. Underlying inflation remains little different from projections made at Budget time and, more recently, in June.

7. The twelve month increase in the **producer price index** (excluding food, drink and tobacco) in September was 4.8 per cent, the same as the (revised) estimate for August. The October CBI survey of manufacturers, adjusted for seasonal variation, reported a similar outturn for output price expectations as in the August and September surveys. **Producer input prices** (also excluding FDT) rose by 11.0 per cent over the year to September, down from 14.4 per cent in the year to August. This reduction in the year on year increase effects a diminishing influence from the sharp rise in input prices last Autumn, together with a ½ per cent fall in the level of input prices during September this year.

8. Underlying growth in **average earnings** in August was 7¾ per cent, the same as in the previous 4 months. High productivity growth in the manufacturing sector continues to keep manufacturing unit labour costs increasing at very low rates. Outside manufacturing, productivity growth has been slower and in the year to Q2 1987 whole economy unit wage costs rose by just over 4½ per cent. Private sector settlements concluded in the 1986-87 pay round just ended averaged around ¾ per cent lower than the outturn for the previous round, but have been on a rising trend since the beginning of 1987.

9. The annual rate of **house price inflation** (measured by the Halifax index) was 14.5 per cent in October, compared with 14.8 per cent in September. The latest figures are consistent with the levelling off of house price inflation, at between 14 and 15 per cent, which has been apparent throughout 1987. The regional figures for the third quarter show house price inflation falling back slightly in Greater London and the South-East, to about 23 per cent, while inflation continues to rise in neighbouring regions: in particular, house price inflation in East Anglia has risen to 27 per cent. The other regional figures remain fairly flat at around 7 per cent.

Projections for Money GDP

10. October forecast projections for money GDP showed an overshoot of nearly 1½ per cent relative to the Budget forecast for 1987-88. The largest component of this overshoot (1¼ per cent) represents a higher projection for real activity. The GDP deflator for 1987-88 is now projected to show only marginally faster growth than expected at Budget time: the effects of a higher projection for oil prices have been broadly offset by prospects for slower growth of domestic costs in the non-oil economy.

11. Although demand is clearly buoyant there remain, as yet, no convincing signs of overheating. Recent RPI inflation outturns have been broadly as anticipated and profit margins do not appear to have risen faster than over the last few years. However, despite a relatively favourable September outturn, underlying UK net trade performance has shown a renewed deterioration in recent months.

C. Public Sector Finances and the Fiscal Stance

12. Table 5 gives the main indicators of the fiscal stance. The PSBR in September was close to zero, as compared with a forecast of a surplus of £0.2 billion. This brings the PSBR for the first six months of 1987-88 to £1.4 billion, which is £3.3 billion below the Budget profile. Of this difference, central government own account borrowing is around £2.7 billion below profile - Table 6 gives details - and local authorities' borrowing about £0.5 billion below profile. Comparison of the outturn so far this year with the previous year is affected by significant changes in the level and pattern of privatisation proceeds. If privatisation proceeds are excluded, borrowing in April to September has been £1.5 billion lower than for the same period in 1986-87.

13. The FSBR gave a PSBR forecast of £3.9 billion for 1987-88. The latest (internal Autumn) forecast for the PSBR in 1987-88 ahows a surplus of £1.2 billion. Well over a half of this £5 billion downward revision would seem to be attributable to the more buoyant general economic outlook and higher oil prices. But that still leaves an estimated downward revision of about £2 billion in the PSBR excluding privatisation proceeds as a result of changes of view for growth and inflation this year. This suggests that the

fiscal stance in 1987-88 is turning out considerably tighter than envisaged at Budget time, even allowing for the automatic tightening associated with higher than expected activity. On this basis fiscal policy would not appear to be contributing directly to the higher than expected growth of output.

D. **Exchange Rates and External Accounts**

14. The **sterling index**, which was firm during September, rose just over 2 cent in October despite a steady narrowing of the interest rate differential against the world basket. In the first half of October, when UK interest rates were steady, there were sharp rises overseas, especially in the US and Germany. Since the fall in world stock markets UK and German three month rates have fallen by nearly 1 percentage point and US rates have fallen by 1½ points, back to their end September level. With other rates relatively stable, interest rate differentials have narrowed to 2½ per cent against the world basket and 5¼ per cent against German rates.

15. Sterling's recent firmness has been associated with a renewed decline in the dollar, both immediately before and since the stock market collapse. This has at times exerted rather more upward pressure on sterling than on the Deutschemark, perhaps in part because of the announcement of 10 per cent withholding tax on German investments, but also because the interest rate differential against German rates still looks attractive at a time when the nominal exchange rate is being maintained within a narrow band. As a result there has been upward pressure on the DM/£ rate, accompanied by substantial intervention, although the rate has eased to 2.98 in recent days. Spot and forward market intervention was $8.3 billion in October.

16. Sterling may also have been boosted by better than expected September trade figures, City optimism on public sector finances and rises in oil prices. The Brent spot price rose temporarily to around $19 a barrel following recent American military action in the Gulf, but has now fallen back to $18½ - its level at the end of September. As a result of the rise in sterling over the past month, the oil adjusted reference ratio has risen by over 2 per cent.

17. The September **trade figures**, published on 23 October, showed a current account deficit of £55 million compared with a deficit of £929 million in August. The fall in the deficit reflects some recovery in non-oil export volumes and a sharp fall in non-oil imports from the eratically August levels. The upward trend in non-oil import volumes however remains faster than the upward trend in exports.

E. Domestic Monetary and Financial Market Developments

(see Tables 10 to 26)

Narrow Money

18. M0 continues to exhibit disturbing signs. Since June, annualised three month growth of notes and coin has been consistently around 6-8 per cent, although 12 month growth rates of both notes and coin and M0 have been significantly lower. But M0 growth has been rising relative to what was anticipated at Budget time (see chart 7). The significance of the M0 figure is their apparent confirmation that activity is currently above the Budget projections. This looks set to continue. In addition, the ½ point fall in interest rates has left them below the level anticipated at Budget time. Chart 7 shows that the 12 month growth rate is expected to fall back in November and December, mainly because of developments in 1986, but thereafter it is projected to rise above the top of its target range during Q1 1988.

19. **M0** (seasonally adjusted) rose by 0.6 per cent in October, and the annual growth rate rose to 5.6 per cent from 4.9 per cent in September. The increase in the 12 month rate mainly reflects an abnormally low level of bankers' balances in October 1986; the 12 month growth rate of notes and coin rose less rapidly, to 5.2 per cent in October from 5.0 per cent in September. The annualised growth rate of notes and coin in the latest 3 months was just over 8 per cent, little changed compared to the 3 months to September.

20. The **forecast** assumes that the level of notes and coin rises by 0.5 per cent in November - slightly below the monthly average rise since June. In terms of 12 month growth rates, M0 falls back to 5.0 per cent in November (the annual comparison being affected by the brisk growth of M0 towards the end of 1986). The

twelve month rate of M0 is forecast to fall further, to about 4¼ per cent, in December but to rise above the top of the target range in February 1988. The overshoot compared with the Budget projections is expected to rise steadily from its current 1¼ percentage points in October to 2½ points in March.

21. NIB M1 rose by £0.5 billion in September and its annual growth rate fell back sharply - to 6.3 per cent from 12.3 per cent in August - reflecting upward distortion of the TSB sale on NIB M1 in September 1986. Annualised growth of NIB M1 in the three months to September was nearly 18½ per cent.

Broad Money

22. Broad money growth in September was the lowest since January and the twelve month growth rates of all the broad aggregates fell back, although this partly reflects the effects of the TSB share sale on the broad aggregates in September 1986. However, bank lending was exceptionally high this month and total bank and building society lending was also above the average of the last few months.

23. M4 rose by £3.1 billion (1.1 per cent) in September and the 12 month growth rate fell back to 15 per cent, from 15½ per cent in August. M3 rose by £ 1.8 billion (1.0 per cent) whilst its 12 month increase fell back to 19½ per cent, from 22 per cent in August.

24. With respect to the M4 components, holdings of M3 by the private sector (excluding building societies) rose by £1.8 billion, compared to an average of £2.6 billion over the previous 12 months. Bank deposits may have been depressed in September by several factors, including the Rolls Royce second call (£0.6 billion); the Midland Bank rights issue (£0.7 billion); and unusually large payments of PRT (£0.9 billion). Private sector retail deposits with the societies rose by £0.8 billion (most of which was interest credited). Wholesale funding of the societies from the private sector was relatively high at over £0.4 billion, possibly reflecting their weakened competitive position in the retail market and their large tax liabilities in September (see below).

25. **Building society retail inflows** were unexpectedly weak in September, with an estimated seasonally adjusted outflow of £260 million. A number of factors may have contributed to this, among them the TSB and Rolls Royce second calls, the new Royal Life and Prudential unit trust (which raised over £0.4 billion in September, see para 40), and the effect of reduced competitiveness in the retail market following the August rise in base rates. But while the effect of these factors was probably greater than allowed for, the underlying position of the societies does seem to have weakened. **Wholesale borrowing** from the private sector, at £430 million, was among the heaviest this year but despite this, societies could not avoid a substantial fall in their liquid assets of around £500 million, due to large tax payments. Among liquid assets, holdings of bank deposits, gilts and treasury bills all fell, with a resultant sharp fall in the liquidity ratio.

26. Broad money growth is **forecast** to be buoyant in October, with M3 and M4 rising by 2.3 per cent and 1.6 per cent respectively. This reflects several factors, in particular the projected expansionary effects of the intervention (estimated £1¾ billion) and the BP share sale (about £1½ billion). In addition, the building societies are projected to gain competitiveness in the retail market following the base rate cut and the fall in equity prices - the latter assumed to increase the attractiveness of building society deposits relative to unit trusts and equities. Annual growth rates rise to about 21¼ per cent for M3 and 15½ per cent for M4.

Credit

27. **Bank and building society lending** rose by 2.2 per cent (1.9 per cent seasonally adjusted) in September, compared with an average of about 1½ per cent over the previous 12 months. The annual growth rate of lending to the private sector was 20 per cent in September, having risen from 18¾ per cent in August.

28. **Sterling bank lending** grew by 2.9 per cent (2.3 per cent seasonally adjusted) in September, following a 2½ per cent increase in July but an increase of only ½ per cent in August. One known special factor - a temporary loan to finance part of an overseas

acquisition (which is expected to unwind in October) - accounted for £½ billion of total bank lending of £5.4 billion; this is offset, however, by the repayment of £0.2 billion of another takeover-related loan. The lending figures also include about £1 billion interest charging. The annual growth rate of sterling bank lending rose to 23½ per cent in September, from 21½ per cent in August. Annex 1 considers possible explanations for the surge in bank lending in September, in relation to the factors which may have influenced the high July figure. The main factors are described below:

(a) strong lending to the personal sector, especially for house purchase, has been a feature of recent months. Lending to persons for house purchase grew by £3.2 billion (10¾ per cent) in Q3 while lending for consumption rose by £1.4 billion (5½ per cent). Furthermore, the industrial analysis of lending in the three months to August shows a £1.8 billion (13 per cent) increase in lending to the sub-category including other mortgage lenders and consumer credit companies, suggesting further lending to persons for house purchase and/or consumption;

(b) in July, the non-bank sector switched sharply out of foreign currency bank borrowing at the same time as they increased their sterling borrowing. It seems likely that the residents' switch out of foreign currency bank borrowing was at least in part into other forms of foreign currency borrowing with the coincidental high sterling lending explained by other, non-speculative, factors. For example, the industrial analysis of lending to August suggests that the opposite movements in sterling and currency borrowing were mainly in different industries and hence were unconnected with each other. In September, the sharp rise in sterling borrowing was accompanied by negligible currency borrowing, which has risen by an average of £1½ billion per month in the rest of 1987. Hence some speculative switching between currencies may have occurred in September but firm data to test this hypothesis is not yet available.

(c) company sterling bank borrowing recovered strongly in Q3, rising by £3½ billion (5¼ per cent) after having risen by only about £1 billion in Q2. Company borrowing in the domestic capital markets rose even more strongly in Q3 (up by £6½ billion) but as yet there is no data available on companies' use of funds in the third quarter.

(d) it is possible that companies borrowed sterling heavily in July in order to pay off borrowing in the US commercial paper market on a covered basis. The constellation of rates in July suggests this may at times have been an attractive proposition to companies. In September, the pattern of rates was very much against this kind of behaviour, with a significant differential in favour of issuing US commercial paper available during most of the month.

29. In contrast to their poor performance in retail markets (see para 25), **building societies' mortgage lending** seems to have been strong in September at an estimated £1.4 billion (seasonally adjusted), the highest figure so far this year. This again is somewhat unexpected, since the effect of increased competitiveness in mortgage lending is unlikely to have yet come through fully. Societies may be feeling that with the possibility of an increase in the wholesale funding limit following the BSA request, it is worth attempting to regain some share in the mortgage market at the expense of liquidity.

Other Broad Money Counterparts

30. A PSBR of £0.2 billion was **overfunded** by £0.2 billion, reflecting flat public sector debt sales to the non-bank private sector, CG debt sales of £0.6 billion overseas and a £0.3 billion rise in the reserves. (So far in 1987-88, with the £4¾ billion increase in reserves, there has been cumulative underfunding of £2 billion.) The building societies made small disposals of gilts in September and the **public sector contribution** to M4 was slightly more contractionary, at £0.4 billion, than to M3. Bank and building society **externals** were contractionary by £1.0 illion and **£NNDLs** were contractionary by £2.3 billion.

31. Public and banking sector **external transactions** were contractionary by £1.2 billion in September. The main factors behind the contractionary public externals (£0.4 billion) were the further foreign inflow into gilts and Treasury bills, offset by a £0.3 billion increase in recorded (spot) reserves. Between June and September, the overseas sector has made net purchases of £3¾ billion of public sector debt, in contrast to the private sector which was a net seller of gilts and TB's over the period. In general, these overseas flows into public debt seem to have been financed by new money rather than by running down existing sterling deposits, which have been fairly flat after a £1 billion fall in June. The contractionary influence on money of the banking externals (£0.8 billion) largely reflects a £1 billion increase in net foreign currency bank deposits, which follows a £2½ billion fall between June and August. The heavily contractionary **£NNDLs** are largely explained by about £1 billion interest charging (the offset to the interest charging in bank lending) and the £0.7 billion Midland rights issue.

M5

32. M5 grew by £3.2 billion (1.0 per cent) in September and at an annual rate of 14¼ per cent, compared to 15 per cent in August. Among the **M5 components,** aside from the £3.1 billion increase in M4, there was a £0.2 billion fall in private sector holdings of bank bills (the bill leak) offset by modest rises in holdings of Treasury bills, local authority debt and National Savings and tax instruments.

Money Markets and Interest Rates

33. **Money market rates** were relatively steady during October, prior to the ½ point cut in base rates and have showed little reaction to the current extreme volatility of world stock markets. Since the base rate cut, money market rates have fallen across the maturity spectrum and the yield curve is currently almost flat at about 9.3 per cent.

34. The stock of **money market assistance** was little changed at £5.4 billion in October, with the £4 billion increase in the reserves offset by several factors, including a CG surplus (£¾ billion) and strong purchases of gilts (£1½ billion), CTDs (£¼ billion) and

Treasury bills (£½ billion). The rise in market holdings of Treasury bills reflected the introduction of an extra tender of £500 million of 9 week Treasury bills at the end of October, and with the continuation of the tender in November the market is forecast to purchase a further £2 billion this month. The increased Treasury bill tender is intended to increase the need for commercial bill purchases in October and November and to decrease it in January when the Treasury bills mature, thereby smoothing the money-market assistance profile. The level of assistance is forecast to rise to £7¾ billion in November and to £9¼ billion by the end of December (see Table 25).

35. **Gilts** began October with the index 85.5, and 5, 10 and 20 year par yields at 10.2, 10.3 and 10.0 per cent respectively. The market traded around these levels for the first two weeks of the month prior to the Friday 16th hurricane disruption. The following Monday the market fell sharply on weakness in the equities and US bond markets, but it has subsequently surged ahead strongly, helped amongst other things by switching between equities and gilts and the base rate cut. The gilts index now stands at 89.8 and par yields at 5, 10 and 20 years are 9.1, 9.4 and 9.3 respectively. Breakeven inflation rates of Treasury 1990 and 2006 **indexed gilts** against comparison stocks are currently 3.1 per cent and 4.9 per cent respectively, compared to 3.8 per cent and 5.9 per cent at the end of September. Nominal conventional yields have fallen by about one percentage point during October, whereas real yields on indexed gilts have risen slightly. The **equity dividend yield** (based on the all-share index) has risen sharply to 4.2 per cent, reflecting the sharp falls in equity prices, having begun October at 3.0 per cent.

Capital Markets and Corporate Finance
(see tables 20-21)

36. **Equity prices** (measured by the FT All Share Index) were already on a downward trend during October prior to the shake-out of 19 and 20 October, when prices fell by a total of nearly 20 per cent. The shakeout was sparked off by events on Wall Street, where there are mounting concerns over the outlook for inflation, the dollar, the budget and trade deficits and interest rates. Prices have been extremely volatile since then, but the downward trend has generally continued and equity prices are currently 30 per cent below their July peak.

37. UK commercial companies and building societies raised a total of £2.6 billion net sterling finance in September from the domestic capital and eurosterling markets, compared to a monthly average of £1.4 billion in the rest of 1987. Of the £2.6 billion raised in September, £2.0 billion was raised through ordinary shares issued on the main stock market and USM. In October, net issues of ordinary shares fell back to £1.4 billion, which includes over £0.5 billion raised by BP. The total of capital issues in the queue and those announced but not raised (excluding privatisations) fell back by nearly £2 billion during October to stand at £6¾ billion on 1 November, compared with £11 billion on 1 September.

38. Eurosterling issues in September and October averaged £120mn per month by ICC's with a further £200mn per month by mortgage institutions - which is a similar level of activity to recent months but is much lower than in Q1 1987. Bond issues by ICC's in other currencies were about £90mn in October, which is very similar to the monthly average during 1987 but only half the monthly average of 1986. No swaps were identified in October, and identified swap activity by UK companies has been subdued recently, averaging about £30mn per month into sterling since June, compared to £80mn per month into sterling in the rest of 1987.

39. The stock of **sterling commercial paper** (SCP) outstanding rose by £130 million in September, to £2.2 billion (with net issues by UK commercial companies of £180 million pushing the stock up to £1.5 billion). Monetary sector holdings of SCP rose by £60 million to £0.6 billion.

40. Net sales of **unit trusts** were a record £1.2 billion in September, making average net sales of £1.0 billion per month in the third quarter, compared to an average of £0.5 billion per month in the first half of 1987. The September figures include sales of over £0.4 billion for the new Royal Life and Prudential unit trusts.

MG2 Division
4 November 1987

SECRET

Monetary developments since last month's report

	Latest outturns available at time of:		
	Mar Report	Sept Report	Oct Report
Monetary aggregates (12 month % growth)	**(Feb)**	**(Aug)**	**(Sept)**
M0 (sa)	4.1	4.7	4.9(5.6)+
M3	19.0	22.0	19.5
M4	13.9	15.5	14.9
M5	13.3	14.9	14.3
Bank lending	21.7	21.4	23.4
Bank & building society lending	19.8	18.7	20.0
Interest rates (%)	**26 Mar**	**1 Oct**	**2 Nov**
3 month interbank	9.7	10.3	9.3
20 year gilt-edged (par yield)	9.1	10.0	9.3
Yield gap	0.6	0.3	0.0
3 month overseas basket	6.1	6.9	6.8
3 month interbank/euro dollar differential	3.3	2.1	1.6
Real 3 month interbank	5.4	5.6	4.6
Equity dividend yield (all-share)	3.4	3.0	4.2
IG yields (2001) assuming 5% inflation	3.5	4.3	4.5
Exchange rate			
ERI	72.1	72.8	74.6
Oil adjusted reference index	72.9	73.0	73.1
ERI/reference rate ratio*	98.9	99.7	102.1
Asset prices			
FT-A Index (% pa)	26.7	56.4	8.0
FT-A Level (July peak: 1239)	1019	1215	876
Halifax house index (% pa)**	14.9	14.8	14.5

\+ October outturn

* 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 February, September and October

ANNEX I

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THE FALL IN EQUITY PRICES

This Annex considers the recent sharp fall in equity prices:

i. it attempts to put the decline in context by relating it to the longer term behaviour of share prices;

ii. it considers the extent of the effect on private sector wealth and thus what the effect might be on saving behaviour;

iii. it examines the effect on industrial financing costs.

The Recent Decline in a Longer Term Context

2. Chart 1 shows the behaviour of the FT Actuaries Equity Price Index since 1963. The values are deflated by the GDP deflator (at market prices) to abstract from the general effects of inflation. It seems clear that by end-1986 equity prices had recovered virtually all of the real loss which occurred in the 1970s. In real terms, the index was only a little below the previous peaks in 1968 and 1972. During 1987, however, equity prices again rose sharply so that in real terms the index stood well above previous record levels.

3. The step decline in the second half of October has reversed all of the gains made in the rest of 1987 and a little more. In real terms, the index is broadly back to where it was a year ago. It remains, however, well above levels typical of the decade after 1973 and a little above the average over the 1960s.

4. Over time, the price - earnings ratio (see chart 2) has followed a path quite similar to that of the real price index. By 26 October, the ratio had fallen back to about the levels of a year ago. At that level, it was well above the average level since 1973 but below the average in the 1968-73 period.

The Impact on Private Sector Wealth and Savings

5. Chart 3 shows a wide measure of private sector net wealth, including both tangible and financial assets, in relation to money GDP. This wealth-output ratio has fluctuated considerably. But the main features are the very sharp fall in wealth relative to output after 1973 and the subsequent recovery from about 1980 onwards. The decline after 1973 occured despite an increase in the rate of private sector savings. (Chart 4 shows the personal sector savings ratio). Equities fell sharply in real terms and financial assets generally produced returns over this period which failed to keep pace with inflation. Indeed, this reduction in wealth compared to output may itself have been an important factor in explaining the tendency to increased saving, as the private sector sought to restore its wealth position.

6. From about 1980, the reverse process occurred. Equities rose sharply in value and the price of houses - the other main component of private sector wealth - also rose more quickly than prices generally. By the end of 1986, the wealth - output ratio had accordingly recovered to about the previous record level in 1972. During this recovery, the savings ratio tended to fall; feeling wealthier, people evidently felt able to consume more of their income.

7. CSO data on total wealth does not extend beyond the end of 1986. But it is possible to infer something about the likely behaviour of the wealth - output ratio since. The earlier section implied that the fall in equity values in the last few days was only slightly greater than the previous gain in the rest of 1987. Of itself, therefore, the fall in equity prices would have been unlikely to have reduced the wealth - output ratio much below the end - 1986 level. Moreover, house prices have again risen faster in 1987 than prices in general which will have been a powerful influence raising the value of private wealth. Overall, it is therefore unlikely that the wealth - output ratio has fallen below the high level established at the end of 1986 and may be

still a little above it. If this is so, then it seems improbable - on this account at least - that private sector saving will rise sharply again.

The Impact on Industrial Financing Costs

8. Industrial and commercial companies have tended to rely more heavily on equities in recent years to raise their capital. The following table shows the proportion of their net borrowing requirement covered by net issues of ordinary shares.

Industrial and Commercial companies'
Net Issues of Ordinary Shares as a Percentage of Net Borrowing

1963 - 1970	9.6
1971 - 1975	9.6
1976 - 1980	14.6
1981 - 1986	25.1

In 1986 alone, this proportion had risen to nearly one-third. So the cost of equity borrowing is important to industrial companies.

9. Chart 5 shows the dividend yield and - perhaps more importantly in this context - the earnings yield over time. In the course of 1987, both yields dipped sharply reflecting the equally strong rise in equity prices, with relatively little movement in dividends or earnings. After the shakeout in October, both yields are now somewhat above their level at the end of 1986. The earnings yield is now rather higher than was typical up to 1973 but appreciably lower than the average since.

Conclusion

10. There has been a growing suspicion for some time that equity prices - in the UK as in the rest of the world - were perhaps

overvalued. Nevertheless, throughout most of 1987, UK equity prices continued to rise. The very sharp correction in the second half of October has so far been no more than a correction, wiping out only a little more than the gains in the rest of the year. Indeed the FTA index still shows a small year-on-year gain.

11. The fall in equity prices suggests a fall in wealth - output ratios back to around their levels of 1986. To the extent that this reduces the demand for goods and services in the economy, this implies some tightening of monetary conditions. But private sector wealth in relation to output remains at high levels so that a resurgence of savings seems unlikely. Equity financing costs - though clearly higher than those prevailing a few weeks ago - are by no means high compared to historical experience.

12. There is obviously a danger that equity prices could fall further with possible knock-on effects for other asset prices. In that case, there could be a serious contractionary effect on the economy. But, at present, that point still seems some way off.

CHART 1A.

EQUITY PRICE INDEX IN REAL TERMS

(all-share)

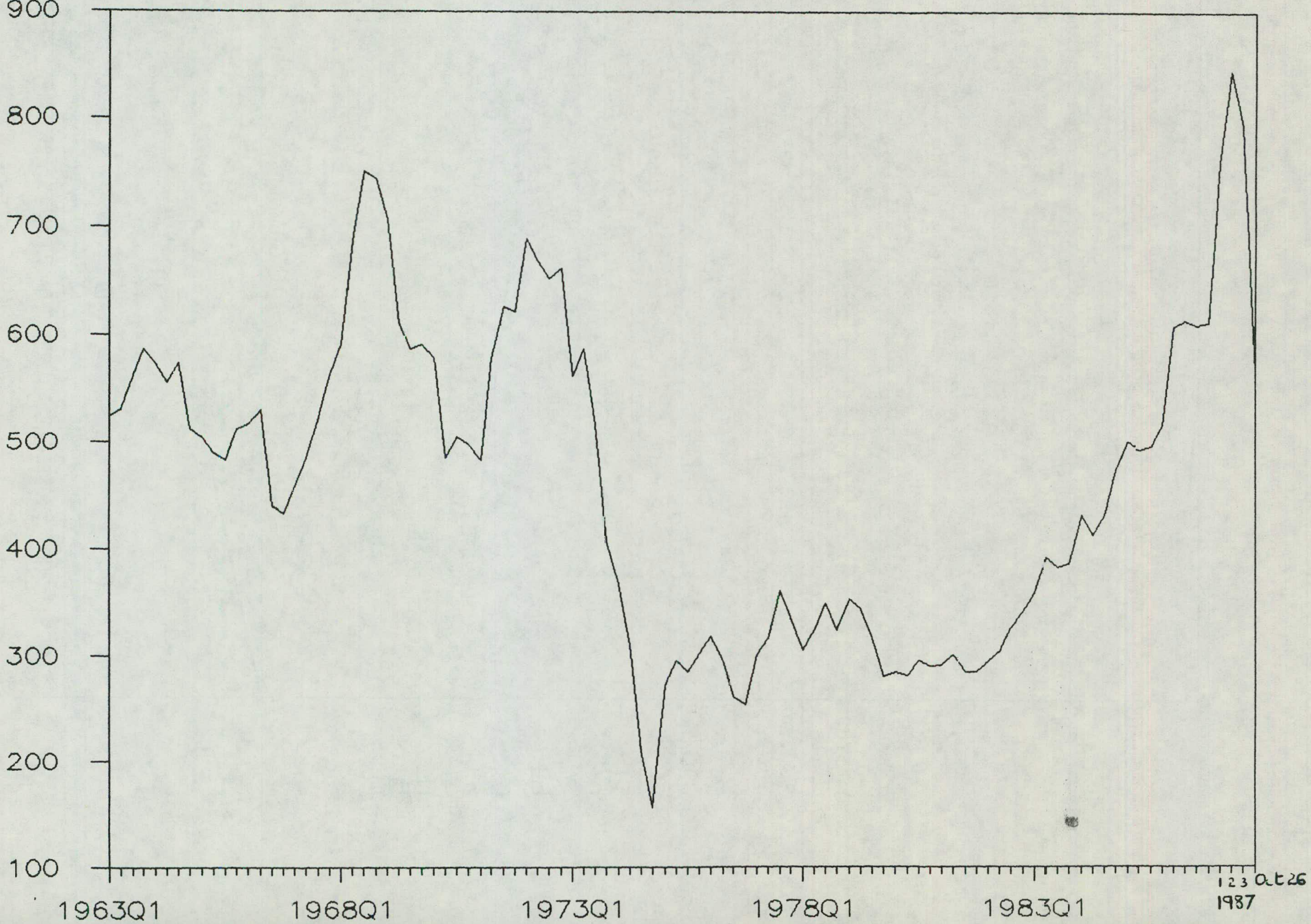
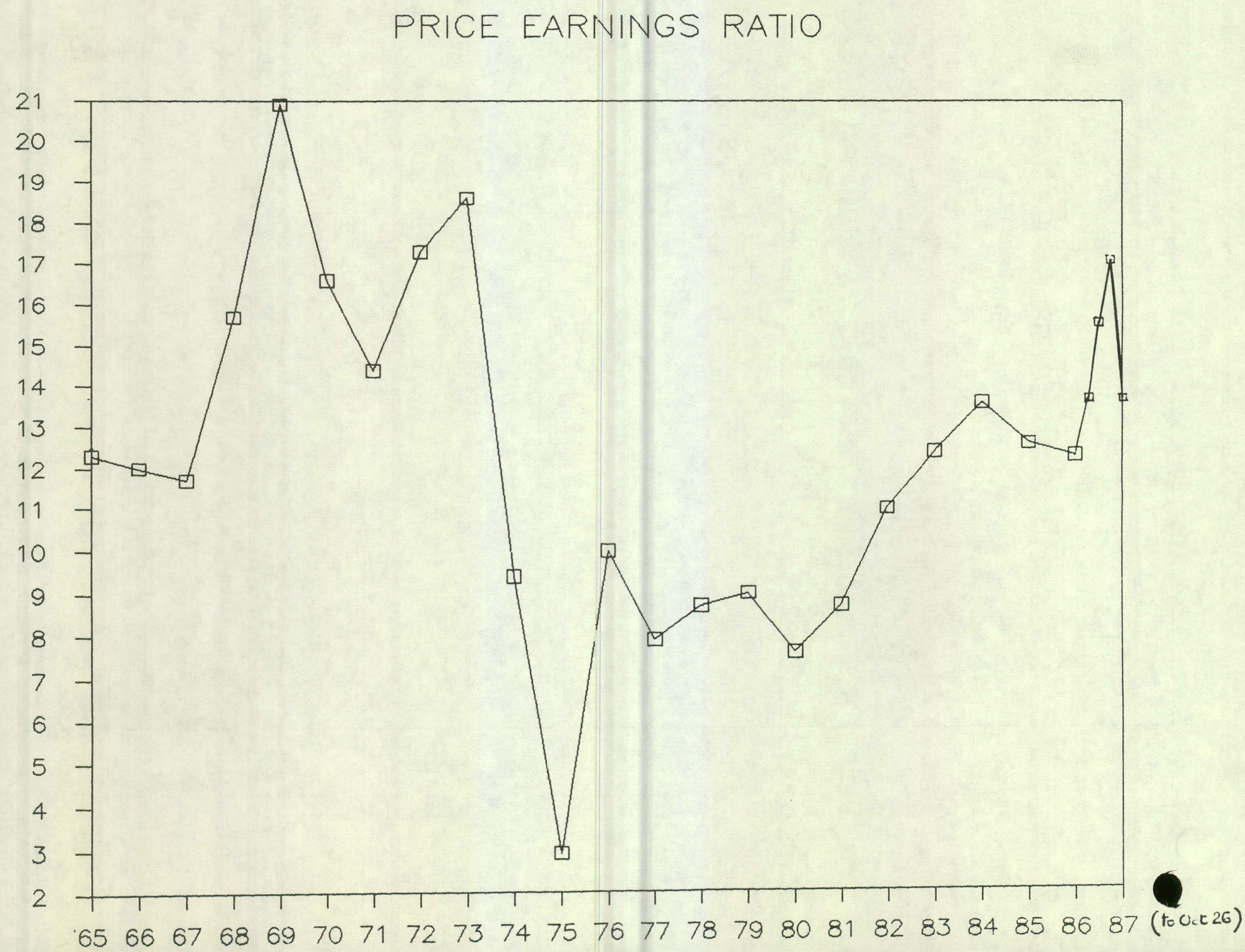


CHART 2A.


PRICE EARNINGS RATIO
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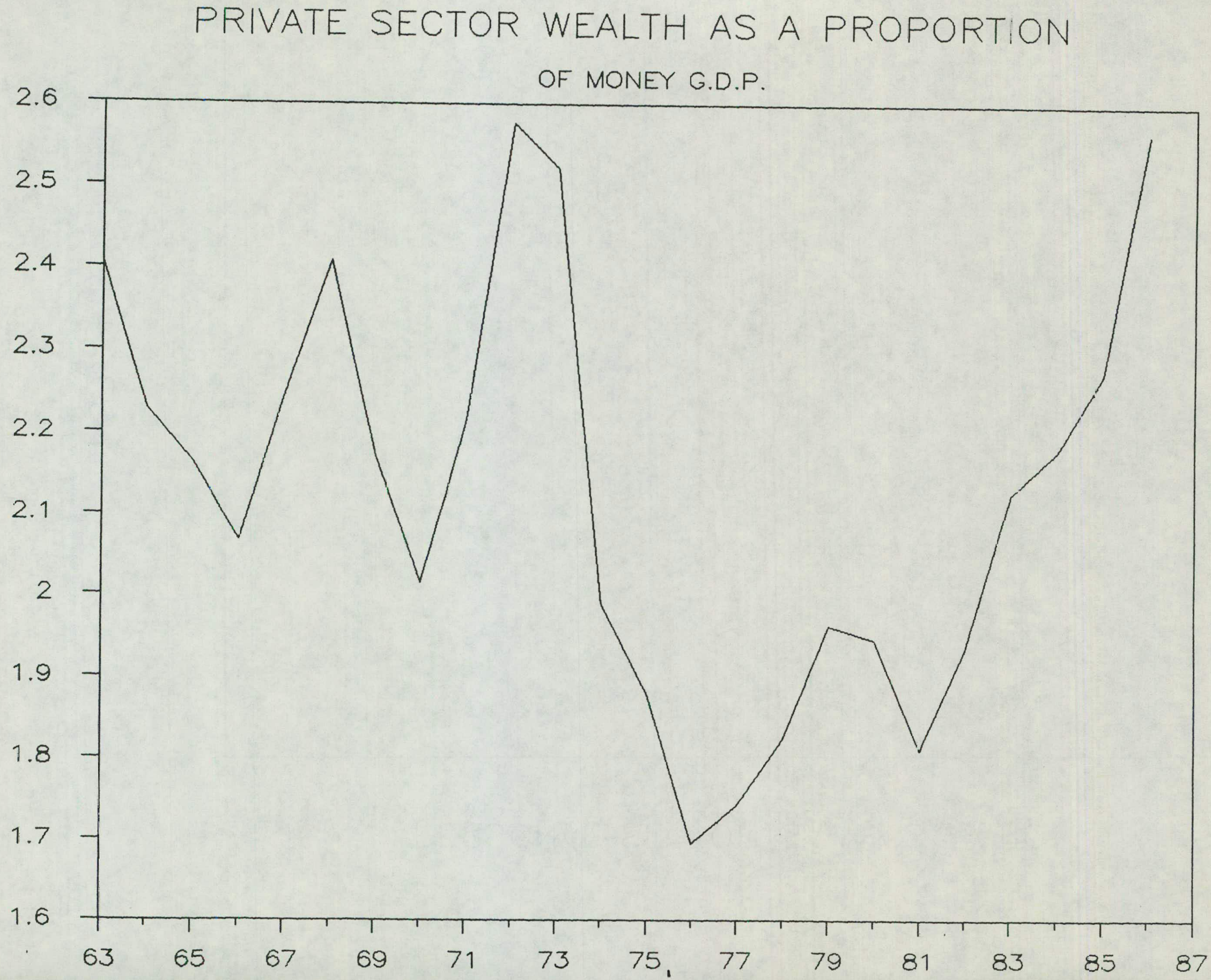
(to Oct 26)

CHART 3A.



PRIVATE SECTOR WEALTH AS A PROPORTION
OF MONEY G.D.P.
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87

CHART 4A.

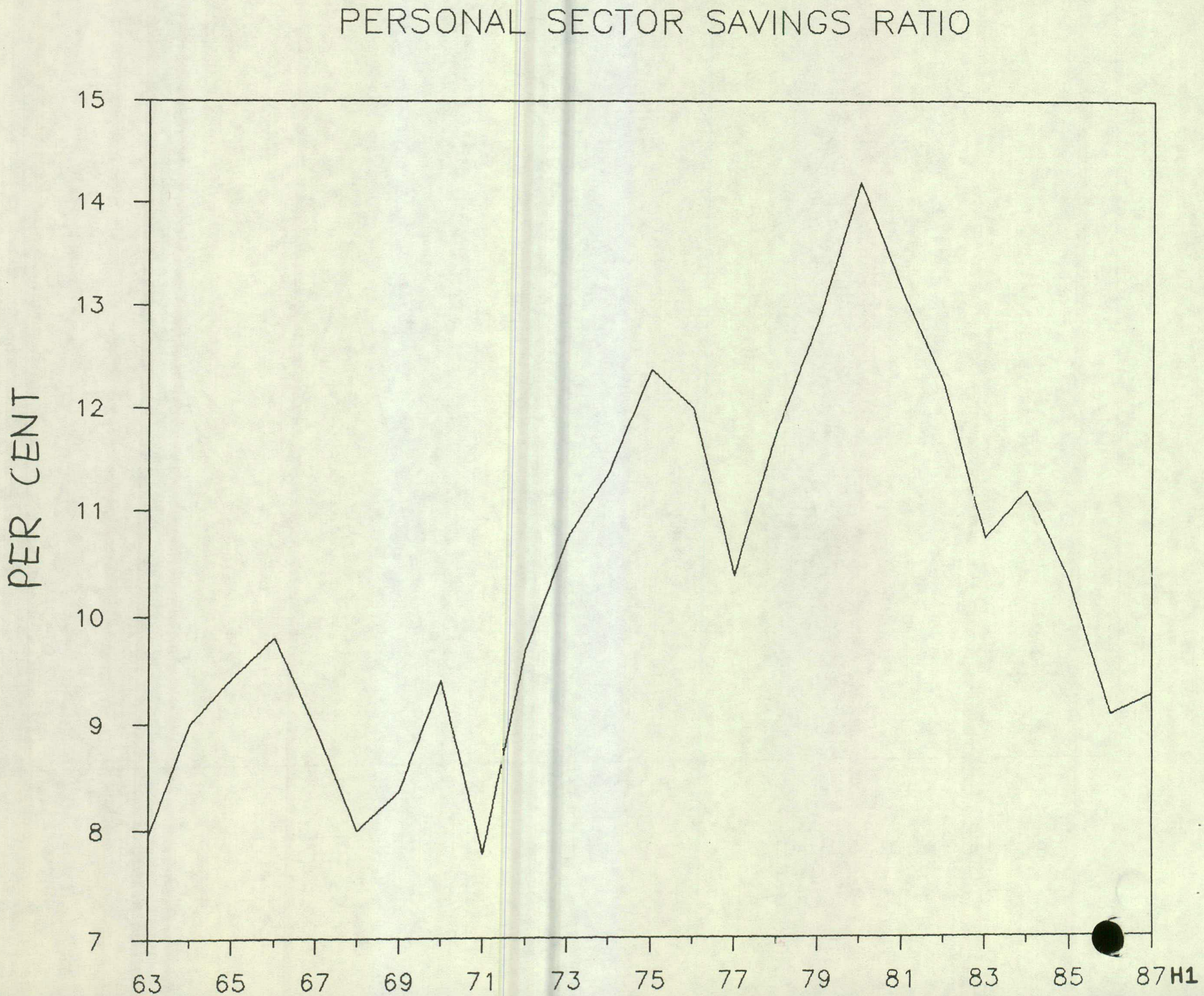
PERSONAL SECTOR SAVINGS RATIO
PER CENT
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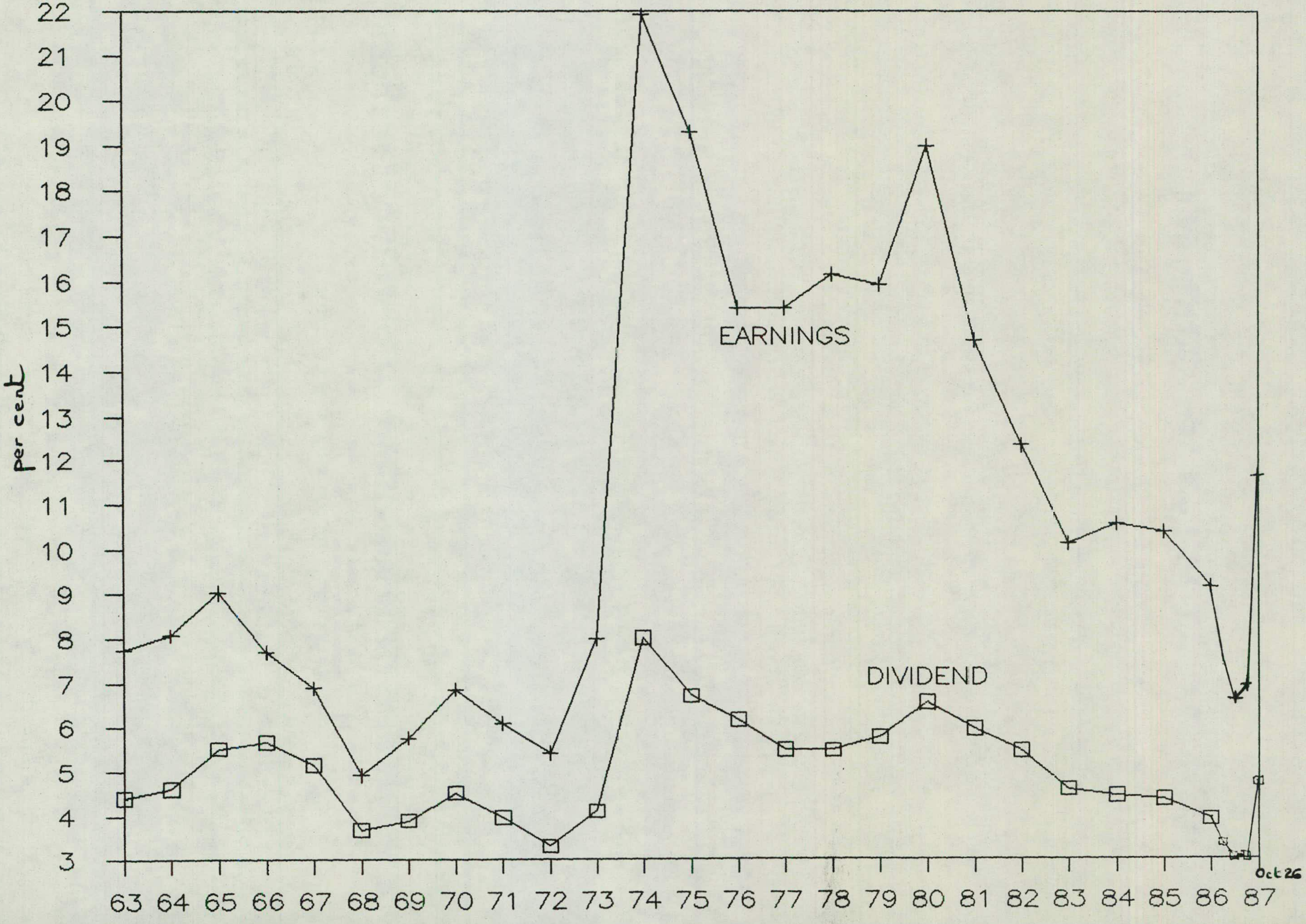
CHART 5A.

DIVIDEND YIELD AND EARNINGS YIELD



SECRET

ANNEX II

BANK LENDING IN Q3

An annex to the August assessment discussed possible explanations for the very high growth in sterling bank lending in June and July. This annex reviews the discussion in the light of the latest monthly figures, the quarterly sectoral analysis of lending and deposits in Q3 and the more detailed quarterly analysis of lending by industry in the three months to August.

2. Sterling lending grew by a record £11.2 billion (6.0 per cent) in Q3, 35% higher than the average of £8¼ billion during the previous four quarters. In contrast, foreign currency lending fell by £1.2 billion (5.1 per cent) in Q3 compared with an average increase of £4 billion during the previous four quarters. On the deposits side, the pattern was almost the reverse: the growth of M3 was, at £8.0 billion (4.9 per cent), slightly lower in percentage terms than in the previous two quarters, while the growth of foreign currency deposits was at, £2.0 billion (7.0 per cent), higher than in recent quarters.

3. It was concluded in the earlier Annex that the following factors contributed to high sterling bank lending in July:

(i) an increase in banks' share of the mortgage market;

(ii) switching by the private sector from foreign currency bank borrowing into sterling bank borrowing;

(iii) heavy corporate demand for capital expenditure purposes;

and (iv) round-tripping by companies, ie borrowing at interbank rates and re-depositing the proceeds profitably.

It was further concluded that arbitrage between domestic bills and US commercial paper had probably not been a contributing factor, nor had settlement problems on the Stock Exchange.

4. These points are re-assessed below.

Banks' share of the mortgage market

5. The Q3 sectoral analysis shows that the surge in sterling bank borrowing occurred within the personal and company sectors (Chart IIA).* Within personal sector borrowing the major impetus came from borrowing for house purchase, which grew by £3.2 billion (10¾ per cent) in Q3 following a £2.4 billion (9 per cent) rise in Q2. This was more than enough to offset the continued modest decline in building society lending, which grew by only £3.9 billion (3 per cent) in Q3 and £4.2 billion (3½ per cent) in Q2 compared with the peak of £5.6 billion (5¼ per cent) in Q3 1986. (See Chart IIB). Furthermore the quarterly analysis by industry, reveals an increase of £1.8 billion (13 per cent) in the quarter to August in lending to the sub-category including other mortgage lenders and consumer credit companies (namely "other financial" - see Chart IIC), suggesting further lending to persons for house purchase or consumption. High personal sector borrowing was not, however, confined to mortgage borrowing, with borrowing for consumption rising by £1.4 billion (5½ per cent) in Q3 after a very strong rise of £1.6 billion (6½ per cent) in Q2.

6. The industrial analysis also showed a jump of £1.2 billion (10½ per cent) in lending to property companies in the quarter to August and this is known to be concentrated in lending for projects in the City.

Switching from foreign currency to sterling bank borrowing

7. The quarterly figures give only limited evidence of direct switching from foreign currency bank borrowing to sterling bank borrowing. The Q3 sectoral figures show that low foreign currency borrowing was due to the financial and company sector (Chart IID) and the industrial analysis to August suggests that the main contributers were securities dealers, investment and unit trusts, and the oil and natural gas industry (Chart IIE).

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*The figures have been adjusted to reallocate between sectors flows associated with oversubscribed share issues affecting Q2 and Q3 1987 and will therefore differ somewhat from the figures to be published.

Of these sub-categories only investment and unit trusts increased their sterling borrowing significantly - by £0.6 billion (34%) in Q3 (Chart IIC), perhaps reflecting hedging activity. Thus, with the exception of some £½ billion of switching by investment and unit trusts, the low foreign currency and high sterling borrowing figures appear to be unrelated.

Company borrowing for capital expenditure

8. As mentioned above, the company sector contributed to high sterling lending in Q3, increasing its borrowing by £3.4 billion (5¼ per cent) after having borrowed sluggishly in the first half of the year (Chart IIA). Although the Q3 recovery was accompanied by repayments of £1.2 billion of foreign currency borrowing, this was probably largely due to the oil and natural gas sector which repaid £1 billion of foreign currency borrowing in the quarter to August. The industrial analysis suggests that the main factor in the bounce-back in sterling borrowing was a recovery in lending to manufacturing industry, which had fallen by £1.5 billion (6 per cent) in Q2 (see Chart IIF). The fall in Q2 was mainly attributable to seasonal repayments by the motor vehicle industry, unwinding of take-over related borrowing by food, drink and tobacco companies, and repayments by the electrical engineering and chemical industries (Chart IIG). Strong sterling borrowers in Q3 included property companies (see above) and "other services" - known to include significant lending to the Corporation of Lloyds.

9. Industrial and commercial company borrowing in the capital markets was also exceptionally strong in Q3 with some £6½ billion net raised in the domestic markets. It appears that equity issues were in general made by companies in the same industrial sub-sectors as companies which borrowed heavily from banks. No data are yet available for manufacturing investment or stock-building in Q3 but the strong borrowing figures, both in the capital markets and from banks, would be consistent with companies proceeding with capital expenditure programmes having perhaps awaited the outturn of the general election.

Round-tripping

10. Strong company bank borrowing was accompanied by very strong growth in sterling bank deposits of £5.9 billion (15 per cent)

in Q3 - representing 75% of the total growth of M3. This would be consistent with round-tripping (ie companies borrowing at interbank rates and placing the proceeds on deposit at a profit), but it is more likely to have arisen because proceeds from the exceptionally high capital issues had remained temporarily on deposit awaiting expenditure.

Arbitrage between domestic bills and US commercial paper

11. The quarterly figures confirm that sterling lending does not appear to have been inflated by bill arbitrage, since lending via bills and commercial paper fell by £0.1 billion in Q3 compared with an average rise of £0.7 billion over the previous four quarters.

Stock exchange settlement problems

12. The quarterly figures also confirm that Stock Exchange Settlement problems do not appear to have inflated sterling lending in Q3. The sectoral analysis shows only a modest recovery in lending to the financial sector after a decline in the rate of growth in the first half of the year (Chart), and the industrial analysis shows that lending to securities dealers, money brokers and gilt-edged jobbers fell by £0.3 billion in sterling (and £0.2 billion in foreign currency) in the quarter to August.

Conclusion

13. Strong sterling bank borrowing in Q3 is attributable to the personal and company sectors. Borrowing for house purchase is the main factor within the personal sector, with banks both increasing their share of the mortgage market and contributing to an increase in total mortgage lending, but personal borrowing for consumption also remained strong. The main contributors to company sector borrowing were a recovery in borrowing by manufacturing industry and strong borrowing by property companies with both sectors also borrowing strongly in the equity markets. It is possible that some companies may have placed the proceeds of bank borrowing on deposit, as company deposits rose strongly, but the rise in deposits probably reflects companies' exceptionally high capital issues.

CHART IIA

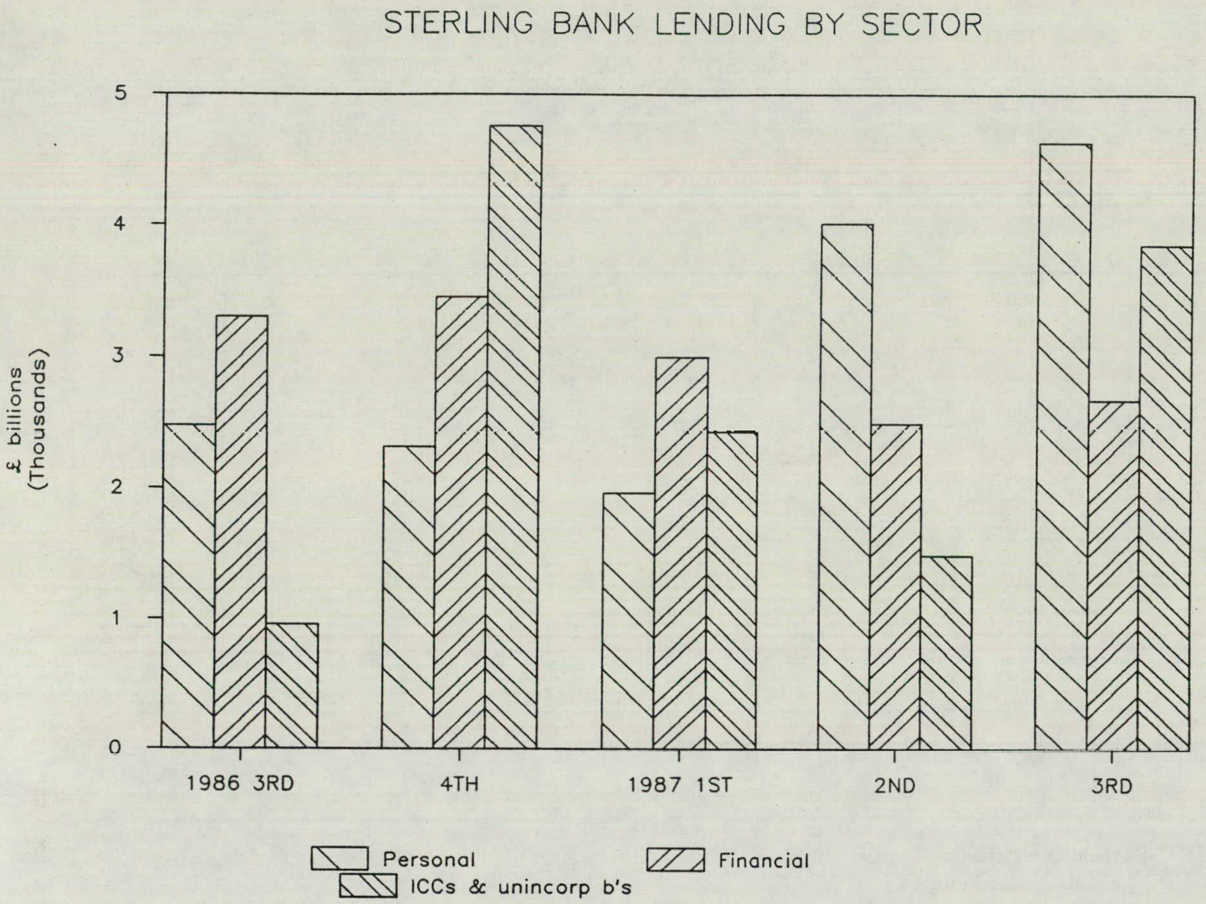


CHART IIB

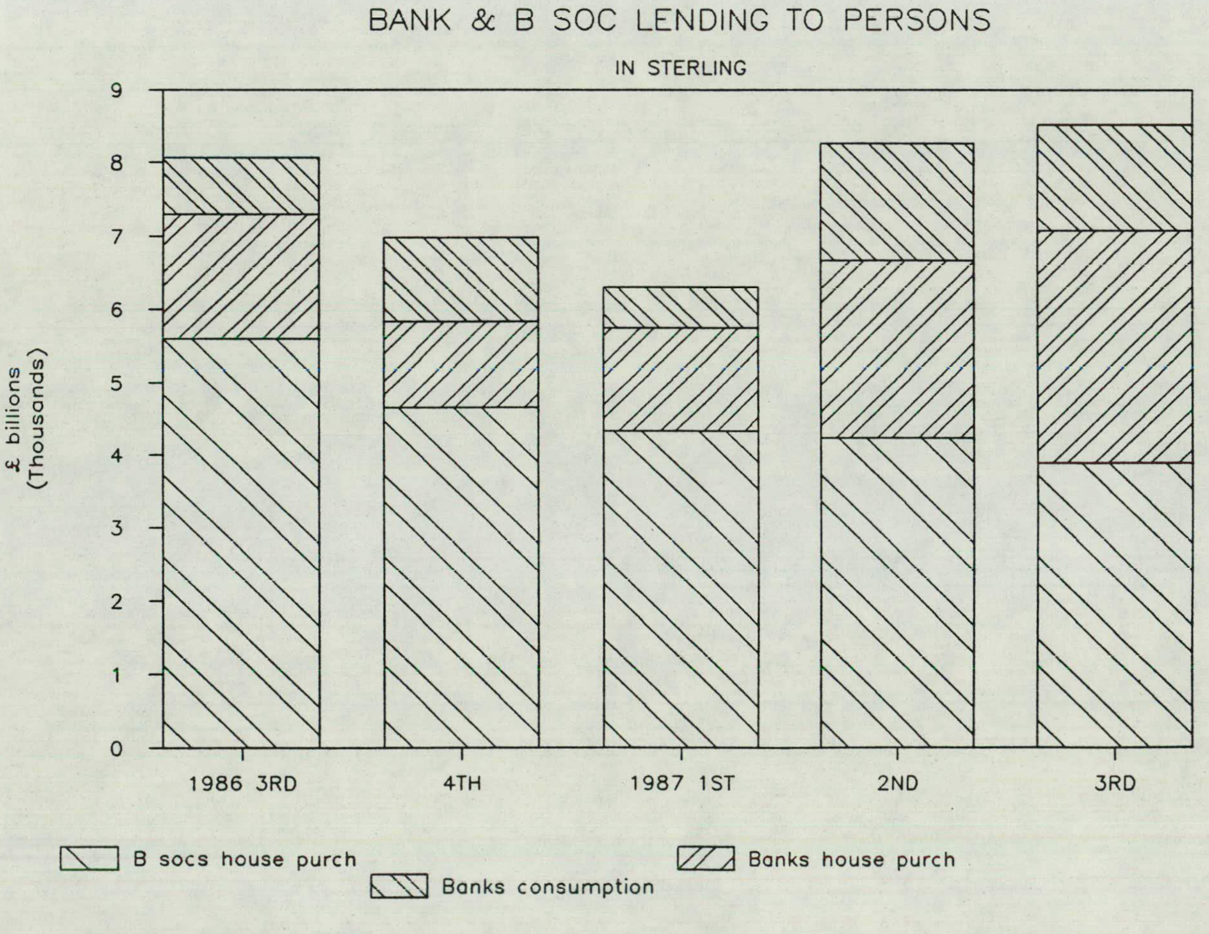


CHART IIC

CONTRIBUTORS TO HIGH £ BANK LENDING

IN QUARTER TO AUG 87 excl personal

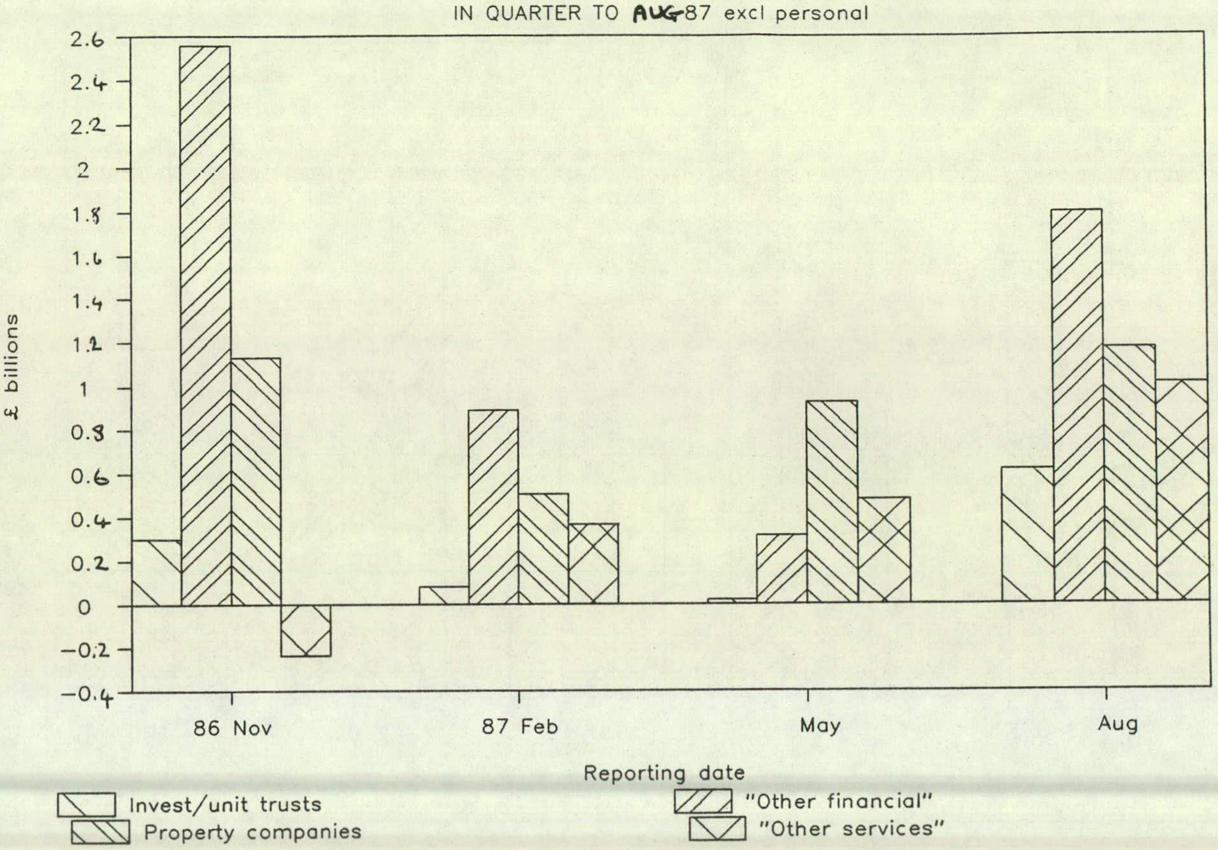


CHART IID

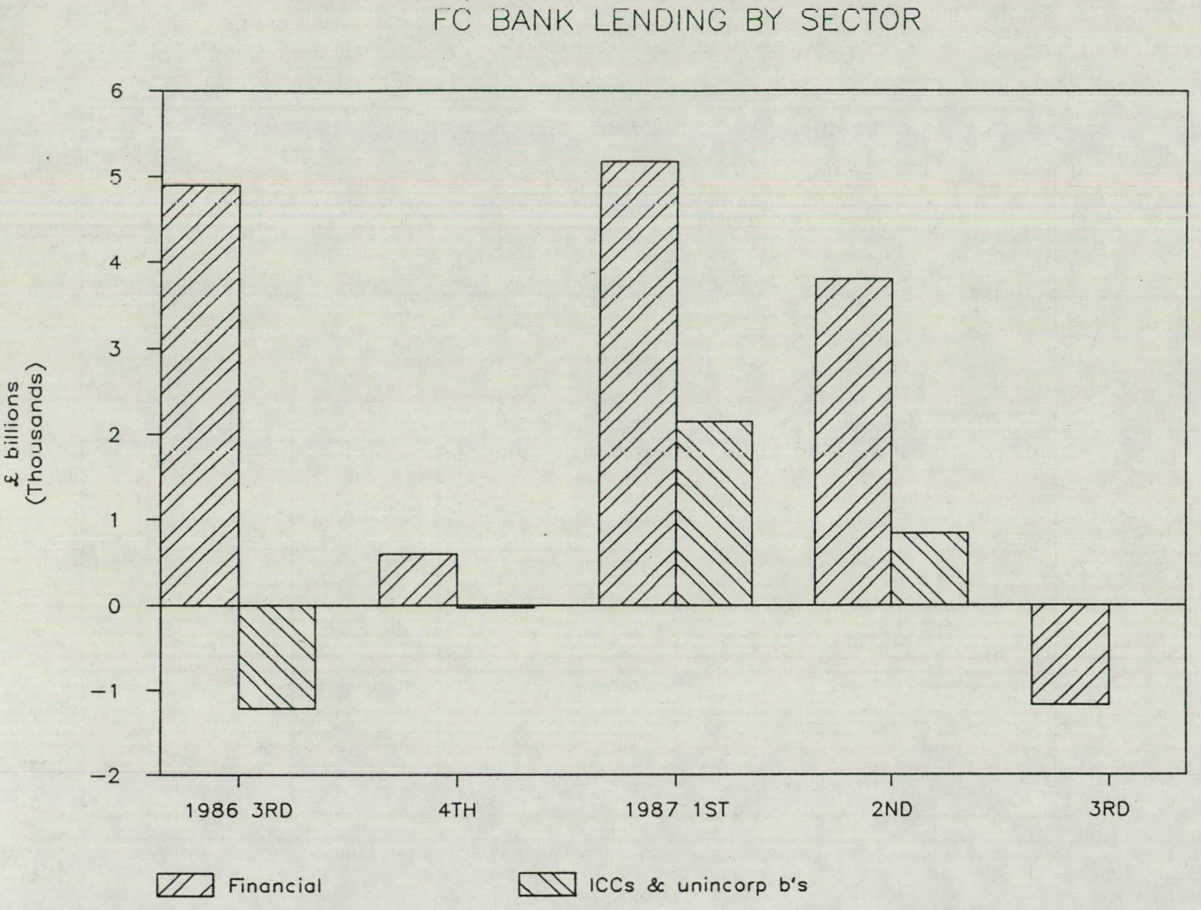


CHART IIE

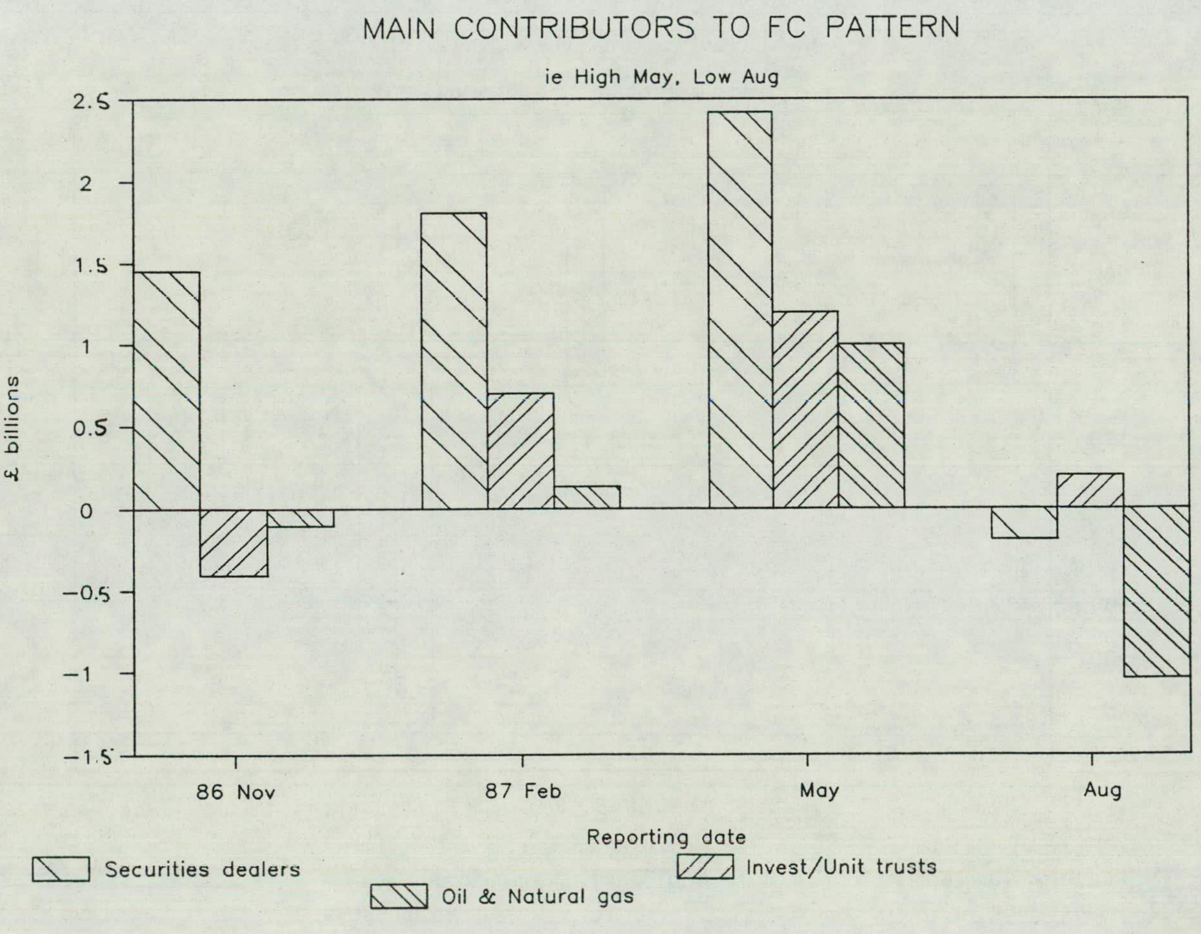


CHART II F

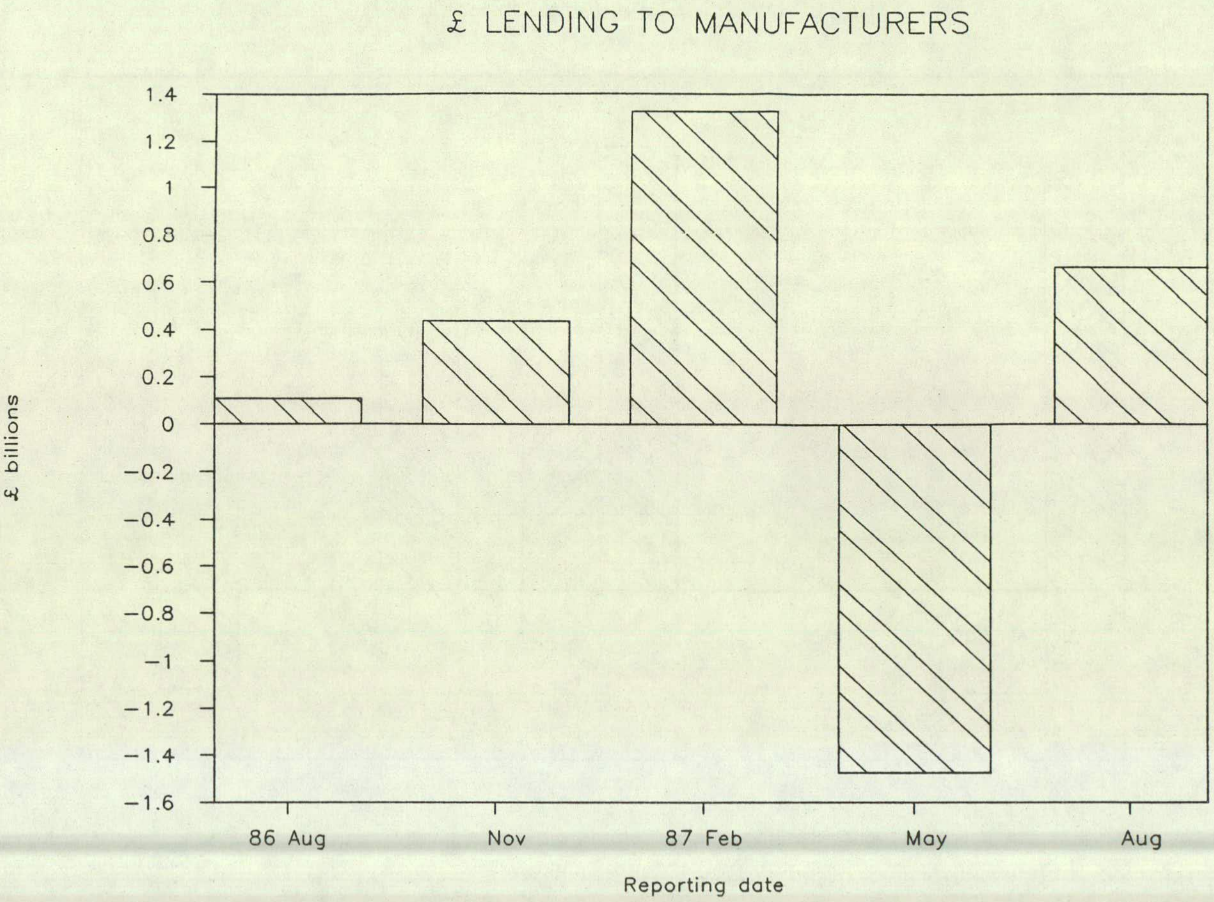
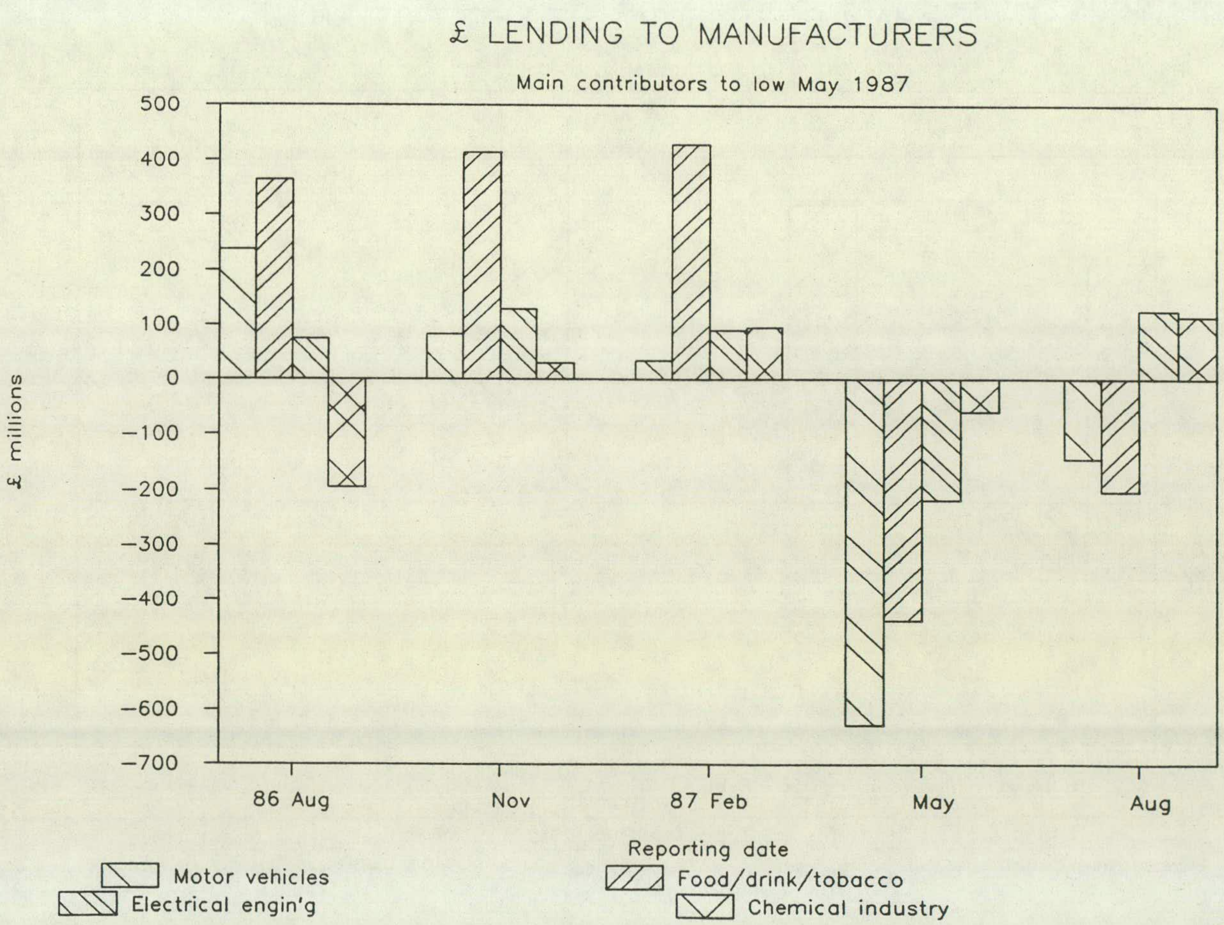


CHART II G



BROAD MONEY FORECAST

1A. The M3 and M4 forecasts are tentative because of uncertainties both over the monetary effects of the shakeout in equity prices and of the BP sale. With respect to the BP sale, £0.9 billion was received in October, largely from overseas underwriters, and it is assumed that a further £1.5 billion will be received in November, £0.4 billion from overseas underwriters and £1.1 billion from UK underwriters. It is further assumed that no BP shares will be sold to the Bank of England under the support arrangements. On this scenario, M3 and M4 are forecast to rise strongly in October, by 2¼ per cent and 1½ per cent respectively. Annual growth rates will rise sharply as the distortions affecting August and September (from the TSB sale in 1986) drop out, M3 growing by 21 per cent to October and M4 by 15½ per cent.

2A. Special factors affecting the forecast are set out in Table 1. Growth in M3 and M4 is dominated in October by the expansionary effects of intervention and the BP sale, estimated at about £1¾ billion and an underlying £2 billion, respectively. The BP sale has a contractionary effect of £½ billion in November as the remaining proceeds are paid over.

3A. The lending forecast assumes that underlying seasonally adjusted bank lending grows by 1.6 per cent (about £3 billion), and building society lending by 1.0 per cent (about £1¼ billion), per month. Special factors superimposed on the underlying forecast are set out in Table 2. In October, the unwinding of the bridging loan which had boosted lending in September is contractionary by £0.5 billion, while the BP sale is expected to boost lending by £0.2 billion in November, unwinding partially in December.

4A. The main question in the Building Society forecast is the effect of recent and future changes in equity prices and interest rates on retail inflows, and their response to these changes. Assuming equity prices do not recover significantly from their current levels, there will be two main effects on societies' inflows. First, instead of the expected outflow of around £1bn in October (with £0.7bn returning in November) as a result of BP, little if any net outflow will occur, and indeed to the extent that some funds may already have moved into bank accounts there may actually be some return of funds. Second, the reduction in competition from unit trusts - which have been taking around £0.5 bn net a month directly from the personal sector, much of this at the expense of building societies - will also boost societies' inflows, even if there is no direct flight from equity.

5A. It is assumed that societies do not follow the fall in base rates of 26 October until early 1988, outside the forecast period. Thus, throughout much of the quarter they enjoy a competitive advantage over the banks in retail markets. We have allowed an extra £200m inflow per month for the effects of this and the above mentioned gains from unit trusts. Mortgages only react to changes in demand and interest rates with a lag and thus are unlikely to be a significantly affected by recent changes in equity prices or interest rates within the forecast period. In fact the benefits of societies' gain in competitiveness following the August base rate rise are only now coming through fully and thus mortgage advances should be moderately strong over the next few months. Other balance sheet effects of the improved competitiveness of societies in retail markets include low wholesale borrowing and a build up in liquid assets (both bank deposits and gilts).

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ANNEX TABLE 1

Broad Money Forecasts

£ million note seasonally adjusted

	SEPTEMBER		OCTOBER		NOVEMBER		DECEMBER	
	M4	M3	M4	M3	M4	M3	M4	M3
(i) Underlying Increase*	2578	1282	1525	750	2100	1400	3650	1550
Special Factors								
Privatisations	-200	-200	1900	1900	-500	-500	75	75
Bank/Building Society Lending	1075	1075	-400	-400	-	-	-	-
Midland rights issue	-500	-500	-	-	-	-	-	-
Intervention	100	100	1750	1750	-	-	-	-
(ii) Total Special Factors	475	475	3250	3250	-500	-500	75	75
(iii) Total Increase	3053	1757	4775	4000	1600	900	3725	1625
% Change on previous month	1.1	1.0	1.6	2.3	0.5	0.5	1.2	0.9
% Change on previous year	14.9	19.5	15.5	21.2	15.0	20.0	15.6	20.7
Memo								
Underlying % Change on previous year	14.3	18.4	13.6	17.9	13.3	17.1	13.9	17.8
% Change expected at Budget time	14.1	15.3	14.4	16.0	14.3	15.9	15.2	17.0

[Line (iii) = Line (i) + Line (ii)]

*Based on the following assumptions:

(a) Underlying bank lending rises by £3.1 billion per month and building society lending rises by £1.3 billion per month, both seasonally adjusted

(b) The public sector contribution to M4 and M3 is as follows:

	September	October	November	December
M4	-396	1200	-1600	-1325
M3	-210	1400	1400	-1125

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ANNEX TABLE 2

Lending Forecasts

£ million

	SEPTEMBER			OCTOBER			NOVEMBER			DECEMBER		
	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*
(i) Underlying Increase	3308	1470	4812	3100	1300	4300	3150	1300	4350	3200	1300	4400
Special Factors												
PSBR offset	500	-	500	250	-	250	-	-	-	-	-	-
Bill leak	150	-	150	-150	-	-150	-	-	-	250	-	250
Privatisations	-	-	-	-	-	-	200	-	200	-100	-	-100
Bridging Loan for takeover	275	-	275	-500	-	-500	-	-	-	-	-	-
Midland issue	150		150									
(ii) Total Special Factors	1075	-	1075	-400	-	-400	200	-	200	150		150
(iii) Total Increase (seasonally adjusted)	4383	1470	5887	2700	1300	3900	3350	1300	4550	3350	1300	4550
Total Increase	5434	1318	6786	2450	1350	3700	2900	1425	4225	4175	950	5025
% Change on previous year	23.4	14.9	19.9	22.4	14.2	18.9	21.6	13.9	18.6	21.2	13.5	18.1
Memo												
Underlying % Change on previous year	23.3	14.9	19.9	22.1	14.2	18.8	21.3	13.9	18.2	21.0	13.5	17.9
% Change expected at Budget time	21.3	16.3	18.9	20.3	15.9	18.1	19.3	15.8	17.5	18.5	15.8	16.9

*Excludes bank lending to building societies (which is included under Bank Lending)

ANNEX TABLE 3 BROAD AGGREGATES FORECAST

£ mn u/a

	OUTTURN 1987 SEP	FORECAST OCT	NOV	DEC
1. CG (OA) (SURPLUS-)	-300	-625	-100	-600
2. LABR	274	-300	-500	225
3. PCBR	214	0	-200	75
4. PSBR(1+2+3)	188	-925	-800	-300
5. NET DEBT SALES TO NBPS (-)				
GILTS	233	-1000	-275	-575
TREASURY BILLS etc	130	0	-200	0
NATIONAL SAVINGS	-107	0	-75	-100
CTDs	-99	-275	0	200
OPS DEBT	-169	0	150	0
TOTAL	-12	-1275	-400	-475
6. EXTERNAL FINANCE OF PUBLIC SECTOR (INC-)	-386	3600	-200	-350
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	-210	1400	-1400	-1125
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	5434	2450	2900	4175
(seasonally adjusted)	(4383)	(2700)	(3350)	(3350)
9. PRIVATE NET EXTERNALS AND NET NON-DEPOSIT LIABILITES	-3467	150	-600	-1425
10.M3 (7+8+9)	1757	4000	900	1625
BUILDING SOCIETIES:				
11. RETAIL DEPOSITS	751	1700	525	2550
12. WHOLESALE DEPOSITS NBPS	431	100	0	0
13. HOLDINGS OF M3 (-)	114	-1025	175	-450
14.M4 (10+11+12+13)	3053	4775	1600	3725

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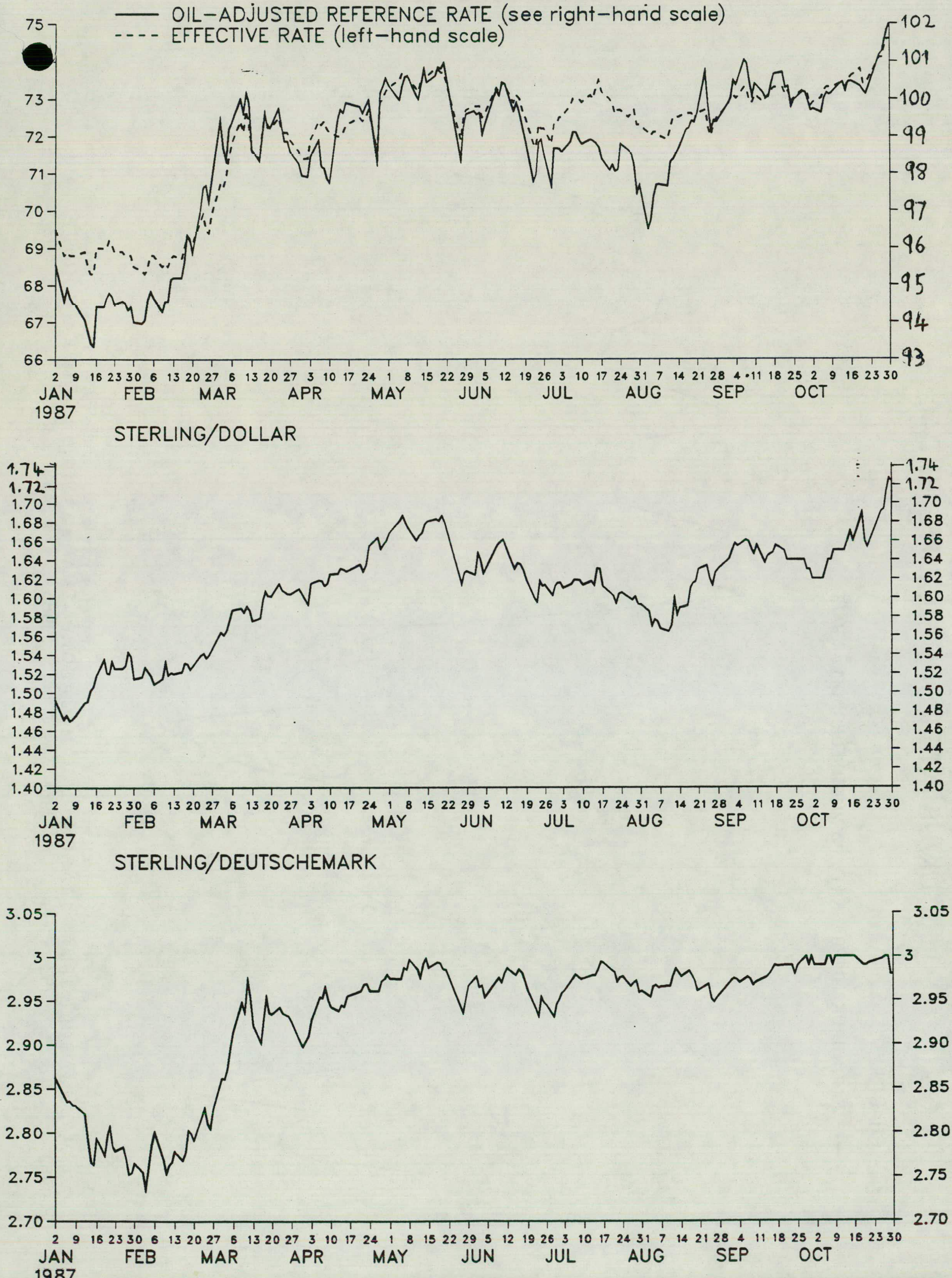
MONTHLY MONETARY REPORT : CHARTS

I	Exchange Rate Short Term
II	UK/US interest rate differential
III	Narrow money growth
IV	Broad money growth
V	Real MO growth
VI	Real Broad money
VII	FSBR budget profile MO
VIII	FSBR budget profile M3
IX	MO growth against target
X	Retail Deposits
XI	Bank and Building Society Lending
XII	£ Corporate bond issues
XIII	Bill Mountain
XIV	Nominal Interest Rates
XV	Yield Curve
XVI	Real Yields
XVII	House prices 1
XVIII	House prices 2
XIX	Capital Markets

CHART I:EXCHANGE RATE



UK/US INTEREST RATE DIFFERENTIAL

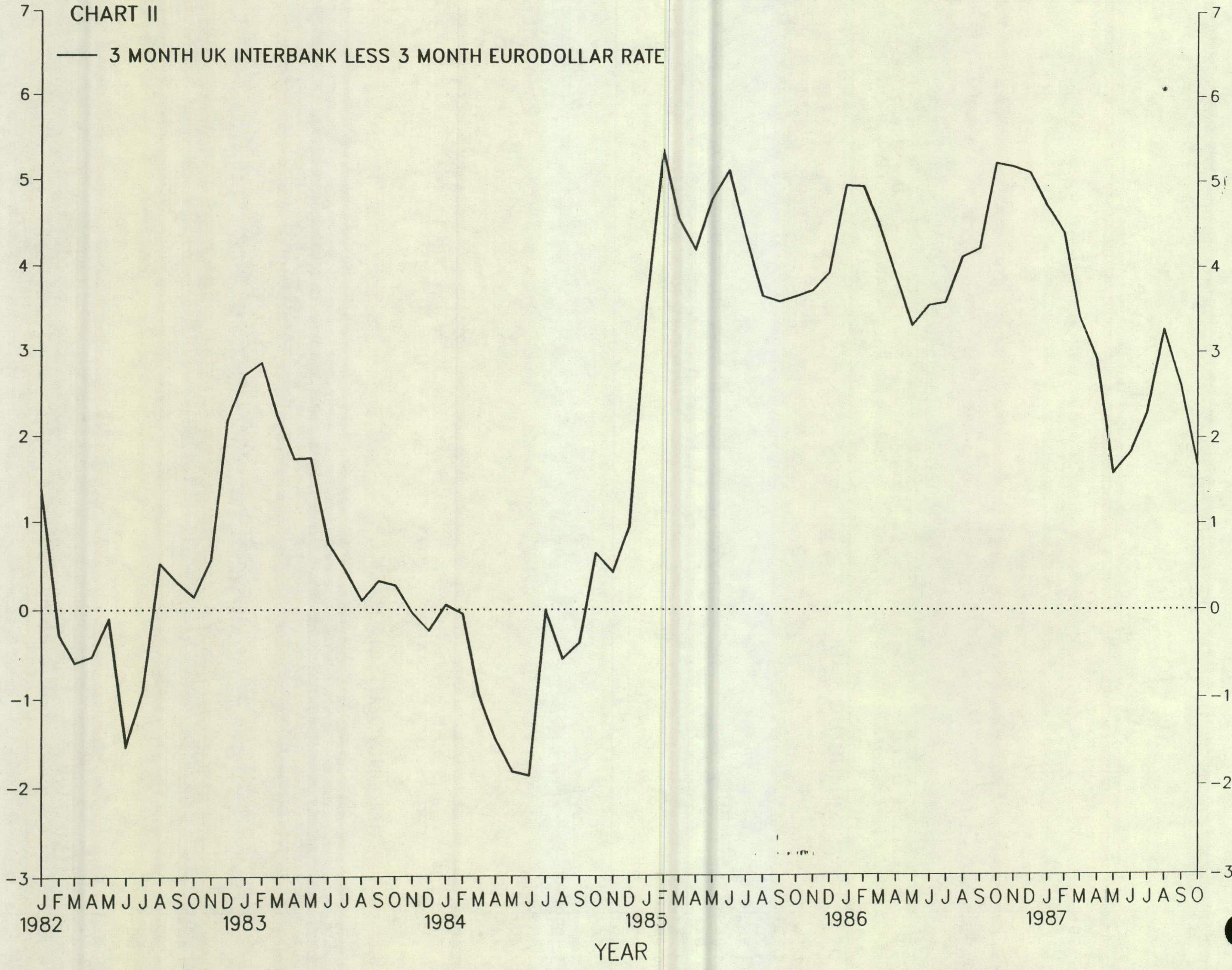


CHART III NARROW MONEY

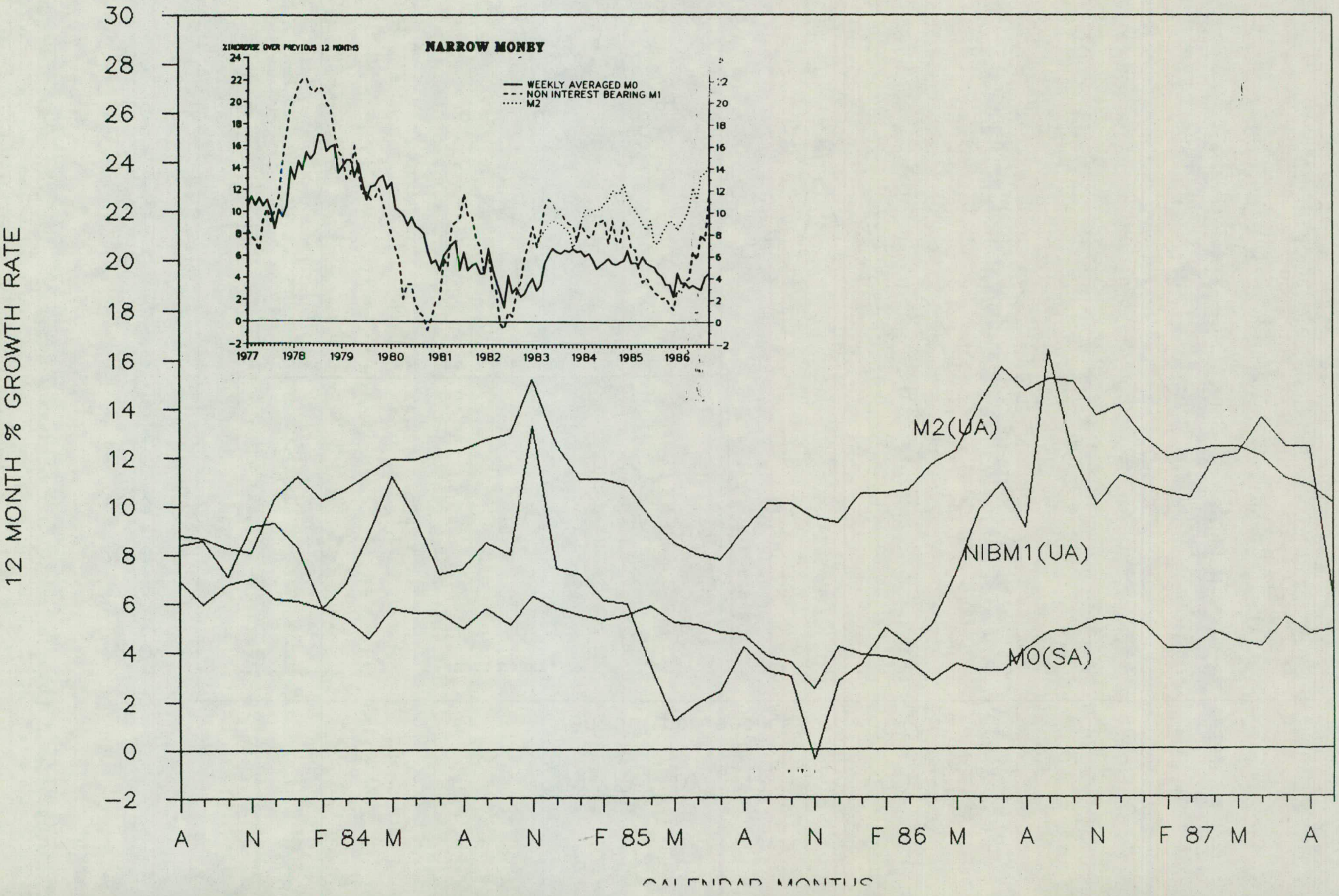


CHART IV BROAD MONEY

Annual percentage growth (ua)

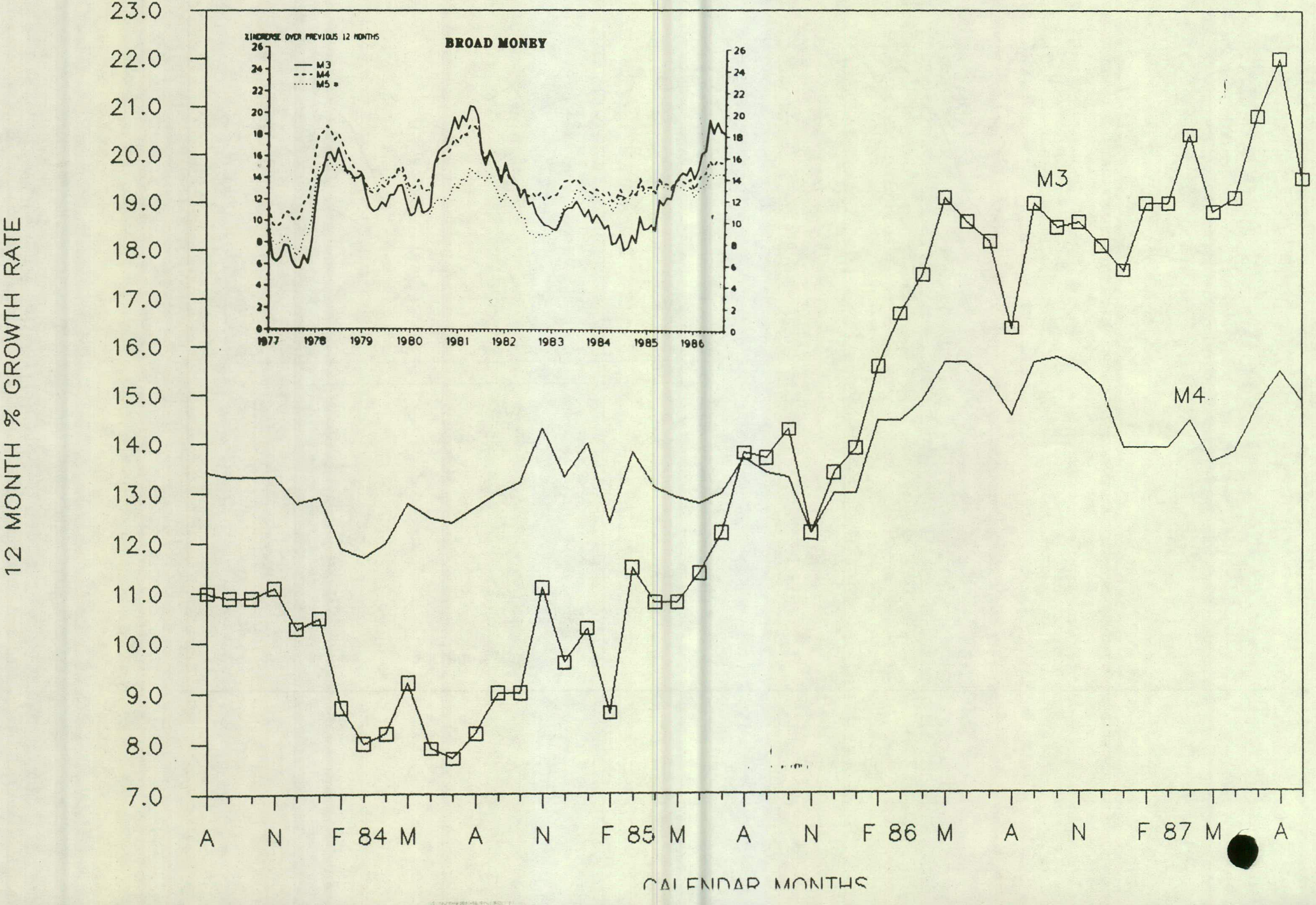


CHART V REAL MO

Annual percentage growth (sa)

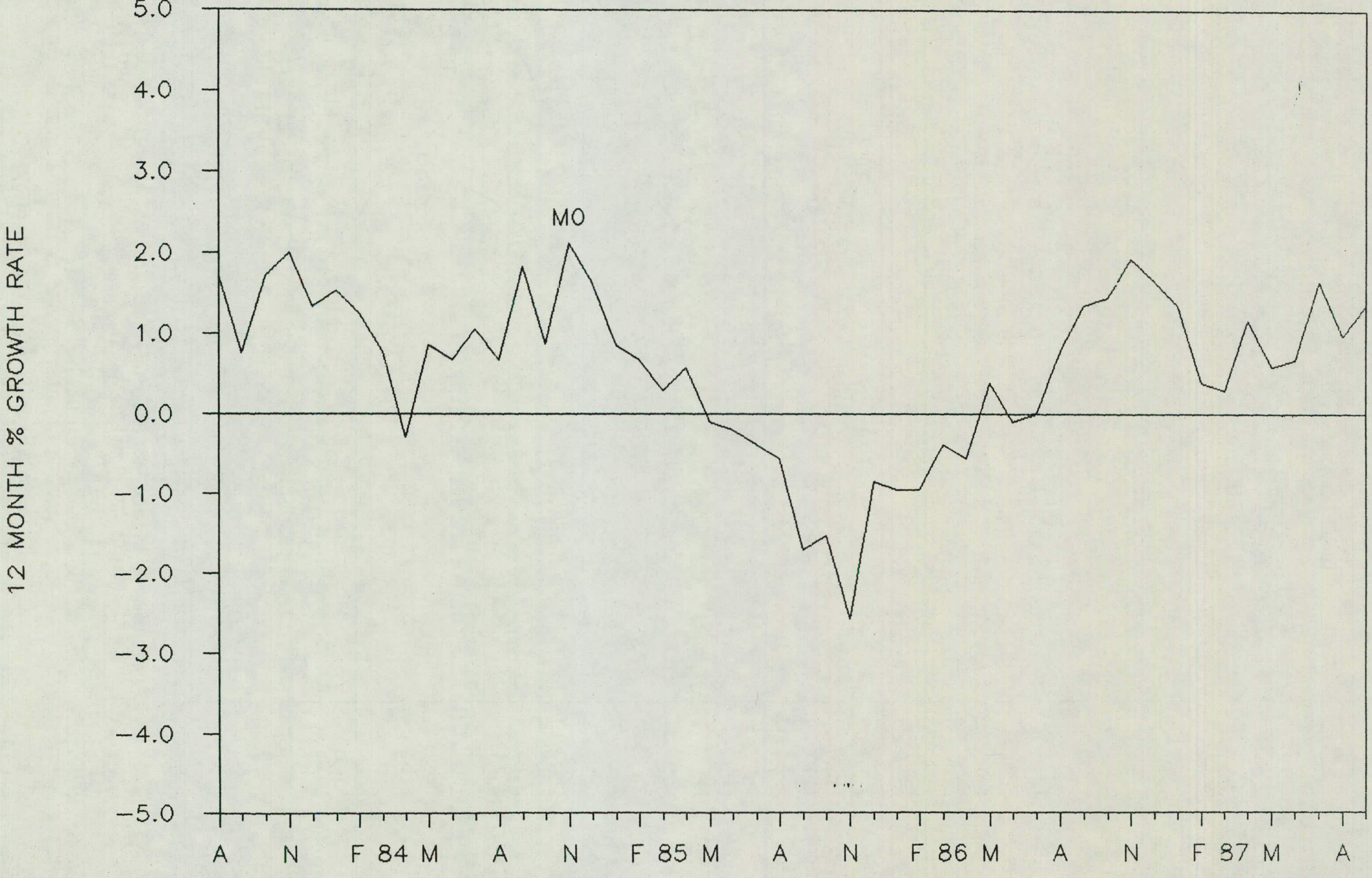


CHART VI REAL BROAD MONEY

Annual percentage growth (ua)

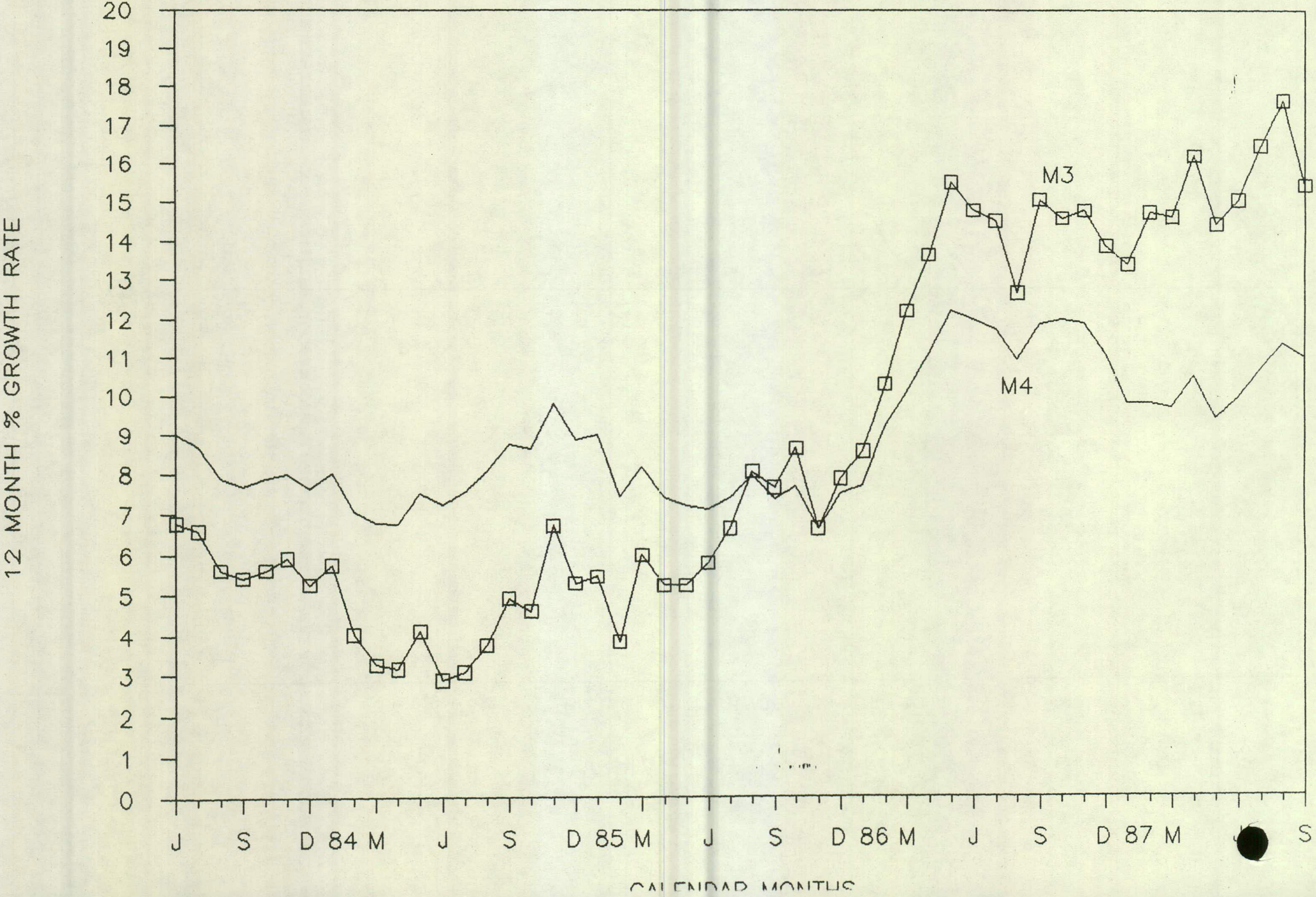


CHART VII

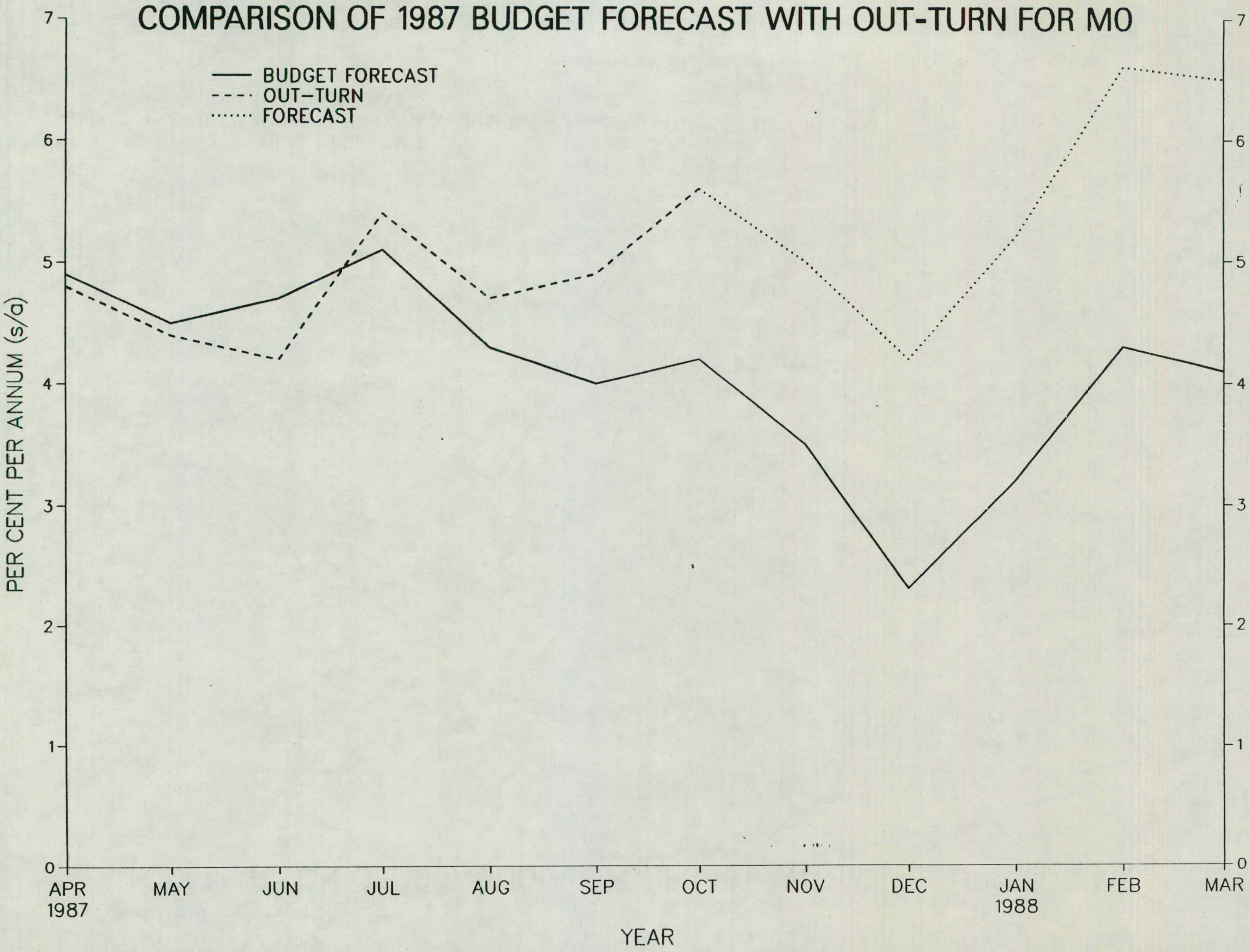
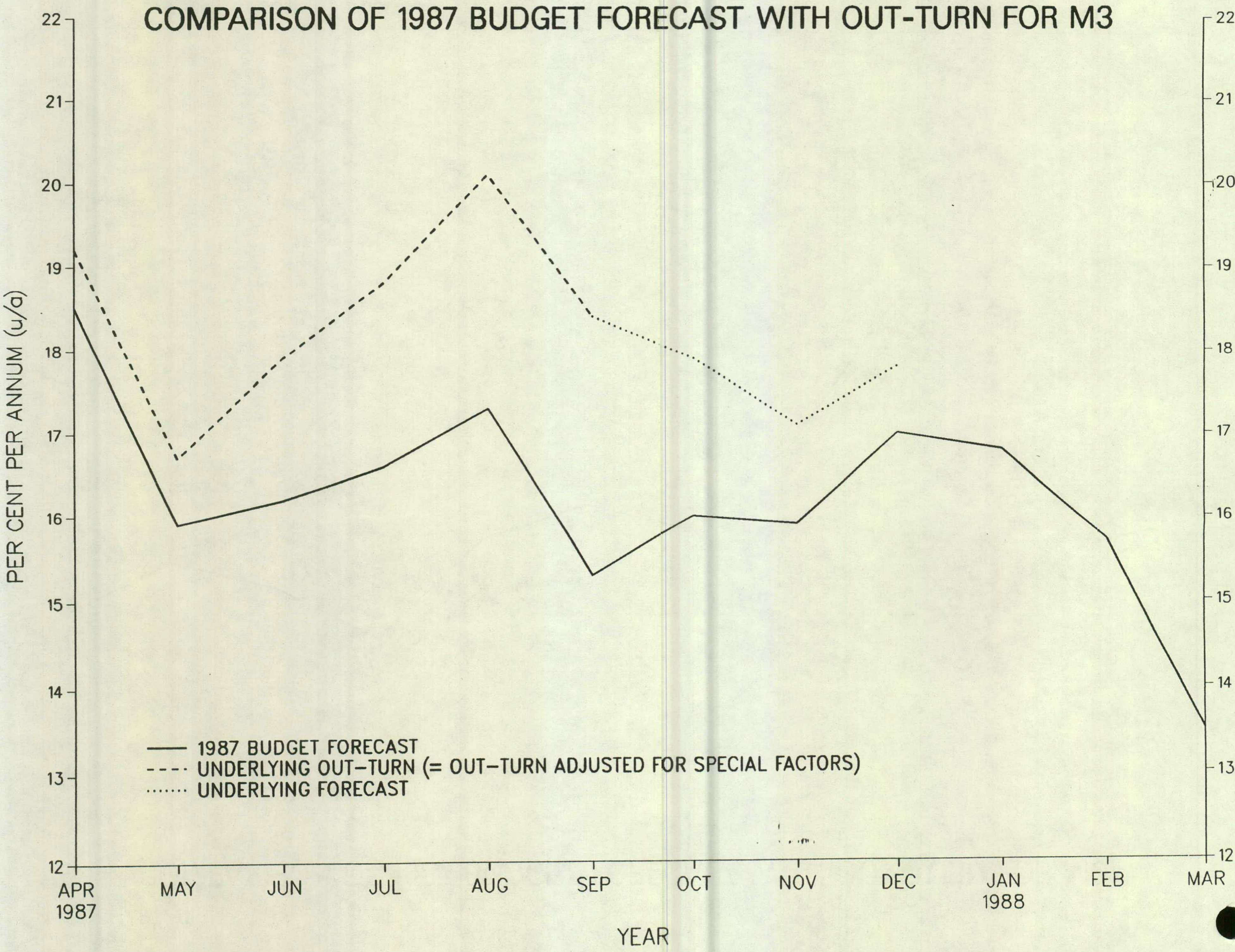
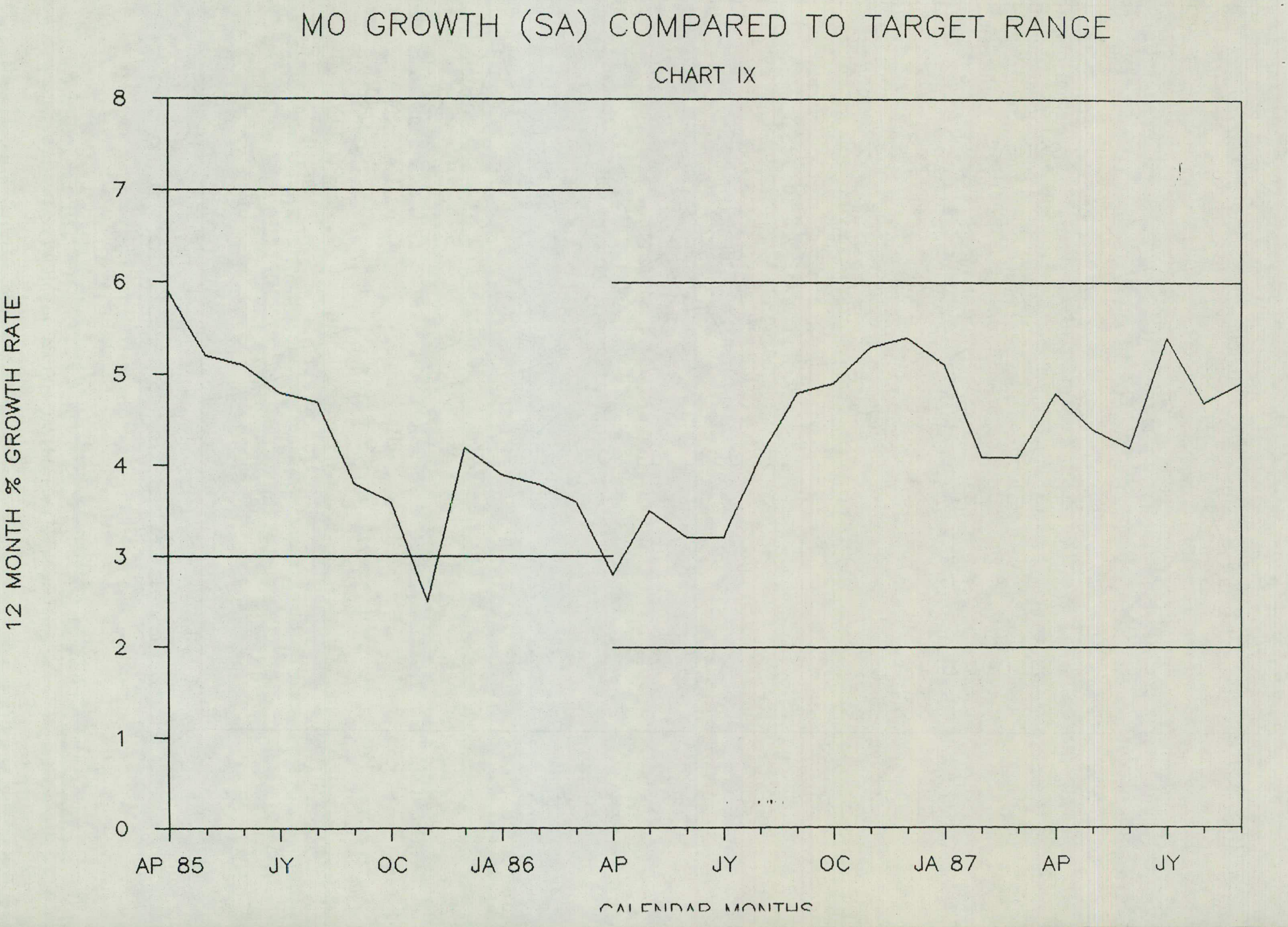

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M0
BUDGET FORECAST
OUT-TURN
FORECAST
PER CENT PER ANNUM (s/a)
0
1
2
3
4
5
6
7
APR 1987
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN 1988
FEB
MAR
YEAR

CHART VIII

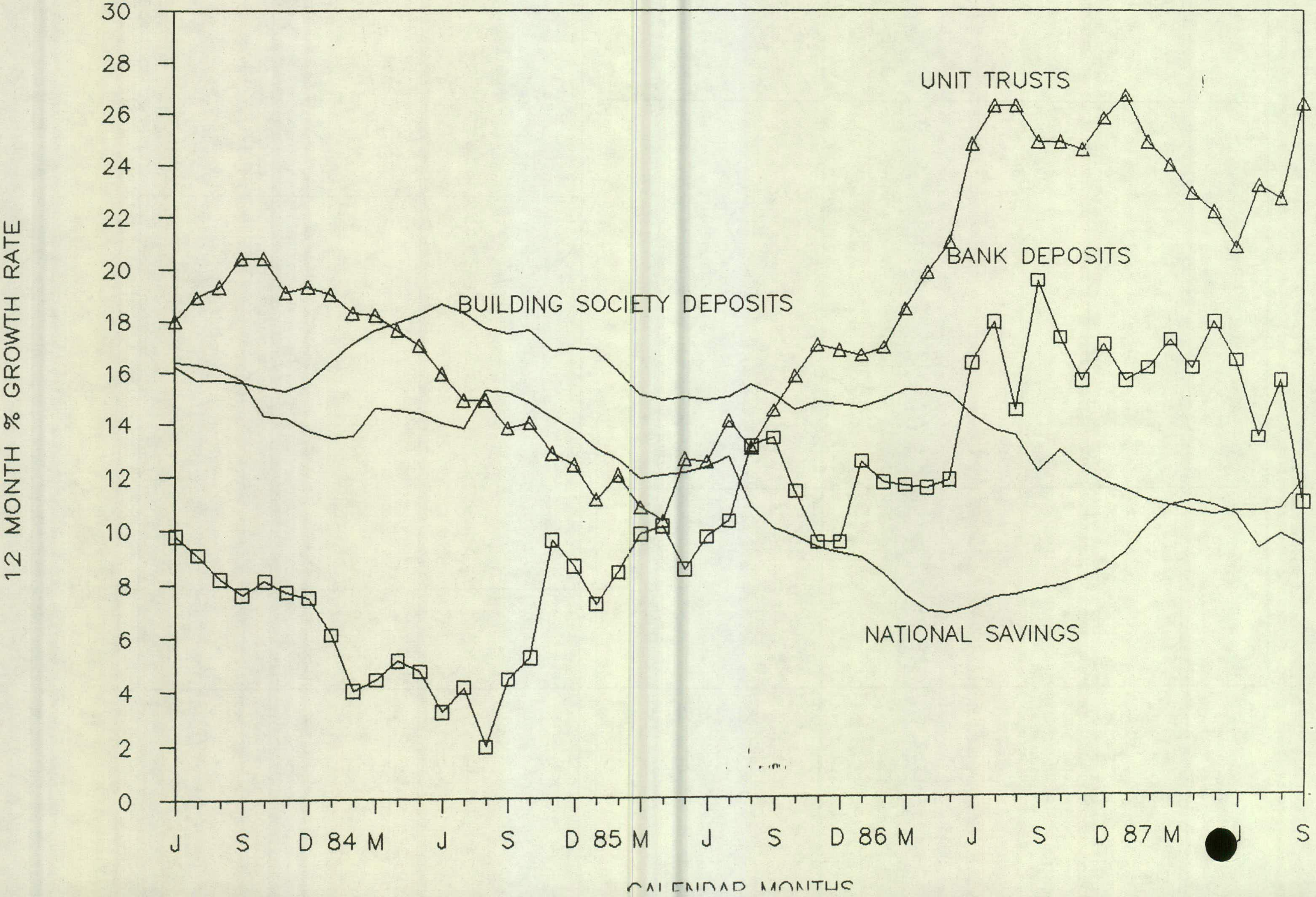


COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M3
22
21
20
19
18
17
16
15
14
13
12
PER CENT PER ANNUM (u/a)
1987 BUDGET FORECAST
UNDERLYING OUT-TURN (= OUT-TURN ADJUSTED FOR SPECIAL FACTORS)
UNDERLYING FORECAST
APR
1987
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN
1988
FEB
MAR
YEAR



MO GROWTH (SA) COMPARED TO TARGET RANGE
CHART IX
12 MONTH % GROWTH RATE
8
7
6
5
4
3
2
1
0
AP 85
JY
OC
JA 86
AP
JY
OC
JA 87
AP
JY
CALENDAR MONTHS

CHART X RETAIL DEPOSITS



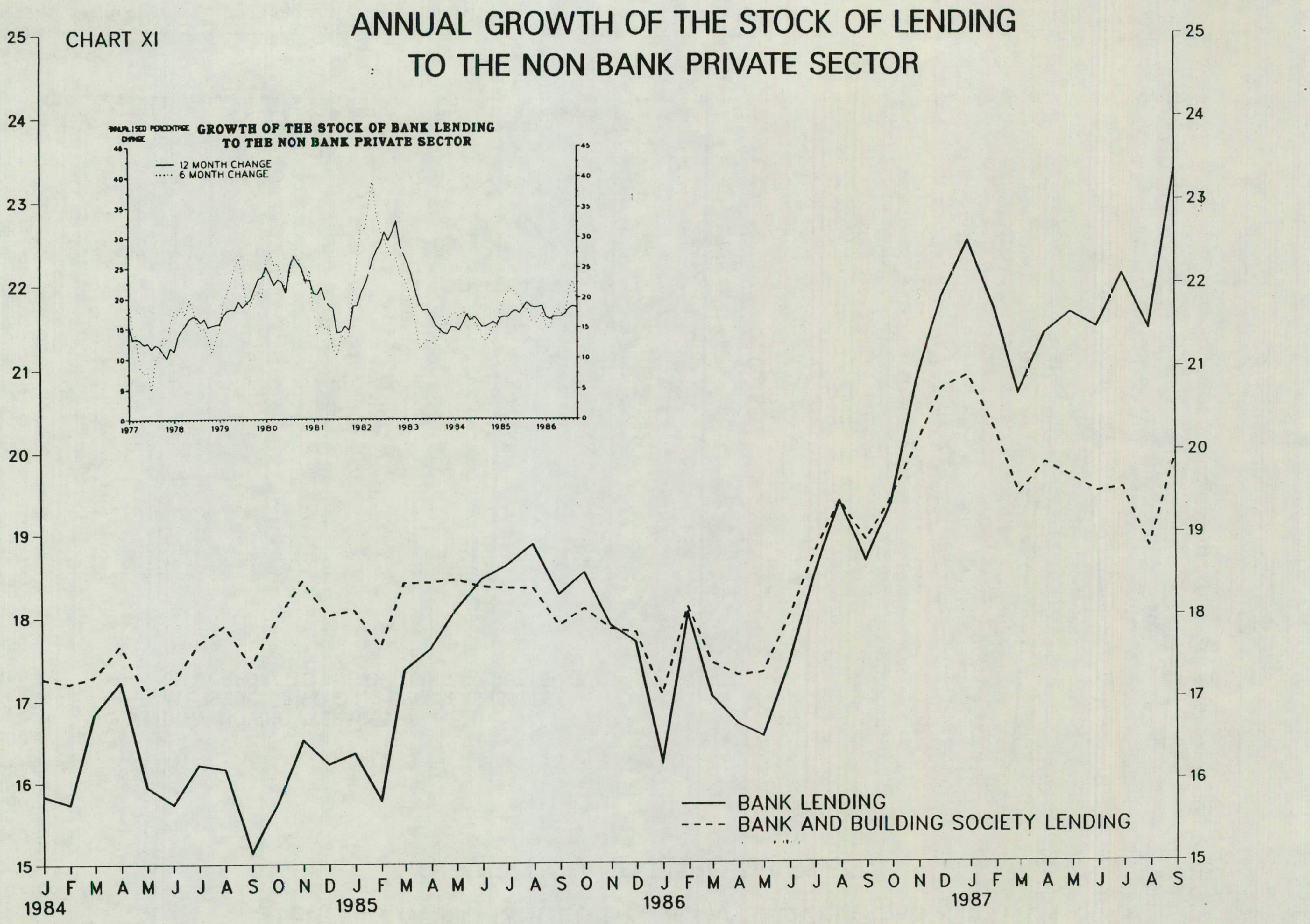
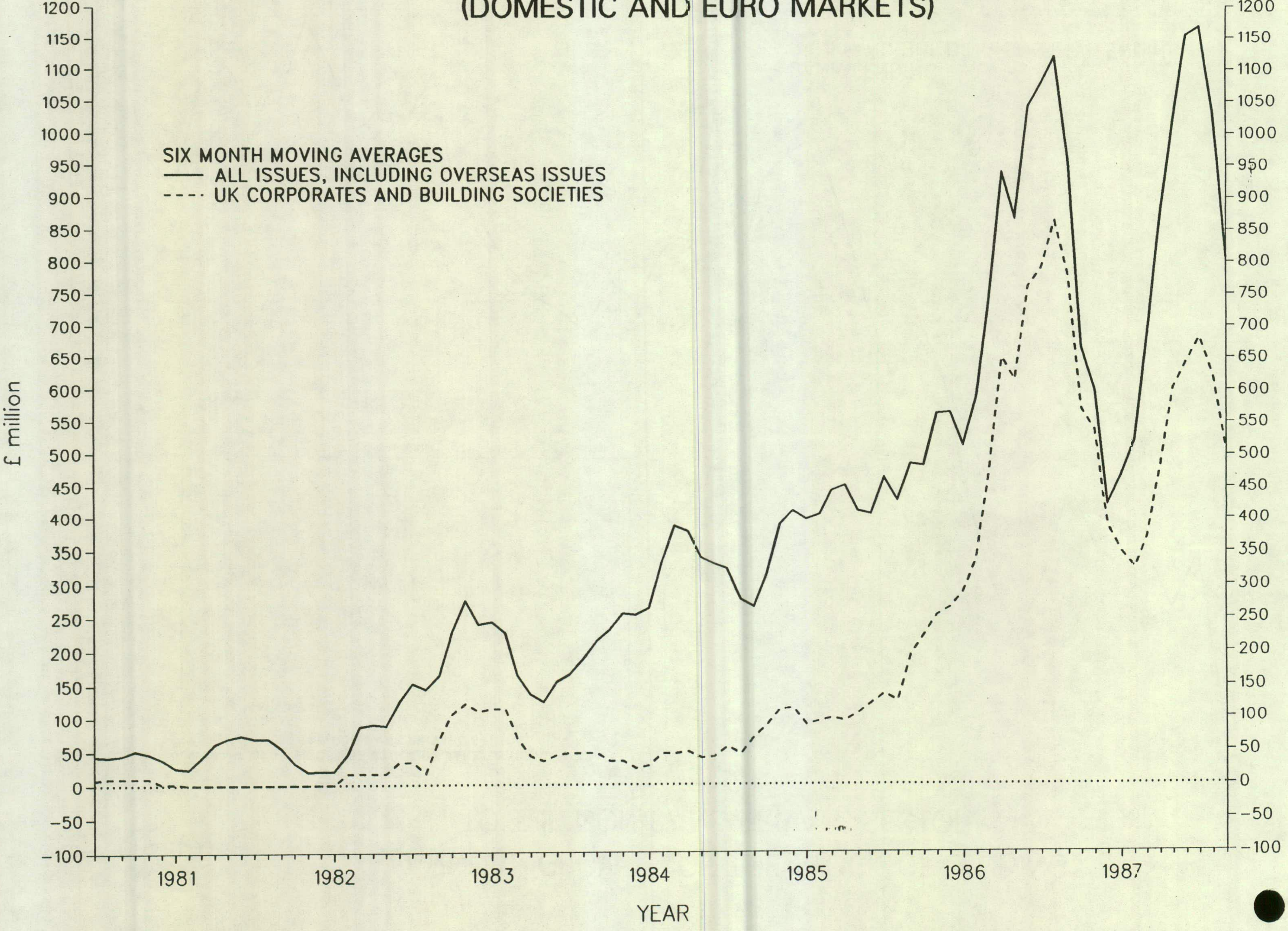


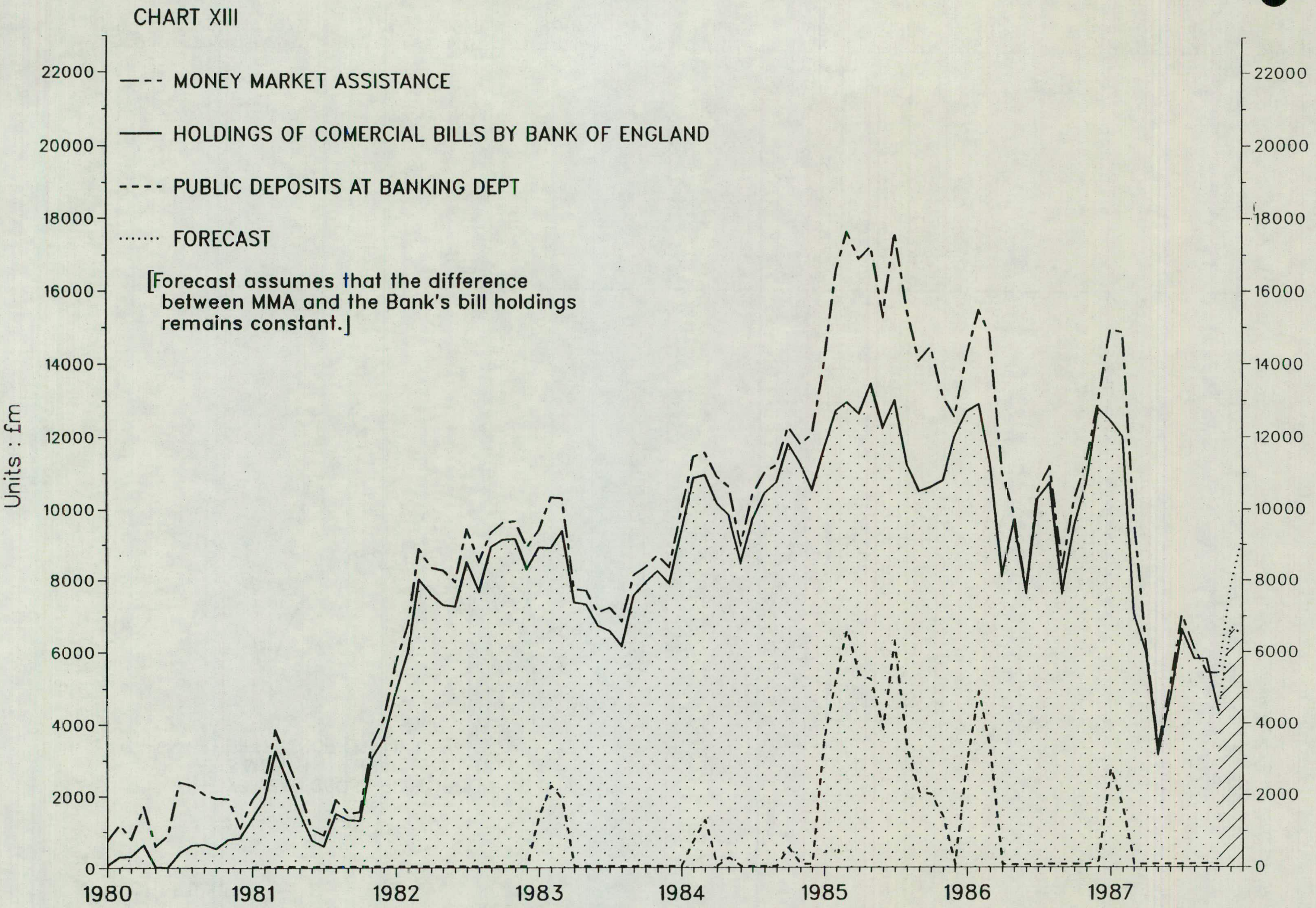
CHART XI
ANNUAL GROWTH OF THE STOCK OF LENDING
TO THE NON BANK PRIVATE SECTOR
GROWTH OF THE STOCK OF BANK LENDING
TO THE NON BANK PRIVATE SECTOR
ANNUALISED PERCENTAGE CHANGE
12 MONTH CHANGE
6 MONTH CHANGE
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
BANK LENDING
BANK AND BUILDING SOCIETY LENDING
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S
1984 1985 1986 1987

CHART XII

STERLING BOND ISSUES BY UK AND OVERSEAS INSTITUTIONS (DOMESTIC AND EURO MARKETS)

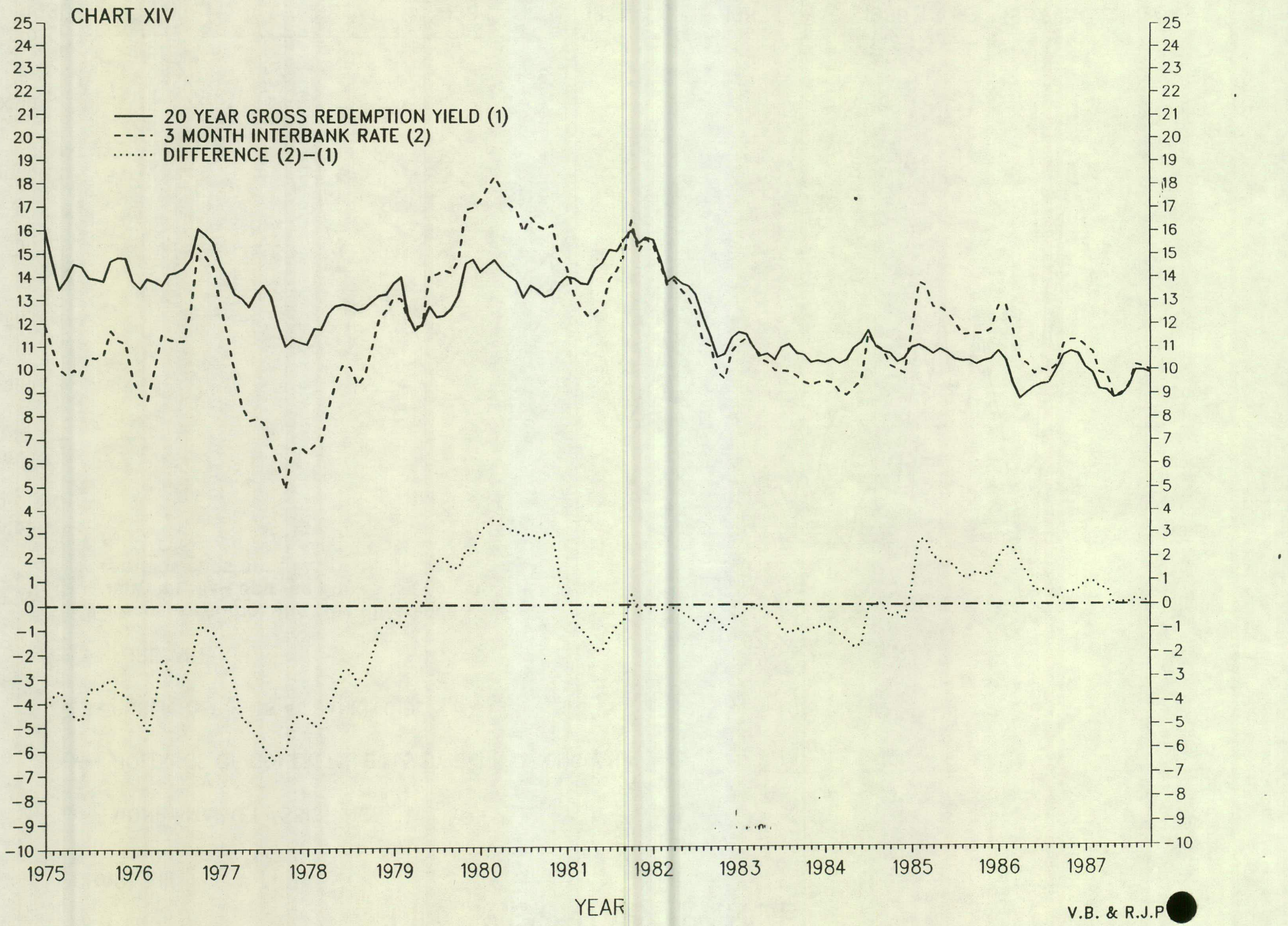


BILL MOUNTAIN RANGE



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

NOMINAL INTEREST RATES



V.B. & R.J.P.

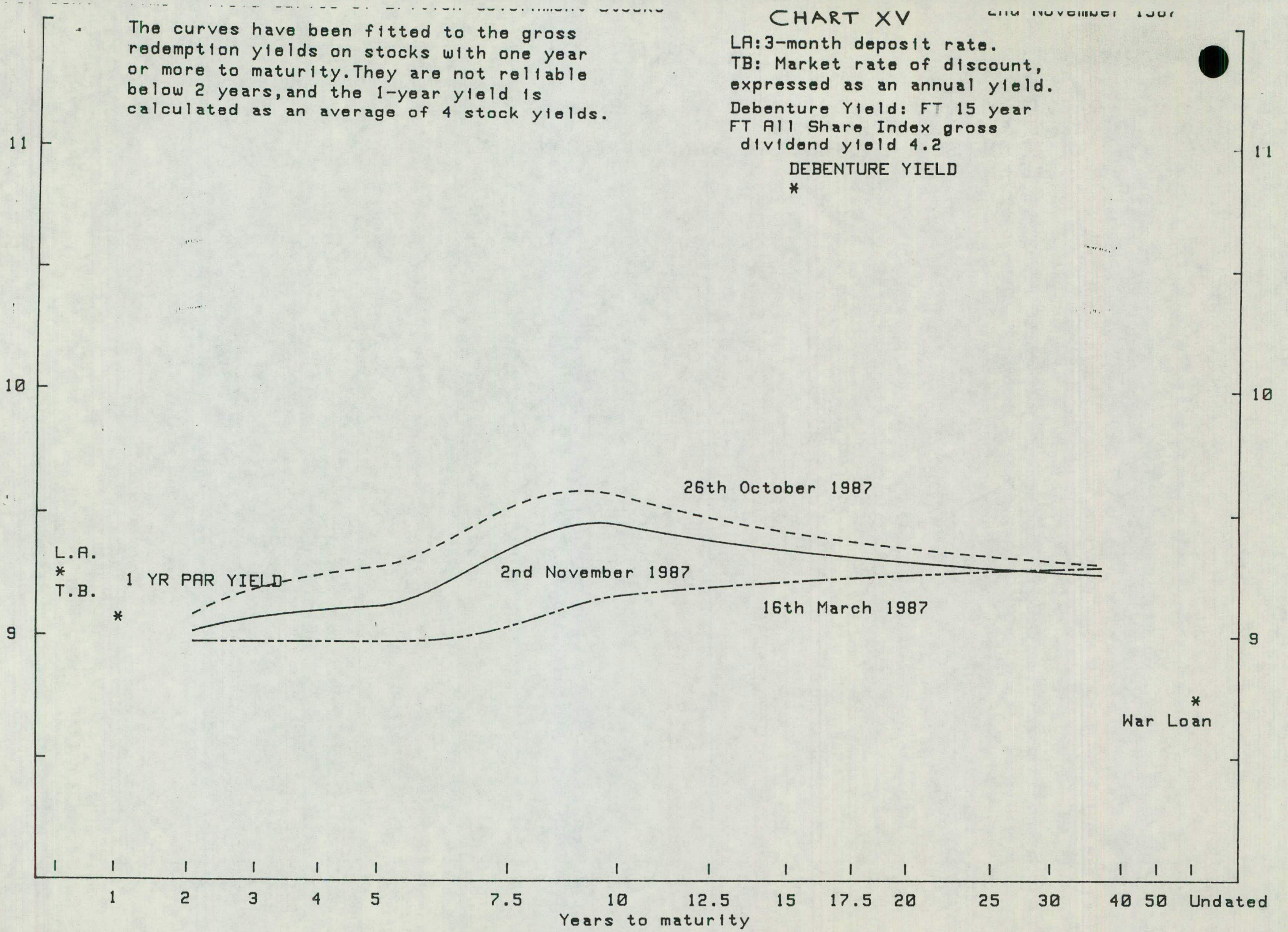
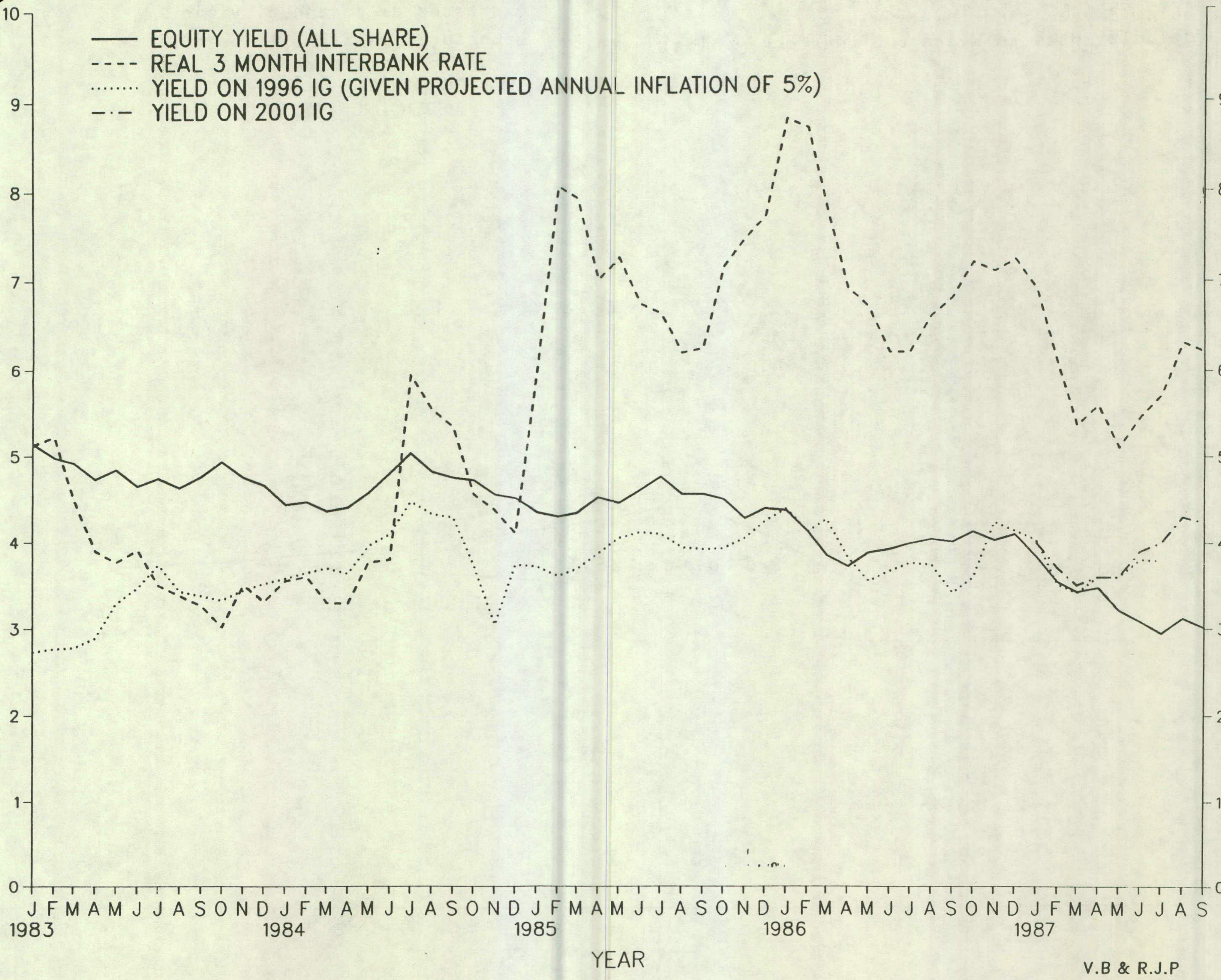


CHART XV
The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.
LA: 3-month deposit rate.
TB: Market rate of discount, expressed as an annual yield.
Debenture Yield: FT 15 year
FT All Share Index gross dividend yield 4.2
DEBENTURE YIELD
26th October 1987
2nd November 1987
16th March 1987
L.A.
T.B.
1 YR PAR YIELD
War Loan
11
10
9
1
2
3
4
5
7.5
10
12.5
15
17.5
20
25
30
40
50
Undated
Years to maturity

CHART XVI

REAL YIELDS



V.B & R.J.P

ANNUAL HOUSE PRICE INFLATION

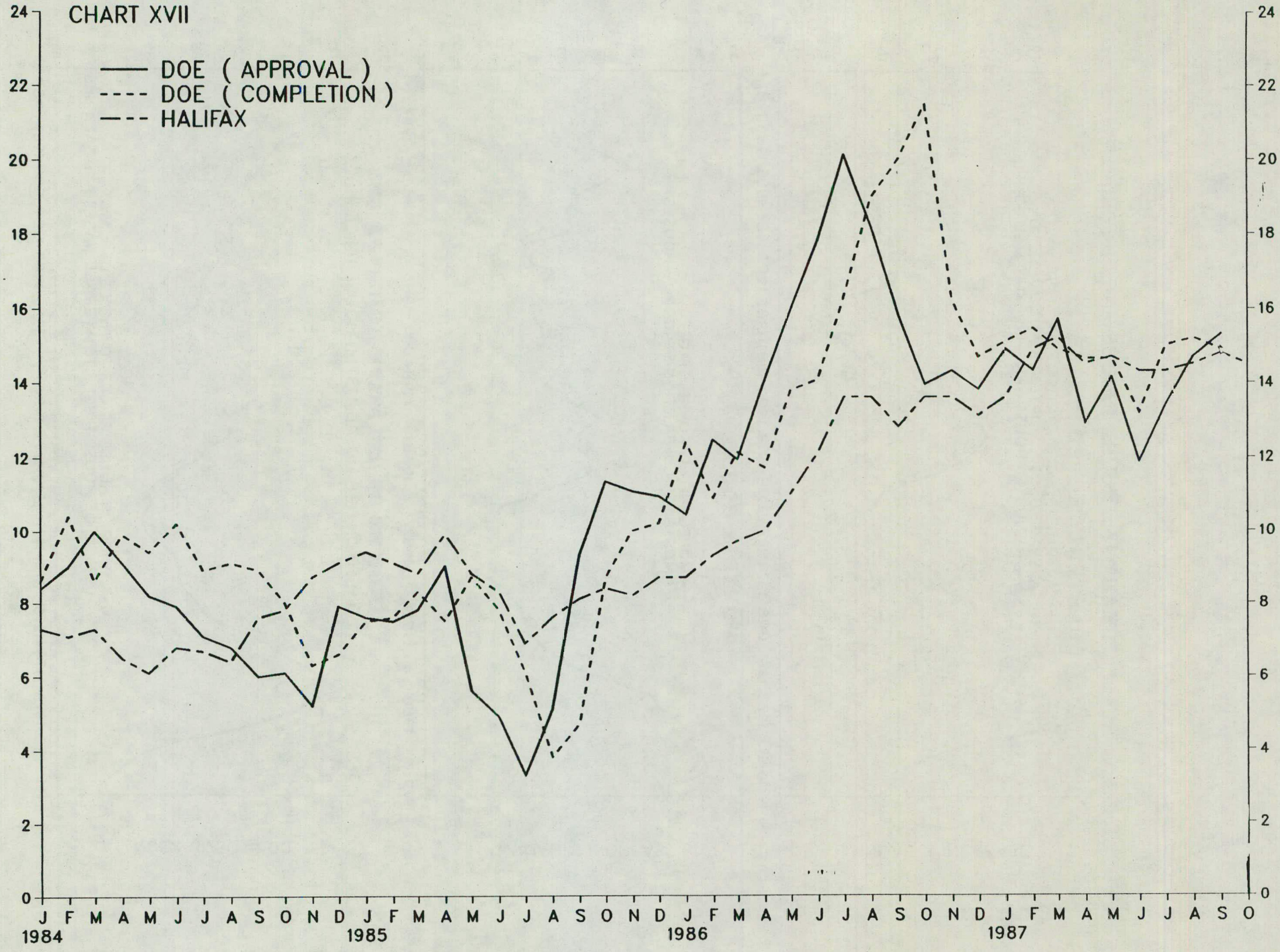


CHART 18 HOUSE PRICES

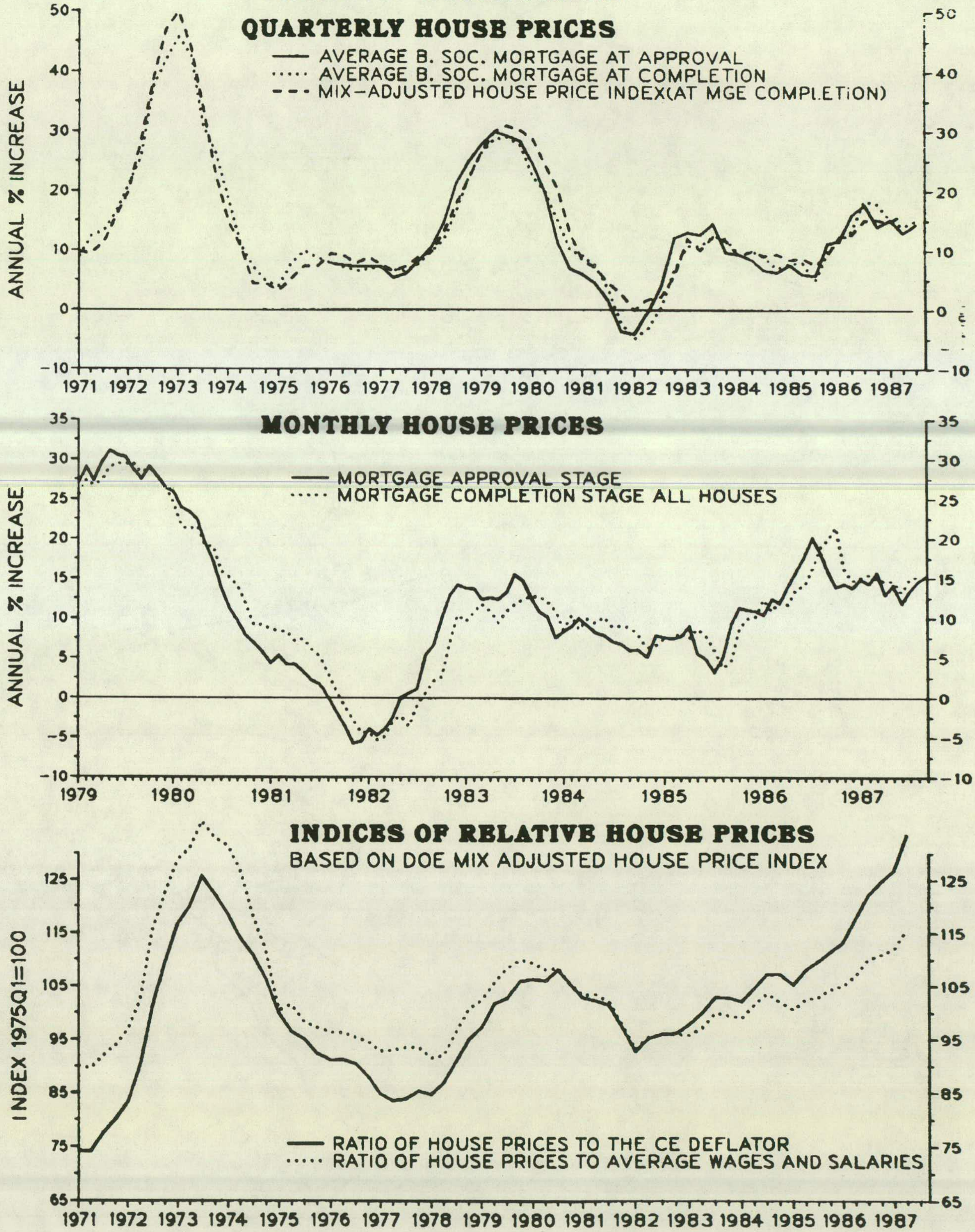
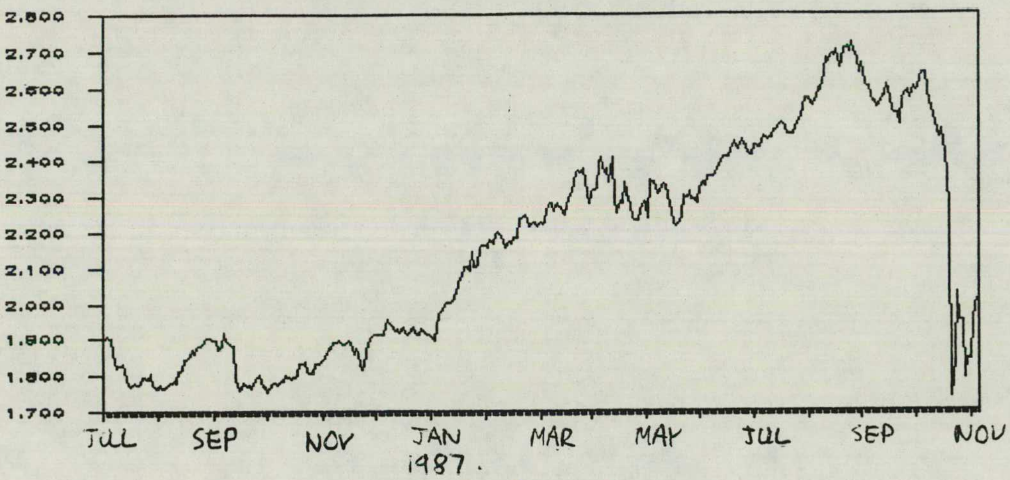
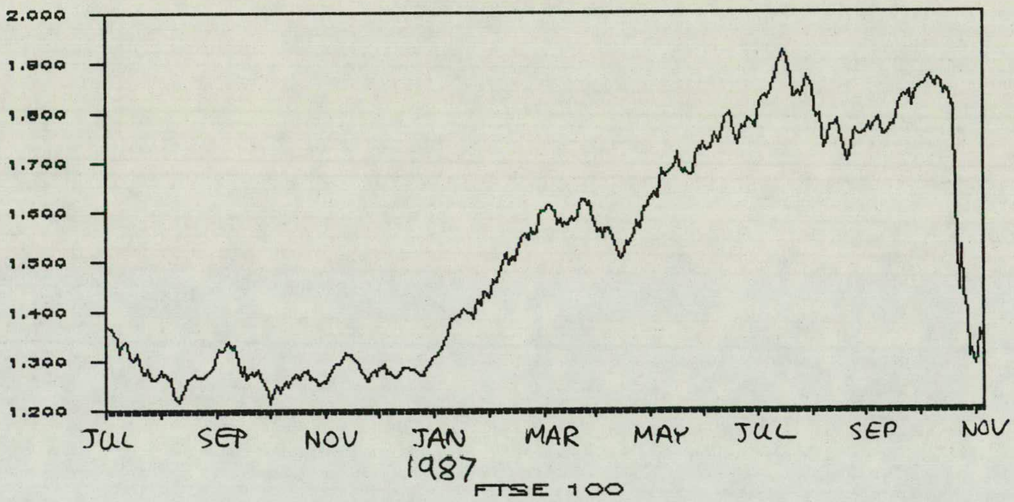


CHART XIX

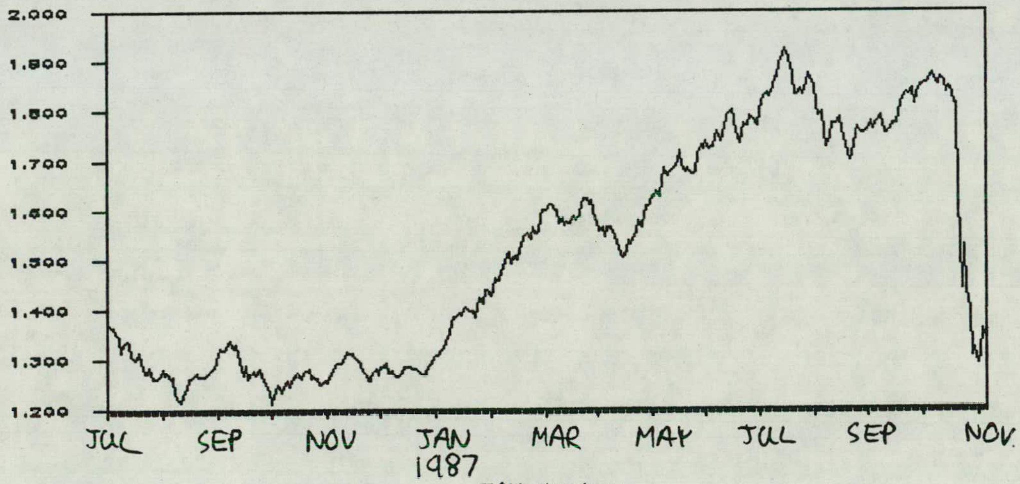
Dow Jones Industrial Average



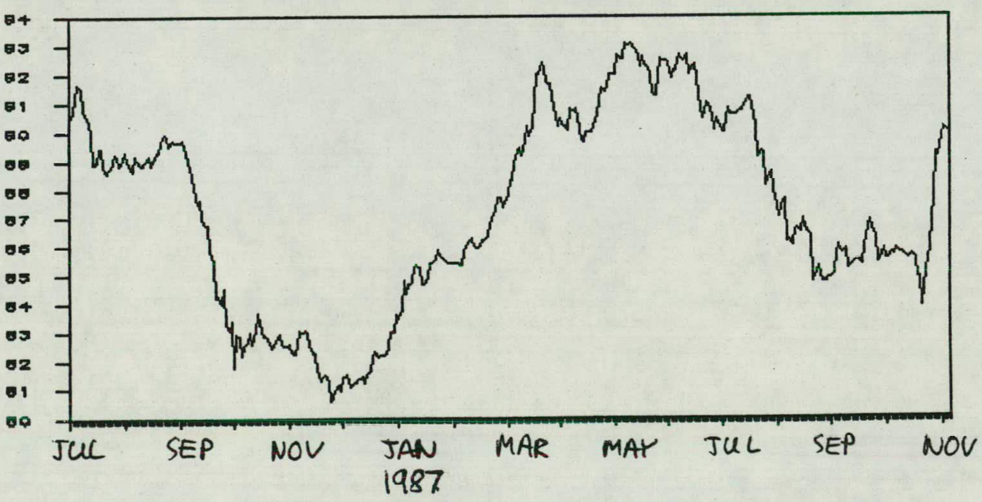
FT Ordinary Index



FTSE 100



Gilt Index



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MONTHLY MONETARY REPORT : TABLES

TABL[redacted]: DEVELOPMENTS IN THE MAJOR 6 (EXCLUDING THE UK) COUNTRIES
(per cent change on same period a year earlier)

	OUTPUT			TRADE VOLUMES*		PRICES		MONEY	
	Nominal GNP+	Real GNP+	Industrial production	Exports	Imports	GNP Deflator+	Consumer prices	Narrow money	Broad money
1982	6.2	-0.6	-4.1	-1.6	-1.2	6.9	7.0	6.7	9.9
1983	7.8	2.7	3.3	0.6	2.2	5.0	4.6	9.7	8.5
1984	9.4	5.1	8.4	10.1	13.3	4.1	4.5	6.3	8.5
1985	6.9	3.2	2.8	3.3	4.0	3.6	3.7	7.8	8.3
1986	6.2	2.7	1.0	0.4	6.8	3.4	1.8	10.2	7.2
1986Q1	6.6	3.0	1.8	-0.8	4.2	3.5	2.9	8.6	6.8
Q2	6.8	3.1	1.0	0.4	7.7	3.5	1.7	10.2	6.7
Q3	6.0	2.5	0.6	1.6	9.2	3.5	1.5	10.6	7.4
Q4	5.3	2.2	0.5	0.4	6.1	2.9	1.1	11.4	7.8
1987 Q1	5.4	2.4	1.0	2.7	6.8	2.9	1.5	12.3	7.9
Q2	-	2.2	2.1	-	-	-	2.6	11.4	8.2
1987 Jan			-0.2				1.1	13.0	8.1
Feb			1.0				1.5	12.8	8.0
Mar			2.1				2.0	11.2	7.7
Apr			0.8				2.6	12.1	8.2
May			2.8				2.6	11.7	8.3
June			2.7				2.6	10.4	8.2
July			-				2.7	-	-
August			-				3.1	-	-

* On national accounts basis

TABLE 2: 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
1986	6.5	5.0	4.6	7.8	11.0
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
Q4	5.8	4.5	4.7	7.7	11.2
1987 Q1	6.0	4.1	4.2	8.3	10.7
Q2	6.8	3.8	3.8	8.1	9.2
Q3	7.0	3.7	4.0	7.9	9.8
1987 Jan	5.8	4.3	4.6	8.4	11.0
Feb	6.1	4.0	4.0	8.5	11.0
Mar	6.2	4.0	4.0	8.0	10.0
Apr	6.5	3.9	3.9	8.0	9.8
May	7.0	3.8	3.8	8.2	8.8
June	7.0	3.7	3.7	8.2	9.0
July	6.7	3.7	3.9	7.9	9.2
Aug	6.8	3.7	4.0	7.9	10.1
Sept	7.4	3.8	4.0	7.9	10.1
Nov 2nd	7.6	3.9	4.1	8.2	9.3

* CD rate for US, Gensaki for Japan, Interbank rates for rest.

TABLE 3: EXCHANGE RATES

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

Cross Rates

	United States	Japan	Germany	France	UK	YEN/$	DM/$
1980	93.7	126.4	128.8	94.4	96.0	225.8	1.82
1981	105.6	142.9	119.2	84.3	94.8	219.5	2.25
1982	118.0	134.6	124.4	76.6	90.4	248.8	2.43
1983	124.8	148.4	127.1	70.0	83.2	237.4	2.55
1984	134.6	156.7	123.8	65.7	78.6	237.5	2.85
1985	140.7	160.5	123.6	66.3	78.2	238.4	2.94
1986	114.8	203.1	137.3	70.1	72.8	168.3	2.17
1985 Q1	149.7	154.3	119.3	63.4	72.1	257.5	3.26
Q2	145.8	155.2	121.6	65.2	78.9	250.6	3.08
Q3	138.4	157.6	125.0	67.2	82.1	238.6	2.85
Q4	128.8	174.9	128.5	69.3	79.8	207.4	2.59
1986 Q1	121.2	186.8	133.1	71.0	75.1	187.8	2.35
Q2	116.0	202.8	134.7	69.0	76.0	169.9	2.24
Q3	111.4	214.8	138.6	69.5	71.9	155.9	2.09
Q4	110.5	208.0	142.6	70.8	68.3	160.4	2.01
1987 Q1	104.2	210.1	147.7	71.9	70.2	155.2	1.84
Q2	101.1	222.9	146.9	71.6	72.7	142.6	1.81
Q3	102.5	218.0	146.4	71.4	72.7	147.0	1.84
1987 Jan	105.5	209.4	147.5	71.8	68.9	154.6	1.86
Feb	103.9	209.3	148.4	72.3	69.0	153.4	1.82
Mar	103.3	211.7	147.1	71.8	71.9	157.5	1.84
Apr	101.0	222.7	146.6	71.6	72.3	142.9	1.81
May	100.4	225.3	147.2	71.7	73.3	140.6	1.79
June	101.8	220.8	146.8	71.5	72.6	144.4	1.82
July	103.3	213.7	146.6	71.6	72.8	150.2	1.85
Aug	103.3	218.2	146.0	71.1	72.3	147.6	1.86
Sept	100.8	222.1	146.7	71.4	73.0	143.1	1.81
Oct 30th	98.5	226.3	149.8	71.6	74.6	138.4	1.73
% Change since dollar peak (Feb 85)	- 37	+ 44	+ 28	+ 15½	+ 6	- 47	- 50
% Change since Plaza (Sept 85)	- 29	+ 44½	+ 19½	+ 6½	- 9	- 42	- 39
% Change since Louvre Accord (Feb 87)	- 5½	+ 8	+ 1	- 1	+ 8	- 10	- 5½

7/003 TABLE 3a

ECONOMIST COMMODITY PRICE INDICES

1980=100

	All items indices				SDR indices		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
1985	95.8	74.8	135.2	86.5	103.4	94.2	84.3
1986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
Quarterly							
1985 Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	75.9	82.6	107.1	87.5
Monthly							
October	81.8	76.2	123.9		87.1	84.6	68.3
November	83.6	76.9	125.4		90.0	87.0	68.4
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
Weekly							
August 11	92.6	89.2	132.0		81.5	107.9	92.0
18	93.4	91.2	131.1		81.6	112.7	91.6
25	91.4	90.5	130.0		80.9	110.9	88.0
September 1	90.0	89.4	126.7		81.4	109.6	83.8
8	90.4	90.3	126.4		81.8	107.2	85.7
15	91.3	90.4	127.8		83.1	107.8	86.0
22	91.8	91.0	128.8		82.8	104.5	89.8
29	93.5	91.9	131.1		84.4	103.9	92.8
October 6	95.7	94.1	134.1		86.6	105.2	95.2
13	96.1	95.4	134.7		86.7	102.5	97.9
20	93.4	93.3	131.0		86.2	101.1	91.5
27 (prov)	94.1	94.5	129.5		87.2	100.3	92.7

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

TABLE 4: **RECENT INDICATORS OF ACTIVITY AND INFLATION**

per cent changes on year earlier

	MONEY GDP		OUTPUT: GDP(O))	OUTPUT: Manufacturing Output	PRICES AND UNIT LABOUR COSTS: RPI	RPI excluding mortgage payments	Producer Prices*** Output	Producer Prices*** Input	Unit Wage Costs Manufacturing	Unit Wage Costs Whole economy
1985-86	9.8	1985	3.7	2.9	6.1	5.2	6.3	4.4	5.6	5.1
1986-87	6.7	1986	3.0	1.1	3.4	3.6	4.3	-10.7	4.6	5.4
1986 2	6.4	1986 1	2.3	- 0.7	4.9	4.6	5.0	- 11.9	7.5	6.0
3	6.5	2	2.3	- 0.6	2.8	3.3	4.3	- 12.4	6.2	6.2
4	6.7	3	3.6	1.4	2.6	3.3	4.0	- 13.0	3.1	4.4
1987 1	7.0	4	3.9	4.1	3.4	3.4	4.0	- 5.6	1.1	5.0
2	8.1	1987 1	4.5	4.7	3.9	3.7	4.1	- 1.7	0.6	4.0
3	9.1*	2	4.1	4.8	4.2	3.6	4.5	4.6	1.2	4.6
4	9.1	3								
1988 1	8.9	4								
1987-88	8.8									
		1986 August		0.9	2.5	3.3	4.0	- 13.3	4.6**	
		September		1.6	3.0	3.4	4.0	- 11.5	3.2	
		October		3.8	3.0	3.4	4.0	- 7.4	2.7	
		November		4.3	3.5	3.3	3.8	- 4.9	1.8	
		December		4.3	3.7	3.5	4.0	- 4.4	1.6	
		1987 January		2.9	3.9	3.7	4.2	- 2.5	1.9	
		February		5.7	3.9	3.7	4.2	- 2.9	1.5	
		March		5.5	4.0	3.8	4.1	0.4	0.9	
		April		3.7	4.2	3.6	4.3	3.0	0.5	
		May		5.4	4.1	3.8	4.5	3.4	0.8	
		June		5.3	4.2	3.5	4.5	7.2	1.3	
		July		5.7	4.4	3.7	4.7	13.4	1.5	
		August		6.4	4.4	3.7	4.8	14.4	1.5	
		September			4.2	3.5	4.8	11.0		

* October forecast.

** Wage cost figures show averages for three months ending in month indicated.

*** Excluding food, drink and tobacco.

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	4½
1974-75	8.0	9	8.0	9	6.0	6¾
1975-76	10.3	9¼	10.3	9¼	8.1	7¼
1976-77	8.3	6½	8.3	6½	7.5	5¾
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5¼	9.2	5¼	8.3	4¾
1979-80	10.0	4¾	10.4	5	8.0	3¾
1980-81	12.7	5½	13.1	5½	11.7	5
1981-82	8.6	3¼	9.1	3½	5.2	2
1982-83	8.8	3¼	9.3	3¼	8.3	3
1983-84	9.7	3¼	10.9	3½	11.4	3¾
1984-85*	10.2	3	12.3	3¾	13.1	4
1985-86*	5.8	1½	8.5	2¼	8.3	2¼
1986-87	3.4	1	7.9	2	9.6	2½
1987-88 (October forecast)	-1.2	-¼	4.1	1	4.3	1

* 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	1.2	2.6	2.5	3.9	2.9	4.6
	Q3	1.9	2.9	2.4	3.4	1.5	1.9
	Q4	1.5	2.1	2.1	2.6	2.1	0.7
1986	Q1	1.1	-1.9	1.5	-1.5	2.0	1.0
	Q2	2.1	2.3	3.2	3.4	2.2	3.6
	Q3	2.1	3.6	2.1	3.6	3.0	4.2
	Q4	-1.3	-1.6	0.9	0.5	1.6	0.0
1987	Q1	0.5	-0.7	1.7	0.4	2.6	1.9
	Q2	0.2	1.1	2.5	3.4	1.6	3.3

* financial year - constrained
\+ calendar year - constrained

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Table 6: CGBR(O) April - September Comparison with Budget Profile

£ billion

Receipts	
Inland Revenue	+ 1.2
Customs and Excise	+ 0.2
NICs	+ 0.1
Privatisation proceeds	+ 0.3
Other receipts	+ 0.2
Expenditure	
Net debt interest payments	+ 0.1
Other departmental expenditure(1)	- 0.9
Net effect on CGBR(O)	- 2.7

(1) on a cash basis, net of certain receipts and on-lending

TABLE 7

EXCHANGE RATES

		Exchange Rate Index*	Real Exchange Rate	ERI/(Oil Price Adjusted ERI)/	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currencies*	US-UK Interest rate differential	Brent spot price ($/bl)
1983	(3)	84.9	114.5	1.042	1.53	3.94	103.4	-0.3	30.9
	(4)	83.2	112.3	1.035	1.47	3.93	102.9	-0.5	29.6
1984	(1)	81.7	110.3	1.012	1.44	3.87	101.9	-0.9	29.7
	(2)	79.8	109.0	0.988	1.40	3.78	99.6	-2.1	29.7
	(3)	78.0	106.8	0.979	1.30	3.78	99.5	-0.6	28.5
	(4)	75.0	103.5	0.946	1.21	3.72	97.5	+0.3	28.6
1985	(1)	72.1	99.9	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	111.1	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	117.4	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	115.7	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	111.7	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	117.2	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	112.7	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	108.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	111.6	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	116.8	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	116.5	0.992	1.62	2.97	83.0	+2.8	19.0
1987	January	68.9	109.8	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	110.3	0.960	1.53	2.78	77.4	+4.4	17.2
	March	71.9	114.8	0.991	1.59	2.92	81.2	+3.4	18.0
	April	72.3	116.1	0.994	1.63	2.95	82.1	+2.9	18.2
	May	73.3	117.9	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	116.5	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	116.7	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	115.5	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	116.9	1.004	1.65	2.98	83.2	+2.6	18.3
	October 30th	74.6	n/a	1.019	1.72	2.98	83.7	+1.8	18.8

/ Oil price adjusted ERI has roughly the same inflation implications as dces an ERI of 80 given an oil price of $29 (their average values for January 1983 - November 1985). The ratio shown therefore indicates whether movements in the ERI are inflationary or otherwise, relative to the period Jan-1983 - Nov 1985, having allowed for oil prices.

* 1975=100

TABLE 8 : 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** 1990	2001	2011
1985	(1)	13.0	8.9	12.9	10.9	5.7	6.9	4.4	3.5	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	6.6	4.3	3.8	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.1	4.3	3.8	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.1	4.1	3.9	3.6
1986	(1)	12.4	7.9	12.3	10.2	3.9	8.2	4.3	4.2	3.8
	(2)	10.2	7.0	10.4	9.0	3.6	6.5	3.6	3.6	3.4
	(3)	10.0	6.2	10.0	9.7	3.4	6.5	3.7	3.9	3.5
	(4)	11.2	6.1	11.0	10.7	4.1	6.8	3.7	4.1	3.8
1987	(1)	10.6	6.3	10.8	9.6	4.3	6.0	3.0	3.7	3.5
	(2)	9.2	7.1	9.4	9.0	3.8	5.2	2.4	3.8	3.6
	(3)	9.9	7.1	9.7	9.8	3.9	6.0	2.6	4.2	3.9
1987	January	11.0	6.1	11.0	10.0	4.1	6.6	3.5	4.0	3.7
	February	10.8	6.4	11.0	9.8	4.3	6.2	3.0	3.7	3.5
	March	9.9	6.5	10.4	9.1	4.5	5.2	2.5	3.5	3.4
	April	9.8	6.9	10.0	9.2	4.2	5.4	2.6	3.6	3.4
	May	8.8	7.2	9.1	8.8	3.7	4.9	2.1	3.6	3.6
	June	9.0	7.1	9.0	8.9	3.5	5.3	2.3	3.9	3.7
	July	9.3	6.9	9.0	9.3	3.4	5.7	2.2	4.0	3.8
	August	10.2	7.0	10.0	10.0	3.9	6.1	2.6	4.3	4.0
	September	10.1	7.5	10.0	10.0	4.5	5.4	3.1	4.2	4.0
	October 30th	9.4	7.6	9.5	9.3			2.7	4.5	4.4

* 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 and quarterly for last Friday in each month. Assumes inflation averages 5 per cent per annum to redemption.

TABLE 9 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	0.5	8.6	0.5	4035
1983	-1.1	9.5	-0.6	3338
1984	9.6	11.0	-1.9	1474
1985	6.8	4.2	1.8	2919
1986	2.4	5.7	-0.8	-980
1986 Q1	-2.5	3.2	3.0	733
2	0.0	2.4	1.9	135
3	2.9	7.5	-2.4	-918
4	9.3	9.9	-4.9	-930
1987 Q1	11.2	5.4	-1.5	672
Q2	6.3	10.1	+0.8	-174
Q3	9.4	11.6	+1.0	-1293
Jan	-2.6	1.5	4.5	995
Feb	-2.7	2.6	3.3	204
Mar	-2.3	5.7	1.7	-466
Apr	-2.2	-1.8	2.3	283
May	-0.2	7.3	2.9	-113
Jun	2.6	1.7	1.6	-35
Jul	2.6	4.2	-1.9	-5
Aug	-0.4	9.7	-2.8	-734
Sep	6.4	8.4	-2.5	-179
Oct	7.7	5.1	-3.3	-155
Nov	11.3	10.6	-5.0	-462
Dec	9.0	15.0	-6.1	-313
1987 Jan	7.3	6.4	-2.7	85
Feb	18.2	8.5	-2.0	400
Mar	7.9	1.0	+0.3	186
April	8.9	10.7	+1.2	203
May	5.4	14.0	-0.1	-367
June	4.7	5.5	+1.5	-11
July	8.5	10.8	-0.1	-310
Aug	9.0	13.4	+0.9	-929
Sep	10.7	10.6	+2.9	-55

* excluding oil and erratics.

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TABLE 10

Key Monetary Indicators

	1986-87			1987-88								
	Oct	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**
MONETARY AGGREGATES 12 month % change (ua)												
MO	4.9	5.2	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3	4.5	5.2
M3	18.5	18.6	18.1	17.6	19.0	19.0	20.4	18.8	19.1	20.8	22.0	19.5
M4	15.8	15.6	15.2	13.9	13.9	13.9	14.5	13.6	13.8	14.8	15.5	14.9
M5	15.1	15.1	14.4	13.3	13.3	13.4	14.0	13.4	13.5	14.3	14.9	14.3
STERLING LENDING 12 month % change (ua)												
Banks	19.4	20.8	21.8	22.5	21.7	20.7	21.4	21.6	21.5	22.1	21.4	23.4
Banks and building societies	19.0	19.6	20.2	20.4	19.8	19.1	19.4	19.3	19.2	19.4	18.7	20.0
OVER(-)/UNDER (+) FUNDING financial year to date: £mm	812	-3	-1,577	-3,931	-3,969	395	3,197	5,144	2,342	1,900	2,198	1,988
MONEY MARKET ASSISTANCE/ Level outstanding £mn	10,247	11,295	12,970	14,948	14,873	9,742	6,126	3,340	5,132	7,078	6,114	5,421
INTEREST RATES												
3 months*	11.1	11.3	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3	10.2	10.1
20 yearø	10.6	10.9	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3	10.0	10.0
EFFECTIVE EXCHANGE RATE	67.8	68.5	68.5	68.9	69.0	71.9	73.3	73.3	72.7	72.8	72.3	73.1

* Inter bank
ø par yield
/ banking months until August thereafter end calendar months

Table II

MONETARY AGGREGATES 1987

		JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
MO	Averaged weekly									
	Monthly change (£ million)	-1,034	-228	+115	+325	+42	-93	+423	+13	+14
	Monthly % change	-6.5	-1.5	+0.8	+2.2	+0.3	-0.6	+2.8	+0.1	+0.1
		(-0.6)	(-0.8)	(+0.4)	(+0.4)	(+0.5)	(+0.2)	(+1.2)	(+0.3)	(+0.8)
	12 Monthly % change	+4.1	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2
M3	(Exc Public sector deposit)									
	Monthly change (£ million)	-1,240	+2,930	+6,797	+3,185	+3,144	+1,885	+4,199	+2,272	+1,757
	Monthly % change	-0.8	+1.9	+4.4	+2.0	+1.9	+1.1	+2.5	+1.3	+1.0
		(+1.0)	(+2.3)	(+3.3)	(+1.9)	(+2.1)	(+1.0)	(+2.3)	(+1.5)	(+0.8)
	12 Monthly % change	+17.6	+19.0	+19.0	+20.4	+18.8	+19.1	+20.8	+22.0	+19.5
M4	Monthly change (£ million)	-344	+2,455	+6,652	+3,537	+3,335	+4,025	5,260	+2,746	+3,053
	Monthly % change	-0.1	+0.9	+2.5	+1.3	+1.2	+1.4	+1.9	+1.0	+1.1
		(+0.6)	(+1.4)	(+2.1)	(+1.4)	(+1.3)	(+1.3)	(+1.8)	(+1.4)	(+0.5)
	12 Monthly % change	+13.9	+13.9	+13.9	+14.5	+13.6	+13.8	+14.8	+15.5	+14.9
M5	Monthly change (£ million)	-686	+2,601	+6,961	+3,557	+4,001	+4,136	+5,304	+2,614	+3,151
	Monthly % change	-0.2	+0.9	+2.5	+1.2	+1.4	+1.4	+1.8	+0.9	+1.0
		(+0.6)	(+1.3)	(+1.9)	(+1.2)	(+1.6)	(+1.3)	(+1.7)	(+1.3)	(+0.5)
	12 Monthly % change	+13.3	+13.3	+13.4	+14.0	+13.4	+13.5	+14.3	+14.9	+14.3
NIBMI	Monthly change (£ million)	-1,839	+519	+1,058	+475	+1,168	+1,471	+98	-80	+483
	Monthly % change	-4.4	+1.3	+2.6	+1.2	+2.8	+3.4	+0.2	-0.2	+1.1
		(+1.0)	(+1.7)	(-0.5)	(-0.2)	(+3.5)	(+3.8)	(-0.4)	(+0.6)	(+1.5)
	12 Monthly % change	+10.8	+10.5	+10.3	+11.9	+12.1	+13.6	+12.4	+12.4	+6.3
M1	Monthly change (£ million)	-254	+392	+4,364	+707	+2,967	+2,103	+984	+1,162	+1,587
	Monthly % change	-0.3	+0.5	+5.8	+0.9	+3.7	+2.5	+1.2	+1.3	+1.8
		(+2.7)	(+0.8)	(+3.9)	(+0.2)	(+4.1)	(+2.6)	(+0.9)	(+1.8)	(+1.9)
	12 Monthly % change	+23.2	+21.2	22.5	+23.2	+23.7	+23.8	+22.5	+23.8	+20.4
Net £ deposits from banks abroad		+1,004	-845	-1,395	+724	+987	-947	+492	-955	-260
Overseas non-bank £ deposits		+475	+550	+742	-194	+765	-428	+491	+198	-61
WIDER £ AGGREGATE										
	Monthly change (£ million)	+239	+2,635	+6,144	+3,715	+4,896	+510	+5,182	+1,515	+1,436
	Monthly % change	+0.1	+1.5	+3.4	+2.0	+2.6	+0.3	+2.7	+0.8	+0.7
		(+1.7)	(+1.8)	(+2.5)	(+1.9)	(+2.7)	(+0.2)	(+2.5)	(+0.9)	(+0.6)

NB Figures in brackets are seasonally adjusted.

TABLE 12

REAL PERCENTAGE GROWTH RATES OF MONETARY AGGREGATES

	RPI less Mortgage Element	Weekly Averaged M0	M3	M4	M5
FINANCIAL YEARS (12 month % changes to calendar March)					
1981-82	9.8	-6.5	4.2	3.7	3.0
1982-83	5.9	-0.6	5.4	7.9	8.0
1983-84	4.6	0.8	3.3	6.8	6.1
1984-85	5.2	0.3	6.0	8.2	8.2
1985-86	4.0	-0.4	12.2	10.1	9.1
1986-87	3.8	0.3	14.6	9.7	9.2
12 MONTH % CHANGES (ua except M0)					
AUGUST	3.3	0.8	12.7	10.9	10.4
SEPTEMBER	3.4	1.4	15.1	11.9	11.1
OCTOBER	3.4	1.5	14.6	12.0	11.3
NOVEMBER	3.3	1.9	14.8	11.9	11.4
DECEMBER	3.7	1.6	13.9	11.1	10.3
1987 JANUARY	3.7	1.4	13.4	9.8	9.3
FEBRUARY	3.7	0.4	14.8	9.8	9.3
MARCH	3.8	0.3	14.6	9.7	9.2
APRIL	3.6	1.2	16.2	10.5	10.0
MAY	3.8	0.6	14.5	9.4	9.2
JUNE	3.5	0.7	15.1	10.0	9.7
JULY	3.7	1.6	16.5	10.7	10.2
AUGUST	3.7	1.0	17.6	11.4	10.8
SEPTEMBER	3.5	1.4	15.5	11.0	10.4

TABLE 13

MO, THE WIDE MONETARY BASE

Calendar months	Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month: Notes (sa) and coin	% change on previous Month: MO (sa)	% change on year earlier: Notes and Coin (nsa)	% change on year earlier: Notes and Coin (sa)	% change on year earlier: MO (nsa)	% change on year earlier: MO (sa)
	Levels £ million (changes in brackets)												
1987													
April	14,930	14,902	(+94)	204	15,134	15,106	(+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,972	14,975	(+73)	204	15,176	15,179	(+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,946	15,070	(+95)	137	15,083	15,207	(+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,153	(+83)	235	15,506	15,388	(+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,337	15,258	(+105)	182	15,519	15,440	(+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,374	(+116)	184	15,533	15,558	(+118)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October†	15,299	15,451	(+77)	202	15,500	15,653	(+95)	+0.5	+0.6	+5.1	+5.2	+5.5	+5.6

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
September						
2nd	15,405	(+89)	325	15,730	(+212)	+1.4
9th	15,374	(-31)	214	15,588	(-142)	-0.9
16th	15,336	(-37)	165	15,501	(-87)	-0.6
23rd	15,368	(+32)	96	15,464	(-37)	-0.2
30th	15,385	(+17)	122	15,507	(+43)	+0.3
October†						
7th	15,428	(+46)	190	15,618	(+114)	+0.7
14th	15,412	(-16)	192	15,604	(-14)	-0.1
21st	15,465	(+52)	223	15,688	(+83)	+0.5
28th	15,498	(+33)	202	15,700	(+12)	+0.1

† Most recent data include estimates only for coin

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TABLE 14 BUILDING SOCIETY BALANCE SHEET FLOWS

(Unadjusted, ;m)

	Total Flow	Assets: Net Mortgage Advances & Unsecured Lending	Assets: Liquid Assets	Assets: Fixed assets	Liabilities: Retail principal	Liabilities: Interest credited	Liabilities: Wholesale funds	Liabilities: Other (eg reserves)
1985 *	1459	1193	239 (18.0)	27	592	495	205	167
1986 *	1623	1589	17 (16.4)	17	553	498	523	49
1985 Q2*	1490	1219	241 (16.5)	30	508	583	113	286
Q3*	1666	1157	479 (17.0)	30	590	384	153	539
Q4*	2172	1367	783 (18.0)	22	766	660	594	152
1986 Q1*	858	1271	-431 (17.5)	18	740	462	167	-511
Q2*	1591	1645	-74 (16.6)	20	478	522	321	270
Q3*	1783	1884	-112 (15.7)	11	56	402	1099	226
Q4*	2262	1556	686 (16.4)	20	938	649	403	272
1987 Q1*	1240	1120	105 (16.1)	15	484	594	279	-117
Q2*	1564	1240	309 (16.4)	15	612	457	182	313
Aug	1645	1232	398 (16.4)	15	683	103	60	799
Forecast								
Q3*	1419	1259	145 (16.1)	15	383	464	312	260
Q4*	1976	1288	673 (16.7)	15	958	668	100	250
Sept	837	1198	-376 (16.1)	15	133	476	431	-203
Oct	2702	1395	1292 (16.6)	15	1388	328	300	686
Nov	1507	1468	24 (16.4)	15	439	116	0	952
Dec	1721	1002	704 (16.7)	15	1048	1559	0	-886

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

+ Estimated ; part data

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TABLE 15

THE COMPONENTS OF M3

	NOTES AND COINS	BANK DEPOSITS RETAIL NIB	IB	WHOLESALE	M3
% CHANGES					
Financial years (ua)					
1984-85[1]	5.2	6.5	7.7	19.1	11.5
1985-86[1]	3.7	4.5	16.8	26.1	16.7
1986-87[1]	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
SEPTEMBER	2.7	23.4	16.8	22.1	19.0
OCTOBER	5.8	15.3	18.6	22.8	18.5
NOVEMBER	4.0	13.3	17.1	25.6	18.6
DECEMBER	5.1	14.4	18.7	22.3	18.1
1987 JANUARY	3.7	14.7	16.2	23.0	17.6
FEBRUARY	3.2	14.5	17.2	25.7	19.0
MARCH	-2.1	16.9	17.4	25.4	19.0
APRIL	6.5	14.5	17.1	27.9	20.4
MAY	3.7	16.4	19.0	23.1	18.8
JUNE	4.1	18.1	15.4	25.0	19.1
JULY	6.4	15.3	12.1	32.1	20.8
AUGUST	4.4	16.4	15.1	32.6	22.0
SEPTEMBER	6.1	6.4	14.2	31.7	19.5
Over 6 months (sa)					
1987 APRIL	2.4	10.5	12.2	37.5	21.9
MAY	-2.2	21.0	10.4	39.6	23.7
JUNE	9.3	24.5	11.3	39.2	25.7
JULY	3.7	22.7	12.6	48.1	28.9
AUGUST	5.3	18.0	14.7	43.3	27.0
SEPTEMBER	9.4	23.0	12.1	27.8	21.1
CHANGES £ MILLION					
monthly average (sa)					
1984-85[1]	42	56	238	683	1017
1985-86[1]	17	90	161	556	1565
1986-87[1]	4	359	538	1255	2157
Over 1 month (sa)					
1987 APRIL	265	-357	488	2584	2980
MAY	157	1278	295	1628	3358
JUNE	-109	1705	557	-447	1706
JULY	267	-433	601	3514	3949
AUGUST	-29	279	452	1918	2620
SEPTEMBER	33	630	208	602	1473

[1] March on March.

TABLE 16 SECRET

THE COMPONENTS OF M4 AND M5

	M3	BUILDING SOCIETIES RETAIL[1]	WHOLESALE	HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							
Financial years (ua)							
1984-85[3]	11.5	15.1				13.8	13.8
1985-86[3]	16.7	15.3	52.6	94	-0.1	13.5	14.5
1986-87[3]	19.1	10.8	11.4	50	-15.6	13.5	12.9
Over 12 months (ua)							
OCTOBER	18.5	17.3		28.7	15.8	4.2	15.1
NOVEMBER	18.6	15.6		24.0	15.6	5.6	15.1
DECEMBER	18.1	17.0		17.9	15.2	2.1	14.4
1987 JANUARY	17.6	15.6		43.0	13.9	3.7	13.3
FEBRUARY	19.0	16.1		62.9	13.9	4.0	13.3
MARCH	19.0	17.2		57.7	13.9	5.7	13.4
APRIL	20.4	16.1		55.7	14.5	5.7	14.0
MAY	18.8	17.9		60.0	13.6	9.9	13.4
JUNE	19.1	16.4		69.0	13.8	9.7	13.5
JULY	20.8	13.4		69.2	14.8	6.3	14.3
AUGUST	22.0	15.6		67.6	15.5	4.1	14.9
SEPTEMBER	19.5	10.9		62.0	14.9	5.3	14.3
Over 6 months (sa)							
1987 APRIL	21.9	10.6		56.0	14.4	-4.5	13.4
MAY	23.7	11.0		68.2	15.0	1.7	14.2
JUNE	25.7	11.8		51.7	17.3	10.7	16.9
JULY	28.9	12.0		43.8	20.1	7.4	19.4
AUGUST	27.0	12.8		33.1	20.1	8.1	19.5
SEPTEMBER	21.1	10.4		26.5	16.4	11.5	16.2
CHANGES £ MILLION							
monthly average (sa)							
1984-85[3]	984	1034	42	-28	139	2221	2090
1985-86[3]	1565	1207	50	-362	-118	2480	2557
1986-87[3]	2157	938	17	-372	51	2791	2975
Over 1 month (sa)							
1987 APRIL	2980	1297	41	-665	3653	-321	3332
MAY	3358	918	100	-720	3656	819	4475
JUNE	1706	1305	3	525	3539	351	3890
JULY	3949	911	244	-180	4924	35	4959
AUGUST	2620	1388	38	-54	3992	-5	3987
SEPTEMBER	1473	223	431	-551	1576	-87	1489

[1]Net in flow including Term sharesand SAYE.
[2]Treasury bills, bank bills, LA temporary debt, CID's and some national savings accounts.
[3]March on March.

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TABLE 17

RETAIL DEPOSITS

	BANKS	BUILDING[1] SOCIETIES	NATIONAL SAVINGS[2]	TOTAL
% CHANGES				
Financial years (ua)				
1984-85[3]	7.1	15.1	11.9	12.0
1985-86[3]	11.6	15.3	7.5	12.9
1986-87[3]	17.2	10.8	10.8	12.7
Over 12 months (ua)				
OCTOBER	17.3	12.9	7.8	13.6
NOVEMBER	15.6	12.2	8.1	12.8
DECEMBER	17.0	11.7	8.4	13.0
1987 JANUARY	15.6	11.4	9.1	12.3
FEBRUARY	16.1	11.0	10.1	12.4
MARCH	17.2	10.8	10.8	12.6
APRIL	16.1	10.6	11.0	12.1
MAY	17.9	10.5	10.8	12.6
JUNE	16.4	10.6	10.5	12.1
JULY	13.4	10.6	9.2	11.0
AUGUST	15.6	10.7	9.7	11.9
SEPTEMBER	10.9	11.7	9.3	10.8
Over 6 months (sa)				
1987 APRIL	11.6	10.6	11	11
MAY	14.4	11.0	10.5	11.7
JUNE	16.4	11.8	10.4	12.7
JULY	16.5	12.0	8.9	13.6
AUGUST	16	12.8	8.1	13
SEPTEMBER	16.3	10.4	6.9	11.6
CHANGES £ MILLION				
monthly average (sa)				
1984-85[3]	42	1034	683	1759
1985-86[3]	255	1207	1093	2555
1986-87[3]	871	938	266	2075
Over 1 month (sa)				
1987 APRIL	131	1297	242	1670
MAY	1573	918	227	2718
JUNE	2262	1305	291	3858
JULY	168	911	262	1341
AUGUST	731	1388	107	2226
SEPTEMBER	838	223	75	1136

NOTES

[1] Total retail funds, including terms shares and SAYE.
[2] Total inflows.
[3] March on March.

TABLE 18

Breakdown of Bank Lending by instrument (banking months before 1986 October)

		Advances	Commercial Bills	Investment[1]	Other[2]	Total (unadjusted)	Total s/a
1984-1986							
% change[3]							
1984-85		15.5	27.7	18.0	n/a	17.5	17.5
1985-86		17.9	-7.4	81.3		16.9	16.8
Monthly average[3]							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
Contributions to annual bank lending growth[4]							
Monthly changes							
1986	October	858	1154	323	980	3315	3486
	November	2221	420	129	483	3253	3838
	December	2655	1369	221	-272	3973	3125
1987	January	905	562	104	-136	1435	1771
	February	2617	-426	70	345	2606	2880
	March	4644	-2026	336	420	3374	2082
	April	1727	-409	210	-398	1130	1973
	May	3626	-2226	290	497	2187	2650
	June	5154	751	-8	-1211	4686	3931
	July	2090	1687	-98	900	4579	4875
	August	2840	-1511	117	-287	1159	2187
	September	5460	-15	-20	9	5434	4383

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

TABLE 19 SECRET

COUNTERPARTS TO BROAD MONEY

£ million

LATEST MONTH : SEPTEMBER 1987	M3	M4
PSBR	188	188
Debt sales (-): Other Public Sector	-169	-83
Central Government	157	-115
Public external & fc finance (-)	-386	-386
Over(-)/under(+)funding	-210	-396
£ lending to private sector	5434	6786
Bank/bank & b society externals (-)	-847	-962
Bank/bank & b society £NNDLs (-)	-2620	-2375
TOTAL	1757	3053

FINANCIAL YEAR 1987/88 TO DATE	M3	M4
PSBR	1581	1581
Debt sales (-): Other Public Sector	1574	738
Central Government	-1535	-1191
Public external & fc finance (-)	368	368
Over(-)/under(+)funding	1988	1496
£ lending to private sector	19175	27592
Bank/bank & b society externals (-)	-2208	-2732
Bank/bank & b society £NNDLs (-)	-2513	-4400
TOTAL	16442	21956

FINANCIAL YEAR 1986/87	M3	M4
PSBR	3343	3343
Debt sales to private sector (-)	-1235	-5840
Public external & fc finance (-)	-1700	-1700
Over(-)/under(+)funding	408	-4197
£ lending to private sector	30299	47406
Bank/bank & b society externals (-)	-676	-1553
Bank/bank & b society £NNDLs (-)	-4601	-8689
TOTAL	25430	32967

Table 20:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

	BANK/BUILDING SOC. (STERLING BORROWING)			OTHER STERLING BORROWING					ALL BORROWING		
	Banks	Building Societies	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency Bank Borrowing	TOTAL
1984											
Q1	5141	3007	8148		163	44	25	232	8380	1102	9482
Q2	2781	4076	6857		429	75	0	504	7361	808	8169
Q3	3285	4087	7372		288	59	100	447	7819	1047	8866
Q4	4535	3402	7937		249	73	210	532	8469	1948	10417
1985											
Q1	7093	3189	10282		924	170	235	1329	11611	3225	14836
Q2	4158	3748	7906		1092	327	230	1649	9555	1382	10937
Q3	4148	3560	7708		873	274	130	1277	8985	-806	8179
Q4	4803	4232	9035		525	89	200	814	9849	939	10788
1986											
Q1	7431	3867	11298		471	209	350	1030	12328	2362	14690
Q2	5465	5083	10548		1369	344	325	2038	12586	1575	14161
Q3	5764	5592	11356		1431	290	231	1952	13308	3688	16996
Q4	10433	4667	15100	68	2338	-52	281	2635	17735	591	18326
1987											
Q1	7074	4341	11415	416	1553	-782	1231	2418	13833	7358	21191
Q2	8484	4240	12724	634	2259	352	655	3900	16624	4633	21257
Q3	10964	3889	14853	398	5894	743	570	7605	22458	-1129	21329
Average per quarter											
1984	3936	3643	7579	0	282	63	84	429	8007	1226	9234
1985	5051	3682	8733	0	854	215	199	1267	10000	1185	11185
1986	7273	4802	12076	17	1402	198	297	1914	13989	2054	16043
1987 to q3	8841	4157	12997	483	3235	104	819	4641	17638	3621	21259
1987											
JANUARY	1390	2181	3571	147	500	-67	110	690	4261	1369	5630
FEBRUARY	2600	980	3580	150	870	20	315	1355	4935	2402	7337
MARCH	3084	1180	4264	119	183	-735	806	373	4637	3584	8221
APRIL	1290	1590	2880	176	828	110	355	1469	4349	1236	5585
MAY	2169	1295	3464	159	415	184	150	908	4372	2693	7065
JUNE	5025	1355	6380	299	1016	58	150	1523	7903	719	8622
JULY	4450	1302	5752	176	1840	182	210	2408	8160	-2194	5966
AUGUST	1039	1269	2308	38	2090	391	150	2669	4977	1003	5980
SEPTEMBER	5475	1318	6793	184	1964	170	210	2528	9321	45	9366

*Gross Issues announced by U.K. ICC's.

Table 21:- NET FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (£ million)

	BANK BORROWING				OTHER BORROWING						ALL BORROWING
	Sterling		Foreign		Sterling			Euro-Sterling(*)			
	ICC's	BSOC's	Currency	TOTAL	Commercial Paper	Equities	Bonds	ICC's	BSOC's	TOTAL	TOTAL
1984											
Q1	2905	-86	-895	1924		163	44	25	0	232	2156
Q2	559	-56	-193	310		429	75	0	0	504	814
Q3	1219	533	-74	1678		288	59	100	0	447	2125
Q4	2312	408	1433	4153		249	73	210	0	532	4685
1985											
Q1	3386	6	-606	2786		924	170	235	0	1329	4115
Q2	747	248	47	1042		1092	327	230	0	1649	2691
Q3	229	161	1469	1859		873	274	130	600	1877	3736
Q4	874	351	1444	2669		525	89	200	475	1289	3958
1986											
Q1	3935	89	-879	3145		471	209	350	935	1965	5110
Q2	-172	178	-1120	-1114		1369	344	325	1075	3113	1999
Q3	1055	976	-1072	959		1431	290	231	1575	3527	4486
Q4	4604	187	-50	4741	68	2338	-52	281	0	2635	7376
1987											
Q1	1063	306	2085	3454	416	1553	-782	1231	290	2708	6162
Q2	984	-490	727	1221	634	2259	352	655	50	3950	5171
Q3	3390	-188	-141	3061	398	5894	743	570	100	7705	10766
Average per quarter											
1984	1749	200	68	2016	0	282	63	84	0	429	2445
1985	1309	192	589	2089	0	854	215	199	269	1536	3625
1986	2356	358	-780	1933	17	1402	198	297	896	2810	4743
1987 to q3	1812	-124	890	2579	483	3235	104	819	147	4788	7366

		Commercial Paper	Equities	Bonds	Euro-Sterling ICC's	Euro-Sterling BSOC's	TOTAL
1986:-	AUGUST	12	698	126	100	650	1586
	SEPTEMBER	13	385	113	0	750	1261
	OCTOBER	76	898	-49	105	0	1030
	NOVEMBER	74	835	-3	0	0	906
	DECEMBER	-82	605	0	176	0	699
1987:-	JANUARY	147	500	-67	110	0	690
	FEBRUARY	150	870	20	315	140	1495
	MARCH	119	183	-735	806	150	523
	APRIL	176	828	110	355	0	1469
	MAY	159	415	184	150	50	958
	JUNE	299	1016	58	150	0	1523
	JULY	176	1840	182	210	0	2408
	AUGUST	38	2090	391	150	0	2669
	SEPTEMBER	184	1964	170	210	100	2628

* Gross Issues announced by U.K. ICC's and Building Societies

NOTE/ Bank borrowing figures include monetary sector holdings of 'Other Borrowing' instruments, giving rise to some double counting in the 'All Borrowing' figures.

TABLE 22 SECRET

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

£ million u/a

	APR-SEP 1987
CGBR	4394
Gilt sales to nbps and overseas (inc-)	-3925
Other CG debt sales to nbps incl Treasury bills* (-)	-1532
CG external and fc finance other than BGS(-)	4251
Funding of the CGBR Over(-)/under(+)	**3188**
OPS net of on lending	-2813
OPS debt sales to nbps(-)	1574
OPS currency finance(-)	39
Funding of OPS Over(-)/under(+)	-1200
Funding of PSBR Over(-)/under(+)	**1988**

	3188
Other BGS sales (-)	1130
Other CG debt sales (-)	-320
Notes and coins (-)	-691
Other incl exchequer (-)	790
CG bank deposits (+)	-34
Total influences* (surplus+,shortage-)	**4063**
Change in bankers deposits (-)	259
Change in level of assistance (+) #	**-4322**
of which	
Issue Department bills	-564
Banking Department bills	793
Market advances	-1420
Repos	-3131
Level of assistance	
End March 1986	**13317**
End March 1987	**9742**
End September 1987	**5421**

* Treasury bills usually included below the line in the Money Market Assistance Table

\# Surplus on influences leads to a fall in assistance and vice versa

TABLE 23 SECRET

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted		M0	M3	M4
1 MONTH % CHANGE TO:				
1987 JULY		2.8	2.5	1.9
AUG		0.1	1.3	1.0
SEP		0.1	1.0	1.1
OCT	)	-0.2 *	2.3	1.6
NOV	) FORECAST	n/a	0.5	0.5
DEC	)	n/a	0.9	1.2
12 MONTH % CHANGE TO:				
1987 JULY		5.3	20.8	14.8
AUG		4.5	22.0	15.5
SEP		5.2	19.5	14.9
OCT	)	5.5 *	21.2	15.5
NOV	) FORECAST	n/a	20.0	15.0
DEC	)	n/a	20.7	15.6

Seasonally adjusted		M0	M3	M4
1 MONTH % CHANGE TO:				
1987 JULY		1.2	2.3	1.8
AUG		0.3	1.5	1.4
SEP		0.8	0.8	0.5
OCT	)	0.6 *	2.0	1.4
NOV	) FORECAST	0.4	0.2	0.6
DEC	)	0.6	0.8	0.8
12 MONTH % CHANGE TO:				
1987 JULY		5.4	20.7	14.7
AUG		4.7	22.1	15.5
SEP		4.9	19.4	14.7
OCT	)	5.6 *	21.7	15.5
NOV	) FORECAST	5.0	20.3	15.0
DEC	)	4.2	21.0	15.6

* outturn

4[illegible]6/001/DE

SECRET

TABLE 24: MO FORECAST

SEASONALLY ADJUSTED

	LEVELS £ MILLION			% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
	Notes and coin	Bankers' Deposits	MO	Notes and coin	MO	Notes and coin	MO
ACTUAL							
April	14,902	204	15,106	+0.6	+0.4	+4.6	+4.8
May	14,975	204	15,179	+0.5	+0.5	+4.5	+4.4
June	15,070	137	15,207	+0.6	+0.2	+4.6	+4.2
July	15,153	235	15,388	+0.5	+1.2	+4.7	+5.4
August	15,258	182	15,440	+0.7	+0.3	+4.6	+4.7
September	15,374	184	15,558	+0.8	+0.8	+5.0(5.1)	+4.9(5.2)
October	15,451	202	15,653	+0.5	+0.6	+5.2(5.2)	+5.6(5.6)
FORECAST							
November	15,530	190	15,720	+0.5	+0.4	4.9(4.9)	5.0(5.0)
December	15,630	190	15,820	+0.6	+0.6	4.6(4.4)	4.2(4.0)
January	15,700	190	15,890	+0.4	+0.4	5.0(4.7)	5.2(4.9)
February	15,770	190	15,960	+0.4	+0.4	6.5(5.9)	6.6(6.0)
March	15,830	190	16,020	+0.4	+0.4	6.9(6.2)	6.5(5.9)

* Last month's forecast in brackets.

SECRET

TABLE 25: MONEY MARKET INFLUENCES

£ million
not seasonally adjusted

	Actual		Forecast	
	1987 SEP	OCT	NOV	DEC
A. Money market influences				
(i) CGBR (+)	-37	-750	25	450
(ii) Reserves etc (+)	311	3921	-75	-200
(iii) Notes and coin (-)	527	-537	150	-800
(iv) National Savings (-)	-90	2	-75	-100
(v) CTDs (-)	-106	-282	0	200
(vi) Gilts (-)	-720	-1474	-475	-925
(vii) Other Exchequer items etc	407	-202	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	292	678	-450	-1375
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	-530			
- repo terms	0			
Banking Department	-116			
(ii) LA bills (purchase +)				
Issue Department	-33			
Banking Department	-7			
(iii) Treasury bills (purchase +)	245	-597	-2000	0
(iv) Market advances	-7			
(v) Export Credit/Shipbuilding Repos	0			
(vi) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	-448	-678	450	1375
C. Change in bankers balances = A + B	-156	63		
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	5421	5403	7850	9225
of which commercial bills	5808	5257		

TABLE 26.

SECRET

TIMING OF GOVERNMENT SHARE SALES

The timetable now stands as follows:

<u>1987</u>

BP(I)	(28 October (Offer closes) (30 October (dealings start)

An issue of BT bonus shares is planned in December/January based on a record date of 30 November, and that £250m of BT prefs are to be repaid in December.

<u>1988</u>

BGC(III)	19 April
BAA(II)	19 May
BP(II)	30 August

<u>1989</u>

BP(III)	27 April

4508.002.LD

CONFIDENTIAL PMP

marketo folder

FROM: T PIKE

DATE: 5 November 1987

1. MR GRICE JWG 5.11.87
2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
MR Cassell
Mr Scholar
Mrs Lomax
Mr C W Kelly
Mr Peretz
Mr Bottrill
Mr Richardson
Mr Westaway
Ms Bronk

MO FIGURES

The latest weekly figures for MO, covering the first week of November, an attached. They show that the twelve month growth rate of MO to the latest four week period is 5.3 per cent (5.3 per cent not seasonally adjusted). The annualised growth rate of notes and coin in the three months to the latest four week period is 8¼ per cent.

2. The attached seasonally adjusted figures are based on new seasonal factors, which will be used by the Bank when publishing the provisional MO figures for October, on 19 November. The revised seasonal factors do not affect the seasonally adjusted growth rates of MO in October, reported by Ms Bronk last week, nor significantly for earlier months.

T. Pike

T PIKE

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets) Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month Notes (sa) and coin	MO (sa)	% change on year earlier Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+ 91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.8	+5.3	+5.5
August	15,337	15,258	(+ 92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.1	+5.2	+5.0
October	15,299	15,455	(+79)	202	15,500	15,657	(+97)	+0.5	+0.6	+5.1	+5.1	+5.5	+5.6
November† (1 of 4)	15,344	15,510	(+55)	128	15,472	15,638	(-19)	+0.4	-0.1	+4.7	+4.7	+4.3	+4.4
Latest 4 weeks†	15,306	15,474	(+93)	186	15,493	15,661	(+136)	+0.6	+0.9	+5.0	+5.0	+5.3	+5.3

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
October						
7th	15,435	(+42)	190	15,625	(+111)	+0.7
14th	15,418	(-17)	192	15,610	(-15)	-0.1
21st	15,467	(+49)	223	15,690	(+80)	+0.5
28th	15,503	(+36)	202	15,705	(+15)	+0.1
November †						
4th	15,510	(+7)	128	15,638	(-67)	-0.4

† 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.

ps2/11R

UNCLASSIFIED

pmp

FROM: MISS M P WALLACE
DATE: 6 November 1987

MR J W GRICE

cc Sir P Middleton

MONTHLY MONETARY ASSESSMENT: OCTOBER 1987

The Chancellor was grateful for your minute of 4 November which he wishes to consider further.

mpw.

MOIRA WALLACE

3769/019

BF to Abr ~~4/12~~ ~~8/12~~ PUP

[illegible]

FROM: P D P BARNES
DATE: 9 November 1987

PS/CHANCELLOR

MONTHLY MONETARY ASSESSMENT

The Economic Secretary has seen the latest Monthly Monetary Assessment contained in Mr Grice's submission to the Chancellor of 4 November.

2. The Economic Secretary thinks it would be sensible to start contingency planning for the "worst" because:

(i) It might happen; and

(ii) thinking about how it might happen would highlight ways of averting it.

3. (By "the worst", the Economic Secretary means:

✓ A continuing fall in equities;
✓ and/or a dollar collapse,
X possibly triggering a contraction of credit,
leading to a major recession.)

4. The Economic Secretary wonders whether the Chancellor agrees that we should start contingency planning along these lines.

PB

P D P BARNES
Private Secretary

SECRET AND PERSONAL

FROM: N I HOLGATE
DATE: 11 November 1987

Tony.pl.

1. MR KELLY
2. CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Miss O'Mara
Mr Grice
Mr Pike
Mrs Ryding
Ms Bronk
Mr Norgrove - No 10

Ch/ As you suspected, much of the increase heavy intervention.
mpw.
11/11

MONEY SUPPLY IN OCTOBER: "FIRST GUESS"

(All figures are unadjusted unless specified otherwise)

This note summarises the Bank's "first guess" at MO and M3 figures for October. As usual at this stage M3 figures are subject to significant revision.

Table 1: Monetary Aggregates (per cent)

	MO	M3**
Annual growth rate*	5.5 (5.6)	21.8-22.6
Change in month*	-0.2 (0.6)	2.7-3.5 (3.1-3.9)
Target range	2-6	-

* Figures in brackets seasonally adjusted

**The actual outturn has been within the range forecast on this basis in 10 of the last 12 months.

2. The increase in sterling bank lending in September is likely to be in the range £1.4-3.4 billion (also £1.4-3.4 billion seasonally adjusted). Lending in October will have been reduced by the repayment of the £0.5 billion takeover related loan (which had boosted the lending figures for September).

3. Other main points of note in the "first guess" are that both the external and foreign currency finance of the public sector, and the residual are very expansionary. External and foreign currency finance increased by £2.9 billion, reflecting heavy intervention offset by overseas inflows of sterling bank deposits, gilts and Treasury bills. The residual is expansionary by £1.4 billion which suggests that bank lending or others of the figures may turn out to be somewhat higher than suggested by the "first guess" range. Special factors may include a build-up of liquidity by potential BP investors and UK underwriters who were due to pay £1.5 billion to the government early in November; and an increase in BP's holdings of sterling bank deposits due to their receipt of £1.5 billion proceeds on the last day of October. In the M3 counterparts £0.9 billion of the £1.5 billion is part of the expansionary effect of the rise in reserves, because foreign underwriters paid foreign currency to the EEA and the equivalent in sterling was then paid to BP.

M3 components and counterparts

4. Table 2 (attached) compares the changes in M3 components in August underlying the "first guess" with the average monthly change over the previous 12 months. Table 3 (attached) provides a similar comparison for M3 counterparts.

Timetable

5. We expect to receive provisional October figures on Wednesday 18 November. They will be published on Thursday 19 November. Full money and banking figures for October will appear on Monday 30 November.

N. Holgate

N I HOLGATE

SECRET AND PERSONAL

TABLE 2: M3 COMPONENTS - OCTOBER 1987

"First Guess" compared with average monthly change in the previous year.

£ millions

	First Guess	Average monthly change in year to September
Notes and coins in circulation	481	60
Non-interest bearing sight	-409	160
Interest bearing sight	2501	1030
Time deposits (including (CDs)	2289	1140
Change in £M3	4862	2390

SECRET AND PERSONAL

TABLE 3 : M3 COUNTERPARTS - OCTOBER 1987

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

£ millions

	First Guess		Average change in year to September	
CGBR (O) (ex bank deposits)		-513		-20
Other public sector: LABR, PCBR, OPS debt sales		-274		140
Modified PSBR*		-787		120
CG debt: Gilts	-107		10	
Treasury bills	78		-30	
National Savings	1		-250	
CTD's etc.	-166		110	
Total CG debt sales (-)		-194		-160
External and fc finance of public sector (-)		2867		20
Wide over(-)/under(+)funding		1886		-20
Sterling lending to nbps (incl Issue Dept commercial bills)		1571 #		3090
Net private externals ** ; Residual (includes NNDLS ** and reporting differences)		1405		-680
Change in M3		4862		2390
(Monthly percentage change)		(3.1%)		(1.5%)
(12 month percentage change)		(22.2%)		(19.3%)

---

* Modified PSBR equals PSBR less OPS debt sales

** For the "first guess", Private Externals and NNDLs cannot be separately identified

£1532 million after seasonal adjustment.

ps7

SECRET AND PERSONAL

FROM: A D DIGHT
DATE: 12 November 1987

MR N I HOLGATE

MONEY SUPPLY IN OCTOBER: "FIRST GUESS"

The Chancellor has seen and was grateful for your minute of 11 November.

A A Dight

A A DIGHT

45/024

CONFIDENTIAL

FROM: T PIKE

DATE: 12 November 1987

1. MR GRICE JWG 12.11.87

2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz
Mrs Lomax
Mr C W Kelly
Mr Bottrill
Ms Ryding
Mr Westaway
Ms Bronk

M0 FIGURES

The latest weekly figures for M0, covering the second week of November, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 5.2 per cent (5.2 per cent not seasonally adjusted). The annualised growth rate of notes and coin in the three months to the latest four week period is 8¼ per cent.

T Pike

T PIKE

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets) Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month Notes (sa) and coin	MO (sa)	% change on year earlier Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+ 91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.8	+5.3	+5.5
August	15,337	15,258	(+ 92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.1	+5.2	+5.0
October	15,299	15,457	(+81)	202	15,500	15,659	(+99)	+0.5	+0.6	+5.1	+5.1	+5.5	+5.6
November† (2 of 4)	15,333	15,512	(+55)	177	15,510	15,688	(+29)	+0.4	+0.2	+4.6	+4.7	+4.6	+4.8
Latest 4 weeks†	15,321	15,498	(+94)	195	15,515	15,693	(+139)	+0.6	+0.9	+5.0	+5.0	+5.2	+5.2

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
October						
7th	15,435	(+42)	190	15,625	(+111)	+0.7
14th	15,418	(-17)	192	15,610	(-15)	-0.1
21st	15,467	(+49)	223	15,690	(+80)	+0.5
28th	15,503	(+36)	202	15,705	(+15)	+0.1
November †						
4th	15,512	(+9)	128	15,640	(-65)	-0.4
11th	15,512	(0)	225	15,737	(+97)	+0.6

† 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.

17.20

SECRET AND PERSONAL

Ch/content with briefing? — two points, on A & D(ix)

FROM: N I HOLGATE

DATE: 18 November 1987

1. MR PERETZ

2. CHANCELLOR

cc: EST
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr R I G Allen
Mr Kelly
Mr Grice
Mr Pike
Mr Ryding
Mr Cropper

Despite the size of the M3 increase, I should not be surprised if the markets take these figures fairly calmly: particularly with all eyes at present on the US. 18/11

a few points — some surprise — passim.

PROVISIONAL MONEY FIGURES - OCTOBER

(All figures are unadjusted unless specified otherwise)

The provisional money supply figures for October will be published by the Bank at 11.30 am on Thursday 19 November. As usual M3, M4 and M5 broad money figures are subject to revision.

Summary

2. The annual growth rate of **MO** to October was 5.5 per cent (5.6 per cent seasonally adjusted (s.a.) - the same as estimated in the "first guess"). The annual rate is distorted upwards by abnormally low bankers' deposits a year ago.

3. The annual growth rate of M3 to October is estimated to be 22.2 per cent - in the middle of the "first guess" range. This shows an increase from 19.6 per cent September (partly explained by the unwinding of the effects of the TSB sale on M3, in October 1986) and a return to the August growth rate of 22.1 per cent. The one-month increase in October is however much larger than that in August (3.0 per cent compared with 1.3 per cent) and is the highest increase since March.

The annual growth rates for **M4** and **M5** to October are estimated at 15.7 per cent and 15.1 per cent respectively. These are both 0.8 per cent higher than the annual increases to September but, like M3, these growth rates are only just above those for the year to August of 15.5 per cent and 14.8 per cent. In October M4 and M5 increased by 1.7 per cent (2.1 per cent and 2 per cent respectively s.a.) - significantly less than the percentage increase in M3.

5. Table 1 below gives the growth rate of all four aggregates:

Table 1: Provisional monetary aggregates for October (per cent)

	MO	M3	M4	M5
Annual	+ 5.5	+22.2	+15.7	+15.1
One month	- 0.2	+ 3.0	+ 1.7	+ 1.7
One month (s.a)	+ 0.6	+ 3.4	+ 2.1	+ 2.0

Table 2 attached gives the historical growth rates for **MO, M3, M4, M5, NIBM1, M1,** and the **wider sterling aggregate.**

6. **Bank lending** to the private sector in October rose by £2.9 billion (also £2.9 billion s.a.), a monthly increase of 1.5 per cent and an annual growth rate to October of 22.8 per cent (22.6 per cent s.a.). These figures are much lower than the £5.5 billion, (2.9 per cent) increase recorded in September and below the average for the last six months of £3.2 billion.

7. **Bank and building society** lending to the private sector - as defined in the M4 counterpart - increased by about £4.1 billion (£4.0 billion s.a.). Building society lending alone was £1.5 billion, slightly above that of recent months (around £1.3 billion). The twelve month growth rate of bank and building society lending was 20.1 per cent compared with 20.3 per cent for the year to September).

8. Tables 3 and 4 (attached) show respectively the components and counterparts for broad money in September, together with the average changes over the previous twelve months.

Special Factors

9. The main points of note are:

(i) Bank deposits are likely to have been affected by several factors connected with the BP sale; Payment to BP of the £1.5 billion by Government for the new issue of shares took place late on Friday 30 October. BP placed a substantial part of this temporarily on deposit. Also

- A build up of deposits by underwriters prior to paying £1.5bn early in November.

- An earlier build up of deposits by potential BP investors, not reversed by the end of the month.

- An increase in building societies' bank deposits in anticipation of withdrawals (which did not take place) for the BP sale.

(ii) The reserves rose by £3.9 billion in October but this was partly offset in the public sector externals by overseas take up of gilts and Treasury bills of about £1.2 billion. With negligible domestic debt sales this gave a net public sector contribution to M3 of £1.8bn.

(iii) External transactions also contribute to the expansionary "other counterparts" (not broken down at this stage). Overseas residents increased their sterling deposits by around £2 billion. And the banks switched about £2.5 billion net out of sterling.

(iv) Bank sterling lending in October is depressed by £500 million by the unwinding of a loan associated with a foreign takeover in September. The lower figure may also reflect heavy foreign currency borrowing by the nbps £3.3 billion following a net reduction in borrowing of about £0.4 billion over the previous 4 months.

(v) Building societies disposed of around £.8 billion of gilts in October. This is reflected in the public sector contribution to M4 counterparts (£1.1 billion) being well below its contribution to M3 counterparts (£1.8 billion).

The regular note by the Bank on the figures is attached and a more detailed commentary on the money figures will be given in the Monthly Monetary Assessment.

Presentation

10. This section concentrates on seasonally adjusted MO, M3 and bank lending in line with commentators' practice.

11. The market has tended to focus on the bank lending figure in recent months. At £2.9 billion this is somewhat less than commentators are generally forecasting (an increase of £3.0-3.5 billion) and should be reasonably well received. Most commentators are expecting a fairly large increase in M3 in October (averaging around 2 per cent). The actual increase of 3.4 per cent is slightly higher than most forecasts but is unlikely to cause signficiant market reaction. It is generally accepted that it was right in the market conditions in October to have allowed some expansion in liquidity.

Press Briefing

12. The attached draft press briefing includes a general point to make if asked besides other factual, positive and defensive material. I should be grateful for comments on the press briefing first thing tomorrow Thursday 19 November. The Bank's draft press notice is also attached.

N I Holgate

N I HOLGATE

cc: Mr Norgrove No 10 (personal)

Bank of England

Mr George
Mr Mann (Financial Statistics Div)

Table 2

MONETARY AGGREGATES 1987-88

		FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT
MO	Averaged weekly									
	Monthly change (£ million)	-228	+115	+325	+42	-93	+423	+13	+14	-32
	Monthly % change	-1.5	+0.8	+2.2	+0.3	-0.6	+2.8	+0.1	+0.1	-0.2
		(-0.8)	(+0.4)	(+0.5)	(+0.4)	(+0.2)	(+1.2)	(+0.3)	(+0.8)	(+0.6)
	12 Monthly % change	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2	+5.5
M3	Monthly change (£ million)	+2,930	+6,797	+3,183	+3,245	+1,884	+4,212	+2,287	-1,759	+5,297
	Monthly % change	+1.9	+4.4	+2.0	+2.0	+1.1	+2.5	+1.3	+1.0	+3.0
		(+1.9)	(+2.8)	(+2.2)	(+1.4)	(+1.4)	(+2.2)	(+1.4)	(+1.5)	(+3.4)
	12 Monthly % change	+19.0	+19.0	+20.4	+18.8	+19.1	+20.8	+22.0	+19.5	+22.2
M4	Monthly change (£ million)	+2,456	+6,651	+3,535	+3,436	+4,019	5,278	+2,762	-3,054	+4,962
	Monthly % change	+0.9	+2.5	+1.3	+1.3	+1.4	+1.9	+1.0	+1.1	+1.7
		(+1.5)	(+1.7)	(+1.5)	(+0.9)	(+1.4)	(+1.5)	(+1.3)	(+1.2)	(+2.1)
	12 Monthly % change	+13.9	+13.9	+14.5	+13.6	+13.8	14.8	+15.5	+14.9	+15.7
M5	Monthly change (£ million)	+2,594	+6,945	+3,544	+4,108	+4,126	+5,339	+2,628	+3,151	+5,083
	Monthly % change	+0.9	+2.5	+1.2	+1.4	+1.4	+1.8	+0.9	+1.0	+1.7
		(+1.3)	(+1.9)	(+1.2)	(+1.6)	(+1.3)	(+1.7)	(+1.3)	(+0.5)	(+2.0)
	12 Monthly % change	+13.3	+13.4	+14.0	+13.4	+13.5	+14.3	+14.9	+14.3	+15.1
NIBMI	Monthly change (£ million)	+519	+1,058	+475	+1,168	+1,471	+99	-78	+398	+192
	Monthly % change	+1.3	+2.6	+1.2	+2.8	+3.4	+0.2	-0.2	+0.9	+0.4
		(+0.4)	(-0.9)	(-1.2)	(+2.2)	(+4.3)	(+0.3)	(+0.4)	(+0.7)	(+3.4)
	12 Monthly % change	+10.5	+10.3	+11.9	+12.1	+13.5	+12.4	+12.4	+6.1	+12.0
M1	Monthly change (£ million)	+392	+4,364	+705	+2,967	+2,102	+984	+1,163	+1,524	+2,679
	Monthly % change	+0.5	+5.8	+0.9	+3.7	+2.5	+1.2	+1.3	+1.7	+3.0
		(+0.1)	(+3.7)	(-0.3)	(+3.4)	(+2.8)	(+1.2)	(+1.7)	(+1.6)	(+4.6)
	12 Monthly % change	+21.2	22.5	+23.2	+23.7	+23.8	+22.5	+23.8	+20.3	+24.4
Net £ deposits from banks abroad		-845	-1,395	+724	+987	-946	+492	-954	-111	+1,271
Overseas non-bank £ deposits		+550	+742	-194	+765	-429	+490	+195	+37	+902
WIDER £ AGGREGATE										
	Monthly change (£ million)	+2,635	+6,144	+3,713	+4,997	+509	+5,194	+1,528	+1,685	+7,470
	Monthly % change	+1.5	+3.4	+2.0	+2.6	+0.3	+2.7	+0.8	+0.8	+3.7
		(+1.4)	(+2.0)	(+2.1)	(+2.2)	(+0.5)	(+2.4)	(+0.8)	(+1.2)	(+4.0)

NB Figures in brackets are seasonally adjusted.

SECRET AND PERSONAL

TABLE 3:PROVISIONAL BROAD MONEY COMPONENTS

	£ million	Growth in 12 months to September	
	OCTOBER	Monthly Rate	Percentage Increase
Notes and coins in circulation (nbps)	523	60	6.1
Bank deposits (nbps)			
Retail			
non-interest bearing	-331	150	6.1
interest bearing	538	490	14.2
Wholesale	4567	1700	32.0
Change in M3	5297	2400	19.6
Less building society holdings of M3	-1385	-420	62.0
Buildings society deposits (nbnbsps)			
Retail	1052	1100	11.7
Wholesale	-2	70	46.3
Change in M4	4962	3150	14.9
Money market instruments (nbnbsps)	65	-25	-6.0
National Savings Bank (nbnbsps)	56	70	9.3
Change in M5	5083	3200	14.3

nbnbsps = non-bank,non-building-society private sector

SECRET AND PERSONAL

TABLE 4 PROVISIONAL BROAD MONEY COUNTERPARTS

October 1987 (£ million)

	M3	M4	M5
1. PSBR	-999	-999	-999
2. Debt sales to private sector (-)			
Gilts	-18	-782	-782
Treasury bills	66	66	
National Savings	42	43	99
CTD's	-166	-97	
Other CG debt	6	6	6
LA and PC debt	-44	-98	-228
3. External finance of public sector (-)	2929	2929	2929
4. Public sector contribution (1+2+3)	1816	1068	1025
5. Sterling lending to private sector	2897	4055	4219
6. Externals	480	367	367
7. £NNDLs	104	-528	-528
8. Total change (4+5+6+7)	5297	4962	5083
(Percentage change)	(3.0)	(1.7)	(1.7)

Average growth 12 months to September 1987 (£ million)

	M3	M4	M5
1. PSBR	-80	-80	-80
2. Debt sales to private sector (-)			
Gilts	10	-100	-100
Other public debt	30	-150	-120
3. External finance of public sector (-)	20	20	20
4. Public sector contribution (1+2+3)	-20	-310	-280
5. Sterling lending to private sector	3110	4440	4460
6. Externals	-290	-390	-390
7. £NNDLs	-400	-590	-590
8. Total change (4+5+6+7)	2400	3150	3200
(Percentage change)	(1.5)	(1.2)	(1.1)

Footnotes (see overleaf)

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 19 NOVEMBER 1987

MONEY SUPPLY IN OCTOBER: PRESS BRIEFING

of late October/ early Nov:

A. POINT TO MAKE IF ASKED - as Chancellor has indicated (factual (iv) (e)-(h)) was clearly right in ~~current~~ market circumstances both to reduce interest rates and to allow some expansion in liquidity.

B. FACTUAL

(i) **Changes in main monetary aggregates**

	MO	M3	M4	M5
	per cent			
Annual growth rate	+5.5	+22.2	+15.7	+15.1
one month change	-0.2	+ 3.0	+ 1.7	+ 1.7
	(+0.6)	(+ 3.4)	(+ 2.1)	(+2.0)

(figures in brackets seasonally adjusted)

(ii) **M3**

- Reserves - external influences including large increase in reserves boosted M3 significantly in October. The increase in the reserves will be sterilised over time but would not have been sensible given current market conditions to have extracted liquidity on a major scale (see factual (iv) (g) and (v)).

- BP M3 may also have been boosted temporarily by build up of liquidity associated with BP sale. Underwriters and, potential BP investors was due to pay £1.5 billion to the Government in early November and may have built up bank deposits in advance. BP received their £1.5 billion share of the proceeds of the sale late on last day of October some of which were placed by BP temporarily on deposit with banks.

- Bank lending lower than average of recent months: £2.9 billion (also £2.9 billion s.a.) compared to £3.2 billion (£3.4 billion s.a.) over previous 6 months. But October figure affected by the unwinding of a £500 million loan associated with takeover activity in September.

(iii) **M4**. Fact that M4 grew by less (in percentage terms) than M3, in part reflects a large switch by building societies out of gilts into bank deposits - perhaps in anticipation of withdrawals for BP sale which did not, in the event, take place. The switch out of gilts shows up in the lower public sector contribution to M4 (£1.1 billion) compared to M3 (£1.8 billion).

(iv) **Monetary Policy - Recent Statements**

(a) **Chancellor's speech to CBI annual dinner 19 May**

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) **Chancellor's speech to FHA annual dinner, 17 June**

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"... the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(c) **Chancellor in press briefing on Washington IMF/World Bank meeting 30 September**

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining exchange rate stability".

eh?

(d) **Chancellor in interview on future economic claims (BBC Radio 4, Today, 7 October)**

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(e) **Effect of fall in equity prices on monetary conditions, Chancellor's statement on financial situation 27 October.** "The sharp falls in share price throughout the world over the past fortnight will tighten monetary conditions somewhat and are likely to have a dampening effect on world demand".

(f) **Chancellor on ½ per cent cuts in interest rates on 23 October and 4 November (Mansion House Speech, 4 November)**

"What is needed in the world today, above all, is the avoidance of any major blow to industrial confidence.
It was not the 1929 crash that caused the depression of the 1930s, but the policy response to it: the failure to provide adequate liquidity to the system,

leading to a rash of bank failures, which in turn led to further monetary tightening ... For our part, I moved at an early stage to reverse half of August's rise in interest rates, not simply because some reduction was appropriate in the changed circumstances, though it was.

But I also felt it right, in the light of what was undoubtedly a shock, to signal clearly that the authorities were sensitive to the dangers that some might understandably fear.

Today I decided it was right to act again and reverse the other half."

(g) **Chancellor on liquidity and exchange rate intervention (Mansion House Speech, 4 November)**

"To prevent there being excessive liquidity in the economy, our policy is to ensure that, over time, any net intervention is sterilized - in other words, fully funded.

And that will be done, as and when appropriate, although not necessarily entirely within the financial year in which the intervention takes place.

In particular, while the funding programme will continue, it would clearly not be sensible in the present delicate market conditions to extract liquidity on a major scale."

(h) **Chancellor on reasons for cuts in interest rates** (Interview with Financial Times, 10 November)

"The Chancellor said the first half-point cut in British interest rates after the stock market fall last month had been decided upon for wholly domestic reasons. The second, announced last week, was determined after consultation with his international partners, but Mr Lawson said that he would have gone ahead in any case."

(i) **Chancellor on exchange rate stability (Mansion House Speech, 4 November)**

"Nor, however, should there be any doubt of our committtment to maintain a stable exchnage rate, with the rate against the deutschmark being of particular importance. It gives industry most of what it wants and provides a firm anchor against inflation."

(v) **Funding:** underfund in October of around £1.8 billion. Underfund of PSBR so far in this financial year around £3.8 billion. PSBR April/October 1987 about £0.4 billion; debt sales outside monetary sector and external finance of public sector minus £3.4 billion.

C. POSITIVE

(i) **Commitment:** Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation.

(ii) **Sterling.** Commitment to continue to maintain stability (see factual (iv) (i)).

D. DEFENSIVE

(i) **Growth in M3 in October presages upsurge in inflation?** Stable and firm exchange rate against DM scarcely suggests resurgence of inflationary pressures. But continue to watch all indicators (see also factual (ii)).

(ii) **Why were interest rates lowered?** See factual (iv) (f).

(iii) **Is there scope for international (G7) concerted action on interest rates?** The Chancellor said in his Mansion House speech that if a significant fall in the US budget deficit is agreed soon a wider international accord could follow involving a reduction in interest rates.

(iv) **Are further cuts on the way?** ~~Unhelpful to speculate.~~ Wait and see.

(v) **Interest rates solely driven by exchange rates?** Not at all. Interest rates continue to be set in the light of a range of factors affecting financial conditions. But period of stability for sterling of benefit both to industry and as firm counter-inflationary anchor (see factual (iv) (i)).

(iv) **Growth of credit/liquidity inflationary?** Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. And in current market circumstances, sensible to allow some expansion in luqidity. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has demonstrated that willnot hesitated to act if necessary.

(vii) **Consumer credit boom?**

- No evidence that rate of lending to consumers accelerating in recent months.

- Vast bulk of personal borrowing takes form of mortgages, which represented over ¾ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).

(viii) **Role of MO?** MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

(ix) **Role of exchange rate.** Policy of maintaining ~~Commitment to maintain~~ a stable exchange rate, with rate against deutschemark of particular importance. ~~Balance, however, must continue to be struck between exchange rate and domestic monetary indicators~~ This is consistent with aims for money GDP and inflation.

(x) **Role of broad money.** With changes in financial practices, no simple relationship between broad money growth and money GDP. Government therefore decided should be no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions.

(xi) **Funding policy.** Aim remains in general to fund PSBR fully over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur; and foreign exchange intervention not necessarily fully funded within financial year - see factual (ii) (g)).

0031B **SECRET** 18.11.87

THE GOVERNOR'S PRIVATE SECRETARY HO-P
THE DEPUTY GOVERNOR HO-P
MR GEORGE HO-P
MR LOEHNIS HO-P
MR COLEBY HO-P
MR FLEMMING HO-P

Economics Division
MR TAYLOR HO-4
MR MIDGLEY HO-4
MR SHEPPARD HO-4

From: C R Mann

Financial Statistics Division
MR BULL BB-1
MR PENNINGTON BB-1
MR THORP BB-1
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MR KELLY
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MR PERETZ

PRESS STATEMENT: OCTOBER BANKING AND MONEY FIGURES
£ million

1 The preliminary monetary aggregates press release for calendar October will be published by the Bank at 11.30 am on Thursday. A copy of the press release is attached. It covers M0, M3, M4 and M5, and counterparts to M3, M4 and M5. Figures for member bank groups will be published by the CLSB at the same time. The full banking and money supply figures will be published on Monday, 30 November.

2 Attention is likely to focus on the effects of the increase in the reserves, especially on M3, but commentators may also try to discern the effects of the BP sale and the stock market collapse. The increase in the 12-month growth rate of M0 may also attract some comment.

The aggregates

3 The growth rates of the main aggregates are summarised below.

% changes		M0 (1)	M1	M2	M3	M4	M5
Oct	(nsa)	-0.2	+ 3.0	+0.5	+ 3.0	+ 1.7	+ 1.7
	(sa)	+0.6	+ 4.6	+1.1	+ 3.4	+ 2.1	+ 2.0
12 months to							
Oct	(nsa)	+5.5	+24.4	+9.8	+22.2	+15.7	+15.1
	(sa)	+5.6	+25.2	+9.8	+22.9	+15.7	+15.1
12 months to							
Sept	(nsa)	+5.2	+20.3	+10.0	+19.6	+14.9	+14.3
	(sa)	+4.9	+20.1	+ 9.5	+19.9	+14.7	+14.1

(1) Calculated as an average of Wednesdays in the month.

The target for M0 set in the Budget is 2%-6%.

4 There are several points to note about these figures.

(a) The seasonal adjustments have been revised in the annual update; the press release draws attention to this and gives runs of old and new figures for the major aggregates for the year to September. (This might prompt outsiders to ask whether the group set up to review the methods of seasonal adjustment - referred to in the December 1986 Bulletin - has reached a conclusion. The answer is "no". This update has been conducted using the existing methodology).

(b) The increase since last month in the 12 month growth rate of M0 is attributable to bankers' balances, which were at an unusually low level in October 1986 and are slightly above average now. The 12 month growth rate of notes and coin is +5.1%, and this is closer to the underlying growth rate of M0.

(c) Within M3, the increase comprised 1,240 (s/a) of non-interest-bearing sight deposits (an unusually large increase) and 4,510 (s/a) of interest-bearing deposits (both sight and time showing large increases).

(d) Bank deposits are likely to have been affected by several factors:

(i) The huge increase in the reserves, the result of intervention. When the authorities intervene by buying foreign currencies, they usually need to create sterling to sell, either by borrowing in sterling from the nbps and overseas, or by borrowing from the banks. In the latter case, the nbps and overseas residents acquire bank deposits (ie the banks' balance sheet expands, with more sterling deposit liabilities to nbps and overseas, and more sterling asset claims on the central government). To the extent that the nbps acquired sterling deposits in this way, M3 is inflated (see para 7 below for more details).

(ii) Payment of £1.5 bn to BP by the central government (ie BP's share of the proceeds of the sale). The PSBR press release revealed the size of this payment; what it did not reveal is that the payment was made only hours before the month-end and the proceeds were placed by BP temporarily on deposit with banks.

(iii) Would-be BP investors, having decided not to apply, holding their funds on deposit prior to their disbursement.

(iv) The UK underwriters to BP, expecting to make a payment of £1.5 bn in early November, might have been building up bank deposits at end-October.

(v) Building societies built up their bank deposits by 620 (s/a), perhaps as a precautionary measure in anticipation of withdrawals for the BP sale.

(vi) The jump in the 12-month growth rate of M3 between September and October is partly due to the large rise in October itself, but also reflects the unwinding of a temporary distortion last month (due in turn to the artificially high level of M3 at end-September 1986 at the time of the TSB sale). The 12-month growth rate in October is in fact almost the same as it was in August.

(e) The building societies inflow was weak (after seasonal adjustment - October's inflows are usually strong). But this may have been the result of potential BP investors withdrawing funds; there are signs that inflows picked up strongly after the BP sale. Some funds may also have been switched to societies from unit trusts towards the end of the month.

Counterparts

5 The exact definition of "overfunding" is under review. Corresponding to each of the main aggregates M3, M4 and M5 there is an overfunding definition. In the case of M3, all public sector debt sales, except those to banks, are offset against the PSBR in the calculation of funding; in the case of M4, debt sales

building societies are further excluded, and in the case of M5, certain other sales of debt are excluded. Figures on all three bases are quoted in the press release (and have been for some time, although hitherto attention has focussed on the M3 definition).

6 Among the counterparts to broad money, only sterling lending is published in seasonally adjusted form. The PSBR in October was -1,000 (ie a surplus), mainly due to a CG surplus and repayment of LA borrowing. The public sector surplus would have been larger but for the BP sale which resulted in net expenditure by the CG; BP were paid £1.5 bn, but only £0.9 bn was received from the BP sale in October - the bulk of the proceeds will be received in November. (Seasonally adjusted - not published - there was a public sector surplus of 200 in the month). On the financing side, the non-bank private sector increased its gilt holdings by 20 (within which the building societies sold 760 - effectively running down the purchases made in the previous five months), the overseas sector bought 850 and the banks made unusually large purchases of 620; together these more than accounted for official sales of 1,470. The reserves rose by 3,890, but the large overseas take-up of gilts (and 310 of Treasury bills) meant that external transactions contributed in total some £3.0 billion to underfunding. The funding calculations stand as follows:

October,	£ million	Counterparts to: M3	M4	M5
A	PSBR (u/a)	- 999	- 999	- 999
B	CG debt sales (-) to non-bank (non-building society*) private sector (u/a)	- 70	- 764*	- 677*
C	LA & PC debt sales (-) to non-bank (non-building society*) private sector (u/a)	- 44	- 98*	- 228*
D	External and FC finance of public sector (u/a)	+2,929	+2,929	+2,929
A+B+C+D	Overfunding (-) (u/a)	+1,816	+1,068	+1,025
	(s/a)	+2,557	+1,793	+1,685
Cumulative Overfunding (-)				
	April - October (u/a)	+3,819	+2,579	+3,271
	(s/a)	+3,279	+1,965	+2,461

7 Within the "other" counterparts to M3 (published as a single figure, +£0.6 billion, in the provisional press release), the banks' sterling transactions with overseas residents were contractionary by about £2.0 billion (ie in net terms overseas residents deposited more in sterling with the banks than they borrowed - this is not unexpected, given the size of the intervention by the authorities). But the banks switched about £2.5 billion out of (spot) sterling. The latter, in itself, is an expansionary influence on money, as if the banks had sold sterling to the private sector in exchange for foreign currency deposits or CDs. In total the banking external counterparts (not published) were +480 and sterling net non-deposit liabilities (not published) were +100. The breakdown of the external counterparts to M3 (both public and private) is shown below:

A	Increase (+) in the (spot) reserves	+3,890
B	Increase (-) in overseas holdings of gilts	- 853
C	TBs	- 305
D	Other public sector external & FC transactions	+ 197
E=A+B+C+D=	External & FC finance of public sector	+2,929
F	Overseas residents' net increase (-) in £ deposits	-2,028
G	UK residents net increase (+) in FC borrowing from UK banks	+1,672
H	Banks' net increase (+) in other FC assets (spot)	+ 836
I=F+G+H =	External and FC transactions of UK banks	+ 480
J=E+I =	Total External and FC counterparts to M3 (+ = expansionary for M3, ie tending to increase nbps sterling deposits)	+3,409

Bank lending

8 The seasonally adjusted figure of 2,860 in bank lending is modest only when compared with recent months; bank lending follows an erratic path, and its unadjusted 12-month growth rate still stands at 22.8%. Foreign currency borrowing by the nbps

[illegible]s surged again (by 3,280) compared with falls of about £0.1 bn per month on average in the period June-September. There is a parallel here with the period of intervention in March-May when foreign currency borrowing rose by an average of £2.5 bn per month. If sterling and foreign currency borrowing are taken together, the increase was £6.1 bn in October, compared with an average of £3.9 bn per month over June-September and £4.8 bn per month over March-May. October's figures contain little comfort.

9 We know that in recent months there has been a number of major temporary loans to corporate borrowers to provide finance for takeovers; typically these loans are repaid when long-term capital finance is arranged. But we usually learn only of the largest of such loans, and we often notice only the original loan (which tends to be large) and not the repayments (which may be smaller, being spread over several months). It is likely that such borrowing has added to the stock of sterling borrowing in recent months, though the amount and the timing are not clear. In particular we know of a large new loan in September (+500) that unwound in October, and of two loans in October (of the order of 100 and 200 respectively) that seem to be related to takeovers and acquisitions. Thus, identified lending of this type has depressed the October sterling bank lending figure. We also know of two large currency loans in October (totalling 720) associated with overseas takeovers, but we do not know when and if they will unwind.

10 Looking at the composition of bank lending by instrument, most of the increase in October was in loans and advances (as has been the case over the last five months taken together). Much of the new advances in sterling in October (about £0.8 bn) took place outside the CLSB bank groups and we know very little about its composition. The CLSB increase in sterling lending was £1.7 bn. The detailed analysis shows some 730 of lending to persons for house purchase (in line with the trend established over the last five months) and 160 of lending to persons for consumption (a modest figure). Other notable large increases are 200 to "other manufacturing", 250 to "other retail distribution" and 140 to "hotels and catering", and, within the financial sector, 230 to leasing companies and 300 to "other" financial companies. We cannot read any particular significance in these movements (beyond the loans associated with takeovers - para 9).

1 The CLSB analysis also sheds some light on foreign currency lending; the CLSB contributed £1.5 bn to the £3.3 bn increase. We have identified 720 associated with takeovers (see para 9), and other notable large increases are 420 to "investment and unit trusts, etc" and 310 to "insurance companies and pension funds", (two categories where hedging activity might be expected - we know of 200 clearly attributable to hedging).

12 Building society lending rose by 1,470 (s/a), somewhat above the average of recent months. [But looking at the last year as a whole, the dominant feature is a growth in the market share of the banks at the expense of the societies. Total new lending for house purchase (including an estimate for lending by other institutions such as mortgage finance vehicles, independent mortgage lenders, insurance companies, local authorities, etc) is likely to be <u>less</u> in 1987 Q3 than it was in the same quarter of 1986.]

Stock Market Callapse

13 Although this occurred in October we see little sign of it in the banks' and building societies' balance sheets. We would not expect many signs to show until after the end of October, since the Stock Exchange settlement day was 2 November.

Financial Statistics Division BB-1
18 November 1987

C R Mann (4427) CRM

SECRET until 11.30am, 19.11.87.

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: OCTOBER 1987

1 Provisional information suggests the following:

% changes	M0	M3	M4	M5
12 months to October (not seasonally adjusted)	+5.5	+22.2	+15.7	+15.1
October - not seasonally adjusted	-0.2	+ 3.0	+ 1.7	+ 1.7
seasonally adjusted	+0.6	+ 3.4	+ 2.1	+ 2.0

2 Provisional counterparts to the changes in M3, M4 and M5 are:

£ billion, not seasonally adjusted	M3 Oct	M3 Latest 12 months	M4 Oct	M4 Latest 12 months	M5 Oct	M5 Latest 12 months
A PSBR	-1.0	- 1.8	-1.0	- 1.8	-1.0	- 1.8
B debt sales to private sector(-)(1)	-0.1	+ 1.5	-0.8		-0.9	
C external flows to public sector(-)	+2.9	+ 3.6	+2.9		+2.9	
D public sector contribution (A+B+C)	+1.8	+ 3.3	+1.1		+1.0	
E sterling lending(2)	+2.9	+37.0	+4.1	+52.1(4)	+4.2	+52.6(4)
F other counterparts(3)	+0.6	- 7.5	-0.2		-0.1	
Total (D+E+F)	+5.3	+32.8	+5.0	+40.1	+5.1	+40.8
Sterling lending (seasonally adjusted)	+2.9		+4.0		+4.1	
(average of previous 6 months)	+3.4		+4.7		+4.7	

(1) Sales of public sector debt to the private sector other than banks (and, for M4 and M5, building societies), with an adjustment in the case of M5 for private holdings of certain liquid government debt.

(2) Lending by the monetary sector (and, for M4 and M5, by building societies) to the rest of the private sector. For M5, an adjustment is necessary for private holdings of certain money-market instruments etc.

(3) External and foreign currency transactions and net non-deposit liabilities of banks (and, for M4 and M5, of building societies).

(4) Partly estimated. It is not possible to calculate all the counterparts over the last 12 months because full building society balance sheets for end-October 1986 are not available.

3 Within the October PSBR, privatisation proceeds were <u>expansionary</u> by £0.6 billion, comprising £1.5 billion paid to British Petroleum plc in respect of a purchase of new shares, offset by receipts of part of the first instalment from the sale of BP shares.

4 The figures incorporate the results of the annual review of the seasonal adjustments. Revised seasonally adjusted figures for earlier months are shown overleaf. Full money and banking figures, including more detail of the revised seasonally adjusted figures as well as revised estimates of the unadjusted figures given above, will be published on 30 November.

BANK OF ENGLAND
19 November 1987

SECRET until 11.30 am, 19.11.87.

REVISED SEASONAL ADJUSTMENTS:
COMPARISON OF 'OLD' AND 'NEW' SEASONALLY ADJUSTED SERIES

Transactions	M0		M3		M4		M5	
£mn	Old	New*	Old	New*	Old	New*	Old	New*
1986 Oct	− 1	2	166	1,371	1,640	3,070	1,537	3,010
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1986 Dec	215	219	250	657	622	1,273	306	1,431
1987 Jan	− 84	− 92	1,574	1,854	1,433	228	1,718	− 57
1987 Feb	−128	−120	3,431	2,889	3,621	3,906	3,573	4,131
1987 Mar	64	61	5,150	4,301	5,665	4,437	5,357	4,294
1987 Apr	66	77	2,980	3,445	3,653	4,047	3,332	3,740
1987 May	73	68	3,358	2,337	3,656	2,488	4,475	3,402
1987 Jun	28	24	1,707	2,313	3,540	3,992	3,891	4,228
1987 Jul	181	189	3,960	3,612	4,935	4,226	4,947	4,118
1987 Aug	52	39	2,631	2,395	4,003	3,809	3,975	3,642
1987 Sep	118	120	1,484	2,576	1,587	3,437	1,475	3,547

1 Mth % Changes

1986 Oct	0.0	0.0	0.1	0.9	0.6	1.2	0.6	1.1
1986 Nov	1.0	1.0	1.3	1.0	1.1	0.9	1.2	0.9
1986 Dec	1.4	1.5	0.2	0.4	0.2	0.5	0.1	0.5
1987 Jan	−0.6	−0.6	1.0	1.2	0.6	0.1	0.6	0.0
1987 Feb	−0.8	−0.8	2.3	1.9	1.4	1.5	1.3	1.5
1987 Mar	0.4	0.4	3.3	2.8	2.1	1.7	1.9	1.5
1987 Apr	0.4	0.5	1.9	2.2	1.4	1.5	1.2	1.3
1987 May	0.5	0.4	2.1	1.4	1.3	0.9	1.6	1.2
1987 Jun	0.2	0.2	1.0	1.4	1.3	1.4	1.3	1.4
1987 Jul	1.2	1.2	2.4	2.2	1.8	1.5	1.7	1.4
1987 Aug	0.3	0.3	1.5	1.4	1.4	1.3	1.3	1.2
1987 Sep	0.8	0.8	0.8	1.5	0.5	1.2	0.5	1.2

STERLING LENDING

Transactions	M3 counterpart		M4 counterpart		M5 counterpart	
£mn	Old	New*	Old	New*	Old	New*
1986 Oct	3,486	3,445				
1986 Nov	3,838	3,374				
1986 Dec	3,125	3,599				
1987 Jan	1,771	1,640	3,198	3,057	3,403	3,146
1987 Feb	2,880	2,705	4,146	3,892	4,117	3,855
1987 Mar	2,082	2,470	2,965	3,384	3,206	3,610
1987 Apr	1,973	2,202	3,702	3,904	3,760	3,951
1987 May	2,650	2,502	3,869	3,746	4,178	4,061
1987 Jun	3,931	3,979	5,476	5,595	5,316	5,428
1987 Jul	4,877	4,530	5,712	5,513	5,746	5,572
1987 Aug	2,189	2,653	3,286	3,777	3,339	3,832
1987 Sep	4,387	4,330	5,891	5,747	5,653	5,512

*The 'new' series include some minor revisions to unadjusted data.

Phoned through. Note will cover.

M. 11/11

Thanks. PNP

CHANCELLOR OF THE EXCHEQUER

Presumably the high M3 growth largely reflects massive intervention.

Ch/

MONEY SUPPLY FIRST GUESS

<u>M3 monthly:</u>

unadjusted	2.7 – 3.5 %
seas. adjusted	3.1 – 3.9 %
<u>M3 12 month</u>	21.8 – 22.6 %

<u>Actual change in September</u>

£5.4 billion unadjusted

£6.1 billion seas. adjusted

of which:

bank lending £1.4 – 3.4 billion

External foreign currency finance

£2.9 billion unadjusted

£2.8 billion adjusted.

MPW 10/11

45/024

CONFIDENTIAL PMP

FROM: T PIKE

DATE: 19 November 1987

1. MR GRICE JWG 19.11.87

2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz
Mrs Lomax
Mr C W Kelly
Miss O'Mara
Mr Bottrill
Ms Ryding
Mr Westaway
Ms Bronk

M0 FIGURES

The latest weekly figures for M0, covering the third week of November, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 4.8 per cent (4.8 per cent not seasonally adjusted). The annualised growth rate of notes and coin in the three months to the latest four week period is 7¾ per cent.

T. Pike

T PIKE

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets) Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month Notes (sa) and coin	MO (sa)	% change on year earlier Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+ 91)	235	15,506	15,401	(+189)	+0.6	-1.2	+4.7	+4.8	+5.3	+5.5
August	15,337	15,258	(+ 92)	182	15,519	15,440	(+39)	+0.6	-0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.1	+5.2	+5.0
October	15,299	15,457	(+81)	202	15,500	15,659	(+99)	+0.5	+0.6	+5.1	+5.1	+5.5	+5.6
November† (3 of 4)	15,335	15,515	(+55)	182	15,517	15,697	(+38)	+0.4	+0.2	+4.6	+4.8	+4.7	+4.8
Latest 4 weeks†	15,334	15,512	(+84)	187	15,521	15,699	(+ 89)	+0.5	+0.6	+4.9	+4.9	+4.8	+4.8

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
October						
7th	15,435	(+42)	190	15,625	(+111)	+0.7
14th	15,418	(-17)	192	15,610	(-15)	-0.1
21st	15,467	(+49)	223	15,690	(+80)	+0.5
28th	15,503	(+36)	202	15,705	(+15)	+0.1
November †						
4th	15,512	(+9)	128	15,640	(-65)	-0.4
11th	15,513	(+1)	225	15,738	(+98)	+0.6
18th	15,521	(+8)	193	15,714	(-24)	-0.2

† 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.

ps2/22M SECRET

pmp

FROM: MISS M P WALLACE
DATE: 19 November 1987

MR HOLGATE

cc Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Peretz
Mr R I G Allen
Mr Kelly
Mr Grice
Mr Pike
Mrs Ryding
Mr Cropper

PROVISIONAL MONEY FIGURES - OCTOBER

The Chancellor has seen your minute of 18 November, and has the following comments on the draft press briefing:

- A. POINT TO MAKE IF ASKED - "... clearly right in market circumstances of late October/early November both to reduce interest rates ...";
- B. FACTUAL, (iv)(d) - is "claims" right?
- D. DEFENSIVE (iv) - answer to read "Wait and see.";
- DEFENSIVE (ix) - Answer to read: "Policy of maintaining a stable exchange rate, with rate against deutschemark of particular importance. This is consistent with aims for money GDP and inflation."

MPW.

MOIRA WALLACE

SECRET AND PERSONAL
UNTIL 11.30 AM THURSDAY 19 NOVEMBER 1987

PMP.

FROM: N I HOLGATE

DATE: 19 November 1987

MR R I G ALLEN

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
Mrs Ryding
Mr Pike/Ms Bronk
Mr Cropper
Press Office (x6)

OCTOBER: PROVISIONAL MONEY FIGURES

I attach the press briefing for today's provisionals. This is as circulated under cover of my minute of 18 November apart from amendments to defensive (vi) and (ix). (iv)

2. There have been no changes to the main figures circulated in my minute of 18 November.

3. I also attach the Bank's Press Notice and the regular monthly statement of the London and Scottish Banks (which helpfully explains the rise in M3). Questions on this should be directed to the CLSB press office (01-626-8486).

N I Holgate

N I HOLGATE

SECRET AND PERSONAL
UNTIL 11.30 AM THURSDAY 19 NOVEMBER 1987

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 19 NOVEMBER 1987

MONEY SUPPLY IN OCTOBER: PRESS BRIEFING

A. POINT TO MAKE IF ASKED - as Chancellor has indicated (factual (iv) (e)-(h)) was clearly right in market circumstances of late October/early November both to reduce interest rates and to allow some expansion in liquidity.

B. FACTUAL

(i) **Changes in main monetary aggregates**

	M0	M3	M4	M5
		per cent		
Annual growth rate	+5.5	+22.2	+15.7	+15.1
one month change	-0.2	+ 3.0	+ 1.7	+ 1.7
	(+0.6)	(+ 3.4)	(+ 2.1)	(+2.0)

(figures in brackets seasonally adjusted)

(ii) **M3**

- Reserves - external influences including large increase in reserves boosted M3 significantly in October. The increase in the reserves will be sterilised over time but would not have been sensible given current market conditions to have extracted liquidity on a major scale (see factual (iv) (g) and (v)).

- BP M3 may also have been boosted temporarily by build up of liquidity associated with BP sale. Underwriters and, potential BP investors was due to pay £1.5 billion to the Government in early November and may have built up bank deposits in advance. BP received their £1.5 billion share of the proceeds of the sale late on last day of October some of which were placed by BP temporarily on deposit with banks.

- Bank lending lower than average of recent months: £2.9 billion (also £2.9 billion s.a.) compared to £3.2 billion (£3.4 billion s.a.) over previous 6 months. But October figure affected by the unwinding of a £500 million loan associated with takeover activity in September.

(iii) **M4**. Fact that M4 grew by less (in percentage terms) than M3, in part reflects a large switch by building societies out of gilts into bank deposits - perhaps in anticipation of withdrawals for BP sale which did not, in the event, take place. The switch out of gilts shows up in the lower public sector contribution to M4 (£1.1 billion) compared to M3 (£1.8 billion).

(iv) **Monetary Policy - Recent Statements**

(a) **Chancellor's speech to CBI annual dinner 19 May**

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) **Chancellor's speech to FHA annual dinner, 17 June**

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"... the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate has to be such as to maintain downward pressure on inflation."

(c) <u>Chancellor in press briefing on Washington IMF/World Bank meeting 30 September</u>

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining exchange rate stability".

(d) <u>Chancellor in interview on future economic prospects (BBC Radio 4, Today, 7 October)</u>

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(e) <u>Effect of fall in equity prices on monetary conditions, Chancellor's statement on financial situation 27 October</u>

"The sharp falls in share price throughout the world over the past fortnight will tighten monetary conditions somewhat and are likely to have a dampening effect on world demand".

(f) <u>Chancellor on ½ per cent cuts in interest rates on 23 October and 4 November (Mansion House Speech, 4 November)</u>

"What is needed in the world today, above all, is the avoidance of any major blow to industrial confidence.
It was not the 1929 crash that caused the depression of the 1930s, but the policy response to it: the failure to provide adequate liquidity to the system,

leading to a rash of bank failures, which in turn led to further monetary tightening ... For our part, I moved at an early stage to reverse half of August's rise in interest rates, not simply because some reduction was appropriate in the changed circumstances, though it was.
But I also felt it right, in the light of what was undoubtedly a shock, to signal clearly that the authorities were sensitive to the dangers that some might understandably fear.
Today I decided it was right to act again and reverse the other half."

(g) **Chancellor on liquidity and exchange rate intervention (Mansion House Speech, 4 November)**

"To prevent there being excessive liquidity in the economy, our policy is to ensure that, over time, any net intervention is sterilized - in other words, fully funded.
And that will be done, as and when appropriate, although not necessarily entirely within the financial year in which the intervention takes place.
In particular, while the funding programme will continue, it would clearly not be sensible in the present delicate market conditions to extract liquidity on a major scale."

(h) **Chancellor on reasons for cuts in interest rates (Interview with Financial Times, 10 November)**

"The Chancellor said the first half-point cut in British interest rates after the stock market fall last month had been decided upon for wholly domestic reasons. The second, announced last week, was determined after consultation with his international partners, but Mr Lawson said that he would have gone ahead in any case."

(i) **Chancellor on exchange rate stability (Mansion House Speech, 4 November)**

"Nor, however, should there be any doubt of our committment to maintain a stable exchange rate, with the rate against the deutschmark being of particular importance. It gives industry most of what it wants and provides a firm anchor against inflation."

(v) **Funding:** underfund in October of around £1.8 billion. Underfund of PSBR so far in this financial year around £3.8 billion. PSBR April/October 1987 about £0.4 billion; debt sales outside monetary sector and external finance of public sector minus £3.4 billion.

C. POSITIVE

(i) **Commitment:** Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation.

(ii) **Sterling.** Commitment to continue to maintain stability (see factual (iv) (i)).

D. DEFENSIVE

(i) **Growth in M3 in October presages upsurge in inflation?** Stable and firm exchange rate against DM scarcely suggests resurgence of inflationary pressures. But continue to watch all indicators (see also factual (ii)).

(ii) **Why were interest rates lowered?** See factual (iv) (f).

(iii) **Is there scope for international (G7) concerted action on interest rates?** The Chancellor said in his Mansion House speech that if a significant fall in the US budget deficit is agreed soon a wider international accord could follow involving a reduction in interest rates.

(iv) **Are further cuts on the way?** Wait and see.

(v) **Interest rates solely driven by exchange rates?** Not at all. Interest rates continue to be set in the light of a range of factors affecting financial conditions. But period of stability for sterling of benefit both to industry and as firm counter-inflationary anchor (see factual (iv) (i)).

(vi) **Growth of credit/liquidity inflationary?** Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. And in current market circumstances, sensible to allow some expansion in liquidity. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has demonstrated that will not hesitated to act if necessary.

(vii) **Consumer credit boom?**

- No evidence that rate of lending to consumers accelerating in recent months.

- Vast bulk of personal borrowing takes form of mortgages, which represented over ¾ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).

(viii) **Role of MO?** MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

(ix) **Role of exchange rate**. Policy of maintaining a stable exchange rate, with rate against deutschemark of particular importance. This is consistent with aims for money GDP and inflation.

(x) **Role of broad money**. With changes in financial practices, no simple relationship between broad money growth and money GDP. Government therefore decided should be no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions.

(xi) **Funding policy**. Aim remains in general to fund PSBR fully over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur; and foreign exchange intervention not necessarily fully funded within financial year - see factual (ii) (g)).

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B debt sales to private sector(-)(1)	-0.1	+ 1.5	-0.8		-0.9	
C external flows to public sector(-)	+2.9	+ 3.6	+2.9		+2.9	
D public sector contribution (A+B+C)	+1.8	+ 3.3	+1.1		+1.0	
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F other counterparts(3)	+0.6	- 7.5	-0.2		-0.1	
Total (D+E+F)	+5.3	+32.8	+5.0	+40.1	+5.1	+40.8
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(average of previous 6 months)	+3.4		+4.7		+4.7	

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4 The figures incorporate the results of the annual review of the seasonal adjustments. Revised seasonally adjusted figures for earlier months are shown overleaf. Full money and banking figures, including more detail of the revised seasonally adjusted figures as well as revised estimates of the unadjusted figures given above, will be published on 30 November.

BANK OF ENGLAND
19 November 1987

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1987 Apr	66	77	2,980	3,445	3,653	4,047	3,332	3,740
1987 May	73	68	3,358	2,337	3,656	2,488	4,475	3,402
1987 Jun	28	24	1,707	2,313	3,540	3,992	3,891	4,228
1987 Jul	181	189	3,960	3,612	4,935	4,226	4,947	4,118
1987 Aug	52	39	2,631	2,395	4,003	3,809	3,975	3,642
1987 Sep	118	120	1,484	2,576	1,587	3,437	1,475	3,547
1 Mth % Changes								
1986 Oct	0.0	0.0	0.1	0.9	0.6	1.2	0.6	1.1
1986 Nov	1.0	1.0	1.3	1.0	1.1	0.9	1.2	0.9
1986 Dec	1.4	1.5	0.2	0.4	0.2	0.5	0.1	0.5
1987 Jan	-0.6	-0.6	1.0	1.2	0.6	0.1	0.6	0.0
1987 Feb	-0.8	-0.8	2.3	1.9	1.4	1.5	1.3	1.5
1987 Mar	0.4	0.4	3.3	2.8	2.1	1.7	1.9	1.5
1987 Apr	0.4	0.5	1.9	2.2	1.4	1.5	1.2	1.3
1987 May	0.5	0.4	2.1	1.4	1.3	0.9	1.6	1.2
1987 Jun	0.2	0.2	1.0	1.4	1.3	1.4	1.3	1.4
1987 Jul	1.2	1.2	2.4	2.2	1.8	1.5	1.7	1.4
1987 Aug	0.3	0.3	1.5	1.4	1.4	1.3	1.3	1.2
1987 Sep	0.8	0.8	0.8	1.5	0.5	1.2	0.5	1.2

STERLING LENDING

Transactions	M3 counterpart		M4 counterpart		M5 counterpart	
£mn	Old	New*	Old	New*	Old	New*
1986 Oct	3,486	3,445				
1986 Nov	3,838	3,374				
1986 Dec	3,125	3,599				
1987 Jan	1,771	1,640	3,198	3,057	3,403	3,146
1987 Feb	2,880	2,705	4,146	3,892	4,117	3,855
1987 Mar	2,082	2,470	2,965	3,384	3,206	3,610
1987 Apr	1,973	2,202	3,702	3,904	3,760	3,951
1987 May	2,650	2,502	3,869	3,746	4,178	4,061
1987 Jun	3,931	3,979	5,476	5,595	5,316	5,428
1987 Jul	4,877	4,530	5,712	5,513	5,746	5,572
1987 Aug	2,189	2,653	3,286	3,777	3,339	3,832
1987 Sep	4,387	4,330	5,891	5,747	5,653	5,512

*The 'new' series include some minor revisions to unadjusted data.

PRESS INFORMATION from Banking Information Service

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MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS
OCTOBER 1987

Sterling advances to the U.K. private sector by the C.L.S.B. groups rose by £1,682 million in October. After adjustment for seasonal factors and for transit items, the underlying increase was of the order of some £1,850 million, compared with the recent monthly average of around £2,300 million. Bill finance was probably fairly flat again this month, with C.L.S.B. bill holdings and also acceptances both little changed. There was, however, an unusually large increase in lending in foreign currency.

The analysis of advances, which is not seasonally-adjusted, shows that one half of the sterling advances was accounted for by lending to persons. Lending for house purchase rose by £727 million (of which bridging £29 million), much in line with recent months, but the increase in other personal lending (£156 million) was the smallest rise since February, caused partly by a fall in credit card credit of over £40 million. Other significant movements included manufacturers (+£321 million, and also some bill finance), retailers (+£246 million, presumably stock-building for Christmas), "other financial" (+£303 million) and leasing companies (+232 million); "other services" repaid net £258 million. The foreign currency lending was accounted for by hotels and catering (largely for overseas investment) and by financial companies, particularly investment and unit trusts.

Within the banks' other assets, lending to the L.D.M.A. rose by £825 million, holdings of gilts by £374 million and the half-yearly adjustment to cash ratio deposits increased them by £60 million to £578 million.

On the liabilities side of the balance sheet, there was a large increase in U.K.

private sector deposits of £3,855 million. After adjustment for seasonal factors and for transit items, the underlying rise was approximately £4,500 million, compared with the recent monthly average rise of around £1,500 million. The most likely explanations for this unusually large increase were the effects of the BP issue and the large amount of intervention by the authorities in the foreign exchange market. The lack of public interest in the BP issue no doubt accounted for rather larger increases in both the high interest personal accounts and in 7-day deposit accounts, which together attracted some £350 million more than in recent months. Most of the increase, however, came from wholesale sources. This may well have reflected a build-up of deposits by underwriters to the BP issue in anticipation of their commitments; deposits from building societies, who were unexpectedly liquid following the lack of public interest in the issue; and companies converting foreign currency receipts into sterling.

There were modest increases in deposits from both the public sector (+£79 million) and from overseas residents (+£291 million). There was also an exceptionally large fall in deposits from the monetary sector (-£5,589 million); however, the bulk of this stemmed from a restructuring of intra-group funding by one of the bank groups, which caused an almost equally large fall in inter-bank lending. After taking account of this, the banks borrowed only around £100 million net in the inter-bank and CD markets.

Eligible liabilities rose by £2,630 million to £137,170 million.

For further information, please contact:

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BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT END-OCTOBER, 1987

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.

£ millions

TABLE 1. AGGREGATE BALANCES

	Total Outstanding		Change on Month	
LIABILITIES				
STERLING DEPOSITS :				
U.K. monetary sector	26,551		- 5,589	
U.K. private sector	118,751		+ 3,855	
U.K. public sector	3,990		+ 79	
Overseas residents	16,359		+ 291	
Certificates of deposit	11,619	177,270	+ 1,189	- 175
of which : Sight		77,188		- 2,990
Time (inc. C.D.'s)		100,082		+ 2,815
FOREIGN CURRENCY DEPOSITS :				
U.K. monetary sector	19,006		+ 1,818	
Other U.K. residents	8,510		+ 417	
Overseas residents	42,942		+ 634	
Certificates of deposit	4,213	74,671	- 312	+ 2,558
TOTAL DEPOSITS		251,941		+ 2,383
NOTES IN CIRCULATION		759		+ 8
OTHER LIABILITIES (a)		44,834		- 1,392
TOTAL LIABILITIES		297,534		+ 999
ASSETS				
STERLING				
Cash & balances with Bank of England:				
Cash ratio deposits	578		+ 60	
Other balances	2,058	2,636	- 84	- 24
Market loans :				
Discount houses	5,550		+ 825	
Other U.K. monetary sector	25,520		- 4,915	
U.K. monetary sector C.D.'s	4,312		+ 376	
Local authorities	1,077		- 11	
Other	6,153	42,612	+ 23	- 3,701
Bills :				
Treasury bills	480		+ 108	
Other bills	4,966	5,447	+ 94	+ 202
Investments :				
British Government stocks	5,642		+ 374	
Other	5,400	11,042	+ 116	+ 490
Advances :				
U.K. private sector	121,110		+ 1,682	
U.K. public sector	374		+ 108	
Overseas residents	5,952	127,436	- 55	+ 1,735
Other sterling assets (a)		17,235		- 148
FOREIGN CURRENCIES				
Market loans :				
U.K. monetary sector	19,090		+ 2,184	
Certificates of deposit	363		- 39	
Other	37,782	57,235	+ 168	+ 2,313
Bills		409		- 24
Advances :				
U.K. private sector	9,977		+ 1,218	
U.K. public sector	703		- 63	
Overseas residents	14,424	25,103	- 796	+ 359
Other foreign currency assets (a)		8,380		- 205
TOTAL ASSETS		297,534		+ 999
ACCEPTANCES		5,289		+ 49
ELIGIBLE LIABILITIES		137,170		+ 2,630

(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
LIABILITIES									
Sterling deposits									
outstanding	177,270	7,026	42,736	27,478	26,229	46,023	10,834	3,631	13,313
change on month	- 175	+ 93	+ 1,694	+ 224	+ 686	- 3,702	+ 473	- 213	+ 570
Foreign currency deposits									
outstanding	74,671	1,094	14,964	8,661	13,071	23,350	4,457	8,852	222
change on month	+ 2,558	+ 31	+ 1,157	- 363	+ 478	+ 794	+ 133	+ 307	+ 21
Total deposits									
outstanding	251,941	8,120	57,700	36,139	39,300	69,373	15,290	12,403	13,536
change on month	+ 2,383	+ 124	+ 2,851	- 139	+ 1,165	- 2,909	+ 605	+ 95	+ 591
STERLING ASSETS									
Cash and Balances with the Bank of England									
outstanding	2,636	321	412	225	268	579	663	32	130
change on month	- 24	+ 32	- 81	- 77	- 26	+ 21	+ 109	+ 5	- 7
Market loans :									
U.K. monetary sector									
outstanding	31,070	876	7,735	4,324	3,873	8,956	1,800	906	2,600
change on month	- 4,090	- 24	+ 1,064	- 41	- 321	- 4,611	+ 439	- 234	- 360
Other									
outstanding	11,542	126	2,893	1,250	1,679	3,038	460	279	1,817
change on month	+ 388	- 9	+ 39	- 2	+ 372	- 120	- 49	- 2	+ 161
Bills									
outstanding	5,447	209	1,117	1,187	205	1,513	318	64	832
change on month	+ 202	- 5	- 128	- 65	- 3	+ 216	- 95	- 5	+ 288
British government stocks									
outstanding	5,642	153	1,176	552	773	581	253	199	1,956
change on month	+ 374	+ 25	- 20	+ 4	+ 31	+ 21	0	- 9	+ 324
Advances									
outstanding	127,436	6,046	30,680	20,231	19,761	31,927	8,418	3,476	6,899
change on month	+ 1,735	+ 86	+ 546	+ 311	+ 593	- 216	- 33	+ 89	+ 358
FOREIGN CURRENCY ASSETS									
Market loans and bills									
outstanding	57,644	519	11,597	7,087	8,622	19,906	3,162	6,502	249
change on month	+ 2,289	+ 16	+ 618	- 233	+ 715	+ 971	- 63	+ 346	- 79
Advances									
outstanding	25,103	778	4,099	3,227	5,980	5,996	1,695	3,251	77
change on month	+ 359	+ 6	+ 423	- 248	- 63	+ 190	+ 203	- 154	+ 2
ACCEPTANCES									
outstanding	5,289	239	1,467	201	1,060	1,412	515	215	179
change on month	+ 49	+ 28	+ 22	- 132	- 8	+ 107	+ 71	- 23	- 17
ELIGIBLE LIABILITIES									
outstanding	137,170	6,045	32,726	21,886	20,862	34,411	8,506	2,646	10,088
change on month	+ 2,630	+ 148	+ 268	+ 282	+ 90	+ 836	- 14	+ 49	+ 971

COMPOSITION OF GROUPS (U.K. offices only)

The Bank of Scotland Group comprises Bank of Scotland, 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, 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, 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., Samuel Montagu & Co., Ltd. and Samuel Montagu & Co. (Jersey) Ltd.
Clydesdale Bank PLC, Clydesdale Bank Finance Corporation, Northern Bank Ltd., Northern Bank Development Corporation left the group during the month and are no longer included in these tables.

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. and RoyScot Trust Ltd.
Charterhouse Japhet Credit Ltd. left the Monetary Sector during the month and is no longer included in these tables.

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.

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