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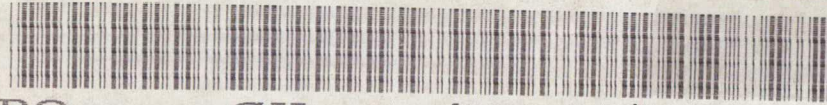
PART A

PART A

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PART A

CHANCELLOR'S PAPERS ON  
MONEY FIGURES AND  
MONETARY TARGETTING

Begins: 16/4/86

Ends: 4/7/86 (CONTINUED)

DD: 25 years

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PART A

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**MONEY AND BANKING FIGURES: BANKING APRIL 1986**

(All figures are seasonally adjusted, unless otherwise stated.)

1 During the four weeks to 16 April 1986, M0 (average of weekly levels) rose by £40 million (+0.3%) (Table B) and M3 rose by £4,060 million (+3.1%) (Table E).

2 Recent rates of growth of the above aggregates are as follows:

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 0.4	+ 5.0	+ 3.2
M3	+28.6	+19.5	+16.6

3 Within M3 there was a rise in banking April of £10 million in notes and coin, a rise of £180 million in non-interest-bearing sight deposits and a rise of £1,190 million in interest-bearing sight deposits. M1 rose by £1,380 million (+2.3%). Time deposits (including sterling certificates of deposit) of the UK private sector rose by £2,690 million.

4 The sterling value of private sector foreign currency deposits fell by £230 million, comprising a rise of £150 million reflecting transactions and a fall of £380 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £3,830 million (+2.6%) (Table E).

5 M2 (not seasonally adjusted) rose by £2,690 million (+1.8%) (Table F). PSL2 rose by £4,650 million (+2.1%) (Table G); if term shares with building societies were included, the increase would be 1.8%.

6 Rates of growth of monetary and liquidity aggregates over the last three, six and twelve months are shown in the attached table.

7 Amongst the counterparts to the change in M3, the net effect of public sector transactions (the PSBR less debt sales to the non-bank private sector and external flows to the public sector) was expansionary by £550 million (see columns 1-7 of Table A). The central government borrowing requirement was £2,710 million and the direct contribution of local authorities and public corporations to the public sector borrowing requirement (net of non-bank private sector purchases of their debt) was contractionary by £1,350 million. The non-bank private sector's net purchases of central

government debt totalled £890 million; within this holdings of gilt-edged stock accounted for £690 million, CTDs for £140 million and National Savings for £50 million. External and foreign currency finance of the public sector was expansionary by £80 million.

8 Sterling lending to the private sector rose by £3,040 million. This included certain transactions by the Bank of England in paper acquired in the course of money-market operations, details of which are shown in Table C. Sterling lending to the private sector may have been substantially increased this month, as it was in banking April 1985, by borrowing to finance payments for investment brought forward to take advantage of capital investment allowances prevailing only to the end of the financial year; the seasonal adjustments make no allowance for such factors. Foreign currency lending to the private sector rose by £740 million in transactions terms.

9 The external and foreign currency transactions of UK banks were expansionary by £590 million (see columns 9-12 of Table A). This included changes in the Issue Department's holdings of guaranteed export credit paper (holdings of which are treated as a claim on overseas residents), details of which are shown in Table C. Net non-deposit sterling liabilities rose by £110 million, a contractionary influence.

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

Estimated seasonal movements - banking May 1986

11 The provisional seasonal movements for the five weeks ending 21 May 1986 are as follows:

	£ million
Notes and coin in circulation with the public	+ 100
Private sector sterling sight bank deposits	- 890
M1	- 790
Other private sector sterling bank deposits	+ 440
£M3	<u>- 350</u>
M0 (averaged series)	<u>- 120</u>
Bank lending in sterling to the private sector	<u>- 470</u>

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

MONETARY AND LIQUIDITY AGGREGATES: BANKING APRIL 1986

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 0.4	+ 5.0	+ 3.2
M1	+ 21.3	+17.8	+19.8
of which:			
Non-interest bearing M1	+ 3.4	+ 5.7	+ 3.9
M2 (not seasonally adjusted)*	..	..	+11.1
£M3	+ 28.6	+19.5	+16.6
M3	+ 26.7	+19.1	+15.9
PSL1	+ 28.0	+18.2	+15.3
PSL2	+ 23.8	+19.7	+15.6
PSL2, including term shares with building societies and bank deposits with an original maturity longer than two years	+ 20.2	+15.7	+13.4

\*the growth of M2 over the 12 months to mid-April 1986 includes £900 million resulting from changes made by certain building societies in the terms of some accounts. Excluding such reclassified amounts, the growth in M2 over the latest 12 months is 10.5%.

## Banking statistics

16 April 1986

## A Public sector borrowing requirement, and other counterparts to changes in £M3

[Table 11.3 in the Quarterly Bulletin]

Month ended (unadjusted)	Public sector borrowing requirement (surplus-)		Purchases (-) of public sector debt by UK private sector (other than banks)		External and foreign currency finance of public sector (increase-)		Banks' sterling lending to UK private sector [b]	External and foreign currency transactions of UK banks [c]				Net non-deposit sterling liabilities (increase-)	Money stock £M3 (columns 1-13)	
	Central government borrowing requirement	Other public sector contribution	Other public sector debt	Central government debt [a]	Purchases of British government stocks by overseas sector	Other		Sterling deposits from, net of market loans to, banks abroad (increase-)	Other overseas sterling deposits (increase-)	Other sterling lending to overseas sector [d]	Banks' net foreign currency liabilities [e] (increase-)			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1985 Apr. 17	+ 2,781	+ 344	- 813	- 615	- 152	+ 124	+ 2,832	+ 376	- 288	+ 250	+ 739	- 1,207	+ 4,371	
May 15	+ 489	+ 67	- 586	- 106	- 347	+ 217	+ 866	+ 300	- 67	+ 263	- 467	- 384	+ 245	
June 19 [f]	+ 2,638	- 434	- 12	- 220	- 718	+ 267	+ 758	+ 394	- 255	- 267	+ 1,231	- 311	+ 3,071	
July 17 [f]	- 1,162	- 478	- 11	- 409	- 342	- 4	+ 3,104	+ 18	- 236	- 410	+ 260	- 438	- 108	
Aug. 21	+ 2,319	- 366	- 247	- 177	- 15	+ 49	+ 1,107	+ 261	- 591	- 603	- 170	+ 490	+ 2,057	
Sept. 18	+ 1,667	- 319	- 86	- 34	- 155	+ 18	+ 428	+ 419	- 76	- 96	+ 213	- 155	+ 1,824	
Oct. 16	+ 564	- 599	- 519	- 525	- 76	- 130	+ 3,417	+ 712	- 703	+ 165	+ 365	- 1,642	+ 1,029	
Nov. 20	+ 2,666	- 1,125	- 737	- 109	- 400	- 193	+ 1,200	- 388	+ 243	- 166	- 170	+ 1,702	+ 2,523	
Dec. 11	+ 1,490	+ 223	- 224	- 76	- 34	- 26	+ 1,031	+ 256	- 114	+ 18	- 1,137	- 535	+ 872	
1986 Jan. 15	- 2,785	- 172	- 79	+ 504	- 292	- 1	+ 1,513	- 291	- 364	+ 359	+ 529	+ 171	- 908	
Feb. 19	+ 786	- 175	- 246	+ 100	+ 122	- 247	+ 1,382	+ 708	- 512	- 73	+ 1,351	- 484	+ 440	
Mar. 19	+ 942	- 313	+ 442	- 507	+ 247	+ 131	+ 2,338	+ 55	- 466	- 660	+ 580	+ 57	+ 2,846	
Apr. 16	+ 4,274	- 1,063	- 693	- 270		+83	+ 3,704	+ 571	- 934	+ 655	- 102	- 1,116	+ 5,109	
Month ended (seasonally adjusted)														
1985 Apr. 17	+ 908	+ 128	- 813	- 543	- 152	+ 121	+ 2,575		+ 1,441			- 410	+ 3,255	
May 15	+ 383	+ 4	- 586	- 115	- 347	+ 213	+ 1,438		+ 179			- 653	+ 508	
June 19 [f]	+ 762	- 18	- 12	- 262	- 718	+ 263	+ 1,379		+ 1,267			- 14	+ 2,647	
July 17 [f]	- 92	- 477	- 11	- 438	- 342	- 9	+ 1,528		- 423			- 576	- 840	
Aug. 21	+ 2,090	- 355	- 247	- 314	- 15	+ 44	+ 1,750		- 985			+ 247	+ 2,215	
Sept. 18	+ 1,955	- 334	- 86	+ 3	- 155	+ 13	+ 993		+ 60			- 324	+ 2,125	
Oct. 16	+ 914	- 660	- 519	- 477	- 76	- 135	+ 2,118		+ 561			- 766	+ 960	
Nov. 20	+ 1,905	- 1,089	- 737	- 36	- 400	- 198	+ 1,885		- 327			+ 1,401	+ 2,404	
Dec. 11	+ 118	+ 450	- 224	- 56	- 34	- 31	+ 2,135		- 999			- 618	+ 741	
1986 Jan. 15	+ 53	- 353	- 79	+ 467	- 292	+ 49	+ 384		+ 28			- 170	+ 87	
Feb. 19	+ 684	- 235	- 246	+ 225	+ 122	- 252	+ 1,597		+ 826			- 1,036	+ 1,235	
Mar. 19	+ 857	- 367	+ 442	- 378	+ 247	+ 127	+ 2,564		- 626			- 40	+ 2,826	
Apr. 16	+ 2,708	- 1,352	- 693	- 198		+80	+ 3,037		+ 589			- 107	+ 4,064	

[a] Purchases (-) of central government debt by the UK private sector (other than banks) can be analysed by instrument as follows:

Month ended	Marketable debt		National savings		Tax instruments		Other	Total (columns 4 and 5 above)	
	Stocks	Treasury bills	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
1985 Apr. 17	- 813	- 63	- 257	- 238	- 295	- 242	-	- 1,428	- 1,356
May 15	- 586	+ 25	- 211	- 241	+ 81	+ 102	- 1	- 692	- 701
June 19	- 12	+ 42	- 270	- 375	+ 6	+ 69	+ 2	- 232	- 274
July 17	- 11	+ 8	- 196	- 273	- 217	- 169	- 4	- 420	- 449
Aug. 21	- 247	- 56	- 273	384	+ 149	+ 123	+ 3	- 424	- 561
Sept. 18	- 86	+ 6	- 228	- 229	+ 190	+ 228	- 2	- 120	- 83
Oct. 16	- 519	+ 17	- 191	- 197	- 351	- 297	- 2	- 1,044	- 996
Nov. 20	- 737	- 4	- 281	- 184	+ 171	+ 147	+ 5	- 846	- 773
Dec. 11	- 224	+ 56	- 23	- 61	- 106	- 48	- 3	- 300	- 280
1986 Jan. 15	- 79	+ 89	- 122	- 19	+ 534	+ 394	+ 3	+ 425	+ 388
Feb. 19	- 246	- 30	- 138	- 74	+ 62	- 127	+ 6	- 346	- 471
Mar. 19	+ 442	- 80	- 30	+ 55	- 398	- 354	+ 1	- 65	+ 64
Apr. 16	- 693	- 22	- 65	- 46	- 189	- 136	+ 6	- 963	- 891

[b] Including holdings of sterling certificates of deposit issued by building societies, and 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.

[c] A seasonally-adjusted breakdown of these transactions is not available.

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

[e] Including net non-deposit liabilities in foreign currency. (See the Quarterly Bulletin for June 1985—page 185.)

[f] See footnote [e] to Table E on page 3.

## B M0, the wide monetary base

[Table 2 in the Quarterly Bulletin]

£ millions: percentages in italics

End-banking-month series								Monthly-average series								
Notes and coin in circulation outside the Bank of England								Bankers' deposits with the Banking Department			Notes and coin in circulation outside the Bank of England		Bankers' operational deposits with the Banking Department	M0 (wide monetary base) (columns 5 + 6)		
In circulation with public				Held by banks (till money)				Operational deposits	Cash ratio deposits	Unadjusted		Unadjusted	Unadjusted	Unadjusted	Seasonally adjusted	
Unadjusted		Seasonally adjusted		Unadjusted		Seasonally adjusted		Unadjusted	Unadjusted	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted	Seasonally adjusted		
1		2		3		4		5		6		7				
Amount outstanding at								Average amount outstanding in month ended								
1985	Mar.	20	12,322	12,400	1,231	1,296	29	582	1985	Mar.	20	13,542	13,784	144	13,686	13,928
	Apr.	17	12,435	12,384	1,312	1,320	162	582		Apr.	17	13,907	13,864	162	14,069	14,026
	May	15	12,441	12,464	1,275	1,290	187	628		May	15	13,761	13,861	156	13,917	14,017
	June	19	12,438	12,486	1,350	1,379	93	628		June	19	13,888	13,944	178	14,066	14,122
	July	17	12,674	12,464	1,403	1,328	214	628		July	17	13,988	13,962	217	14,205	14,179
	Aug.	21	12,658	12,514	1,468	1,420	100	628		Aug.	21	14,105	13,959	141	14,246	14,100
	Sept.	18	12,536	12,561	1,393	1,391	120	628		Sept.	18	14,031	14,026	133	14,164	14,159
	Oct.	16	12,413	12,466	1,436	1,451	94	628		Oct.	16	13,905	14,003	123	14,028	14,126
	Nov.	20	12,476	12,528	1,444	1,468	156	674		Nov.	20	13,890	14,043	162	14,052	14,205
	Dec.	11	12,909	12,467	1,636	1,502	174	674		Dec.	11	14,324	14,124	130	14,454	14,254
1986	Jan.	15	12,399	12,576	1,582	1,558	187	674	1986	Jan.	15	14,774	14,224	235	15,009	14,459
	Feb.	19	12,441	12,590	1,481	1,537	150	673		Feb.	19	13,910	14,198	169	14,079	14,367
	Mar.	19	12,532	12,612	1,529	1,596	249	673		Mar.	19	14,000	14,245	187	14,187	14,432
	Apr.	16	12,611	12,618	1,464	1,492	141	673		Apr.	16	14,316	14,275	198	14,514	14,473
Change in month ended								Change between average amounts outstanding								
1985	Apr.	17	+ 113	- 16	+ 81	+ 24	+ 133	-	1985	Apr.	17	+ 365	+ 80	+ 18	+ 383	+ 98
	May	15	+ 6	+ 80	- 37	- 30	+ 25	+ 46		May	15	- 146	- 3	- 6	- 152	- 9
	June	19	- 3	+ 21	+ 75	+ 88	- 94	-		June	19	+ 127	+ 83	+ 22	+ 149	+ 105
	July	17	+ 236	- 23	+ 53	- 51	+ 121	-		July	17	+ 100	+ 18	+ 39	+ 139	+ 57
	Aug.	21	- 16	+ 50	+ 65	+ 92	- 114	-		Aug.	21	+ 117	- 3	- 76	+ 41	- 79
	Sept.	18	- 122	+ 47	- 75	- 29	+ 20	-		Sept.	18	- 74	+ 67	- 8	- 82	+ 59
	Oct.	16	- 123	- 96	+ 43	+ 60	- 26	-		Oct.	16	- 126	- 23	- 10	- 136	- 33
	Nov.	20	+ 63	+ 62	+ 8	+ 17	+ 62	+ 46		Nov.	20	- 15	+ 40	+ 39	+ 24	+ 79
	Dec.	11	+ 433	- 62	+ 192	+ 34	+ 18	-		Dec.	11	+ 434	+ 81	- 32	+ 402	+ 49
1986	Jan.	15	- 510	+ 108	- 54	+ 55	+ 13	-	1986	Jan.	15	+ 450	+ 100	+ 105	+ 555	+ 205
	Feb.	19	+ 42	+ 13	- 101	- 21	- 37	- 1		Feb.	19	- 864	- 26	- 66	- 930	- 92
	Mar.	19	+ 91	+ 21	+ 48	+ 59	+ 99	-		Mar.	19	+ 90	+ 47	+ 18	+ 108	+ 65
	Apr.	16	+ 79	+ 5	- 65	- 104	- 108	-		Apr.	16	+ 316	+ 30	+ 11	+ 327	+ 41

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

£ millions

Transactions in:	Banking Department	Issue Department		
		Commercial bills [a]	Shipbuilding paper [a]	Export credit paper [b]
Month ended				
1985	Apr. 17	- 1,229	+ 900	+ 36
	May 15	+ 637	+ 185	+ 25
	June 19	- 1,729	+ 523	- 406
	July 17	+ 1,963	- 1,208	+ 272
	Aug. 21	- 2,765	+ 989	+ 28
	Sept. 18	- 652	- 82	+ 30
	Oct. 16	+ 369	- 246	- 14
	Nov. 20	- 1,464	+ 1,635	- 890
	Dec. 11	- 1,015	+ 2,248	- 1,363
1986	Jan. 15	+ 2,815	- 2,132	+ 777
	Feb. 19	+ 1,981	- 1,780	+ 781
	Mar. 19	- 1,421	- 189	+ 682
	Apr. 16	- 3,216	+ 70	- 535
Amount outstanding at mid-April 1986		699	7,448	221
				1,705

[a] Included within column 8 of Table A.

[b] Included within column 11 of Table A.

## D Money stock: amounts outstanding

[Table 11.1 in the Quarterly Bulletin]

£ millions	Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock M1[b]		UK private sector sterling time deposits[c]	Money stock £M3[b]		UK private sector deposits in other currencies [c]	Money stock M3[b]	
		Non-interest-bearing[a]	Interest-bearing	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
Month ended											
1985 Mar. 20[d]	12,322	20,604	16,981	49,907	50,490	59,468	109,375	110,880	20,183	129,588	131,060
Apr. 17	12,435	21,467	18,604	52,506	51,980	61,240	113,746	114,120	18,244	131,990	132,370
May 15	12,441	21,440	19,422	53,303	53,210	60,733	114,036	114,660	18,787	132,823	133,440
June 19[d][e]	12,438	23,496	19,435	55,369	55,390	61,823	117,192	117,360	18,807	135,999	136,170
July 17[e]	12,674	21,250	20,822	54,746	54,320	62,338	117,084	116,490	18,209	135,293	134,690
Aug. 21	12,658	21,169	21,923	55,750	56,040	63,391	119,141	118,660	19,159	138,300	137,820
Sept. 18[d]	12,536	21,253	22,248	56,037	56,080	64,983	121,020	120,810	19,524	140,544	140,340
Oct. 16	12,413	21,574	23,537	57,524	57,410	64,525	122,049	121,770	18,861	140,910	140,630
Nov. 20	12,476	21,717	24,535	58,728	58,830	65,844	124,572	124,180	19,466	144,038	143,650
Dec. 11[d]	12,909	22,430	25,264	60,603	59,790	64,839	125,442	124,930	19,578	145,020	144,500
1986 Jan. 15	12,399	21,618	24,997	59,014	59,400	65,520	124,534	125,010	19,644	144,178	144,660
Feb. 19	12,441	21,216	25,050	58,707	59,490	66,256	124,963	126,230	20,088	145,051	146,330
Mar. 19[d]	12,532	21,718	26,157	60,407	60,990	67,499	127,906	129,160	20,571	148,477	149,740
Apr. 16	12,611	22,603	27,676	62,890	62,360	70,175	133,015	133,230	20,341	153,356	153,580

## E Money stock: changes [f]

[Table 11.2 in the Quarterly Bulletin]

£ millions: percentages in italics

Month ended (unadjusted)	Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock M1[b]		UK private sector sterling time deposits[c]	Money stock £M3[b]		UK private sector deposits in other currencies [c]		Money stock M3[b]	
		Non-interest-bearing[a]	Interest-bearing	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted	Transactions	Valuation changes[g]	Unadjusted	Seasonally adjusted
1985 Apr. 17	+ 113	+ 863	+ 1,623	+ 2,599	+ 1,772	+ 4,371	+ 215	- 2,154	+ 2,432			
May 15	+ 6	- 27	+ 818	+ 797	- 552	+ 245	+ 337	+ 206	+ 788			
June 19[e]	- 3	+ 2,056	+ 3	+ 2,056	+ 1,015	+ 3,071	+ 655	- 655	+ 3,071			
July 17[e]	+ 236	- 2,246	+ 1,387	- 623	+ 515	- 108	+ 754	- 1,352	- 706			
Aug. 21	- 16	- 81	+ 1,101	+ 1,004	+ 1,053	+ 2,057	+ 577	+ 373	+ 3,007			
Sept. 18	- 122	+ 87	+ 288	+ 253	+ 1,571	+ 1,824	- 249	+ 603	+ 2,178			
Oct. 16	- 123	+ 321	+ 1,289	+ 1,487	- 458	+ 1,029	+ 146	- 809	+ 366			
Nov. 20	+ 63	+ 143	+ 998	+ 1,204	+ 1,319	+ 2,523	+ 873	- 268	+ 3,128			
Dec. 11	+ 433	+ 713	+ 729	+ 1,875	- 1,003	+ 872	- 171	+ 279	+ 980			
1986 Jan. 15	- 510	- 812	- 291	1,613	+ 705	- 908	+ 348	- 282	- 842			
Feb. 19	+ 42	- 402	+ 53	- 307	+ 747	+ 440	+ 570	- 126	+ 884			
Mar. 19	+ 91	+ 499	+ 1,081	+ 1,671	+ 1,175	+ 2,846	+ 686	- 204	+ 3,328			
Apr. 16	+ 79	+ 885	+ 1,519	+ 2,483	+ 2,626	+ 5,109	+ 148	- 378	+ 4,879			
Month ended (seasonally adjusted)												
1985 Apr. 17	- 16	+ 95	+ 1,416	+ 1,495	+ 3.0	+ 1,760	+ 3,255	+ 2.9	+ 215	- 2,154	+ 1,316	+ 1.0
May 15	+ 80	+ 230	+ 915	+ 1,225	+ 2.4	- 717	+ 508	+ 0.4	+ 337	+ 206	+ 1,051	+ 0.8
June 19[e]	+ 21	+ 2,044	+ 107	+ 2,172	+ 4.1	+ 475	+ 2,647	+ 2.3	+ 655	- 655	+ 2,647	+ 2.0
July 17[e]	- 23	- 2,387	+ 1,337	- 1,073	- 1.9	+ 233	- 840	- 0.7	+ 754	- 1,352	- 1,438	- 1.1
Aug. 21	+ 50	+ 492	+ 1,175	+ 1,717	+ 3.2	+ 498	+ 2,215	+ 1.9	+ 577	+ 373	+ 3,165	+ 2.3
Sept. 18	+ 47	- 356	+ 321	+ 12	-	+ 2,113	+ 2,125	+ 1.8	- 249	+ 603	+ 2,479	+ 1.8
Oct. 16	- 96	+ 253	+ 1,168	+ 1,325	+ 2.4	- 365	+ 960	+ 0.8	+ 146	- 809	+ 297	+ 0.2
Nov. 20	+ 62	+ 393	+ 965	+ 1,420	+ 2.5	+ 984	+ 2,404	+ 2.0	+ 873	- 268	+ 3,009	+ 2.1
Dec. 11	- 62	+ 229	+ 794	+ 961	+ 1.6	- 220	+ 741	+ 0.6	- 171	+ 279	+ 849	+ 0.6
1986 Jan. 15	+ 108	- 74	- 453	- 419	- 0.7	+ 506	+ 87	+ 0.1	+ 348	- 282	+ 153	+ 0.1
Feb. 19	+ 13	- 95	+ 176	+ 94	+ 0.2	+ 1,141	+ 1,235	+ 1.0	+ 570	- 126	+ 1,679	+ 1.2
Mar. 19	+ 21	+ 166	+ 1,278	+ 1,465	+ 2.5	+ 1,361	+ 2,826	+ 2.2	+ 686	- 204	+ 3,308	+ 2.3
Apr. 16	+ 5	+ 181	+ 1,192	+ 1,378	+ 2.3	+ 2,686	+ 4,064	+ 3.1	+ 148	- 378	+ 3,834	+ 2.6

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the Quarterly Bulletin).

[b] M1 equals columns 1 + 2 + 3. £M3 equals M1 + column 5. M3 equals £M3 + column 7.

[c] Including certificates of deposit.

[d] Changes in the monthly-reporting population occurred in these months. See also the additional notes to Table 3 in the Quarterly Bulletin, and, for December 1985 and March 1986, footnotes [b] and [c] respectively to Table H on page 5.

[e] The figures for the banking months of June and July 1985 are heavily distorted by the large flow of funds associated with the oversubscription to the sale of shares in Abbey Life Group p.l.c. These flows probably added substantial amounts to deposits and lending in banking June, but the distortion should have been unwound in banking July.

[f] 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.)

[g] See additional notes to Tables 6 and 11 of the Quarterly Bulletin.



## F Transactions balances and components of M2

[Table 11.1 and 11.2 in the Quarterly Bulletin]

£ millions: not seasonally adjusted

	Notes and coin in circulation with public	UK private sector sterling non-interest-bearing sight deposits with banks[a]	Non-interest-bearing M1[b]	Other UK private sector sterling retail deposits with banks	UK private sector retail shares and deposits with building societies	National Savings Bank ordinary account	M2[b]	Public sector retail deposits with banks	Overseas retail deposits with banks
	1	2	3	4	5	6	7	8	9
Amounts outstanding									
1985 Apr. 17	12,435	21,467	33,902	32,910	67,710	1,737	136,259	1,033	4,111
May 15	12,441	21,440	33,881	33,291	67,315	1,752	136,239	1,060	4,152
June 19[c][d]	12,438	23,496	35,934	33,893	68,096	1,750	139,673	1,086	4,186
July 17[d]	12,674	21,250	33,924	34,709	68,267	1,733	138,633	1,015	4,404
Aug. 21	12,658	21,169	33,827	35,004	68,291	1,740	138,862	993	4,452
Sept. 18[c]	12,536	21,253	33,789	35,188	69,825	1,729	140,531	885	4,475
Oct. 16	12,413	21,574	33,987	35,637	70,630	1,734	141,988	1,107	4,541
Nov. 20	12,476	21,717	34,193	36,885	71,408	1,711	144,197	1,251	4,532
Dec. 11[c]	12,909	22,430	35,339	36,328	72,673	1,693	146,033	923	4,681
1986 Jan. 15	12,399	21,618	34,017	36,861	73,958	1,739	146,575	1,137	4,905
Feb. 19	12,441	21,216	33,657	37,014	74,466	1,714	146,851	997	4,895
Mar. 19[c]	12,532	21,718	34,250	37,641	75,292	1,722	148,905	1,071	5,054
Apr. 16	12,611	22,603	35,214	38,644	76,023	1,718	151,599	1,218	5,294
Changes in month ended [e]									
1985 May 15	+ 6	- 27	- 21	+ 381	- 395	+ 15	- 20	+ 27	+ 41
June 19[d]	- 3	+2,056	+ 2053	+ 602	+ 781	- 2	+3,434	+ 26	+ 34
July 17[d]	+ 236	-2,246	-2,010	+ 816	+ 171	- 17	-1,040	- 71	+ 218
Aug. 21	- 16	- 81	- 97	+ 295	+ 24	+ 7	+ 229	- 22	+ 48
Sept. 18	- 122	+ 87	- 35	+ 184	+1,374	- 11	+1,512	- 108	+ 23
Oct. 16	- 123	+ 321	+ 198	+ 449	+ 805	+ 5	+1,457	+ 222	+ 66
Nov. 20	+ 63	+ 143	+ 206	+1,248	+ 778	- 23	+2,209	+ 144	- 9
Dec. 11	+ 433	+ 713	+1,146	- 557	+1,265	- 18	+1,836	- 328	+ 149
1986 Jan. 15	- 510	- 812	-1,322	+ 533	+1,285	+ 46	+ 542	+ 214	+ 224
Feb. 19	+ 42	- 402	- 360	+ 153	+ 508	- 25	+ 276	- 140	- 10
Mar. 19	+ 91	+ 499	+ 590	+ 627	+ 826	+ 8	+2,051	+ 74	+ 159
Apr. 16	+ 79	+ 885	+ 964	+1,003	+ 731	- 4	+2,694	+ 147	+ 240

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the Quarterly Bulletin).

[b] Non-interest-bearing M1 equals columns 1+2. M2 equals non-interest-bearing M1+columns 4+5+6.

[c] See footnote [d] to Table D on page 3.

[d] See footnote [e] to Table E on page 3.

[e] See footnote [f] to Table E on page 3.

## G Private sector liquidity, and other deposits

[Summary of Table 12 in the Quarterly Bulletin]

£ millions: percentages in italics

Month ended	'Money'		Savings institution deposits and securities		Certificates of tax deposit		PSL1 (columns 1+2+5)	PSL2 (columns 1+2+3+6)	PSL1	PSL2	Other shares and deposits with building societies			
	Seasonally adjusted	Other money-market instruments Seasonally adjusted	Seasonally adjusted		Seasonally adjusted		Seasonally adjusted	Seasonally adjusted	Seasonally adjusted change in month	Seasonally adjusted change in month	Unadjusted			
			Total (net)	of which shares and deposits with building societies [a]	Issues net of sur-renders	Column 5 less building society holdings					Amount outstanding	Change in month		
1	2	3	4	5	6	7	8	9	10	11	12			
1985 Apr. 17	112,390	3,240	81,837	77,937	3,081	2,742	118,711	200,209	+3,471	+3.0	+3,384	+1.7	18,262	+749
May 15	112,924	3,088	81,890	78,361	2,975	2,634	118,987	200,536	+ 254	+0.2	+ 328	+0.2	19,052	+790
June 19[b]	115,587	3,311	82,497	79,314	2,900	2,539	121,798	203,934	+2,778	+2.3	+3,392	+1.7	19,349	+297
July 17[b]	114,666	3,308	83,154	80,352	3,062	2,672	121,036	203,800	- 719	-0.6	- 75	-	19,489	+140
Aug. 21	116,852	3,095	83,727	81,490	2,929	2,530	122,876	206,204	+1,894	+1.6	+2,460	+1.2	19,659	+170
Sept. 18	119,000	2,972	84,648	82,754	2,696	2,296	124,668	208,916	+1,790	+1.5	+2,710	+1.3	19,393	-266
Oct. 16	119,954	2,904	86,048	84,332	2,993	2,537	125,851	211,443	+1,182	+0.9	+2,526	+1.2	18,828	-565
Nov. 20	122,338	3,039	88,121	86,432	2,846	2,390	128,223	215,888	+2,371	+1.9	+4,444	+2.1	18,076	-752
Dec. 11	123,030	2,936	89,164	87,774	2,894	2,406	128,860	217,536	+ 652	+0.5	+1,658	+0.8	17,690	-386
1986 Jan. 15	123,080	3,030	90,907	89,834	2,500	2,251	128,610	219,268	- 253	-0.2	+1,729	+0.8	17,243	-447
Feb. 19	124,327	2,891	93,194	91,524	2,627	2,238	129,845	222,650	+1,243	+1.0	+3,390	+1.5	16,899	-344
Mar. 19	127,146	2,768	94,312	93,131	2,981	2,409	132,895	226,635	+3,055	+2.4	+3,990	+1.8	16,624	-275
Apr. 16	131,241	2,428	95,147	94,377	3,117	2,472	136,786	231,288	+3,890	+2.9	+4,652	+2.1	16,459	-165

[a] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies.

[b] See footnote [e] to Table E on page 3.

# H Banks: balance sheet of monthly reporting institutions [a]

[Table 3.1 in the Quarterly Bulletin]

£ millions

	Notes outstanding	Total deposits	Sterling liabilities								Certificates of deposit	Items in suspense and transmission	Capital and other funds
			Sight deposits				Time deposits						
			UK monetary sector	UK public sector	UK private sector	Overseas	UK monetary sector	UK public sector	UK private sector	Overseas			
1985 Nov. 20	944	206,570	9,088	1,613	47,453	6,398	39,585	1,974	62,111	25,985	12,364	6,119	27,576
Dec. 11 [b]	995	208,575	9,746	1,244	48,471	6,771	40,540	1,790	61,491	25,705	12,818	5,443	27,899
1986 Jan. 15	953	210,662	8,902	1,488	47,534	7,056	41,888	2,018	62,700	26,904	12,172	5,843	28,172
Feb. 19	946	214,505	8,976	1,378	47,192	7,024	43,620	1,958	62,646	27,125	14,587	5,938	28,215
Mar. 19 [c]	967	221,917	10,010	1,468	49,106	7,258	45,743	1,899	63,364	28,260	14,809	6,483	28,397
Apr. 16	985	232,270	11,393	1,722	51,502	7,625	47,526	2,889	65,456	28,669	15,488	6,406	29,700

	Total deposits	Other currency liabilities						Total liabilities/assets	of which sterling	
		Sight and time deposits			Certificates of deposit	Items in suspense and transmission	Capital and other funds		Liabilities	Assets
		UK monetary sector	Other United Kingdom	Overseas						
1985 Nov. 20	487,545	90,223	18,440	316,996	61,887	6,122	13,354	748,230	241,209	239,542
Dec. 11 [b]	498,677	92,836	18,812	322,904	64,125	5,295	14,867	761,751	242,912	242,348
1986 Jan. 15	496,324	88,925	18,869	327,235	61,296	5,408	14,164	761,527	245,630	244,532
Feb. 19	505,021	92,226	19,408	332,375	61,012	6,528	15,064	776,216	249,604	247,165
Mar. 19 [c]	508,483	94,050	19,661	332,738	62,034	6,882	14,724	787,851	257,763	254,743
Apr. 16	504,302	92,223	19,716	331,944	60,418	6,616	14,057	794,336	269,361	266,443

	Notes and coin	Sterling assets									
		Balances with Bank of England				Market loans					
		Cash ratio deposits	Special deposits	Other	LDMA		Other UK monetary	UK monetary sector CDs	Building society CDs and time deposits	UK local authorities	Overseas
1985 Nov. 20	2,094				668	—					
Dec. 11 [b]	2,313	667	—	83	6,367	47	45,519	6,210	766	3,565	8,891
1986 Jan. 15	2,266	667	—	167	5,826	46	46,298	6,272	631	3,572	9,581
Feb. 19	2,140	666	—	146	6,165	39	47,720	7,354	769	3,408	9,937
Mar. 19 [c]	2,200	667	—	245	6,674	34	50,942	7,170	695	3,437	10,733
Apr. 16	2,149	667	—	140	6,570	48	54,457	7,627	872	3,271	11,533

	Treasury bills	Bills				Advances				Banking Department lending to central government (net)
		Eligible local authority bills	Eligible bank bills	Other	Total	UK public sector	UK private sector	Overseas		
									Other	
1985 Nov. 20	236	717	3,832	317	130,004	2,097	116,990	10,917	- 728	
Dec. 11 [b]	300	581	2,806	297	131,992	2,067	117,656	12,269	574	
1986 Jan. 15	244	620	5,112	322	132,773	2,004	119,140	11,628	-2,106	
Feb. 19	168	510	7,728	322	132,020	1,766	119,560	10,694	-4,270	
Mar. 19 [c]	235	533	6,267	348	133,981	1,744	122,179	10,058	-2,693	
Apr. 16	310	394	4,373	402	138,951	1,670	126,422	10,860	446	

	Sterling assets continued						Other currency assets						
	Investments			Miscellaneous assets			Market loans and advances						
	British government stocks	Other public sector	Other	Items in suspense and collection	Assets leased	Other	Total	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector	Overseas
1985 Nov. 20	7,134	433	7,473	9,976	1,400	5,876	469,069	118,783	86,087	10,979	1,570	33,574	336,860
Dec. 11 [b]	7,171	425	7,573	8,870	1,426	5,904	478,422	120,287	89,171	11,610	1,632	33,837	342,173
1986 Jan. 15	7,121	313	7,732	9,597	1,582	5,895	474,628	119,790	84,835	11,313	1,766	35,087	341,627
Feb. 19	6,919	543	8,139	9,295	1,528	5,919	484,495	120,927	87,169	10,670	1,740	35,370	349,547
Mar. 19 [c]	6,510	544	8,293	10,480	1,508	5,942	488,177	121,405	89,852	11,156	1,669	36,198	349,301
Apr. 16	6,706	535	8,983	10,566	1,519	5,924	482,399	119,283	87,370	11,121	1,653	36,163	346,092

	Other currency assets continued						Acceptances		Eligible liabilities	
	Bills	Investments		Miscellaneous assets	Items in suspense and collection	Assets leased	Other	Sterling		Other currencies
		Total	United Kingdom							
1985 Nov. 20	1,811	30,373	1,782	28,592	5,681	10	1,743	17,883	3,053	145,310
Dec. 11 [b]	1,769	32,527	1,949	30,578	5,086	10	1,589	18,251	2,987	147,786
1986 Jan. 15	2,076	33,365	2,563	30,802	5,417	10	1,499	18,661	2,883	148,939
Feb. 19	2,200	34,470	2,554	31,917	6,297	7	1,581	19,462	2,858	149,963
Mar. 19 [c]	2,191	34,441	2,621	31,820	6,740	7	1,551	17,873	3,083	152,861
Apr. 16	2,155	35,166	2,601	32,566	6,617	7	1,549	17,483	3,126	159,492

[a] These tables include all monthly reporting monetary sector 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 one left the series at mid-December; the net effect was an increase of £70 million in sterling assets and an increase of £486 million in other currency assets.

[c] Nine contributors joined the series at mid-March; the effect was an increase of £436 million in sterling assets and £32 million in other currency assets.



**Sterling assets continued**

			Bills				Advances			Banking Department lending to central government (net)	Investments	
			Treasury bills	Eligible local authority bills	Eligible bank bills	Other	UK public sector	UK private sector	Overseas		British government stocks	Other
<b>British banks:</b>	1986	Mar. 19	153	513	5,858	78	460	75,722	2,630	-2,693	5,053	2,857
			Apr. 16	277	358	3,476	74	419	77,921		2,845	446
Accepting houses	1986	Mar. 19	3	12	91	31	47	3,493	1,022	—	362	1,288
			Apr. 16	5	14	372	53	51	3,812		1,075	—
Other British banks	1986	Mar. 19	53	—	154	44	64	19,824	1,204	—	317	1,614
			Apr. 16	1	15	251	78	65	20,463		1,673	—
<b>Overseas banks:</b>	1986	Mar. 19	1	—	7	5	83	7,022	1,248	—	314	289
			Apr. 16	1	—	20	4	69	7,424		1,292	—
Japanese banks	1986	Mar. 19	4	—	—	—	597	1,733	960	—	20	1,518
			Apr. 16	4	—	—	—	587	1,805		986	—
Other overseas banks	1986	Mar. 19	22	8	156	186	466	13,896	2,734	—	319	1,051
			Apr. 16	22	8	254	189	456	14,502		2,730	—
<b>Consortium banks</b>	1986	Mar. 19	—	—	—	4	26	487	261	—	124	221
			Apr. 16	—	—	—	4	23	496		259	—
<b>Total</b>	1986	Mar. 19	236	533	6,266	348	1,743	122,177	10,059	-2,693	6,509	8,838
			Apr. 16	310	395	4,373	402	1,670	126,423		10,860	446

**Other currency assets**

			Market loans and advances							Bills	Investments	Sterling and other currencies Miscellaneous assets[c]	Acceptances	Eligible liabilities
			Total	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector	Overseas					
<b>British banks:</b>	1986	Mar. 19	48,653	15,759	11,678	408	184	4,446	31,937	653	4,926	15,736	3,605	86,899
			Apr. 16	49,171	15,515	11,332	351	179	4,330	32,979	648	5,262	15,513	3,344
Accepting houses	1986	Mar. 19	10,730	3,983	2,789	544	18	1,023	6,356	49	1,369	1,775	3,741	5,990
			Apr. 16	10,666	3,890	2,904	525	17	965	6,255	63	1,401	1,890	3,899
Other British banks	1986	Mar. 19	28,113	10,085	6,211	182	732	2,368	18,619	23	1,233	2,059	1,199	20,822
			Apr. 16	27,734	9,731	6,376	133	714	2,320	18,191	26	1,169	1,994	1,125
<b>Overseas banks:</b>	1986	Mar. 19	78,237	23,450	8,499	1,409	30	9,747	58,551	43	2,158	3,792	3,422	9,575
			Apr. 16	77,761	22,750	8,172	1,243	30	9,599	58,717	52	2,551	4,086	3,319
Japanese banks	1986	Mar. 19	162,851	25,366	28,636	1,311	560	7,573	124,771	121	14,862	830	2,285	7,240
			Apr. 16	158,864	25,403	27,341	1,432	571	7,903	121,617	99	14,773	656	2,220
Other overseas banks	1986	Mar. 19	146,133	37,040	30,676	6,908	143	10,771	97,636	1,195	8,955	2,409	6,463	21,135
			Apr. 16	145,272	36,407	29,840	7,100	142	10,763	97,427	1,165	8,938	2,158	6,457
<b>Consortium banks</b>	1986	Mar. 19	13,460	5,722	1,364	394	1	270	11,431	107	939	322	240	1,200
			Apr. 16	12,930	5,587	1,404	338	—	281	10,907	101	1,072	757	245
<b>Total</b>	1986	Mar. 19	488,177	121,405	89,853	11,156	1,668	36,198	349,301	2,191	34,442	26,923	20,955	152,861
			Apr. 16	482,398	119,283	87,369	11,122	1,653	36,161	346,093	2,154	35,166	27,054	20,609

[Table 4 in the Quarterly Bulletin]

Sterling assets continued				Other currency assets				Total assets/liabilities		
British government stocks	Investments		Other sterling assets	Total	Certificates of deposit	Bills	Other			
	Local authorities	Other								
231	39	301	65	249	150	61	38	8,136	1985	Nov. 20
292	37	335	51	340	148	135	57	8,713		Dec. 11
47	28	362	58	226	120	40	66	7,986	1986	Jan. 15
185	27	391	57	335	99	104	132	8,377		Feb. 19
593	22	403	70	217	84	35	98	8,826		Mar. 19
482	22	407	69	272	86	39	147	9,147		Apr. 16

# K UK monetary sector: transactions in liabilities and assets<sup>[a]</sup>

[Table 6 in the Quarterly Bulletin]

£ millions

Month ended	Liabilities													
	Total	Domestic deposits								Overseas sector deposits				Non-deposit liabilities
		Total		Public sector				Private sector		Sterling		Other currencies		
		Unadjusted	Seasonally adjusted	Sterling		Other currencies		Sterling		Other currencies		Sterling	Other currencies	
		Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	
1985 Apr. 17	+ 2,265	+ 4,369	+ 3,575	- 95	+ 98	-	9	+ 4,258	+ 3,271	+ 215	+ 354	- 3,795	+ 1,337	
May 15	- 3,723	+ 506	+ 628	- 105	- 172	-	35	+ 239	+ 428	+ 337	- 220	- 5,103	+ 1,094	
June 19 <sup>[b]</sup>	+ 10,926	+ 3,903	+ 3,370	+ 189	+ 104	-	15	+ 3,074	+ 2,626	+ 655	- 263	+ 5,893	+ 1,393	
July 17 <sup>[b]</sup>	+ 7,479	+ 378	- 129	- 3	- 37	-	29	- 344	- 817	+ 754	+ 421	+ 4,401	+ 2,279	
Aug. 21	+ 433	+ 2,902	+ 2,908	+ 269	+ 183	-	17	+ 2,073	+ 2,165	+ 577	+ 291	- 2,375	- 385	
Sept. 18	+ 9,869	+ 1,419	+ 1,811	- 277	- 17	-	1	+ 1,946	+ 2,078	- 249	- 6	+ 8,049	+ 407	
Oct. 16	+ 1,071	+ 1,758	+ 1,573	+ 445	+ 356	+ 15	15	+ 1,152	+ 1,056	+ 146	- 208	- 2,391	+ 1,912	
Nov. 20	+ 10,592	+ 3,820	+ 3,500	+ 483	+ 281	+ 4	4	+ 2,460	+ 2,342	+ 873	- 536	+ 8,881	- 1,573	
Dec. 11	+ 2,585	- 344	+ 194	- 558	- 384	-	54	+ 439	+ 803	- 171	+ 66	+ 1,131	+ 1,732	
1986 Jan. 15	+ 7,841	+ 422	+ 639	+ 466	+ 306	+ 6	6	- 398	- 21	+ 348	+ 1,346	+ 7,338	- 1,265	
Feb. 19	+ 10,110	+ 772	+ 1,622	- 160	- 134	-	36	+ 398	+ 1,222	+ 570	+ 666	+ 7,699	+ 973	
Mar. 19	+ 8,016	+ 3,465	+ 3,664	+ 22	+ 171	+ 2	2	+ 2,755	+ 2,805	+ 686	+ 1,351	+ 3,524	- 324	
Apr. 16	+ 13,945	+ 6,538	+ 5,681	+ 1,375	+ 1,489	-	15	+ 5,030	+ 4,059	+ 148	+ 1,014	+ 5,571	+ 822	

Month ended	Assets														
	Total	Lending to public sector						Lending to private sector				Lending to overseas sector			
		Total		Sterling				Sterling		Other currencies		Sterling		Other currencies	
		Unadjusted	Seasonally adjusted	Central government		Other		Unadjusted	Seasonally adjusted	Other currencies		Sterling		Other currencies	
1985 Apr. 17	+ 2,265	+ 2,397	+ 699	+ 1,960	+ 437	- 101	+ 1,932	+ 1,675	+ 1,461	+ 656	- 4,080				
May 15	- 3,723	- 155	- 486	+ 181	- 336	+ 108	+ 669	+ 1,241	- 241	+ 251	- 4,355				
June 19 <sup>[b]</sup>	+ 10,926	+ 1,765	+ 150	+ 1,992	- 227	- 67	+ 300	+ 921	+ 12	+ 15	+ 8,901				
July 17 <sup>[b]</sup>	+ 7,479	- 3,562	- 2,300	- 3,324	- 238	- 78	+ 4,293	+ 2,717	+ 546	- 479	+ 6,759				
Aug. 21	+ 433	+ 2,915	+ 2,403	+ 3,275	- 360	- 9	+ 68	+ 711	- 1,231	- 670	- 640				
Sept. 18	+ 9,869	+ 879	+ 1,275	+ 1,370	- 491	- 19	+ 515	+ 1,080	+ 408	+ 211	+ 7,875				
Oct. 16	+ 1,071	- 1,024	- 808	- 668	- 356	+ 257	+ 3,710	+ 2,411	- 25	- 20	- 1,827				
Nov. 20	+ 10,592	+ 1,136	+ 278	+ 1,708	- 572	- 170	- 304	+ 381	+ 185	+ 43	+ 9,702				
Dec. 11	+ 2,585	+ 1,133	+ 672	+ 1,479	- 346	+ 25	- 1,103	+ 1	- 123	+ 1,589	+ 1,064				
1986 Jan. 15	+ 7,841	- 3,204	- 1,312	- 3,276	+ 72	+ 220	+ 3,645	+ 2,516	+ 2,191	+ 273	+ 4,716				
Feb. 19	+ 10,110	- 2,622	- 1,287	- 2,141	- 481	+ 3	+ 3,151	+ 3,366	+ 588	- 492	+ 9,482				
Mar. 19	+ 8,016	+ 1,686	+ 1,891	+ 1,740	- 54	- 52	+ 2,207	+ 2,433	+ 1,209	- 402	+ 3,368				
Apr. 16	+ 13,945	+ 3,052	+ 1,454	+ 3,372	- 320	+ 17	+ 3,744	+ 3,077	+ 742	+ 1,841	+ 4,549				

[a] This table comprises all banks included in Table 3 in the *Quarterly Bulletin* together with the discount market. Interbank items are excluded and adjustments made to allow for transit items (see additional notes to Table 6 in the *Quarterly Bulletin*).

[b] See footnote [e] to Table E on page 3.

### Symbols and conventions

- nil or less than £½ million.

--- figures above and below are not strictly comparable.

Owing to rounding of figures, the sum of the separate items will sometimes differ from the total shown.

Issued by the Financial Statistics Division, Bank of England, London EC2R 8AH.

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FROM: T TARKOWSKI  
DATE: 25 APRIL 1986

- 1. MR WALSH ✓
- 2. CHANCELLOR

2.8% would be the largest  
monthly increase in £M3  
since last April's 2.9%.

cc: Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Scholar  
Mr Peretz  
Mr Sedgwick  
Mr Richardson  
Mr Hannah  
Mr Heath  
Mr Ross Goobey

*Handwritten notes (top left):*  
 Mr Walsh ✓  
 Mr Burns ✓  
 Mr Peretz ✓  
 Mr Sedgwick ✓  
 Mr Richardson ✓  
 Mr Hannah ✓  
 Mr Heath ✓  
 Mr Ross Goobey ✓  
 Mr Middleton ✓  
 Mr Scholar ✓  
 Mr Cassell ✓  
 Mr G Littler ✓

*Handwritten notes (middle):*  
 Big red reserve for the residual  
 looks very odd. Hope for lower  
 figures at provisional stage.  
 CR 2514  
 M.W. 25/4

MONEY SUPPLY IN BANKING APRIL : "FIRST GUESS" *please P&M advise about £M3, RL*

I attach the Bank's monthly note setting out their "first guess" at the money supply figures for banking April, which ended on 16 April.

Summary

2. **£M3** is estimated to have risen 2.8 per cent, compared with a forecast increase of 1.3 per cent. This suggests a final outturn in the range of 2½ per cent to 3 per cent. On this basis the annual growth rate of £M3 to banking April would be in the range of 16 per cent to 16½ per cent, outside its 11-15 per cent target range. **M0** rose by 0.2 per cent, as forecast. Annual growth is in the bottom half of the 1986-87 target range, at 3.2 per cent. Table 1 below gives the implied growth rates in the target aggregates.

3 The increase in **£M3** is larger, even, than we expected. The presence of a substantial expansionary residual in the counterparts (£1,800 million) means that the distribution of the counterparts may well change considerably in the provisionals. But it does not necessarily hold out hope that the figure for **£M3** will decrease. The residual arises, essentially, because of assymetry in transactions between the weekly and non-weekly reporting banks, and depending on the causes, its resolution may equally increase or reduce **£M3** or leave it unaffected.

*Handwritten note:* but still some hope



Table 1: Monetary Aggregates - First guess : banking April

Monthly percentage change	per cent	
	<u>M0</u>	<u>£M3</u>
First guess	0.2	2.8
Likely outturn	0.2	2½ - 3
3 month annualised rate	0.4	26½ - 28¾
6 month annualised rate	4.9	18½ - 19½
Annual rate	3.2	16 - 16½

M0

4. The annual growth rate for M0 at 3.2 per cent is slightly down from last month (3.6 per cent), comfortably in the bottom half of its target range. This is in line with the forecast which predicts that M0's annual growth rate stays in a 3 to 3½ per cent range during the forecast period.

£M3 components

5. In banking April £M3 is thought to have increased by £3,600 million: 2.8 per cent, compared with the increase of 1.3 per cent in the forecast circulated in Mr Walsh's monetary prospects submission of 17 April (which superseded the forecast reported in the Bank's note). Among the components, notes and coin rose by £30 million. Non-interest bearing sight deposits rose by £200 million. Interest-bearing sight deposits rose £950 million and time deposits £2,420 million.

6. There were no major distorting factors likely to affect the components of £M3 (eg share sales, gilt redemptions etc) during banking April, so far as we are aware.



### £M3 counterparts

7. Table 2 (attached) compares £M3 counterparts in the first guess with those in the forecast. £M3 is estimated to have risen by £3,600 million, about £2,000 above forecast. The main factors accounting for the difference appear to be a higher than forecast LABR (which also increased the expected under-fund) and a very large (expansionary) residual.

8. The "PSBR" is estimated at £1,640 million, about £420 million above forecast. This is largely accounted for by an "LABR" around £350 million above forecast. LAs have recently been borrowing heavily from Central Government, and using the proceeds to repay debt to the monetary sector (or run up bank deposits). Their estimated borrowing from Central Government this month, at £3,100 million, this month/<sup>is much</sup> as forecast, but net repayment to the banks appears to be around £350 million lower than expected. LAs' borrowing from Central Government could equally have been used to finance increased expenditure, or to run down holdings of nbps-held debt.

9. Sterling lending is estimated to be close to forecast at £2,190 million (last month, £2.6 billion). The forecast included a boost of around £1 billion associated with the abolition of capital allowances. The Bank report that very little new sterling lending has been channelled through leasing companies (as also happened last month). High company profitability makes it quite possible that companies have borrowed direct from banks to take advantage of capital allowances. This means, however that it will not be possible to confirm that there is definitely a capital allowance effect from banking statistics: we will need to wait for quarterly industrial investment figures before we can be sure.

10. Taken together, net private externals and NNDLs were expansionary by £570 million (forecast contractionary by £750 million). At this stage, the division between NNDLs and externals





is not on the same basis as that used in the forecast, and the position is further complicated by the treatment of the residual error, which is included in NNDLs. However, the figure for the residual (including NNDLs) is a very large expansionary factor (£1,800 million). As explained above (paragraph 3) this means that the figures next week are likely to look rather different.

11. It is estimated that there was an under-fund in banking April of £860 million, compared with a forecast under-fund of £370 million (seasonally adjusted), reflecting the higher than expected "PSBR".

### Timetable

12. We will receive provisional April figures on Friday 2 May, and they will be published on Tuesday 6 May. Full money and banking figures will appear on Thursday 15 May.

13. I am sending a copy of this minute to Mr Norgrove at No 10 Downing Street.

*Tancred Tarkowski*  
T TARKOWSKI

TABLE 2 : BANKING APRIL 1986

"First guess" compared to forecast

		£ millions, seasonally adjusted	
		FIRST GUESS	FORECAST*
CGBR (ex bank deposits)		+2,720	+2,955
CG debt:			
	Gilts	-790	-710
	Treasury Bills	-20	-
	National Savings	-50	-65
	CTD's	-150	-135
		----	----
		-1,010	-910
Other public sector:			
	LA	-1,440	-1,805
	PC	+360	+70
		---	---
		-1,080	-1,735
External and fc. finance of the public sector		+230	+60
Sterling lending to UK private sector (inc. Issue Dept. commercial bills)		+2,190	+2,060
Net private externals**		-1,240	-455
Residual (includes NNDLs** and reporting differences)		+1,810	-300
		-----	-----
£M3		+3,600	+1,675
		-----	-----
(Monthly percentage change)		(+2.8%)	(+1.3%)
Wide over(-)/underfunding(+)		+860	+370

\* As circulated in Mr Walsh's "Monetary Prospects submission of 17 April 1986.

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

25.4.86

THE GOVERNOR'S SECRETARY (2)  
 THE DEPUTY GOVERNOR  
 MR LOEHNIS  
 MR GEORGE  
 MR WALKER  
 MR FLEMMING  
 MR COLEBY  
 MR WILLETTS  
 MR PLENDERLEITH  
 MR TAYLOR  
 MR W A ALLEN

MR BULL  
 MR COLLINS  
 MR HOTSON  
 MR MIDGLEY/GROUP 7/2  
 MR PENNINGTON/GROUP 2/2  
 MR THORP  
 MR TOWNEND  
 MR M ST J WRIGHT/GROUP 2/4  
 MR McCONNACHIE

MR WALSH (HMT)  
 MR TARKOWSKI (HMT)

FROM: Miss R Borer / C R Mann

BANKING APRIL 1986 - A FIRST ESTIMATE

£ millions, seasonally adjusted

*The provisional estimates of the monetary aggregates for banking April will be published at 2.30 pm on Tuesday 6 May and the full money and banking figures will be published at 2.30 pm on Thursday 15 May. Even after 15 May, some of the information contained in this note remains confidential to the Bank, and group 2/3 should be consulted if there is doubt about its availability.*

1 Figures received from the weekly reporting banks show an increase in £M3 of 3600 in banking April. An estimate of the monetary sector as a whole, based on these returns, would suggest a final outturn in the range of +2 1/2% to +3% (compared with a forecast increase of 0.9%) and a 12-month growth rate in the range of +16% to +16 1/2%, outside the target range of 11-15% announced in the Budget.

2 Among the components of £M3, notes and coin are estimated to have risen by 30, and private sector non-interest-bearing sight deposits to have increased by 200. Private sector interest-bearing sight deposits are estimated to have risen by 950. Private sector time deposits (including CDs) are estimated to have risen by 2420: within this, time deposits rose by 1940 and CDs by 480. Within the total increase of 2890 in interest bearing deposits, retail IB deposits rose by 940.

3 Our latest estimate for M0 for banking April is +0.2%, or +3.2%

over the last twelve months, within the new target range of 2-6% announced in the Budget. This includes figures received from the Scottish note issuing banks and also revised estimates for coin. Information has not yet been received from the Northern Irish banks.

4 The table attached compares counterparts to FM3 with the forecast as circulated in the FR of 17 April. The estimated CGBR is +2720, ie 1060 above forecast: within this, the CG own account was -230 while on-lending to LAs was +3070, and on-lending to PCs was -120. Net sales of central government debt to the non-bank private sector are estimated to have been -1010, 130 more contractionary than forecast. Gilts contributed -790, ie an increase of nbps holdings, close to the forecast of -710. There were net purchases of CTDs of -150, of Treasury Bills of -20, and of National Savings of -50.

5 The direct contribution of the rest of the public sector is estimated to have been contractionary by -1080, (30 more contractionary than forecast). Local authorities were -1440, (200 more contractionary than forecast), and PCs were +360, (170 more than forecast). Thus local authorities, having borrowed some £3.1bn from the central government, have repaid 170 of borrowing from public corporations and 420 of borrowing from weekly banks, as well as building up bank deposits of 940 with weekly banks. In the figuring as shown in the attached tables (after allowing for other financial transactions of LAs), it is implied that the local authorities must have paid £1.6bn to the non-bank private sector, either by repaying borrowing from the nbps, or by net spending; this represents a substantially more expansionary influence on FM3 than the forecasters (who had allowed for 200-300 of teachers' back pay) were expecting. It is possible that the expansionary influence of LAs' financial transactions is not as strong as the figures suggest, for two reasons. Firstly, LAs may have repaid borrowing from non-weekly banks or built up deposits with them; secondly, LAs may have purchased bank

CDs. However, market intelligence suggests that none of these transactions is likely to have taken place on a substantial scale. LA transactions with non-weekly banks will be available next week in the full monthly figures. LA purchases of CDs are only available calendar monthly, with a lag; purchases in calendar March were negligible (and total LA holdings of CDs have never exceeded £80mn in the past 4 years).

6 "Narrow overfunding" (ie the CGBR plus the direct contribution of the rest of the public sector, net of CG debt sales to the non-bank private sector) was +630 (ie. an underfund). External and foreign currency finance of the public sector (EFCFPS) was +230 and, therefore, "wide overfunding" (ie the sum of narrow overfunding and EFCFPS) was +860, (ie an underfund) compared with a forecast of -250.

7 Bank lending in sterling to the private sector is estimated to have increased by 2190, compared with a forecast rise of 2010. There was an increase of 210 in banks' holdings of investments, and lending by two banks particularly associated with leasing activity was only £100mn. The forecasters had been expecting a boost to bank lending of 800 to forestall the end of capital allowances; if this has occurred then the figures suggest it is more likely to have taken the form of direct lending to companies, rather than being routed via leasing companies. It will therefore be difficult to establish conclusively from the banks' own figures whether the high lending is attributable to the ending of capital allowances (companies' investment figures for the March quarter are not likely to be available for some time).

8 Other identified external and foreign currency transactions (ie excluding EFCFPS) were -1240, but this may be a poor guide to the final outturn for the externals.

9 The residual (including NNDLs) was expansionary by 1810. This is a large figure and must include substantial lending by the weekly banks to the non-weekly banks. Whether the non-weekly banks have 'used' the proceeds to repay deposits to the non-bank private sector (so reducing their contribution to £M3), or whether they have lent out the proceeds (so tending to inflate bank lending beyond the level suggested by the weekly banks), or indeed whether the non-weekly banks have increased both deposits and lending, the latter by more, is as always uncertain.

Financial Statistics Division

Money & Banking Aggregates Group BB-1

25 April 1986

MISS R BORER (4471) / C R MANN (4764)

*RB*

*CRM*



FROM: MRS R LOMAX

DATE: 28 April 1986

MR WALSH

*1. Copy 29/4*  
*26/1/86*  
*reprise on para 2.*

cc Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Sir G Littler  
 Mr Cassell  
 Mr Peretz  
 Mr Sedgwick  
 Mr Scholar  
 Mr Tarkowski  
 Mr Ross-Goobey

**MONEY SUPPLY IN BANKING APRIL: FIRST GUESS**

The Chancellor has seen Mr Tarkowski's minute of 25 April. He has commented that we shall need to make clear that capital allowances were once again (and for the last time) a factor.

2. In the meantime, he would be grateful for figures showing the growth of bank lending over the past year broken down into consumer borrowing and business borrowing.

A handwritten signature in cursive script, appearing to read 'R Lomax'.

RACHEL LOMAX

SECRET

FROM: R M HEATH  
DATE: | May 1986

*RMH*

MR WALSH

cc: PPS  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Scholar  
Mr Sedgwick  
Mr Culpin  
Mr Pickford  
Mr Richardson  
Mr Hannah  
Mr Ridlington  
Mr Tarkowski  
Dr Coyle  
Mr Ross Goobey

**PROVISIONAL MONEY SUPPLY FIGURES: BANKING APRIL**

The Bank have informed us that because of the Bank holiday on Monday, they require comments on the press notice - to be published on Tuesday as usual - by lunchtime on Friday. This is about one day ahead of the usual schedule. Consequently the provisionals note must be circulated by tonight.

*R. Heath.*

R M HEATH



The Bank's press release will refer to capital allowances - (see attached). H.W. 1/5

FROM: R M HEATH  
DATE: 1 MAY 1986

- 1. MR WALSH
- 2. CHANCELLOR

- cc: Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Cassell
- Mr Peretz
- Mr Scholar
- Mr Sedgwick
- Mr Culpin
- Mr Pickford
- Mr Richardson
- Mr Hannah
- Mr Ridlington
- Dr Coyle
- Mr Tarkowski
- Mr Ross Goobey

C/ Any comments on press notice or press briefing?

Continue with link. H.W.

CR 1/5

In view of the Bank holiday the need to be prepared early morning. It can be considered in the light of the market meeting, if necessary. Bank may jump to 60 and for PROVISIONAL MONEY FIGURES : BANKING APRIL keep up movement to a new minimum given our new approach to presenting interest rate

The provisional money supply figures for banking April will be published by the Bank at 2.30 pm on Tuesday 6 May. This note reports the figures and provides the usual draft press briefing. This is the only power to CA's

SUMMARY

2. M0 rose by 0.3 per cent (compared with a rise of 0.2 per cent in the first guess and in the forecast). This will appear in the press notice as a rise of "about ¼ per cent". Annual growth of M0, at 3.2 per cent is within the lower half of the 1986-87 target range.

3. £M3 is provisionally estimated to have risen by 3.1 per cent in banking April (compared with a first guess of 2.8 per cent and a forecast of 1.3 per cent). This will appear in the press notice as a rise of "about 3 to 3¼ per cent". The twelve-month growth rate of £M3 has increased to 16.6 per cent from last month's rate of 16.4 per cent. This is above the upper end of the 1986-87 target range of 11-15 per cent.

4. Table 1 (below) gives the implied growth rates in both aggregates to mid-April. Tables 4, 5 and 6 (attached) give

growth rates since August 1985 for these and other aggregates.

Table 1 : Monetary Aggregates (provisional)

	Banking April	Figures Press Notice	Annual Growth Rates		
			3 months	6 months	12 months
M0	0.3	about $\frac{1}{4}$	0.4	5.0	3.2
£M3	3.1	about 3-3 $\frac{1}{4}$	24.3	19.5	16.6

5. Sterling lending increased by £3,000 million, a record increase in money terms, but the same in percentage terms as April last year (2.1 per cent).

#### PRESENTATION OF FIGURES

6. The figures for £M3 are substantially above expectations. We have received only one outside forecast so far (which predicts  $\frac{3}{4}$  per cent) but the Financial Times has reported that the market expects bad figures. There was also a large increase last April of 2.9 per cent. The reason then, as partly now, was related to the phasing out of capital allowances.

7. M0 is behaving well. Twelve-month growth of 3.2 per cent is well within the target range and indeed is at its lowest, except for the erratic Christmas period, since end-1982.

8. The suggested line to take in the attached draft briefing is broadly in line with what we said last month. It points to the need to look at a range of evidence over a period of months in forming a judgement and refers to the likelihood that the bank lending figure has again been affected by the change in capital allowances.

9. The Bank's draft press notice, for publication at 2.30 pm on Tuesday 6 May, is attached.

10. Can I please have comments on the press notice by lunch-time on Friday 2 May, and on the draft press briefing by close on that day.

as you suggested

## DETAIL

M0

11. The annual growth rate of M0 at 3.2 per cent was close to forecast and was down from 3.6 per cent in March. Notes and coin in circulation rose by 30. All of this increase occurred in the early weeks of the month and so the early indicators are that May growth will be modest. Bankers' balances in April rose by 10 and were virtually at their target level.

£M3: components

12. Table 2 sets out the changes in the components of £M3 (and PSL2A).

13. All components of £M3 rose sharply in April with the exception of notes and coin. NIB deposits rose £180 million, following on from the £166 million in March, a rate around £100 million above the previous year's average. IB sight deposits rose by £1190 million, most of which was contributed by the clearers. This increase also followed a large rise of £1½ billion in March. Time deposits (including CDs) rose by £2690 million, one of the largest increases ever recorded.

14. Retail deposits (IB and NIB) rose by well over £1 billion (see Table 2). This was over double the average for the previous twelve months. Wholesale deposits, likewise, grew considerably faster than recent experience. There are two possible explanations for the sharp rise in deposits. Firstly, the local authorities borrowed £3 billion from the PWLB. Around £900 million of this is estimated to have been used to repay private sector holdings of local authority debt. This could be temporarily held on deposit. The local authorities themselves built up bank deposits by almost £1 billion, an extraordinarily high figure. Although the latter is not counted in £M3 it would have made the banks more liquid. Secondly, with £1 billion of calls on gilts in banking May, with £755 million to follow in June, it is possible that the private sector began building up deposits in anticipation.

*i.e. a major factor in boosting £M3 growth probably*

TABLE 2: The Components of £M3 and PSL2A banking April 1986

		£ million, seasonally adjusted		
		Banking April	growth in previous 12 Months to March	
			monthly rate	percentage increase
Notes and coin in circulation		5	17	1.7
Bank deposits:				
Retail	(a) interest bearing	936	426	15.5
	(b) non-interest bearing	181	83	4.7
Wholesale (including £CDs)		2,944	987	26.6
Change in £M3		4,066	1,513	16.4
Bills and other non-building society flows in PSL2A		-115	23	1.8
Building Society:				
Inflows	(a) retail (incl. interest credited)	1,131	1,145	14.6
	(b) wholesale	-55	41	n/a
Liquid Assets (inc -)		-499	-287	n/a
Change in PSL2A		4,528	2,435	13.5

£M3: counterparts

15. Table 3 compares the provisional counterparts of growth in £M3 to the forecast in Mr Walsh's monetary prospects submission of 17 April. The counterparts also appear, in simplified form, in the Bank's draft provisionals press notice.

16. Sterling lending at £3005 million was the largest increase ever in money terms, although the same as last April in percentage terms. It was around £1 billion above forecast. In the last three months sterling lending has increased by £7.1 billion in total, 5 per cent of the stock, or £2360 million a month. This compares with a monthly average of around £1700 million in the previous year. The most likely explanation of this surge in lending is the phasing out of capital allowances. As yet the Bank have only been able to identify a small amount of lending for leasing purposes, but it is possible that this year more capital allowance lending was done directly with companies, given that their increased profitability would mean that they would need less recourse to leasing companies. The other factor boosting lending could be the recent merger/takeover activity. In April bank investments (which are included in lending) rose by £420 million, a strong rise, but the Bank have again identified little other direct lending for takeover/mergers. One factor reducing bank lending was the bill leak, which at £555 million was the largest rise ever.

17. In the month the overall impact of the public sector (including funding) was expansionary by £570 million (forecast £370 million). The modified PSBR at £1380 million was close to forecast as were debt sales at £890 million.

18. Within the 'PSBR' there was on lending of £3 billion to local authorities, of which £900 million was used to repay market debt and £943 million placed on bank deposits (total public sector bank deposits rose by £1.4 billion). PCs repaid £170 million of central government borrowing but borrowed £228 million from the banks.

## SECRET AND PERSONAL

TABLE 3: PROVISIONAL STERLING M3 IN BANKING APRIL 1986

<u>DOMESTIC COUNTERPARTS</u>		£ million seasonally adjusted	
		<u>Provisional</u>	<u>Forecast<sup>1</sup></u>
CGBR:	own account	-172	0
	on-lending to LAs	+3,045	+3,046
	on-lending to PCs	-170	-93
		<hr/>	<hr/>
		+2,703	+2,955
Other public sector:	Local Authorities	-1,565	-1,805
	Public Corporations	+228	+70
	PC currency deposits	+15	-
		<hr/>	<hr/>
		-1,322	-1,735
Net purchases of CG debt by non-bank private sector (inc -):			
	Gilts	-693	-710
	Treasury bills	-22	-
	National Savings	-46	-65
	Certificates of tax deposit	-136	-135
	Other	+6	-
		<hr/>	<hr/>
		-891	-910
External and fc finance of public sector		+80	+60
Sterling lending to the private sector:			
	Bank lending to private sector	+3,045	
	Issue Department Commercial bills <sup>2</sup> (inc. Shipbuilding repos)	-40	
		<hr/>	<hr/>
		+3,005	+2,060
Sub-total: Domestic Counterparts plus external and fc finance of the public sector		+3,711	+2,430
<u>EXTERNAL COUNTERPARTS<sup>3</sup></u>			
External and foreign currency finance			
	£ deposits net from banks abroad (inc -)	+571	
	Other overseas £ deposits (inc -)	-934	
	£ lending to overseas non-banks	+664	
	Banks' net foreign currency liabs (inc -)	-396	
	Foreign Currency net non-dep liabilities	+294	
	Seasonal adjustment	+399	
		<hr/>	<hr/>
		+598	-455
<u>NET NON-DEPOSIT LIABILITIES (inc -)</u>		-109	-300
<u>STERLING M3</u>		+4,066	+1,675
(monthly % change)		(3.1)	(+1.3)
OVER(-)/UNDERFUNDING(+) <sup>4</sup>		+570	+370

1 As circulated in the Monetary Prospects Submission of 17 April 1986.

2 There was also a decline in Banking department holdings. Total holdings by the Bank fell £3,146 million.

3 Excluding external flows to the public sector.

4 Wide definition

19. Gross gilts sales were £1472 million. The nbps and overseas bought £931 million net, the largest amount since November last year and the second largest since the decision to end overfunding. The monetary sector sold £147 million.

20. Taken together externals and NNDLs were expansionary by £490 million. There were heavy inflows of deposits by overseas non-banks (£934 million) but this was offset by even heavier lending (£1315 million in total). Within NNDLs the interbank difference at +£200 million was relatively modest.

R. Heath.

R M HEATH

cc: Mr Norgrove - No 10  
Mr George - Bank of England  
Mr Mann - FSD, Bank of England

SECRET AND PERSONAL  
UNTIL 2.30 PM ON TUESDAY 6 MAY 1986

**MONEY SUPPLY IN BANKING APRIL : PRESS BRIEFING**

**LINE TO TAKE**

Balance of evidence suggests conditions remain adequately but not excessively tight. M0 remains well within target range. Exchange rate firm. High £M3 growth in banking March and April probably reflects companies' reaction to **changes in capital allowances,** as happened last year (and some underfunding this month).

**FACTUAL**

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

- (i) Policy: See Chancellor's major statement on monetary policy in 16 April speech to the Lombard Association.
- (ii) M0: Well within new 2-6 per cent target range.
- (iii) £M3: Recent monthly path has been erratic, so need to look at period of several months. Average increase in last six months is 1.5 per cent.
- (iv) Sterling lending: Erratic. Probably several factors at work (eg. abolition of capital allowances from 1 April; high takeover and merger activity). Clear evidence available on some of this activity but impossible to quantify the total sums involved. Percentage increase in sterling lending this month same as in April 1985, when capital allowance changes also affected figures.



**B. POSITIVE**

(i) Overall Strategy

As Chancellor said in Lombard Association Speech, experience continues to confirm value of clear commitment to MTF5 and ultimate objective of lower inflation. Record on inflation (now down to 4.2 per cent and falling), and real growth averaging 3 per cent a year since 1981, while halving the growth of money GDP demonstrates success of this.

(ii) Commitment

As Chancellor emphasised again in speech to Lombard Association Government has repeatedly shown itself ready to act decisively when necessary for maintenance of sound financial conditions. Will continue to do so.

(iii) Interest rates

Down 2 per cent since Budget. Demonstrates city's confidence in the Government's approach.

**C. DEFENSIVE**

(i) Monetary policy too tight/too loose?

Necessary to look at whole range of evidence on monetary conditions. Signals often conflicting, and requiring careful interpretation in the light of developments over a period of months. Judgement: present conditions sufficiently, but not excessively, tight; but kept under constant review.

(ii) £M3 annual growth already above higher target range published in 1986 MTF5

£M3 growth in both March and April was particularly high almost certainly as result of capital allowance changes, and also because of some underfunding in both months. Lombard Association Speech explained

reasons for setting target range for 1986-87 at 11-15 per cent, and need to weigh developments in £M3 against other evidence before reaching conclusions on what they are telling us about monetary conditions.

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No. See Lombard Speech. Government's first priority remains defeat of inflation. Short-term interest rates are principal policy instrument. Exchange rate certainly among the factors which we take into account, since in an economy as open as the UK's there is a presumption that persistent exchange rate movements reflect, to some degree, underlying monetary conditions, as explained by Chancellor in last night's Lombard Association Speech. A firm exchange rate is also an important discipline on industrial costs. But exchange rate is only one input - albeit an important

one: judgement must always be made in the light of all the evidence. Aim is to strike balance between domestic monetary growth and the exchange rate that will deliver conditions that keep downward pressure on inflation.

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SCP increases the range of options open to companies for raising funds outside the banking system. So possible there may be some effects, though not necessarily immediately. Have to remember there is already a wide range of options open to companies seeking to raise funds. Can't predict how SCP market will develop, or to what extent it may substitute for intermediated borrowing (which would reduce £M3 and bank lending).

## 1984-85 KEY AGGREGATES

Table 4

TARGET AGGREGATES

		AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APRIL
<u>£M3</u>	(Exc. Public sector deposit)									
	Monthly change (£ millions)	+2,215	+2,125	+960	+2,404	+741	+87	+1,225	+2,821	+4,066
	Monthly % change	+1.9	+1.8	+0.8	+2.0	+0.6	+0.1	+1.0	+2.2	+3.1
	Three-monthly % change a.r.	+14.8	+12.5	+19.5	+19.8	+14.3	+11.0	+6.8	+14.0	+24.3
	Six-monthly % change a.r.	+16.6	+18.7	+13.8	+17.3	+13.4	+15.2	+13.1	+14.1	+19.5
	12 Monthly % change	+13.6	+14.2	+14.6	+14.4	+15.1	+14.1	+14.8	+16.4	+16.6
<u>MO</u>	Averaged weekly									
	Monthly change (£ millions)	-79	+59	-33	+79	+49	+205	-92	+65	+41
	Monthly % change	-0.6	+0.4	-0.2	+0.6	+0.3	+1.4	-0.6	+0.5	+0.3
	Three-monthly % change a.r.	+2.4	+1.1	-1.5	+3.0	+2.7	+9.8	+4.6	+5.1	+0.4
	Six-monthly % change a.r.	+3.3	+3.3	+1.4	+2.7	+1.9	+4.0	+3.8	+3.9	+5.0
	12-monthly % change	+4.5	+4.2	+3.4	+3.4	+2.4	+4.5	+3.5	+3.6	+3.2
<u>OTHER AGGREGATES</u>										
<u>PSL2</u>	Monthly change (£ millions)	+2,460	+2,716	2,520	+4,444	+1,658	+1,729	+3,390	+3,990	+4,722
	Monthly % change	+1.2	+1.3	+1.2	+2.1	+0.8	+0.8	+1.5	+1.9	+2.1
	Three-monthly % change a.r.	+12.0	+10.4	+16.0	+20.1	+17.6	+15.7	+13.2	+17.8	+24.0
	Six-monthly % change a.r.	+12.5	+12.8	+11.7	+16.0	+13.9	+15.8	+16.6	+17.7	+19.7
	12-monthly % change	+14.4	+14.4	+14.3	+14.3	+14.9	+13.8	+14.5	+15.2	+15.6
<u>M2</u>	Monthly change (£ millions)	+229	+1,512	1,457	+2,209	+1,836	+592	+226	+2,051	+2,694
<u>unadjusted</u>	Monthly % change	+0.2	+1.1	+1.0	+1.6	+1.3	+0.4	+0.2	+1.3	+1.8
	12-monthly % change	+7.1	+8.3	+8.9	+9.6	+9.3	+8.9	+9.6	+10.2	+11.1
	(exc re-classifications)	+7.1	+7.6	+8.2	+8.9	+8.7	+8.2	+9.0	+9.5	+10.5
<u>Levels :</u>	£M3 (Exc. Pub Sec Deps)	118,662	120,809	121,773	124,182	124,926	125,010	126,234	129,163	133,234
	MO (Averaged weekly)	14,100	14,159	14,126	14,205	14,254	14,459	14,367	14,432	14,473
	PSL 2	206,204	208,922	211,443	215,888	217,536	219,268	222,650	226,635	231,359
	M2 (unadjusted)	138,862	140,531	141,988	144,197	146,033	146,625	146,851	148,905	151,599

Table 5

## OTHER NARROW AGGREGATES

		AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APRIL
<u>NIB M1</u>	Monthly change (£ millions)	+542	-309	+157	+455	+167	+34	-82	+187	+186
	Monthly % change	+1.6	-0.9	+0.5	+1.3	+0.5	+0.1	-0.2	+0.5	+0.5
	Three-monthly % change a.r.	+2.4	-22.2	+4.7	+3.6	+9.6	+8.0	+1.4	+1.6	+3.4
	Six-monthly % change a.r.	+2.8	+1.7	+2.1	+3.0	-7.6	+6.4	+2.5	+5.5	+5.7
	12-monthly % change	+2.5	+2.1	+2.3	+1.5	+1.1	+3.0	+2.7	+3.6	+3.9
<u>M1</u>	Monthly change (£ millions)	+1,717	+12	+1,325	+1,420	+961	-419	+94	+1,465	+1,378
	Monthly % change	+3.2	-	+2.4	+2.5	+1.6	-0.7	+0.2	+2.5	+2.3
	Three-monthly % change a.r.	+22.9	+4.8	+24.5	+21.2	+29.2	+14.4	+4.4	+7.8	+21.3
	Six-monthly % change a.r.	+27.9	+23.2	+21.8	+22.0	+16.4	+19.3	+12.5	+18.0	+17.8
	12-monthly % change	+18.4	+17.0	+18.0	+17.1	+17.9	+19.4	+20.0	+20.6	+19.8
<u>M2</u>	Provisionally seasonally adjust									
	Monthly change (£ millions)	+1,546	+1,668	+1,584	+2,704	+675	+802	+922	+1,699	+1,916
	Monthly % change	+1.1	+1.2	+1.1	+1.9	+0.5	+0.6	+0.6	+1.1	+1.3
	Three-monthly % change a.r.	+8.0	+4.6	+14.7	+18.2	+14.8	+12.3	+6.6	+9.5	+12.6
	Six-monthly % change a.r.	+6.5	+7.5	+9.7	+13.0	+9.6	+13.5	+12.2	+12.1	+12.5
	12-monthly % change	+7.4	+8.3	+8.9	+9.5	+9.3	+8.6	+9.3	+9.8	+11.1
<u>Levels :</u>	NIBM1	33,985	33,673	33,831	34,286	34,454	34,489	34,406	34,594	34,786
	M1	56,040	56,080	57,410	58,830	59,790	59,400	59,490	60,990	62,360
	M2 (Partially S/A)	139,478	141,303	142,888	145,592	146,268	147,093	147,924	149,627	151,544

Table 6

## OTHER WIDE AGGREGATES

	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR
<u>PSL1</u>									
Monthly change (£ millions)	+1,894	+1,796	+1,176	+2,371	+652	-253	+1,243	+3,055	+3,693
Monthly % change	+1.6	+1.5	+0.9	+1.9	+0.5	-0.2	+1.0	+2.4	+3.0
Three-monthly % change a.r.	+13.9	+10.1	+17.1	+18.6	+14.2	+9.1	+5.2	+15.2	+28.3
Six-monthly % change a.r.	+16.2	+17.1	+12.5	+16.2	+12.1	13.0	+11.7	+13.7	+18.3
12-monthly % change	+13.6	+13.7	+13.9	+13.5	+14.3	+13.0	+13.9	+15.4	+15.4
<u>PSL2A</u>									
Monthly change (£ milions)	+2,616	+2,457	+1,962	+3,713	+1,322	+1,322	+3,026	+3,760	+4,528
Monthly % change	+1.2	+1.1	+0.9	+1.6	+0.6	+0.6	+1.3	+1.6	+1.8
Three-monthly % change a.r.	+12.2	+9.5	+13.1	+15.1	+12.7	+11.4	+10.0	+14.4	+20.4
Six-monthly % change a.r.	+13.5	+13.5	+11.2	+13.6	+11.1	+12.3	+12.5	+13.6	+15.8
12-monthly % change	+13.5	+13.4	+13.1	+12.9	+13.4	+12.4	+13.0	+13.5	+13.5
<u>M3</u>									
(Exc. Public Sector Deposits)									
Monthly change (£ millions)	+3,165	+2,481	+295	+3,009	+849	+153	+1,679	+3,306	+3,904
Monthly % change	+2.3	+1.8	+0.2	+2.1	+0.6	+0.1	+1.2	+2.3	+2.6
Three-monthly % change a.r.	+13.8	+12.9	+18.8	+17.9	+12.4	+11.9	+7.7	+15.0	+26.9
Six-monthly % change a.r.	+10.5	+14.6	+12.8	+15.8	+12.7	+15.3	+12.7	+13.7	+19.2
12-monthly % change	+13.9	+13.4	+13.1	+12.9	+12.9	+10.9	+11.6	+14.1	+15.9

Levels :

PSL1	122,876	124,674	125,851	128,223	128,860	128,610	129,845	132,895	136,861
PSL2A	227,669	230,128	232,091	235,805	237,117	238,442	241,460	245,277	249,806
M3 (ex. Pub. Sec. Deps)	137,821	140,341	140,631	143,650	144,496	144,657	146,327	149,736	153,643

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING APRIL 1986

Preliminary information suggests that, in the four weeks to 16 April 1986, M0 may have risen by about 1/4% and £M3 may have risen by about 3% - 3 1/4%, after seasonal adjustment.

Note for Editors

1 The provisional estimates for April suggest that recent rates of growth are approximately as follows:

Rates of growth, annualised %; seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	1/2	5	3 1/4
£M3	28 3/4	19 1/2	16 3/4

2 Provisional counterparts to the change in £M3 in banking April are:  
£ billion, seasonally adjusted

PSBR <sup>(1)</sup>	+1.4
Debt sales to nbps <sup>(2)</sup> and external flows to public sector <sup>(3)</sup> (of which, debt sales to nbps -0.9)	-0.8
Sterling lending to private sector <sup>(4)</sup>	+3.0
Other counterparts <sup>(5)</sup>	+0.5
	<u>+4.1</u>

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

3 The PSBR, net of debt sales to the non-bank private sector and external flows to the public sector, was expansionary by about £0.6 billion. The growth in sterling lending to the private sector was about £3.0 billion, compared with an average of about £1.8 billion a month over the preceding six months. Bank lending may have been substantially increased this month, as it was in banking April 1985, by borrowing to finance payments for investment brought forward to take advantage of capital investment allowances prevailing only to the end of the financial year; the seasonal adjustments make no allowance for such factors. Other counterparts taken together were expansionary by about £0.5 billion, compared with an average contractionary influence of some £0.2 billion a month over the last year.

4 Full money and banking figures for April, including revised estimates of the growth rates given above, will be published on 15 May.

CONFIDENTIAL

FROM: H G WALSH  
DATE: 1 MAY 1986

CHANCELLOR

cc: Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Peretz  
Mr Sedgwick  
Mr Scholar  
Mr Hannah  
Mr Tarkowski  
Mr Ross Goobey

*C/ The figures you asked for?*  
*Thank. How about personal non-corporate De self-employs to much of personal sector*  
*includes business, etc. how*  
*John S actual consumer borrow N.*

MONEY SUPPLY IN BANKING APRIL : FIRST GUESS

You requested figures showing the growth of bank lending over the past year divided between consumer and business borrowing (Mrs Lomax's minute of 28 April).

... 2. The attached table provides a broad sectoral analysis of sterling lending to the UK private sector over the year to end-March. The figures show that lending to non-monetary financial institutions (OFIs) has risen fastest in percentage terms but that personal sector borrowing accounts for the largest proportion of the total rise in lending. Industrial and commercial companies (ICCs) took a slightly larger proportion of the total rise than did OFIs.

H.W.  
H G WALSH



## SECRET

STERLING BANK LENDING<sup>+</sup> TO THE UK PRIVATE SECTOR

	Stock outstanding at end of period £bn		seasonally adjusted Change in stock	
	1985 Q1	1986 Q1	£bn (% share of total)	% rise
Companies (ICCs)	45.2	51.1	5.9 (28%)	13.0
Financial institutions*	20.2	25.6	5.4 (26%)	26.9
Personal sector	52.7	62.4	9.7 (46%)	18.5
Total private sector	118.0	139.1	21.1(100%)	17.9

+ including Issue Department Bills

\* other than monetary sector



FROM: CATHY RYDING  
DATE: 2 May 1986

MR R M HEATH

cc Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Scholar  
Mr Sedgwick  
Mr Culpin  
Mr Walsh  
Mr Pickford  
Mr Richardson  
Mr Hannah  
Mr Ridlington  
Dr Coyle  
Mr Tarkowski  
Mr Ross Goobey

**PROVISIONAL MONEY FIGURES: BANKING APRIL**

The Chancellor has seen your minute of 1 May on this subject. He was content with the line taken in the press notice and briefing.

C.R.

CATHY RYDING

**CONFIDENTIAL****FROM: MRS C RYDING**  
**DATE: 2 MAY 1986****MR H G WALSH**cc Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Peretz  
Mr Sedgwick  
Mr Scholar  
Mr Hannah  
Mr Tarkowski  
Mr Ross Goobey**MONEY SUPPLY IN BANKING APRIL: FIRST GUESS**

The Chancellor was grateful for your minute of 1 May on this subject. He assumes that the figures for the personal sector include non-corporate businesses ie the self-employed etc. He has asked whether we know how much of personal sector borrowing is actually consumer borrowing.

C.R

**CATHY RYDING**

covering SECRET  
UNTIL 2.30 PM TUESDAY 6 MAY 1986

markets Folder

FROM: T TARKOWSKI  
DATE: 6 MAY 1986

MR PICKFORD

cc: PPS  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Scholar  
Mr Peretz  
Mr Sedgwick  
Mr Culpin  
Mr Walsh  
Mr Hannah  
Mr Richardson

**BANKING APRIL: PROVISIONAL MONEY FIGURES AND MONTHLY  
STATEMENT OF THE CLEARING BANKS**

I attach the agreed press briefing for today's provisionals.

2. Also attached is the Bank's Press Notice which is unchanged from the draft circulated with Mr Heath's 1 May minute.

3. I also attach the regular Monthly Statement of the London and Scottish Banks. The text is on the usual lines and the figures are consistent with our own.

  
T TARKOWSKI

SECRET AND PERSONAL  
UNTIL 2.30 PM ON TUESDAY 6 MAY 1986

MONEY SUPPLY IN BANKING APRIL : PRESS BRIEFING

LINE TO TAKE

Balance of evidence suggests conditions remain adequately but not excessively tight. M0 remains well within target range. Exchange rate firm. High £M3 growth in banking March and April probably reflects companies' reaction to changes in capital allowances, as happened last year (and some underfunding this month).

FACTUAL

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

- (i) Policy: See Chancellor's major statement on monetary policy in 16 April speech to the Lombard Association.
- (ii) M0: Well within new 2-6 per cent target range.
- (iii) £M3: Recent monthly path has been erratic, so need to look at period of several months. Average increase in last six months is 1.5 per cent.
- (iv) Sterling lending: Erratic. Probably several factors at work (eg. abolition of capital allowances from 1 April; high takeover and merger activity). Clear evidence available on some of this activity but impossible to quantify the total sums involved. Percentage increase in sterling lending this month same as in April 1985, when capital allowance changes also affected figures.

B. POSITIVE

(i) Overall Strategy

As Chancellor said in Lombard Association Speech, experience continues to confirm value of clear commitment to MTFS and ultimate objective of lower inflation. Record on inflation (now down to 4.2 per cent and falling), and real growth averaging 3 per cent a year since 1981, while halving the growth of money GDP demonstrates success of this.

(ii) Commitment

As Chancellor emphasised again in speech to Lombard Association Government has repeatedly shown itself ready to act decisively when necessary for maintenance of sound financial conditions. Will continue to do so.

(iii) Interest rates

Down 2 per cent since Budget. Demonstrates city's confidence in the Government's approach.

C. DEFENSIVE

(i) Monetary policy too tight/too loose?

Necessary to look at whole range of evidence on monetary conditions. Signals often conflicting, and requiring careful interpretation in the light of developments over a period of months. Judgement: present conditions sufficiently, but not excessively, tight; but kept under constant review.

(ii) £M3 annual growth already above higher target range published in 1986 MTFS

£M3 growth in both March and April was particularly high almost certainly as result of capital allowance changes, and also because of some underfunding in both months. Lombard Association Speech explained

reasons for setting target range for 1986-87 at 11-15 per cent, and need to weigh developments in £M3 against other evidence before reaching conclusions on what they are telling us about monetary conditions.

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one: judgement must always be made in the light of all the evidence. Aim is to strike balance between domestic monetary growth and the exchange rate that will deliver conditions that keep downward pressure on inflation.

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# PRESS INFORMATION from Banking Information Service

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

NOT FOR PUBLICATION BEFORE 2.30 pm

6th May 1986

## MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS

APRIL 1986

Sterling advances to the U.K. private sector by the London and Scottish banks rose by £2,568 million in the four weeks to 16th April. After allowing for an expected seasonal rise, a repurchase of DTI shipbuilding paper from the Bank of England under sale and repurchase agreements and for transit items, there was an underlying rise of around £1,800 million, slightly lower than last month's large rise.

Analysis of advances shows increases in nearly all categories, as would be expected with the incidence of quarterly interest charges, the only exception being to manufacturers where there was a small fall. The main movements were increases to agriculture (+£257 million, after falls in the last two months), to leasing companies (+£278 million, again no doubt reflecting the end-financial year changes in capital allowances), and to "other services" (+£567 million). The main rise however, was in lending to persons, which after falling in the last two months, rose by £712 million, no doubt partly seasonally: house purchase lending rose by £259 million and other personal lending by £453 million, of which credit card credit accounted for about £100 million.

Within other assets, the banks' holdings of bills - largely eligible bills - rose sharply, by £923 million (though bill finance overall is likely to have been contractionary as the Bank of England reduced its holdings substantially). Under the sale and repurchase agreements with the Bank of England, the banks repurchased net £536 million of ECGD-backed promissory notes (which accounts for most of the rise in advances to overseas residents), £144 million of gilts and £110 million of DTI paper, reducing the total amount of assistance under the arrangements, at 16th April, to £2,005 million.

Lending to the LDMA fell by £106 million while lending to other monetary sector institutions rose, net, by over £1,000 million, though the banks were again net borrowers in the CD market (+£673 million).

On the liabilities side of the balance sheet, deposits from the UK private sector again rose sharply, by £2,737 million. After allowing for transit items and a large seasonal rise, the underlying increase was still over £1,700 million. This was fairly evenly split between sight and time deposits, and although high interest personal accounts still attracted significant inflows, wholesale funds probably accounted for much of the remainder. Deposits from the public sector also rose strongly, by £488 million, almost wholly attributable to local authority deposits, and overseas residents' deposits again rose strongly (+£512 million).

Eligible liabilities rose by £3,558 million to £97,805 million.

#### HOUSE PURCHASE FINANCE

A gross total of £820 million was advanced in the quarter to 31st March, £300 million less than in the previous quarter, but over £100 million more than the corresponding period last year (£717 million).

Approvals of new mortgages in the latest quarter, however, numbered 22,900, an increase both on last quarter (20,800) and the corresponding quarter last year (19,900). The increase in the number of approvals is reflected in the total value approved of £747 million (an increase of £88 million on last quarter and £135 million on last year).

For further information, please contact:

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

Brian Apps, Press and Information Officer (01-626 8486)

LONDON AND SCOTTISH BANKS AND CERTAIN SUBSIDIARIES

HOUSE PURCHASE FINANCE

1. GROSS LOANS MADE (excluding bridging finance)

Three months to 31st March 1986 £820 million

2. NEW MORTGAGES APPROVED (i.e. excluding both bridging finance and topping-up and improvement loans)

In the three months to 31st March 1986, 22,900 new loans were approved for a total value of £747 million (an average value of £32,600), broken down in percentage terms as follows:

(i) <u>Size of Loan</u>	<u>%</u>		(ii) <u>Purchase Price of Property</u>	<u>%</u>	
	<u>Value</u>	<u>Number</u>		<u>Number</u>	
Under £10,000	1	4	Under £15,000	7	
£10,000 - £19,999	8	17	£15,000 - £19,999	3	
£20,000 - £29,999	19	26	£20,000 - £29,999	12	
£30,000 - £49,999	41	38	£30,000 - £39,999	31	
£50,000 and over	31	15	£50,000 and over	47	
	—	—		—	
	*100	*100		100	
	—	—		—	
*of which:					
First-time purchasers	17	19			
New dwellings	11	10			

NOTE: this series covers parent banks and subsidiaries together accounting for over 90% of total house purchase finance outstanding for the London and Scottish Banks.

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING APRIL 1986

Preliminary information suggests that, in the four weeks to 16 April 1986, M0 may have risen by about 1/4% and £M3 may have risen by about 3% - 3 1/4%, after seasonal adjustment.

Note for Editors

1 The provisional estimates for April suggest that recent rates of growth are approximately as follows:

Rates of growth, annualised %; seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	1/2	5	3 1/4
£M3	28 3/4	19 1/2	16 1/2

2 Provisional counterparts to the change in £M3 in banking April are:  
£ billion, seasonally adjusted

PSBR <sup>(1)</sup>	+1.4
Debt sales to nbps <sup>(2)</sup> and external flows to public sector <sup>(3)</sup> (of which, debt sales to nbps -0.9)	-0.8
Sterling lending to private sector <sup>(4)</sup>	+3.0
Other counterparts <sup>(5)</sup>	+0.5
	<u>+4.1</u>

(1) Strictly, the PSBR less net purchases of local authorities' and public corporations' debt by the non-bank private sector.

(2) Net purchases (-) of CG debt by the non-bank private sector.

(3) External and foreign currency finance of the public sector (-).

(4) Including Issue Department holdings of commercial bills.

(5) The banks' external and foreign currency transactions and net non-deposit sterling liabilities.

3 The PSBR, net of debt sales to the non-bank private sector and external flows to the public sector, was expansionary by about £0.6 billion. The growth in sterling lending to the private sector was about £3.0 billion, compared with an average of about £1.8 billion a month over the preceding six months. Bank lending may have been substantially increased this month, as it was in banking April 1985, by borrowing to finance payments for investment brought forward to take advantage of capital investment allowances prevailing only to the end of the financial year; the seasonal adjustments make no allowance for such factors. Other counterparts taken together were expansionary by about £0.5 billion, compared with an average contractionary influence of some £0.2 billion a month over the last year.

4 Full money and banking figures for April, including revised estimates of the growth rates given above, will be published on 15 May.

## BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT 16TH APRIL, 1986

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

£ millions

TABLE 1. AGGREGATE BALANCES

	Total Outstanding	Change on Month
<b>LIABILITIES</b>		
<b>STERLING DEPOSITS :</b>		
U.K. monetary sector	26,071	+ 1,471
U.K. private sector	83,545	+ 2,737
U.K. public sector	2,578	+ 488
Overseas residents	14,165	+ 512
Certificates of deposit	8,835	+ 569
	135,194	+ 5,778
of which : Sight	53,205	+ 3,171
Time (inc. C.D.'s)	81,989	+ 2,606
<b>FOREIGN CURRENCY DEPOSITS :</b>		
U.K. monetary sector	15,739	- 370
Other U.K. residents	5,885	+ 16
Overseas residents	45,883	+ 1,426
Certificates of deposit	5,739	- 95
	73,247	+ 978
<b>TOTAL DEPOSITS</b>	<b>208,441</b>	<b>+ 6,756</b>
NOTES IN CIRCULATION	906	+ 17
OTHER LIABILITIES (a)	35,524	+ 741
<b>TOTAL LIABILITIES</b>	<b>244,871</b>	<b>+ 7,513</b>
<b>ASSETS</b>		
<b>STERLING</b>		
Cash & balances with Bank of England:		
Cash ratio deposits	435	0
Other balances	2,068	- 74
	2,503	- 74
Market loans :		
Discount houses	4,155	- 106
Other U.K. monetary sector	26,898	+ 2,531
U.K. monetary sector C.D.'s	3,316	- 104
Local authorities	754	- 56
Other	3,265	+ 528
	38,388	+ 2,793
Bills :		
Treasury bills	214	+ 49
Other bills	3,244	+ 874
	3,458	+ 923
Investments :		
British Government stocks	3,457	+ 140
Other	4,194	+ 268
	7,651	+ 408
Advances :		
U.K. private sector	88,207	+ 2,568
U.K. public sector	365	- 18
Overseas residents	4,063	+ 706
	92,635	+ 3,256
Other sterling assets (a)	13,564	- 123
<b>FOREIGN CURRENCIES</b>		
Market loans :		
U.K. monetary sector	17,188	- 178
Certificates of deposit	458	- 94
Other	34,437	+ 1,118
	52,082	+ 846
Bills		
	686	- 11
Advances :		
U.K. private sector	6,546	- 142
U.K. public sector	897	- 24
Overseas residents	17,862	- 393
	25,305	- 559
Other foreign currency assets (a)	8,598	+ 54
<b>TOTAL ASSETS</b>	<b>244,871</b>	<b>+ 7,513</b>
<b>ACCEPTANCES</b>	<b>4,348</b>	<b>- 298</b>
<b>ELIGIBLE LIABILITIES</b>	<b>97,805</b>	<b>+ 3,558</b>

(a) includes items in suspense and in transit

FOR TABLE 2 SEE OVER

TABLE 2. INDIVIDUAL GROUP BALANCES

£ millions	C.L.S.B. GROUPS	BANK OF SCOTLAND	BARCLAYS	LLOYDS	MIDLAND	NATIONAL WESTMINSTER	ROYAL BANK OF SCOTLAND	STANDARD CHARTERED
<b>LIABILITIES</b>								
Sterling deposits								
outstanding	135,194	5,716	32,155	23,518	22,794	39,805	1,884	3,322
change on month	+ 5,778	+ 149	+ 1,892	+ 1,417	+ 566	+ 1,342	+ 234	+ 177
Foreign currency deposits								
outstanding	73,247	1,051	14,640	10,246	14,383	21,244	3,331	8,352
change on month	+ 978	- 23	+ 750	+ 5	+ 419	- 189	- 39	+ 54
Total deposits								
outstanding	208,441	6,767	46,794	33,764	37,177	61,049	11,215	11,675
change on month	+ 6,756	+ 126	+ 2,643	+ 1,421	+ 985	+ 1,153	+ 195	+ 232
<b>STERLING ASSETS</b>								
Cash and Balances with the Bank of England								
outstanding	2,503	309	474	276	511	482	439	13
change on month	- 74	+ 7	- 10	- 25	+ 33	- 62	- 14	- 2
Market loans :								
U.K. monetary sector								
outstanding	31,052	830	7,009	4,681	5,179	11,263	1,055	1,036
change on month	+ 2,424	+ 111	+ 520	+ 835	- 31	+ 923	+ 56	+ 12
Other								
outstanding	7,336	174	1,822	1,195	923	2,706	216	299
change on month	+ 368	+ 35	+ 296	- 191	- 17	+ 220	+ 34	- 9
Bills								
outstanding	3,458	75	1,106	1,182	201	621	196	76
change on month	+ 923	- 20	+ 257	+ 362	+ 96	+ 106	+ 83	+ 38
British government stocks								
outstanding	3,457	230	745	739	555	823	222	144
change on month	+ 140	- 41	+ 61	+ 45	- 38	+ 122	+ 3	- 12
Advances								
outstanding	92,635	4,649	23,268	15,849	15,790	24,440	6,437	2,203
change on month	+ 3,256	+ 34	+ 993	+ 342	+ 823	+ 789	+ 137	+ 139
<b>FOREIGN CURRENCY ASSETS</b>								
Market loans and bills								
outstanding	52,768	437	10,743	7,794	8,326	17,234	2,231	6,004
change on month	+ 835	+ 46	+ 341	- 129	+ 806	- 451	+ 90	+ 132
Advances								
outstanding	25,305	864	3,740	3,442	6,099	6,222	1,352	3,585
change on month	- 559	- 41	+ 16	- 41	- 210	- 91	- 141	- 51
<b>ACCEPTANCES</b>								
outstanding	4,348	265	951	326	1,078	847	429	453
change on month	- 298	- 20	- 66	- 30	+ 62	- 173	- 17	- 54
<b>ELIGIBLE LIABILITIES</b>								
outstanding	97,805	4,693	23,408	17,483	16,796	26,763	6,541	2,121
change on month	+ 3,558	- 11	+ 1,164	+ 830	+ 760	+ 474	+ 179	+ 162

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

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

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

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

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

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

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

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

SECRET

FROM: H G WALSH  
DATE: 9 MAY 1986

CHANCELLOR

*C/ The figures you asked for*

*CR  
915*

cc: Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Peretz  
Mr Sedgwick  
Mr Scholar  
Mr Hannah  
Mr Tarkowski  
Mr Ross Goobey

**MONEY SUPPLY IN BANKING APRIL : FIRST GUESS**

You requested further data on personal sector lending (Mrs Ryding's minute of 2 May).

... 2. The attached table divides personal sector lending into its main constituent parts. The total stock figures are slightly different from those given in my earlier minute because of data revisions (the attached figures are similarly provisional and subject to revision).

3. The figures show that "consumer" lending, particularly for house purchase, has risen somewhat faster over the past year than lending to unincorporated businesses.

*This paper has  
qualifier to further  
the implication. The two rapid  
growth areas have been  
financial institutions & H.W.  
house purchase. No letter of Banks  
former fact - the latter show a  
No major change in  
the market for the  
1987*

H G WALSH

SECRET

## STERLING BANK LENDING TO THE UK PERSONAL SECTOR

	Stock outstanding at end of period £bn		seasonally adjusted Change in Stock	
	1985 Q1	1986 Q1	£bn (%share of total)	%rise
Persons, households and individual trusts				
House purchase	17.4	21.5	4.1 ( 42%)	23.8
Other	18.1	21.1	3.1 ( 31%)	17.1
Total	35.4	42.6	7.2 ( 74%)	20.4
Unincorporated businesses	16.7	19.3	2.6 ( 26%)	15.4
Total personal sector	52.1	61.9	9.8 (100%)	18.8

SECRET



SECRET



*1. (copy) post*  
*2*

FROM: MRS R LOMAX  
DATE: 12 MAY 1986

MR WALSH

cc Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Peretz  
Mr Sedgwick  
Mr Scholar  
Mr Hannah  
Mr Tarkowski  
Mr Ross Goobey

**MONEY SUPPLY IN BANKING APRIL: FIRST GUESS**

The Chancellor was grateful for the further data on personal sector lending, attached to your minute of 9 May.

2. He has commented that this importantly qualifies the earlier interpretation. The two rapid growth areas have been financial institutions and house purchase. The Chancellor presumes that the latter is to some extent the banks taking a larger share of the market from the building societies.

A handwritten signature in cursive script, appearing to read "RL".

RACHEL LOMAX

SECRET

UNTIL 2.30PM ON THURSDAY 15 MAY

*ppp*

FROM: T TARKOWSKI  
DATE: 13 May 1986

MR CASSELL

- cc PPS ✓
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Peretz
- Mr Sedgwick
- Mr Scholar
- Mr Walsh
- Mr Culpin
- Miss Peirson
- Mr Pickford
- Mr Hannah
- Dr Rowlatt
- Mr Devereux
- Mr Richardson
- Mr Heath
- Mr Ross Goobey

**FULL MONEY FIGURES - BANKING APRIL**

I attach the Bank's draft press release on the full money figures and accompanying banking statistics which will be published at 2.30pm on Thursday 15 May.

2. The full figures are entirely consistent with the rounded figures published in the provisionals press release last week. The text follows the established pattern, apart from:

(a) a reference in paragraph 8 to the capital allowances surge in bank lending, on the same lines as in last week's provisionals press notice.

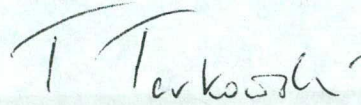
(b) references in paragraphs 8 and 9 to a new table C in the banking statistics tables, which details the Bank's transactions in bills, export credit and shipbuilding paper, as agreed last autumn. This change has already been foreshadowed in the BEQB.

3. The press briefing agreed for last week's provisionals press notice does not appear to need amendment. *(copy attached)*.

SECRET

UNTIL 2.30PM ON THURSDAY 15 MAY

4. Could I please have comments on the Bank's draft press release by noon on Wednesday 14 May, and any comments on the press briefing by close that day.

A handwritten signature in dark ink, appearing to read 'T Tarkowski'. The signature is written in a cursive style with a large initial 'T'.

**T TARKOWSKI**

MONEY SUPPLY IN BANKING APRIL : PRESS BRIEFING

LINE TO TAKE

Balance of evidence suggests conditions remain adequately but not excessively tight. M0 remains well within target range. Exchange rate firm. High £M3 growth in banking March and April probably reflects companies' reaction to changes in capital allowances, as happened last year (and some underfunding this month).

FACTUAL

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

- (i) Policy: See Chancellor's major statement on monetary policy in 16 April speech to the Lombard Association.
  
- (ii) M0: Well within new 2-6 per cent target range.
  
- (iii) £M3: Recent monthly path has been erratic, so need to look at period of several months. Average increase in last six months is 1.5 per cent.
  
- (iv) Sterling lending: Erratic. Probably several factors at work (eg. abolition of capital allowances from 1 April; high takeover and merger activity). Clear evidence available on some of this activity but impossible to quantify the total sums involved. Percentage increase in sterling lending this month same as in April 1985, when capital allowance changes also affected figures.

reasons for setting target range for 1986-87 at 11-15 per cent, and need to weigh developments in £M3 against other evidence before reaching conclusions on what they are telling us about monetary conditions.

(iii) Sterling lending

Figures recently subject to considerable fluctuation. As last month, factors which may have contributed include the effects of the abolition of first year capital allowances, takeover/merger activity. This month's increase same, in percentage terms, as last April's, when capital allowances were last changed. Clearly need to look at period of several months in forming judgement. Not clear that there is any change in underlying trend. Average monthly increase in last six months (£1.9 billion) close to 1985 average (£1.8 billion).

[NOTE: The effects on total bank lending of extra borrowing to finance the bringing forward of companies' investment plans are the same for both direct investment and for leasing transactions. Although only a relatively small part of the increase in sterling lending can be specifically identified as bank lending to leasing companies during banking April, the total effects related to the abolition of capital allowances are probably much higher.]

(iv) Interest rates solely reflect pound's strength/weakness?

No. See Lombard Speech. Government's first priority remains defeat of inflation. Short-term interest rates are principal policy instrument. Exchange rate certainly among the factors which we take into account, since in an economy as open as the UK's there is a presumption that persistent exchange rate movements reflect, to some degree, underlying monetary conditions, as explained by Chancellor in last night's Lombard Association Speech. A firm exchange rate is also an important discipline on industrial costs. But exchange rate is only one input - albeit an important

B. POSITIVE

(i) Overall Strategy

As Chancellor said in Lombard Association Speech, experience continues to confirm value of clear commitment to MTFS and ultimate objective of lower inflation. Record on inflation (now down to 4.2 per cent and falling), and real growth averaging 3 per cent a year since 1981, while halving the growth of money GDP demonstrates success of this.

(ii) Commitment

As Chancellor emphasised again in speech to Lombard Association Government has repeatedly shown itself ready to act decisively when necessary for maintenance of sound financial conditions. Will continue to do so.

(iii) Interest rates

Down 2 per cent since Budget. Demonstrates city's confidence in the Government's approach.

C. DEFENSIVE

(i) Monetary policy too tight/too loose?

Necessary to look at whole range of evidence on monetary conditions. Signals often conflicting, and requiring careful interpretation in the light of developments over a period of months. Judgement: present conditions sufficiently, but not excessively, tight; but kept under constant review.

(ii) £M3 annual growth already above higher target range published in 1986 MTFS

£M3 growth in both March and April was particularly high almost certainly as result of capital allowance changes, and also because of some underfunding in both months. Lombard Association Speech explained

one: judgement must always be made in the light of all the evidence. Aim is to strike balance between domestic monetary growth and the exchange rate that will deliver conditions that keep downward pressure on inflation.

(v) Sterling commercial paper should be included in PSLs/Statistics should be published

[Roger Bootle, chief economist Lloyd's Merchant Bank, argued for both (reported: Financial Times 1 May)] Bank has made arrangements for collection of data on SCP. None issued yet. Too early to reach final decisions on statistical treatment or publication.

(vi) How will sterling commercial paper (SCP) affect £M3?

[Roger Bootle (FT 1 May) claimed additional difficulties in interpreting £M3 would "sound final death knell of £M3" and "reinforce the disillusion with monetary targetting".]

SCP increases the range of options open to companies for raising funds outside the banking system. So possible there may be some effects, though not necessarily immediately. Have to remember there is already a wide range of options open to companies seeking to raise funds. Can't predict how SCP market will develop, or to what extent it may substitute for intermediated borrowing (which would reduce £M3 and bank lending).

**MONEY AND BANKING FIGURES: BANKING APRIL 1986**

(All figures are seasonally adjusted, unless otherwise stated.)

1 During the four weeks to 16 April 1986, M0 (average of weekly levels) rose by £40 million (+0.3%) (Table B) and £M3 rose by £4,060 million (+3.1%) (Table E).

2 Recent rates of growth of the above aggregates are as follows:

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 0.4	+ 5.0	+ 3.2
£M3	+28.6	+19.5	+16.6

3 Within £M3 there was a rise in banking April of £10 million in notes and coin, a rise of £180 million in non-interest-bearing sight deposits and a rise of £1,190 million in interest-bearing sight deposits. M1 rose by £1,380 million (+2.3%). Time deposits (including sterling certificates of deposit) of the UK private sector rose by £2,690 million.

4 The sterling value of private sector foreign currency deposits fell by £230 million, comprising a rise of £150 million reflecting transactions and a fall of £380 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £3,830 million (+2.6%) (Table E).

5 M2 (not seasonally adjusted) rose by £2,690 million (+1.8%) (Table F). PSL2 rose by £4,650 million (+2.1%) (Table G); if term shares with building societies were included, the increase would be 1.8%.

6 Rates of growth of monetary and liquidity aggregates over the last three, six and twelve months are shown in the attached table.

7 Amongst the counterparts to the change in £M3, the net effect of public sector transactions (the PSBR less debt sales to the non-bank private sector and external flows to the public sector) was expansionary by £550 million (see columns 1-7 of Table A). The central government borrowing requirement was £2,710 million and the direct contribution of local authorities and public corporations to the public sector borrowing requirement (net of non-bank private sector purchases of their debt) was contractionary by £1,350 million. The non-bank private sector's net purchases of central



Government debt totalled £890 million; within this holdings of gilt-edged stock accounted for £690 million, CTDs for £140 million and National Savings for £50 million. External and foreign currency finance of the public sector was expansionary by £80 million.

8 Sterling lending to the private sector rose by £3,040 million. This included certain transactions by the Bank of England in paper acquired in the course of money-market operations, details of which are shown in Table C. Sterling lending to the private sector may have been substantially increased this month, as it was in banking April 1985, by borrowing to finance payments for investment brought forward to take advantage of capital investment allowances prevailing only to the end of the financial year; the seasonal adjustments make no allowance for such factors. Foreign currency lending to the private sector rose by £740 million in transactions terms.

9 The external and foreign currency transactions of UK banks were expansionary by £590 million (see columns 9-12 of Table A). This included changes in the Issue Department's holdings of guaranteed export credit paper (holdings of which are treated as a claim on overseas residents), details of which are shown in Table C. Net non-deposit sterling liabilities rose by £110 million, a contractionary influence.

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

Estimated seasonal movements - banking May 1986

11 The provisional seasonal movements for the five weeks ending 21 May 1986 are as follows:

£ million

Notes and coin in circulation with the public

Private sector sterling sight bank deposits

M1

Other private sector sterling bank deposits

EM3

M0 (averaged series)

Bank lending in sterling to the private sector

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

SECRET DRAFT

MONETARY AND LIQUIDITY AGGREGATES: BANKING APRIL 1986

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 0.4	+ 5.0	+ 3.2
M1	+ 21.3	+17.8	+19.8
of which:			
Non-interest bearing M1	+ 3.4	+ 5.7	+ 3.9
M2 (not seasonally adjusted)*	..	..	+11.1
£M3	+ 28.6	+19.5	+16.6
M3	+ 26.7	+19.1	+15.9
PSL1	+ 28.0	+18.2	+15.3
PSL2	+ 23.8	+19.7	+15.6
PSL2, including term shares with building societies and bank deposits with an original maturity longer than two years	+ 20.2	+15.7	+13.4

\*the growth of M2 over the 12 months to mid-April 1986 includes £900 million resulting from changes made by certain building societies in the terms of some accounts. Excluding such reclassified amounts, the growth in M2 over the latest 12 months is 10.5%.

## Banking statistics

16 April 1986

## A Public sector borrowing requirement, and other counterparts to changes in £M3

[Table 11.3 in the Quarterly Bulletin]

£ millions

Month ended (unadjusted)	Public sector borrowing requirement (surplus-)		Purchases (-) of public sector debt by UK private sector (other than banks)		External and foreign currency finance of public sector (increase-)		Banks' sterling lending to UK private sector [b]	External and foreign currency transactions of UK banks [c]				Net non-deposit sterling liabilities (increase-)	Money stock £M3 (columns 1-13)	
	Central government borrowing requirement	Other public sector contribution	Other public sector debt	Central government debt [a]	Purchases of British government stocks by overseas sector	Other		Sterling deposits from, net of market loans to, banks abroad (increase-)	Other overseas sterling deposits (increase-)	Other sterling lending to overseas sector [d]	Banks' net foreign currency liabilities [e] (increase-)			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1985 Apr. 17	+ 2,781	+ 344	- 813	- 615	- 152	+ 124	+ 2,832	+ 376	- 288	+ 250	+ 739	- 1,207	+ 4,371	
May 15	+ 489	+ 67	- 586	- 106	- 347	+ 217	+ 866	+ 300	- 67	+ 263	- 467	- 384	+ 245	
June 19 [f]	+ 2,638	- 434	- 12	- 220	- 718	+ 267	+ 758	+ 394	- 255	- 267	+ 1,231	- 311	+ 3,071	
July 17 [f]	- 1,162	- 478	- 11	- 409	- 342	- 4	+ 3,104	+ 18	- 236	- 410	+ 260	- 438	- 108	
Aug. 21	+ 2,319	- 366	- 247	- 177	- 15	+ 49	+ 1,107	+ 261	- 591	- 603	- 170	+ 490	+ 2,057	
Sept. 18	+ 1,667	- 319	- 86	- 34	- 155	+ 18	+ 428	+ 419	- 76	- 96	+ 213	- 155	+ 1,824	
Oct. 16	+ 564	- 599	- 519	- 525	- 76	- 130	+ 3,417	+ 712	- 703	+ 165	+ 365	- 1,642	+ 1,029	
Nov. 20	+ 2,666	- 1,125	- 737	- 109	- 400	- 13	+ 1,200	- 388	+ 243	- 166	- 170	+ 1,702	+ 2,523	
Dec. 11	+ 1,490	+ 223	- 224	- 76	- 34	- 26	+ 1,031	+ 256	- 114	+ 18	- 1,137	- 535	+ 872	
1986 Jan. 15	- 2,785	- 172	- 79	+ 504	- 292	- 1	+ 1,513	- 291	- 364	+ 359	+ 529	+ 171	- 908	
Feb. 19	- 786	- 175	- 246	- 100	+ 122	- 247	+ 1,382	+ 208	- 512	- 73	+ 1,351	- 484	+ 440	
Mar. 19	+ 942	- 313	+ 442	- 507	+ 247	+ 131	+ 2,338	+ 55	- 466	+ 660	+ 580	+ 57	+ 2,846	
Apr. 16	+ 4,274	- 1,063	- 693	- 270		+ 83	+ 3,704	+ 571	- 934	+ 655	+ 102	- 1,116	+ 5,109	
Month ended (seasonally adjusted)														
1985 Apr. 17	+ 908	+ 128	- 813	- 543	- 152	+ 121	+ 2,575		+ 1,441			- 410	+ 3,255	
May 15	+ 383	- 4	- 586	- 115	- 347	+ 213	+ 1,438		+ 179			- 653	+ 508	
June 19 [f]	+ 762	- 18	- 12	- 262	- 718	+ 263	+ 1,379		+ 1,267			- 14	+ 2,647	
July 17 [f]	- 92	- 477	- 11	- 438	- 342	- 9	+ 1,528		- 423			- 576	- 840	
Aug. 21	+ 2,090	- 355	- 247	- 314	- 15	+ 44	+ 1,750		- 985			+ 247	+ 2,215	
Sept. 18	+ 1,955	- 334	- 86	+ 3	- 155	+ 13	+ 993		+ 60			- 324	+ 2,125	
Oct. 16	+ 914	- 660	- 519	- 477	- 76	- 135	+ 2,118		+ 561			- 766	+ 960	
Nov. 20	+ 1,905	- 1,089	- 737	- 36	- 400	- 198	+ 1,885		- 327			+ 1,401	+ 2,404	
Dec. 11	+ 118	+ 450	- 224	- 56	- 34	- 31	+ 2,135		- 999			- 618	+ 741	
1986 Jan. 15	+ 53	- 353	- 79	+ 467	- 292	+ 49	+ 384		+ 28			- 170	+ 87	
Feb. 19	+ 684	- 235	- 246	- 225	+ 122	- 252	+ 1,597		+ 826			- 1,036	+ 1,235	
Mar. 19	+ 857	- 367	+ 442	- 378	+ 247	+ 127	+ 2,595		- 626			- 40	+ 2,826	
Apr. 16	+ 2,708	- 1,352	- 693	- 198		+ 80	+ 3,037		+ 589			- 107	+ 4,064	

[a] Purchases (-) of central government debt by the UK private sector (other than banks) can be analysed by instrument as follows:

[b] Including holdings of sterling certificates of deposit issued by building societies, and 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.

[c] A seasonally-adjusted breakdown of these transactions is not available.

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

[e] Including net non-deposit liabilities in foreign currency. (See the Quarterly Bulletin for June 1985—page 185.)

[f] See footnote [e] to Table E on page 3.

Month ended	Marketable debt		National savings		Tax instruments		Other	Total (columns 4 and 5 above)	
	Stocks	Treasury bills	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
1985 Apr. 17	- 813	- 63	- 257	- 238	- 295	- 242	-	- 1,428	- 1,356
May 15	- 586	+ 25	- 211	- 241	+ 81	+ 102	- 1	- 692	- 701
June 19	- 12	+ 42	- 270	- 375	+ 6	+ 69	+ 2	- 232	- 274
July 17	- 11	+ 8	- 196	- 273	- 217	- 169	- 4	- 420	- 449
Aug. 21	- 247	- 56	- 273	- 384	+ 149	+ 123	+ 3	- 424	- 561
Sept. 18	- 86	+ 6	- 228	- 229	+ 190	+ 228	- 2	- 120	- 83
Oct. 16	- 519	+ 17	- 191	- 197	- 351	- 297	-	- 1,044	- 996
Nov. 20	- 737	- 4	- 281	- 184	+ 171	+ 147	+ 5	- 846	- 773
Dec. 11	- 224	+ 56	- 23	- 61	- 106	- 48	- 3	- 300	- 280
1986 Jan. 15	- 79	+ 89	- 122	- 19	+ 534	+ 394	+ 3	+ 425	+ 388
Feb. 19	- 246	- 30	- 138	- 74	+ 62	- 127	+ 6	- 346	- 471
Mar. 19	+ 442	- 80	- 30	+ 55	- 398	- 354	+ 1	- 65	+ 64
Apr. 16	- 693	- 22	- 65	- 46	- 189	- 136	+ 6	- 963	- 891

**B M0, the wide monetary base**

£ millions; percentages in italics

End-banking-month series								Monthly-average series								
Notes and coin in circulation outside the Bank of England								Bankers' deposits with the Banking Department		Notes and coin in circulation outside the Bank of England		Bankers' operational deposits with the Banking Department	M0 (wide monetary base) (columns 5 + 6)			
In circulation with public				Held by banks (till money)				Operational deposits	Cash ratio deposits	Unadjusted		Unadjusted	Unadjusted		Seasonally adjusted	
Unadjusted		Seasonally adjusted		Unadjusted		Seasonally adjusted		Unadjusted	Unadjusted	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted	Seasonally adjusted		
1		2		3		4		5		6		7				
Amount outstanding at																
1985	Mar.	20	12.322	12.400	1.231	1.296	29	582	1985	Mar.	20	13.542	13.784	144	13.686	13.928
	Apr.	17	12.435	12.384	1.312	1.320	162	582		Apr.	17	13.907	13.864	162	14.069	14.026
	May	15	12.441	12.464	1.275	1.290	187	628		May	15	13.761	13.861	156	13.917	14.017
	June	19	12.438	12.486	1.350	1.379	93	628		June	19	13.888	13.944	178	14.066	14.122
	July	17	12.674	12.464	1.403	1.328	214	628		July	17	13.988	13.962	217	14.205	14.179
	Aug.	21	12.658	12.514	1.468	1.420	100	628		Aug.	21	14.105	13.959	141	14.246	14.100
	Sept.	18	12.536	12.561	1.393	1.391	120	628		Sept.	18	14.031	14.026	133	14.164	14.159
	Oct.	16	12.413	12.466	1.436	1.451	94	628		Oct.	16	13.905	14.003	123	14.028	14.126
	Nov.	20	12.476	12.528	1.444	1.468	156	674		Nov.	20	13.890	14.043	162	14.052	14.205
	Dec.	11	12.909	12.467	1.636	1.502	174	674		Dec.	11	14.324	14.124	130	14.454	14.254
1986	Jan.	15	12.399	12.576	1.582	1.558	187	674	1986	Jan.	15	14.774	14.224	235	15.009	14.459
	Feb.	19	12.441	12.590	1.481	1.537	150	673		Feb.	19	13.910	14.198	169	14.079	14.367
	Mar.	19	12.532	12.612	1.529	1.596	249	673		Mar.	19	14.000	14.245	187	14.187	14.432
	Apr.	16	12.611	12.618	1.464	1.492	141	673		Apr.	16	14.316	14.275	198	14.514	14.473
Change in month ended																
1985	Apr.	17	+ 113	- 16	+ 81	+ 24	+ 133	-	1985	Apr.	17	+ 365	+ 80	+ 18	+ 383	+ 98 +0.7
	May	15	+ 6	+ 80	- 37	- 30	+ 25	+ 46		May	15	- 146	- 3	- 6	- 152	- 9 -0.1
	June	19	- 3	+ 21	+ 75	+ 88	- 94	-		June	19	+ 127	+ 83	+ 22	+ 149	+ 105 +0.7
	July	17	+ 236	- 23	+ 53	- 51	+ 121	-		July	17	+ 100	+ 18	+ 39	+ 139	+ 57 +0.4
	Aug.	21	- 16	+ 50	+ 65	+ 92	- 114	-		Aug.	21	+ 117	- 3	- 76	+ 41	- 79 -0.6
	Sept.	18	- 122	+ 47	- 75	- 29	+ 20	-		Sept.	18	- 74	+ 67	- 8	- 82	+ 59 +0.4
	Oct.	16	- 123	- 96	+ 43	+ 60	- 26	-		Oct.	16	- 126	- 23	- 10	- 136	- 33 -0.2
	Nov.	20	+ 63	+ 62	+ 8	+ 17	+ 62	+ 46		Nov.	20	- 15	+ 40	+ 39	+ 24	+ 79 +0.6
	Dec.	11	+ 433	- 62	+ 192	+ 34	+ 18	-		Dec.	11	+ 434	+ 81	- 32	+ 402	+ 49 +0.3
1986	Jan.	15	- 510	+ 108	- 54	+ 55	+ 13	-	1986	Jan.	15	+ 450	+ 100	+ 105	+ 555	+ 205 +1.4
	Feb.	19	+ 42	+ 13	- 101	- 21	- 37	- 1		Feb.	19	- 864	- 26	- 66	- 930	- 92 -0.6
	Mar.	19	+ 91	+ 21	+ 48	+ 59	+ 99	-		Mar.	19	+ 90	+ 47	+ 18	+ 108	+ 65 +0.5
	Apr.	16	+ 79	+ 5	- 65	- 104	- 108	-		Apr.	16	+ 316	+ 30	+ 11	+ 327	+ 41 +0.3

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

£ millions

Transactions in:	Banking Department	Issue Department		
		Commercial bills [a]	Shipbuilding paper [a]	Export credit paper [b]
Month ended				
1985	Apr.	- 1,229	+ 900	+ 36
	May	+ 637	+ 185	+ 25
	June	- 1,729	+ 523	- 406
	July	+ 1,963	- 1,208	+ 272
	Aug.	- 2,765	+ 989	+ 28
	Sept.	- 652	- 82	+ 30
	Oct.	+ 369	- 246	- 14
	Nov.	- 1,464	+ 1,635	- 890
	Dec.	- 1,015	+ 2,248	- 1,363
1986	Jan.	+ 2,815	- 2,132	+ 777
	Feb.	+ 1,981	- 1,780	+ 781
	Mar.	- 1,421	- 189	+ 682
	Apr.	- 3,216	+ 70	- 535
Amount outstanding at mid-April 1986		+ 699	+ 7,448	+ 1,705

[a] Included within column 8 of Table A.

[b] Included within column 11 of Table A.











*Sterling assets continued*

			Bills				Advances			Banking Department lending to central government (net)	Investments	
			Treasury bills	Eligible local authority bills	Eligible bank bills	Other	UK public sector	UK private sector	Overseas		British government stocks	Other
<b>British banks:</b>	Retail banks	1986 Mar. 19	153	513	5,858	78	460	75,722	2,630	-2,693	5,053	2,857
		Apr. 16	277	358	3,476	74	420	77,921	2,845		446	5,368
Accepting houses	1986 Mar. 19	3	12	91	31	47	3,493	1,022	-	362	1,288	
	Apr. 16	5	14	372	53	51	3,812	1,075		299	1,521	
Other British banks	1986 Mar. 19	53	-	154	44	64	19,824	1,204	-	317	1,614	
	Apr. 16	1	15	251	78	65	20,463	1,673		367	1,707	
<b>Overseas banks:</b>	American banks	1986 Mar. 19	1	-	7	5	83	7,022	1,248	-	314	289
		Apr. 16	1	-	20	4	69	7,424	1,292		213	389
Japanese banks	1986 Mar. 19	4	-	-	-	597	1,733	960	-	20	1,518	
	Apr. 16	4	-	-	-	587	1,805	986		22	1,555	
Other overseas banks	1986 Mar. 19	22	8	156	186	466	13,896	2,734	-	319	1,051	
	Apr. 16	22	8	254	189	456	14,502	2,730		327	1,160	
<b>Consortium banks</b>	1986 Mar. 19	-	-	-	4	26	487	261	-	124	221	
	Apr. 16	-	-	-	4	23	496	259		110	265	
<b>Total</b>	1986 Mar. 19	236	533	6,266	348	1,743	122,177	10,059	-2,693	6,509	8,838	
	Apr. 16	310	395	4,373	402	1,671	126,423	10,860		446	6,706	9,519

**Other currency assets**

			Market loans and advances							Bills	Investments	Sterling and other currencies	Acceptances	Eligible liabilities
			Total	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector	Overseas					
<b>British banks:</b>	Retail banks	1986 Mar. 19	48,653	16,759	11,678	408	184	4,446	31,937	653	4,926	15,736	3,605	86,899
		Apr. 16	49,171	15,515	11,332	351	179	4,330	32,979	648	5,262	15,513	3,344	89,620
Accepting houses	1986 Mar. 19	10,730	3,983	2,789	544	18	1,023	6,356	49	1,369	1,775	3,741	5,990	
	Apr. 16	10,666	3,890	2,904	525	7	965	6,255	63	1,401	1,890	3,899	7,005	
Other British banks	1986 Mar. 19	28,113	10,085	6,211	182	732	2,368	18,619	23	1,233	2,059	1,199	20,822	
	Apr. 16	27,734	9,731	6,376	133	714	2,320	18,191	26	1,169	1,994	1,125	21,833	
<b>Overseas banks:</b>	American banks	1986 Mar. 19	78,237	23,450	8,499	1,409	30	9,747	58,551	43	2,158	3,792	3,422	9,575
		Apr. 16	77,761	22,750	8,172	1,243	30	9,599	58,717	52	2,551	4,086	3,319	10,291
Japanese banks	1986 Mar. 19	162,851	25,366	28,635	1,311	560	7,573	124,771	121	14,862	830	2,285	7,240	
	Apr. 16	158,864	25,403	27,341	1,432	571	7,903	121,617	99	14,773	656	2,220	7,530	
Other overseas banks	1986 Mar. 19	146,133	37,040	30,676	6,908	143	10,771	97,636	1,195	8,955	2,409	6,463	21,135	
	Apr. 16	145,272	36,407	29,840	7,100	142	10,763	97,427	1,165	8,938	2,158	6,457	21,718	
<b>Consortium banks</b>	1986 Mar. 19	13,460	5,722	1,364	394	-	270	11,431	107	939	322	240	1,200	
	Apr. 16	12,930	5,587	1,404	338	-	281	10,907	101	1,072	757	245	1,494	
<b>Total</b>	1986 Mar. 19	488,177	121,405	89,853	11,156	1,668	35,198	349,301	2,191	34,442	26,923	20,955	152,861	
	Apr. 16	482,398	119,283	87,369	11,122	1,653	36,161	346,093	2,154	35,166	27,054	20,609	159,491	

[Table 4 in the Quarterly Bulletin]

*Sterling assets continued*

Sterling assets continued			Other currency assets				Total assets/liabilities		
British government stocks	Investments		Other sterling assets	Total	Certificates of deposit	Bills			Other
	Local authorities	Other							
231	39	301	65	249	150	61	38	8,136	1985 Nov. 20
292	37	335	51	340	148	135	57	8,713	Dec. 11
47	28	362	58	226	120	40	66	7,986	1986 Jan. 15
185	27	391	57	335	99	104	132	8,377	Feb. 19
593	22	403	70	217	84	35	98	8,826	Mar. 19
482	22	407	69	272	86	39	147	9,147	Apr. 16

Total	Liabilities										
	Total		Domestic deposits						Overseas sector deposits		Non-deposit liabilities (net)
	Unadjusted	Seasonally adjusted	Public sector		Other currencies	Private sector		Sterling	Other currencies		
			Sterling	Other currencies		Sterling	Other currencies				
Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Sterling	Other currencies		
+ 2,265	+ 4,369	+ 3,575	- 95	+ 98	- 9	+ 4,258	+ 3,271	+ 215	+ 354	- 3,795	+ 1,337
- 3,723	+ 506	+ 628	- 105	- 172	+ 35	+ 239	+ 428	+ 337	- 220	- 5,103	+ 1,094
+ 10,926	+ 3,903	+ 3,370	+ 189	+ 104	- 15	+ 3,074	+ 2,626	+ 655	- 263	- 5,893	+ 1,393
+ 7,479	+ 378	- 129	- 3	- 37	- 29	- 344	- 817	+ 754	+ 421	+ 4,401	+ 2,279
+ 433	+ 2,902	+ 2,908	+ 269	+ 183	- 17	+ 2,073	+ 2,165	+ 577	+ 291	- 2,375	- 385
+ 9,869	+ 1,419	+ 1,811	- 277	- 17	- 1	+ 1,946	+ 2,078	- 249	- 6	+ 8,049	+ 407
+ 1,071	+ 1,758	+ 1,573	+ 445	+ 356	+ 15	+ 1,152	+ 1,056	+ 146	- 208	- 2,391	+ 1,912
+ 10,592	+ 3,820	+ 3,500	+ 483	+ 281	+ 4	+ 2,460	+ 2,342	+ 873	- 536	+ 8,881	- 1,573
+ 2,585	- 344	+ 194	- 558	- 384	- 54	+ 439	+ 803	- 171	+ 66	+ 1,131	+ 1,732
+ 7,841	+ 422	+ 639	+ 466	+ 306	+ 6	- 398	- 21	+ 348	+ 1,346	+ 7,338	- 1,265
+ 10,110	+ 772	+ 1,622	- 160	- 134	- 36	+ 398	+ 1,222	+ 570	+ 666	+ 7,699	+ 973
+ 8,016	+ 3,465	+ 3,664	+ 22	+ 171	+ 2	+ 2,755	+ 2,805	+ 686	+ 1,351	+ 3,524	- 324
+ 13,945	+ 6,538	+ 5,681	+ 1,375	+ 1,489	- 15	+ 5,030	+ 4,059	+ 148	+ 1,014	+ 3,571	+ 822

Total	Assets										
	Lending to public sector					Lending to private sector				Lending to overseas sector	
	Unadjusted	Seasonally adjusted	Sterling		Other	Other currencies	Sterling		Other currencies	Sterling	Other currencies
			Total	Central government			Unadjusted	Seasonally adjusted			
+ 2,265	+ 2,397	+ 699	+ 1,960	+ 437	- 101	+ 1,932	+ 1,675	+ 1,461	+ 656	- 4,080	
- 3,723	- 155	- 486	+ 181	- 336	+ 108	+ 669	+ 1,241	- 241	+ 251	- 4,355	
+ 10,926	+ 1,765	+ 150	+ 1,992	- 227	- 67	+ 300	+ 921	+ 12	+ 15	+ 8,901	
+ 7,479	- 3,562	- 2,300	- 3,324	- 238	- 78	+ 4,293	+ 2,717	+ 546	- 479	+ 6,759	
+ 433	+ 2,915	+ 2,403	+ 3,275	- 360	- 9	+ 68	+ 711	- 1,231	- 670	- 640	
+ 9,869	+ 879	+ 1,275	+ 1,370	- 491	- 19	+ 515	+ 1,080	+ 408	+ 211	+ 7,875	
+ 1,071	- 1,024	- 808	- 668	- 356	+ 257	+ 3,710	+ 2,411	- 25	- 20	- 1,827	
+ 10,592	+ 1,136	+ 278	+ 1,708	- 572	- 170	- 304	+ 381	+ 185	+ 43	+ 9,702	
+ 2,585	+ 1,133	+ 672	+ 1,479	- 346	+ 25	- 1,103	+ 1	- 123	+ 1,589	+ 1,064	
+ 7,841	- 3,204	- 1,312	- 3,276	+ 72	+ 220	+ 3,645	+ 2,516	+ 2,191	+ 273	+ 4,716	
+ 10,110	- 2,622	- 1,287	- 2,141	- 481	+ 3	+ 3,151	+ 3,366	+ 588	- 492	+ 9,482	
+ 8,016	+ 1,686	+ 1,891	+ 1,740	- 54	- 52	+ 2,207	+ 2,433	+ 1,209	- 402	+ 3,368	
+ 13,945	+ 3,052	+ 1,454	+ 3,372	- 320	+ 17	+ 3,744	+ 3,077	+ 742	+ 1,841	+ 4,549	

ises all banks included in Table 3 in the Quarterly Bulletin together with the discount market. Interbank items are excluded and adjustments made to allow for transit items (see additional in the Quarterly Bulletin).  
to Table E on page 3.

put

21/5/86

**MONEY AND BANKING FIGURES: BANKING MAY 1986**

(All figures are seasonally adjusted, unless otherwise stated.)

1 During the five weeks to 21 May 1986, M0 (average of weekly levels) rose by £20 million (+0.1%) (Table B) and £M3 rose by £3,940 million (+3.0%) (Table E).

2 Recent rates of growth of the above aggregates are as follows:

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 3.5	+ 4.1	+ 3.4
£M3	+39.1	+21.9	+19.5

3 Within £M3 there was a rise in banking May of £110 million in notes and coin, a rise of £1,120 million in non-interest-bearing sight deposits and a rise of £1,440 million in interest-bearing sight deposits. M1 rose by £2,670 million (+4.3%). Time deposits (including sterling certificates of deposit) of the UK private sector rose by £1,270 million.

4 The sterling value of private sector foreign currency deposits rose by £730 million, comprising a rise of £870 million reflecting transactions and a fall of £140 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £4,670 million (+3.0%) (Table E).

5 M2 (not seasonally adjusted) rose by £1,940 million (+1.3%) (Table F). PSL2 rose by £4,050 million (+1.7%) (Table G); if term shares with building societies were included, the increase would be 1.5%.

6 Rates of growth of monetary and liquidity aggregates over the last three, six and twelve months are shown in the attached table.

7 Amongst the counterparts to the change in £M3, the net effect of public sector transactions (the PSBR less debt sales to the non-bank private sector and external flows to the public sector) was expansionary by £480 million (see columns 1-7 of Table A). The central government borrowing requirement was £1,640 million and the direct contribution of local authorities and public corporations to the public sector borrowing requirement (net of non-bank private sector purchases of their debt) was contractionary by £870 million. The non-bank private sector's holdings of central government

debt fell by £190 million; within this holdings of gilt-edged stock fell by £570 million reflecting a concentration of stock maturities, partly offset by net purchases of National Savings of £240 million and CTDs of £160 million. External and foreign currency finance of the public sector was contractionary by £480 million.

8 Sterling lending to the private sector rose by £1,700 million. Foreign currency lending to the private sector rose by £1,070 million in transactions terms.

9 The external and foreign currency transactions of UK banks were expansionary by £1,300 million (see columns 9-12 of Table A), compared with an average expansionary influence of only £20 million a month over the preceding twelve months. Net non-deposit sterling liabilities fell by £460 million. A fall in this item is an expansionary influence on money. In the preceding twelve months a rise in net non-deposit sterling liabilities had an average contractionary effect on money of £220 million a month.

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

#### Estimated seasonal movements - banking June 1986

11 The provisional seasonal movements for the four weeks ended 18 June 1986 are as follows:

	£ million
Notes and coin in circulation with the public	- 140
Private sector sterling sight bank deposits	<u>+ 250</u>
M1	<u>+ 110</u>
Other private sector sterling bank deposits	<u>- 460</u>
£M3	<u><u>- 350</u></u>
M0 (averaged series)	<u>0</u>
Bank lending in sterling to the private sector	<u><u>- 830</u></u>

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

MONETARY AND LIQUIDITY AGGREGATES: BANKING MAY 1986

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 3.5	+ 4.1	+ 3.4
M1	+ 42.5	+22.0	+22.0
of which:			
Non-interest bearing M1	+ 20.0	+10.3	+ 6.6
M2 (not seasonally adjusted)*	..	..	+12.6
£M3	+ 39.1	+21.9	+19.5
M3	+ 36.5	+21.2	+18.5
PSL1	+ 38.1	+20.5	+18.3
PSL2	+ 25.7	+19.3	+17.6
PSL2, including term shares with building societies and bank deposits with an original maturity longer than two years	+ 22.1	+15.8	+14.7

\*the growth of M2 over the 12 months to mid-May 1986 includes £900 million resulting from changes made by certain building societies in the terms of some accounts. Excluding such reclassified amounts, the growth in M2 over the latest 12 months is 12.0%.

## Banking statistics

21 May 1986

## A Public sector borrowing requirement, and other counterparts to changes in £M3

[Table 11.3 in the Quarterly Bulletin]

£ millions		Public sector borrowing requirement (surplus-)		Purchases (-) of public sector debt by UK private sector (other than banks)			External and foreign currency finance of public sector (increase-)		Banks' sterling lending to UK private sector [b]	External and foreign currency transactions of UK banks [c]				Net non-deposit sterling liabilities (increase-)	Money stock £M3 (columns 1-13)
		Central government borrowing requirement	Other public sector contribution	Other public sector debt	Central government debt [a]		Purchases of British government stocks by overseas sector	Other		Sterling deposits from, net of market loans to, banks abroad (increase-)	Other overseas sterling deposits (increase-)	Other sterling lending to overseas sector [d]	Banks' net foreign currency liabilities [e] (increase-)		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
Month ended (unadjusted)															
1985 May	15	+ 489	+ 67	- 586	- 106	- 347	+ 217	+ 866	+ 300	- 67	+ 263	- 467	- 384	+ 245	
June	19 [f]	+ 2,638	- 434	- 12	- 220	- 718	+ 267	+ 758	+ 394	- 255	- 267	+ 1,231	- 311	+ 3,071	
July	17 [f]	- 1,162	- 478	- 11	- 409	- 342	- 4	+ 3,104	+ 18	- 236	- 410	+ 260	- 438	- 108	
Aug.	21	+ 2,319	- 366	- 247	- 177	- 15	+ 49	+ 1,107	+ 261	- 591	- 603	- 170	+ 490	+ 2,057	
Sept.	18	+ 1,667	- 319	- 86	- 34	- 155	+ 18	+ 428	+ 419	- 76	- 96	+ 213	- 155	+ 1,824	
Oct.	16	+ 564	- 599	- 519	- 525	- 76	- 130	+ 3,417	+ 712	- 703	+ 165	+ 365	- 1,642	+ 1,029	
Nov.	20	+ 2,666	- 1,125	- 737	- 109	- 400	- 193	+ 1,200	- 388	+ 243	- 166	- 170	+ 1,702	+ 2,523	
Dec.	11	+ 1,490	+ 223	- 224	- 76	- 34	- 26	+ 1,031	+ 256	- 114	+ 18	- 1,137	- 535	+ 872	
1986 Jan.	15	+ 2,785	- 172	- 80	+ 504	- 291	- 1	+ 1,513	- 287	- 355	+ 355	+ 529	+ 171	- 899	
Feb.	19	+ 786	- 175	- 276	- 100	+ 152	- 247	+ 1,374	+ 208	- 512	- 73	+ 1,351	- 484	+ 432	
Mar.	19	+ 942	- 313	+ 453	- 507	+ 236	+ 131	+ 2,346	+ 51	- 466	- 656	+ 581	+ 56	+ 2,854	
Apr.	16	+ 4,274	- 1,065	- 712	- 273	- 219	+ 321	+ 3,632	+ 569	- 933	+ 656	- 14	+ 126	+ 5,110	
May	21	+ 1,622	- 772	+ 569	- 369	-477		+ 1,235	-102 + 929 + 127			+ 257	+ 569	+ 3,588	
Month ended (seasonally adjusted)															
1985 May	15	+ 383	- 4	- 586	- 115	- 347	+ 213	+ 1,438	+ 179				- 653	+ 508	
June	19 [f]	+ 762	- 18	- 12	- 262	- 718	+ 263	+ 1,379	+ 1,267				- 14	+ 2,647	
July	17 [f]	- 92	- 477	- 11	- 438	- 342	- 9	+ 1,528	- 423				- 576	- 840	
Aug.	21	+ 2,090	- 355	- 247	- 314	- 15	+ 44	+ 1,750	- 985				+ 247	+ 2,215	
Sept.	18	+ 1,955	- 334	- 86	+ 3	- 155	+ 13	+ 993	+ 60				- 324	+ 2,125	
Oct.	16	+ 914	- 660	- 519	- 477	- 76	- 135	+ 2,118	+ 561				- 766	+ 960	
Nov.	20	+ 1,905	- 1,089	- 737	- 36	- 400	- 198	+ 1,885	- 327				+ 1,401	+ 2,404	
Dec.	11	+ 118	+ 450	- 224	- 56	- 34	- 31	+ 2,135	- 999				- 618	+ 741	
1986 Jan.	15	+ 53	- 353	- 80	+ 467	- 291	+ 49	+ 384	+ 37				- 170	+ 96	
Feb.	19	+ 684	- 235	- 276	- 225	+ 152	- 252	+ 1,589	+ 826				- 1,036	+ 1,227	
Mar.	19	+ 857	- 367	+ 453	- 378	+ 236	+ 127	+ 2,572	- 625				- 41	+ 2,834	
Apr.	16	+ 2,708	- 1,354	- 712	- 201	- 219	+ 318	+ 2,965	+ 677				- 117	+ 4,065	
May	21	+ 1,638	- 865	+ 569	- 378	-481		+ 1,704	+ 1,300				+ 455	+ 3,942	

[a] Purchases (-) of central government debt by the UK private sector (other than banks) can be analysed by instrument as follows:

Marketable debt		National savings		Tax instruments		Other	Total (columns 4 and 5 above)			
		Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted		
Stocks	Treasury bills									
Month ended										
1985 May	15	- 586	+ 25	- 211	- 241	+ 81	+ 102	- 1	- 692	- 701
June	19	- 12	+ 42	- 270	- 375	+ 6	+ 69	+ 2	- 232	- 274
July	17	- 11	+ 8	- 196	- 273	- 217	- 169	- 4	- 420	- 449
Aug.	21	- 247	- 56	- 273	- 384	+ 149	+ 123	+ 3	- 424	- 561
Sept.	18	- 86	+ 6	- 228	- 229	+ 190	+ 228	- 2	- 120	- 83
Oct.	16	- 519	+ 17	- 191	- 197	- 351	- 297	-	- 1,044	- 996
Nov.	20	- 737	- 4	- 281	- 184	+ 171	+ 147	+ 5	- 846	- 773
Dec.	11	- 224	+ 56	- 23	- 61	- 106	- 48	- 3	- 300	- 280
1986 Jan.	15	- 80	+ 89	- 122	- 19	+ 534	+ 394	+ 3	+ 424	+ 387
Feb.	19	- 276	- 30	- 138	- 74	+ 62	- 127	+ 6	- 376	- 501
Mar.	19	+ 453	- 80	- 30	+ 55	- 398	- 354	+ 1	- 54	+ 75
Apr.	16	- 712	- 22	- 65	- 46	- 189	- 136	+ 3	- 985	- 913
May	21	+ 569	+ 22	- 211	- 241	- 179	- 158	- 1	+ 200	+ 191

[b] Including holdings of sterling certificates of deposit issued by building societies, and 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.

[c] A seasonally-adjusted breakdown of these transactions is not available.

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

[e] Including net non-deposit liabilities in foreign currency. (See the Quarterly Bulletin for June 1985—page 185.)

[f] See footnote [c] to Table E on page 3.

**B M0, the wide monetary base**

£ millions: percentages in italics

	End-banking-month series							Monthly-average series				
	Notes and coin in circulation outside the Bank of England				Bankers' deposits with the Banking Department			Notes and coin in circulation outside the Bank of England		Bankers' operational deposits with the Banking Department	M0 (wide monetary base) (columns 5 + 6)	
	In circulation with public		Held by banks (till money)		Operational deposits	Cash ratio deposits	Unadjusted	Seasonally adjusted	Unadjusted		Unadjusted	Seasonally adjusted
	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted						Unadjusted		
<b>Amount outstanding at</b>							<b>Average amount outstanding in month ended</b>					
1985 Apr. 17	12,435	12,384	1,312	1,320	162	582	1985 Apr. 17	13,907	13,864	162	14,069	14,026
May 15	12,441	12,464	1,275	1,290	187	628	May 15	13,761	13,861	156	13,917	14,017
June 19	12,438	12,486	1,350	1,379	93	628	June 19	13,888	13,944	178	14,066	14,122
July 17	12,674	12,464	1,403	1,328	214	628	July 17	13,988	13,962	217	14,205	14,179
Aug. 21	12,658	12,514	1,468	1,420	100	628	Aug. 21	14,105	13,959	141	14,246	14,100
Sept. 18	12,536	12,561	1,393	1,391	120	628	Sept. 18	14,031	14,026	133	14,164	14,159
Oct. 16	12,413	12,466	1,436	1,451	94	628	Oct. 16	13,905	14,003	123	14,028	14,126
Nov. 20	12,476	12,528	1,444	1,468	156	674	Nov. 20	13,890	14,043	162	14,052	14,205
Dec. 11	12,909	12,467	1,636	1,502	174	674	Dec. 11	14,324	14,124	130	14,454	14,254
1986 Jan. 15	12,399	12,576	1,582	1,558	187	674	1986 Jan. 15	14,774	14,224	235	15,009	14,459
Feb. 19	12,441	12,590	1,481	1,537	150	673	Feb. 19	13,910	14,198	169	14,079	14,367
Mar. 19	12,532	12,612	1,529	1,596	249	673	Mar. 19	14,000	14,245	187	14,187	14,432
Apr. 16	12,611	12,618	1,460	1,488	141	673	Apr. 16	14,312	14,271	198	14,510	14,469
May 21	12,824	12,728	1,553	1,532	313	721	May 21	14,221	14,296	194	14,415	14,490
<b>Change in month ended</b>							<b>Change between average amounts outstanding</b>					
1985 May 15	+ 6	+ 80	- 37	- 30	+ 25	+ 46	1985 May 15	- 146	- 3	- 6	- 152	- 9 -0.1
June 19	- 3	+ 21	+ 75	+ 88	- 94	-	June 19	+ 127	+ 83	+ 22	+ 149	+ 105 +0.7
July 17	+ 236	- 23	+ 53	- 51	+ 121	-	July 17	+ 100	+ 18	+ 39	+ 139	+ 57 +0.4
Aug. 21	- 16	+ 50	+ 65	+ 92	- 114	-	Aug. 21	+ 117	- 3	- 76	+ 41	- 79 -0.6
Sept. 18	- 122	+ 47	- 75	- 29	+ 20	-	Sept. 18	- 74	+ 67	- 8	- 82	+ 59 +0.4
Oct. 16	- 123	- 96	+ 43	+ 60	- 26	-	Oct. 16	- 126	- 23	- 10	- 136	- 33 -0.2
Nov. 20	+ 63	+ 62	+ 8	+ 17	+ 62	+ 46	Nov. 20	- 15	+ 40	+ 39	+ 24	+ 79 +0.6
Dec. 11	+ 433	- 62	+ 192	+ 34	+ 18	-	Dec. 11	+ 434	+ 81	- 32	+ 402	+ 49 +0.3
1986 Jan. 15	- 510	+ 108	- 54	+ 55	+ 13	-	1986 Jan. 15	+ 450	+ 100	+ 105	+ 555	+ 205 +1.4
Feb. 19	+ 42	+ 13	- 101	- 21	- 37	- 1	Feb. 19	- 864	- 26	- 66	- 930	- 92 -0.6
Mar. 19	+ 91	+ 21	+ 48	+ 59	+ 99	-	Mar. 19	+ 90	+ 47	+ 18	+ 108	+ 65 +0.5
Apr. 16	+ 79	+ 5	- 69	- 108	- 108	-	Apr. 16	+ 312	+ 26	+ 11	+ 323	+ 37 +0.3
May 21	+ 213	+ 109	+ 93	+ 43	+ 172	+ 48	May 21	- 91	+ 25	- 4	- 95	+ 21 +0.1

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

£ millions

Transactions in:	Banking Department	Issue Department		
	Commercial bills [a]	Commercial bills [a]	Shipbuilding paper [a]	Export credit paper [b]
Month ended				
1985 May 15	+ 637	+ 185	+ 12	+ 25
June 19	- 1,729	+ 523	- 65	- 406
July 17	+ 1,963	- 1,208	+ 19	+ 272
Aug. 21	- 2,765	+ 989	+ 50	+ 28
Sept. 18	- 652	- 82	- 5	+ 30
Oct. 16	+ 369	- 246	- 47	- 14
Nov. 20	- 1,464	+ 1,635	- 131	- 890
Dec. 11	- 1,015	+ 2,248	- 114	- 1,363
1986 Jan. 15	+ 2,815	- 2,132	-	+ 777
Feb. 19	+ 1,981	- 1,780	+ 11	+ 781
Mar. 19	- 1,421	- 189	+ 320	+ 682
Apr. 16	- 3,216	+ 70	- 110	- 535
May 21	+ 298	+ 1,199	- 221	- 1,705
Amount outstanding at mid-May 1986	997	8,647	-	-

[a] Included within column 8 of Table A.

[b] Included within column 11 of Table A.

**D Money stock: amounts outstanding**

[Table 11.1 in the Quarterly Bulletin]

£ millions		Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock M1[b]		UK private sector sterling time deposits[c]	Money stock £M3[b]		UK private sector deposits in other currencies [c]	Money stock M3[b]	
			Non-interest-bearing[a]	Interest-bearing	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
		1	2	3	4		5	6		7	8	
Month ended												
1985	Apr. 17	12,435	21,467	18,604	52,506	51,980	61,240	113,746	114,120	18,244	131,990	132,370
	May 15	12,441	21,440	19,422	53,303	53,210	60,733	114,036	114,660	18,787	132,823	133,440
	June 19[d] [e]	12,438	23,496	19,435	55,369	55,390	61,823	117,192	117,360	18,807	135,999	136,170
	July 17[e]	12,674	21,250	20,822	54,746	54,320	62,338	117,084	116,490	18,209	135,293	134,690
	Aug. 21	12,658	21,169	21,923	55,750	56,040	63,391	119,141	118,660	19,159	138,300	137,820
	Sept. 18[d]	12,536	21,253	22,248	56,037	56,080	64,983	121,020	120,810	19,524	140,544	140,340
	Oct. 16	12,413	21,574	23,537	57,524	57,410	64,525	122,049	121,770	18,861	140,910	140,630
	Nov. 20	12,476	21,717	24,536	58,729	58,830	65,843	124,572	124,170	19,466	144,038	143,630
1986	Dec. 11[d]	12,909	22,430	25,265	60,604	59,790	64,838	125,442	124,880	19,578	145,020	144,460
	Jan. 15	12,399	21,618	24,999	59,016	59,400	65,527	124,543	124,920	19,644	144,187	144,570
	Feb. 19	12,441	21,216	25,052	58,709	59,490	66,255	124,964	126,060	20,088	145,052	146,160
	Mar. 19[d]	12,532	21,718	26,158	60,408	60,990	67,507	127,915	128,950	20,571	148,486	149,530
	Apr. 16	12,611	22,603	27,676	62,890	62,360	70,135	133,025	133,020	20,341	153,366	153,370
	May 21	12,824	22,999	28,947	64,770	65,030	71,843	136,613	136,970	21,071	157,684	158,040

**E Money stock: changes [f]**

[Table 11.2 in the Quarterly Bulletin]

£ millions: percentages in italics

Notes and coin in circulation with public		UK private sector sterling sight deposits		Money stock M1[b]		UK private sector sterling time deposits [c]	Money stock £M3[b]		UK private sector deposits in other currencies [c]		Money stock M3[b]		
		Non-interest-bearing[a]	Interest-bearing				Transactions	Valuation changes [g]					
1		2	3	4		5	6		7		8		
Month ended (unadjusted)													
1985	May 15	+ 6	- 27	+ 818	+ 797	- 552	+ 245	+ 337	+ 206	+ 788			
	June 19[e]	- 3	+ 2,056	+ 3	+ 2,056	+ 1,015	+ 3,071	+ 655	- 655	+ 3,071			
	July 17[e]	+ 236	- 2,246	+ 1,387	- 623	+ 515	- 108	+ 754	- 1,352	- 706			
	Aug. 21	- 16	- 81	+ 1,101	+ 1,004	+ 1,053	+ 2,057	+ 577	+ 373	+ 3,007			
	Sept. 18	- 122	+ 87	+ 288	+ 253	+ 1,571	+ 1,824	- 249	+ 603	+ 2,178			
	Oct. 16	- 123	+ 321	+ 1,289	+ 1,487	- 458	+ 1,029	+ 146	- 809	+ 366			
	Nov. 20	+ 63	+ 143	+ 999	+ 1,205	+ 1,318	+ 2,523	+ 873	- 268	+ 3,128			
1986	Dec. 11	+ 433	+ 713	+ 729	+ 1,875	- 1,003	+ 872	- 171	+ 279	+ 980			
	Jan. 15	- 510	- 812	- 290	- 1,612	+ 713	- 899	+ 348	- 282	- 833			
	Feb. 19	+ 42	- 402	+ 53	- 307	+ 739	+ 432	+ 565	- 121	+ 876			
	Mar. 19	+ 91	+ 499	+ 1,080	+ 1,670	+ 1,184	+ 2,854	+ 686	- 204	+ 3,336			
	Apr. 16	+ 79	+ 885	+ 1,518	+ 2,482	+ 2,628	+ 5,110	+ 147	- 377	+ 4,880			
	May 21	+ 213	+ 396	+ 1,271	+ 1,880	+ 1,708	+ 3,588	+ 874	- 144	+ 4,318			
Month ended (seasonally adjusted)													
1985	May 15	+ 80	+ 230	+ 915	+ 1,225	+ 2.4	- 717	+ 508	+ 0.4	+ 337	+ 206	+ 1,051	+ 0.8
	June 19[e]	+ 21	+ 2,044	+ 107	+ 2,172	+ 4.1	+ 475	+ 2,647	+ 2.3	+ 655	- 655	+ 2,647	+ 2.0
	July 17[e]	- 23	- 2,387	+ 1,337	- 1,073	- 1.9	+ 233	- 840	- 0.7	+ 754	- 1,352	- 1,438	- 1.1
	Aug. 21	+ 50	+ 492	+ 1,175	+ 1,717	+ 3.2	+ 498	+ 2,215	+ 1.9	+ 577	+ 373	+ 3,165	+ 2.3
	Sept. 18	+ 47	- 356	+ 321	+ 12	-	+ 2,113	+ 2,125	+ 1.8	- 249	+ 603	+ 2,479	+ 1.8
	Oct. 16	- 96	+ 253	+ 1,168	+ 1,325	+ 2.4	- 365	+ 960	+ 0.8	+ 146	- 809	+ 297	+ 0.2
	Nov. 20	+ 62	+ 393	+ 966	+ 1,421	+ 2.5	+ 983	+ 2,404	+ 2.0	+ 873	- 268	+ 3,009	+ 2.1
1986	Dec. 11	- 62	+ 229	+ 794	+ 961	+ 1.6	- 220	+ 741	+ 0.6	- 171	+ 279	+ 849	+ 0.6
	Jan. 15	+ 108	- 74	- 452	- 418	- 0.7	+ 514	+ 96	+ 0.1	+ 348	- 282	+ 162	+ 0.1
	Feb. 19	+ 13	- 95	+ 176	+ 94	+ 0.2	+ 1,133	+ 1,227	+ 1.0	+ 565	- 121	+ 1,671	+ 1.2
	Mar. 19	+ 21	+ 166	+ 1,277	+ 1,464	+ 2.5	+ 1,370	+ 2,834	+ 2.2	+ 686	- 204	+ 3,316	+ 2.3
	Apr. 16	+ 5	+ 181	+ 1,191	+ 1,377	+ 2.3	+ 2,688	+ 4,065	+ 3.2	+ 147	- 377	+ 3,835	+ 2.6
	May 21	+ 109	+ 1,121	+ 1,438	+ 2,668	+ 4.3	+ 1,274	+ 3,942	+ 3.0	+ 874	- 144	+ 4,672	+ 3.0

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the Quarterly Bulletin).

[b] M1 equals columns 1 + 2 + 3. £M3 equals M1 + column 5. M3 equals £M3 + column 7.

[c] Including certificates of deposit.

[d] Changes in the monthly-reporting population occurred in these months. See also the additional notes to Table 3 in the Quarterly Bulletin, and, for December 1985 and March 1986, footnotes [b] and [c] respectively to Table H on page 5.

[e] The figures for the banking months of June and July 1985 are heavily distorted by the large flow of funds associated with the oversubscription to the sale of shares in Abbey Life Group p.l.c. These flows probably added substantial amounts to deposits and lending in banking June, but the distortion should have been unworded in banking July.

[f] 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.)

[g] See additional notes to Tables 6 and 11 of the Quarterly Bulletin.



## F Transactions balances and components of M2

[Table 11.1 and 11.2 in the Quarterly Bulletin]

£ millions: *not seasonally adjusted*

	Notes and coin in circulation with public	UK private sector sterling non-interest- bearing sight deposits with banks[a]	Non-interest- bearing M1[b]	Other UK private sector sterling retail deposits with banks	UK private sector retail shares and deposits with building societies	National Savings Bank ordinary account	M2[b]	Public sector retail deposits with banks	Overseas re- deposits with banks
	1	2	3	4	5	6	7	8	9
Amounts outstanding									
1985 May 15	12,441	21,440	33,881	33,291	67,315	1,752	136,239	1,060	4,152
June 19[c][d]	12,438	23,496	35,934	33,893	68,096	1,750	139,673	1,086	4,186
July 17[d]	12,674	21,250	33,924	34,709	68,267	1,733	138,633	1,015	4,404
Aug. 21	12,658	21,169	33,827	35,004	68,291	1,740	138,862	993	4,452
Sept. 18[c]	12,536	21,253	33,789	35,188	69,825	1,729	140,531	885	4,475
Oct. 16	12,413	21,574	33,987	35,637	70,630	1,734	141,988	1,107	4,541
Nov. 20	12,476	21,717	34,193	36,885	71,408	1,711	144,197	1,251	4,532
Dec. 11[c]	12,909	22,430	35,339	36,328	72,673	1,693	146,033	923	4,681
1986 Jan. 15	12,399	21,618	34,017	36,861	73,906	1,739	146,523	1,137	4,905
Feb. 19	12,441	21,216	33,657	37,014	74,464	1,714	146,849	997	4,895
Mar. 19[c]	12,532	21,718	34,250	37,641	75,284	1,722	148,897	1,071	5,054
Apr. 16	12,611	22,603	35,214	38,644	76,097	1,718	151,673	1,218	5,294
May 21	12,824	22,999	35,823	39,490	76,553	1,742	153,608	1,167	5,335
Changes in month ended [e]									
1985 June 19[d]	- 3	+2,056	+ 2053	+ 602	+ 781	- 2	+3,434	+ 26	+ 34
July 17[d]	+ 236	-2,246	-2,010	+ 816	+ 171	- 17	-1,040	- 71	+ 218
Aug. 21	- 16	- 81	- 97	+ 295	+ 24	+ 7	+ 229	- 22	+ 48
Sept. 18	- 122	+ 87	- 35	+ 184	+1,374	- 11	+1,512	- 108	+ 23
Oct. 16	- 123	+ 321	+ 198	+ 449	+ 805	+ 5	+1,457	+ 222	+ 66
Nov. 20	+ 63	+ 143	+ 206	+1,248	+ 778	- 23	+2,209	+ 144	- 9
Dec. 11	+ 433	+ 713	+1,146	- 557	+1,265	- 18	+1,836	- 328	+ 149
1986 Jan. 15	- 510	- 812	-1,322	+ 533	+1,233	+ 46	+ 490	+ 214	+ 224
Feb. 19	+ 42	- 402	- 360	+ 153	+ 558	- 25	+ 326	- 140	- 10
Mar. 19	+ 91	+ 499	+ 590	+ 627	+ 820	+ 8	+2,045	+ 74	+ 159
Apr. 16	+ 79	+ 885	+ 964	+1,003	+ 813	- 4	+2,776	+ 147	+ 240
May 21	+ 213	+ 396	+ 609	+ 846	+ 456	+ 24	+1,935	- 51	+ 41

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the Quarterly Bulletin).

[b] Non-interest-bearing M1 equals columns 1+2. M2 equals non-interest-bearing M1+columns 4+5+6.

[c] See footnote [d] to Table D on page 3.

[d] See footnote [e] to Table E on page 3.

[e] See footnote [f] to Table E on page 3.

## G Private sector liquidity, and other deposits

[Summary of Table 12 in the Quarterly Bulletin]

£ millions: *percentages in italics*

Month ended	Seasonally adjusted	Other money-market instruments Seasonally adjusted	Savings institution deposits and securities		Certificates of tax deposit		PSL1 (columns 1+7+5)	PSL2 (columns 1+7+3+6)	PSL1	PSL2	Other shares and deposits with building societies					
			Seasonally adjusted		Seasonally adjusted						Seasonally adjusted	Seasonally adjusted	Seasonally adjusted change in month	Seasonally adjusted change in month	Unadjusted	
			Total (net)	<i>of which shares and deposits with building societies [a]</i>	Issues net of sur-renders	Column 5 less building society holdings									Amount outstanding	Change in month
1	2	3	4	5	6	7	8	9	10	11	12					
1985 May 15	112,924	3,088	81,890	78,361	2,975	2,634	118,987	200,536	+ 254	+0.2	+ 328	+0.2	19,052	+790		
June 19[b]	115,587	3,311	82,497	79,314	2,900	2,539	121,798	203,934	+2,778	+2.3	+3,392	+1.7	19,349	+297		
July 17[b]	114,666	3,308	83,154	80,352	3,062	2,672	121,036	203,800	- 719	-0.6	- 75	-	19,489	+140		
Aug. 21	116,852	3,095	83,727	81,490	2,929	2,530	122,876	206,204	+1,894	+1.6	+2,460	+1.2	19,659	+170		
Sept. 18	119,000	2,972	84,648	82,754	2,696	2,296	124,668	208,916	+1,790	+1.5	+2,710	+1.3	19,393	-266		
Oct. 16	119,954	2,904	86,024	84,332	2,993	2,537	125,851	211,419	+1,182	+0.9	+2,502	+1.2	18,828	-565		
Nov. 20	122,328	3,039	88,070	86,432	2,846	2,390	128,213	215,827	+2,372	+1.9	+4,418	+2.1	18,076	-752		
Dec. 11	122,987	2,936	89,108	87,774	2,894	2,406	128,817	217,437	+ 652	+0.5	+1,653	+0.8	17,690	-386		
1986 Jan. 15	122,985	3,030	90,845	89,857	2,500	2,251	128,515	219,111	- 252	-0.2	+1,724	+0.8	17,235	-455		
Feb. 19	124,149	2,891	93,167	91,605	2,627	2,238	129,667	222,445	+1,235	+1.0	+3,417	+1.6	16,870	-365		
Mar. 19	126,931	2,768	94,208	93,165	2,981	2,409	132,680	226,316	+3,062	+2.4	+3,920	+1.8	16,674	-196		
Apr. 16	131,025	2,719	95,242	94,704	3,117	2,472	136,861	231,458	+4,180	+3.2	+5,141	+2.3	16,320	-354		
May 21	134,885	2,352	95,840	96,106	3,275	2,430	140,512	235,507	+3,650	+2.7	+4,048	+1.7	15,983	-337		

[a] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies.

[b] See footnote [c] to Table E on page 3.

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

£ millions

	Notes out-standing	Total deposits	Sterling liabilities								Certificates of deposit etc. [d]	Items in suspense and transmission	Capital and other funds
			Sight deposits				Time deposits						
			UK monetary sector	UK public sector	UK private sector	Overseas	UK monetary sector [d]	UK public sector	UK private sector	Overseas			
1985 Dec. 11 [b]	995	208,575	9,746	1,244	48,472	6,771	37,891	1,790	61,490	25,705	15,467	5,443	27,899
1986 Jan. 15	953	210,662	8,612	1,488	47,535	7,056	39,438	2,018	62,707	26,895	14,912	5,843	28,172
Feb. 19	946	214,505	8,698	1,378	47,194	7,024	41,030	1,958	62,653	27,116	17,455	5,938	28,215
Mar. 19 [c]	967	221,917	9,722	1,468	49,107	7,258	43,287	1,899	63,372	28,251	17,553	6,483	28,397
Apr. 16	985	232,268	10,548	1,722	51,502	7,625	45,667	2,889	65,466	28,659	18,191	6,406	29,720
May 21	998	236,667	10,619	1,738	53,125	7,402	46,340	3,224	66,855	28,461	18,903	5,963	29,581

	Total deposits	Other currency liabilities					Certificates of deposit etc [d]	Items in suspense and transmission	Capital and other funds	Total liabilities/assets	of which sterling	
		Sight and time deposits			UK local authorities	Overseas					Liabilities	Assets
		UK monetary sector [d]	Other United Kingdom	Overseas								
1985 Dec. 11 [b]	498,677	89,235	18,812	322,904	67,726	5,295	14,867	761,751	242,912	242,348		
1986 Jan. 15	496,324	85,068	18,869	327,235	65,153	5,408	14,164	761,527	245,630	244,532		
Feb. 19	505,022	87,762	19,408	332,377	65,475	6,528	15,063	776,216	249,604	247,165		
Mar. 19 [c]	508,486	89,693	19,661	332,741	66,391	6,882	14,721	787,851	257,763	254,743		
Apr. 16	504,308	88,164	19,716	331,944	64,483	6,616	13,934	794,237	269,379	266,373		
May 21	507,046	87,493	20,458	330,920	68,175	6,660	13,792	800,706	273,208	269,941		

	Notes and coin	Balances with Bank of England				Market loans						
		Cash ratio deposits	Special deposits	Other	LDMA		Other UK monetary sector	UK monetary sector CDs	Building society CDs and time deposits	UK local authorities	Overseas	
					Secured	Unsecured						
1985 Dec. 11 [b]	2,313	667	—	83	6,367	47	45,519	6,210	766	3,565	8,891	
1986 Jan. 15	2,266	667	—	167	5,826	46	46,298	6,272	631	3,572	9,585	
Feb. 19	2,140	666	—	146	6,165	39	47,720	7,354	769	3,408	9,941	
Mar. 19 [c]	2,200	667	—	245	6,674	34	50,942	7,170	695	3,437	10,733	
Apr. 16	2,149	667	—	140	6,580	37	54,457	7,626	872	3,271	11,531	
May 21	2,258	713	—	310	5,969	27	55,250	8,023	874	3,091	11,542	

	Treasury bills	Bills				Total	Advances			Banking Department lending to central government (net)
		Eligible local authority bills	Eligible bank bills	Other	UK public sector		UK private sector	Overseas		
									Other	
1985 Dec. 11 [b]	300	581	2,806	297	131,992	2,067	117,656	12,269	574	
1986 Jan. 15	244	620	5,112	318	132,773	2,004	119,140	11,628	-2,106	
Feb. 19	168	510	7,728	318	132,020	1,766	119,560	10,694	-4,270	
Mar. 19 [c]	235	533	6,267	348	133,981	1,744	122,179	10,058	-2,693	
Apr. 16	310	394	4,373	403	138,873	1,665	126,351	10,857	446	
May 21	442	406	4,538	385	140,942	1,443	127,158	12,341	518	

	Sterling assets continued						Other currency assets						
	Investments		Miscellaneous assets				Market loans and advances						
	British government stocks	Other public sector	Other	Items in suspense and collection	Assets leased	Other	Total	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector	Overseas
1985 Dec. 11 [b]	7,171	425	7,573	8,870	1,426	5,904	478,422	120,287	89,171	11,610	1,632	33,837	342,173
1986 Jan. 15	7,121	313	7,732	9,597	1,582	5,895	474,628	119,790	84,835	11,313	1,766	35,087	341,627
Feb. 19	6,919	543	8,139	9,295	1,528	5,919	484,495	120,927	87,169	10,670	1,740	35,370	349,547
Mar. 19 [c]	6,510	544	8,293	10,480	1,508	5,942	488,177	121,405	89,852	11,156	1,669	36,198	349,301
Apr. 16	6,706	535	8,985	10,566	1,519	5,932	482,379	119,264	87,370	11,121	1,653	36,142	346,093
May 21	7,238	505	9,306	10,120	1,466	6,019	484,382	119,346	86,302	11,169	1,590	36,859	348,462

	Other currency assets continued						Acceptances		Eligible liabilities	
	Bills	Investments		Items in suspense and collection	Miscellaneous assets		Sterling	Other currencies		
		Total	United Kingdom		Overseas	Assets leased				Other
1985 Dec. 11 [b]	1,769	32,527	1,949	30,578	5,086	10	1,589	18,251	2,987	147,787
1986 Jan. 15	2,076	33,365	2,563	30,802	5,417	10	1,499	18,661	2,883	148,941
Feb. 19	2,200	34,470	2,554	31,917	6,297	7	1,581	19,462	2,858	149,965
Mar. 19 [c]	2,191	34,441	2,621	31,820	6,740	7	1,551	17,873	3,083	152,862
Apr. 16	2,154	35,166	2,601	32,566	6,617	7	1,541	17,483	3,126	159,491
May 21	2,338	35,987	2,774	33,212	6,780	12	1,266	18,352	3,040	161,902

[a] These tables include all monthly reporting monetary sector 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 one left the series at mid-December; the net effect was an increase of £70 million in sterling assets and an increase of £486 million in other currency assets.  
 [c] Nine contributors joined the series at mid-March; the effect was an increase of £436 million in sterling assets and £32 million in other currency assets.  
 [d] Promissory notes, bills and other short-term paper were previously included within UK monetary sector; these items are now included with certificates of deposits.



Sterling assets continued

			Bills				Advances			Banking Department lending to central government (net)	Investments	
			Treasury bills	Eligible local authority bills	Eligible bank bills	Other	UK public sector	UK private sector	Overseas		British government stocks	Other
<b>British banks:</b>												
Retail banks	1986	Apr. 16	277	358	3,476	74	419	77,921	2,845	446	5,368	2,922
		May 21	368	395	3,594	76	326	78,237	4,408	518	5,873	2,978
Accepting houses	1986	Apr. 16	5	14	372	53	51	3,812	1,075	—	299	1,521
		May 21	4	11	317	57	57	3,994	1,091	—	207	1,354
Other British banks	1986	Apr. 16	1	15	251	78	65	20,463	1,673	—	367	1,707
		May 21	22	—	322	57	57	20,562	1,707	—	395	1,749
<b>Overseas banks:</b>												
American banks	1986	Apr. 16	1	—	20	4	69	7,422	1,292	—	213	391
		May 21	1	—	46	7	67	7,561	1,325	—	231	391
Japanese banks	1986	Apr. 16	4	—	—	—	582	1,732	986	—	22	1,555
		May 21	6	—	—	—	474	1,727	855	—	101	1,684
Other overseas banks	1986	Apr. 16	22	8	254	190	456	14,506	2,727	—	327	1,160
		May 21	41	—	257	183	440	14,525	2,693	—	323	1,369
<b>Consortium banks</b>	1986	Apr. 16	—	—	2	4	23	496	259	—	110	265
		May 21	—	—	2	4	23	553	262	—	110	287
<b>Total</b>	1986	Apr. 16	310	395	4,373	403	1,665	126,352	10,857	446	6,706	9,521
		May 21	442	406	4,538	384	1,444	127,159	12,341	518	7,240	9,812

Other currency assets

			Market loans and advances						Bills	Investments	Sterling and other currencies	Acceptances	Eligible liabilities	
			Total	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector						Overseas
<b>British banks:</b>														
Retail banks	1986	Apr. 16	49,171	15,515	11,332	351	179	4,330	32,979	648	5,262	15,513	3,344	89,620
		May 21	48,780	15,747	10,710	339	173	4,593	32,966	679	5,202	15,459	3,732	92,107
Accepting houses	1986	Apr. 16	10,666	3,890	2,904	525	17	965	6,255	63	1,401	1,890	3,899	7,005
		May 21	10,601	3,683	3,005	560	15	980	6,041	62	1,407	1,908	4,085	6,757
Other British banks	1986	Apr. 16	27,734	9,731	6,376	133	714	2,320	18,191	26	1,169	1,994	1,125	21,833
		May 21	27,045	9,335	5,718	209	711	2,067	18,339	81	1,490	1,612	1,040	21,987
<b>Overseas banks:</b>														
American banks	1986	Apr. 16	77,761	22,750	8,172	1,243	30	9,599	58,717	52	2,551	4,086	3,319	10,291
		May 21	77,100	22,825	7,587	1,219	30	9,797	58,467	101	2,490	4,272	3,325	10,387
Japanese banks	1986	Apr. 16	158,844	25,382	27,341	1,432	571	7,883	121,617	99	14,773	656	2,220	7,529
		May 21	164,266	26,084	28,564	1,379	542	8,609	125,172	105	15,034	690	2,268	7,542
Other overseas banks	1986	Apr. 16	145,273	36,408	29,840	7,100	142	10,763	97,428	1,164	8,938	2,158	6,457	21,719
		May 21	143,552	36,026	29,385	7,121	116	10,469	96,462	1,199	9,305	2,330	6,703	21,678
<b>Consortium banks</b>	1986	Apr. 16	12,930	5,587	1,404	338	—	281	10,907	101	1,072	757	245	1,494
		May 21	13,038	5,646	1,334	342	3	344	11,015	113	1,058	267	239	1,442
<b>Total</b>	1986	Apr. 16	482,379	119,263	87,369	11,122	1,653	36,141	346,094	2,153	35,166	27,054	20,609	159,491
		May 21	484,382	119,346	86,303	11,169	1,590	36,859	348,462	2,340	35,986	26,538	21,392	161,900

[Table 4 in the Quarterly Bulletin]

Sterling assets continued

British government stocks	Investments			Other sterling assets	Other currency assets				Total assets/liabilities	
	Local authorities	Other			Total	Certificates of deposit	Bills	Other		
292	37	335	51	340	148	135	57	8,713	1985 Dec. 11	
47	28	362	58	226	120	40	66	7,986	1986 Jan. 15	
185	27	391	57	335	99	104	132	8,377	Feb. 19	
593	22	403	70	217	84	35	98	8,826	Mar. 19	
482	22	407	69	272	86	39	147	9,147	Apr. 16	
288	20	414	41	374	83	95	196	8,691	May 21	

8 Other identified external and foreign currency transactions (ie excluding EFCFPS) were +1220, very different from the forecast of -350; this may be a poor guide to the final outturn for the externals.

9 The residual (including NNDLs) was contractionary by 230, compared with a forecast of -500. A sterling capital issue by Standard Chartered contributed -150. The planned rights issue by National Westminster will not have affected the figures in banking May.

Financial Statistics Division

Money & Banking Aggregates Group BB-1

30 May 1986

MISS R BORER (4471) / P A BULL (4427)



The provisional publication date is the day before the EPR comes out. The

£M3 news below may be relevant to any monetary policy article in the EPR.

FROM: T TARKOWSKI  
DATE: 30 MAY 1986

1. MR RICHARDSON

2. CHANCELLOR

cc: Chief Secretary  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Scholar  
Mr Peretz o/r  
Mr Sedgwick  
Mr Walsh o/r  
Mr Hannah  
Mr Heath  
Mr Ross Goobey

*mea 30/*

*Ch. Strongman has been arranged to be later excused by this*

*The Govt suggests that growth may be at a more stable rate. Is this a better option? Will it be?*

**MONEY SUPPLY IN BANKING MAY : "FIRST GUESS"**

I attach the Bank's monthly note setting out their "first guess" at the money supply figures for banking May, which ended on 21 May.

Summary

2. **£M3** is estimated to have risen 2.4 per cent, compared with a forecast increase of 0.9 per cent. This suggests a final outturn in the range of 2¼ per cent to 2¾ per cent. On this basis the annual growth rate of **£M3** to banking April would be in the range of 18½ per cent to 19 per cent, remaining, as forecast, well above its 11-15 per cent target range. **M0** rose by 0.1 per cent (forecast: 0.5 per cent). Annual growth remains in the bottom half of its target range, at 3.4 per cent. Table 1 below gives the implied growth rates in the target aggregates.

Table 1: Monetary Aggregates - First guess : banking May

Monthly percentage change	per cent	
	<u>M0</u>	<u>£M3</u>
First guess	0.1	2.4
Likely outturn	0.1	2¼ - 2¾
3 month annualised rate	0.1	35½ - 38
6 month annualised rate	4.1	20½ - 21½
Annual rate	3.4	18½ - 19

MO

3. The annual growth rate for M0 at 3.4 per cent is slightly up from last month (3.2 per cent), but remains comfortably in the bottom half of its target range. This is in line with the forecast which predicts that M0's annual growth rate remains close to 3 per cent throughout the forecast period.

£M3 components

4. In banking May £M3 is thought to have increased by £3,150 million, or 2.4 per cent, compared with our forecast increase of 0.9 per cent, circulated in Mr Walsh's monetary prospects submission of 14 May (which superseded the forecast reported in the Bank's note). Among the components, notes and coin rose by £110 million. The main surprise is in non-interest bearing sight deposits which rose unusually strongly by £1,290 million. Interest-bearing sight deposits rose £1,140 million, time deposits rose rather less strongly by £620 million.

5. We do not as yet know definitely that factors distorting the components have been at work, but the exceptional increase in NIB sight could well be associated with something of the kind. There was a large gilt redemption at the end of banking May, which could have inflated the figures for NIB sight. The last increase of comparable size happened last June in the run up to the Abbey Life oversubscription.

£M3 counterparts

6. Table 2 (attached) compares £M3 counterparts in the first guess with those in the forecast. £M3 is estimated to have risen by £3,150 million, about £2.0 billion above forecast. The main factor accounting for the difference is the very substantially expansionary externals (around £1.5 billion more expansionary than forecast).

7. The "PSBR" is estimated at £1,140 million, about £640 million above forecast. This is accounted for by the other public sector contribution, which was around £470 million more expansionary

than forecast, largely on account of the LAs. The CGBR was close to forecast.

8. Central Government net debt sales, at £70 million, were also on forecast, but the effects of the higher than expected "PSBR" on the funding position were largely offset by above-forecast external flows to the public sector, leaving underfunding - at £640 million - not significantly different from forecast (£470 million).

9. Sterling lending is estimated at £1,530 million, much as forecast. (The forecast assumed that <sup>the capital allowances surge</sup> began to unwind this month, though only very slowly.)

10. The main reason for the difference from forecast was the externals. At this stage, the division between NNDLs and externals is not on the same basis as that used in the forecast, and the position is further complicated by the treatment of the residual error, which is included in NNDLs. But the externals and NNDLs taken together are around £1.8 billion more expansionary than forecast, and it seems clear that the externals are largely responsible, even after allowing for the statistical difficulties in the way of interpretation at this stage. We understand, however, that there has been a reduction of around £1 billion in overseas residents' sterling deposits (an expansionary influence) and it is conceivable that this may be related to the recent substantial turn-around in the UK current account, though it is not possible to go beyond conjecture before we have more detailed figures.

#### Timetable

11. We will receive provisional April figures on Friday 6 June, and they will be published on Tuesday 10 June. Full money and banking figures will appear on Thursday 19 June.

12. I am sending a copy of this minute to Mr Norgrove at No 10 Downing Street.

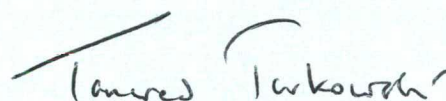
  
T TARKOWSKI



TABLE 2 : BANKING MAY 1986

"First guess" compared to forecast

		£ millions, seasonally adjusted			
		FIRST GUESS	FORECAST*	diff	
CGBR (ex bank deposits)		+1,640	+1,628	+12	
CG debt:	Gilts	+470	+420		
	Treasury Bills	0	-		
	National Savings	-240	-215		
	CTD's	-160	-130		
		----	----		
		+70	+75	-5	
Other public sector:	LA	-270	-885		
	PC	-240	-95		
		---	---		
		-510	-980	+470	
External and fc. finance of the public sector		-560	-250	-310	
Sterling lending to UK private sector (inc. Issue Dept. commercial bills)		+1,530	+1,600	-70	
Net private externals**		+1,220	-335	+1555	
Residual (includes NNDLs** and reporting differences)		-230	-500	+270	
		-----	-----		
£M3		+3,150	+1,240	+1910	
		-----	-----		
(Monthly percentage change)		(+2.4%)	(+0.9%)		
Wide over(-)/underfunding(+)		+640	+470	+170	

\* As circulated in Mr Walsh's "Monetary Prospects" submission of 14 May 1986.

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

30.5.86

THE GOVERNOR'S SECRETARY (2)  
THE DEPUTY GOVERNOR  
MR LOEHNIS  
MR GEORGE  
MR WALKER  
MR FLEMMING  
MR COLEBY  
MR WILLETTS  
MR PLENDERLEITH  
MR TAYLOR  
MR W A ALLEN

MR COLLINS  
MR HOTSON  
MR MIDGLEY/GROUP 7/2  
MR PENNINGTON/GROUP 2/2  
MR THORP  
MR TOWNEND  
MR M ST J WRIGHT/GROUP 2/4  
MR McCONNACHIE  
MR MANN  
MR WALSH (HMT)  
MR TARKOWSKI (HMT)

FROM: Miss R Borer / P A Bull

BANKING MAY 1986 - A FIRST ESTIMATE

£ millions, seasonally adjusted

The provisional estimates of the monetary aggregates for banking May will be published at 2.30 pm on Tuesday 10 June and the full money and banking figures will be published at 2.30 pm on Thursday 19 June. Even after 19 June, some of the information contained in this note remains confidential to the Bank, and group 2/3 should be consulted if there is doubt about its availability.

1 Figures received from the weekly reporting banks show an increase in £M3 of 3150 in banking May. An estimate of the monetary sector as a whole, based on these returns, would suggest a final outturn in the range of +2 1/4% to +2 3/4% (compared with a forecast increase of 0.8%) and a 12-month growth rate in the range of +18 1/2% to +19%, well outside the target range of 11-15% announced in the Budget.

2 Among the components of £M3, notes and coin are estimated to have risen by 110, and private sector non-interest-bearing sight deposits to have increased by 1290, an unusually large amount. Private sector interest-bearing sight deposits are estimated to have risen by 1140. Private sector time deposits (including CDs) are estimated to have risen by 620: within this, time deposits rose by 410 and CDs by 200. Within the total increase of 1550 in interest bearing deposits, retail IB deposits rose by 740.

3 Our latest estimate for M0 for banking May is +0.1%, or +3.4% over the last twelve months, within the new target range of 2-6% announced in the Budget. This includes figures received from the Scottish note issuing banks and also revised estimates for coin. Information has not yet been received from the Northern Irish banks.

4 The table attached compares counterparts to £M3 with the forecast as circulated in the FR of 15 May. The estimated CGBR is +1640, ie 310 above forecast: within this, the CG own account was +480 while on-lending to LAs was +1380, and on-lending to PCs was -220. Net purchases of central government debt from the non-bank private sector are estimated to have been +70, compared to a forecast of net sales of -30. Gilts contributed +470, ie a decrease of nbps holdings with two large redemptions, compared to the forecast decrease of +320. There were net purchases of CTDs of -160 and of National Savings of -240, while Treasury Bills showed no net change over the month.

5 The direct contribution of the rest of the public sector is estimated to have been contractionary by -510, (370 less contractionary than forecast). Local authorities were -270, (360 less contractionary than forecast), and PCs were -240, (10 less than forecast).

6 "Narrow overfunding" (ie the CGBR plus the direct contribution of the rest of the public sector, net of CG debt sales to the non-bank private sector) was +1200 (ie. an underfund). External and foreign currency finance of the public sector (EFCFPS) was -560. "Wide overfunding" (ie the sum of narrow overfunding and EFCFPS) was +640, (ie an underfund) compared with a forecast of +270.

7 Bank lending in sterling to the private sector is estimated to have increased by 1530, compared with a forecast rise of 1600.

SECRET



*Handwritten initials/signature*

FROM: MRS R LOMAX  
DATE: 2 June 1986

MR TARKOWSKI

*Handwritten notes:*  
A. as  
Tarkowski to give us  
information response before  
Ch sees PM tomorrow.  
R.

- cc Chief Secretary
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr Cassell
- Mr Scholar
- Mr Peretz
- Mr Sedgwick
- Mr Walsh
- Mr Richardson
- Mr Ross Goobey

**MONEY SUPPLY IN BANKING MAY : "FIRST GUESS"**

The Chancellor was grateful for your minute of 30 May.

2. At lunch on Friday, the Governor suggested that errors might be at least partially responsible for the appalling sterling M3 figure. The Chancellor hopes this is being actively looked into, with a view to correcting any errors. He would be grateful if you would keep him closely in touch.

*Handwritten initials*

RACHEL LOMAX

SECRET

SECRET

FROM: T TARKOWSKI  
DATE: 2 JUNE 1986

CHANCELLOR

cc: Chief Secretary  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Scholar  
Mr Peretz  
Mr Sedgwick  
Mr Walsh  
Mr Richardson  
Mr Hannah  
Mr Ross Goobey

*Ch*  
*Alan...*  
*Thanks.*  
*What is the*  
*main problem?*  
*for X?*  
*Re*  
*2/6.*

**MONEY SUPPLY IN BANKING MAY : "FIRST GUESS"**

Mrs Lomax' 2 June minute recorded that, at your lunch with the Governor on Friday, he suggested that errors might be at least partially responsible for the £M3 figure in the First Guess. You asked that we look into the substance of this.

2. I have consulted the Bank at official level. They say that the information on which the Governor based his lunch remarks was still subject to heavy caveats at the time, since it had not been fully checked for errors. This is normal: in the immediate run up to the First Guess the figures are continuously checked and refined. But this month the effect of that process was simply to confirm the 2.4 per cent figure for £M3 growth; there had been no significant errors.

3. The Bank have re-confirmed they are satisfied that their figures (as reported in my 30 May submission) are now as sound as ever can be achieved in the First Guess: indeed work in the Bank on the weekly figures has now finished. So we shall not know more detail until the monthly figures become available in the provisionals at the end of the week. (At this stage the figures are still being input into the Bank's computer, and returns from some banks will not even have arrived.)

4. As always, there is scope for considerable revision between the First Guess and the Provisionals, reflecting the different reporting populations on which they are based. But there is little in the information so far available to suggest that the £M3 estimate is likely to reduce. While almost anything could still happen on the counterparts side (where the externals appear to be the main expansionary influence this month), the picture on the components side looks distinctly less promising. An important factor here was the exceptionally large increase in NIB sight deposits (the 5.7 per cent increase in banking May is larger than the total increase - 5.1 per cent - during the previous 12 months). This was very widely spread among banks. So even if further errors come to light, they are unlikely significantly to change the total increase. Since most NIB sight deposits are with the retail banks, all of whom report weekly, the addition of the monthly banks is unlikely to make much difference. Barring large revisions to the IB and wholesale elements in the picture, it looks as though we will be stuck with a bad month for £M3.

Tancred Tarkowski

T TARKOWSKI



*Pop*

FROM: MRS R LOMAX  
DATE: 3 June 1986

MR TARKOWSKI

*Ch*  
The prebureau

cc Chief Secretary  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Peretz  
Mr Walsh  
Mr Richardson  
Mr Ross Goobey

*for unusual figure for TMS  
is, I'm told, even worse than  
the last year - around 3%*

*Re 4/6*

**MONEY SUPPLY IN BANKING MAY : "FIRST GUESS"**

The Chancellor was grateful for your minute of 2 June. He would be grateful for views on the likely explanation for the exceptionally large increase in NIB sight deposits in May.

*Rh*

RACHEL LOMAX

*no good ideas; looked at - gilt redemption (low coupon) - maybe  
a bit*

*- PAYE monthly installment*

*- repurchase by bank (no flow  
of funds yet)*

*nothing stands up.*

*NB, very erratic series.*

*They'll say what they can in the usual note on the  
provisional or history.*

[seen and approved in draft.]

- 1. MR WALSH
- 2. CHANCELLOR

FROM: T TARKOWSKI  
 DATE: 6 JUNE 1986

- cc: Chief Secretary  
 Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Peretz  
 Mr Scholar  
 Mr Sedgwick  
 Mr Culpin  
 Mr Pickford  
 Mr Richardson or  
 Mr Hannah  
 Mr Ridlington  
 Dr Coyle  
 Mr Heath  
 Mr Ross Goobey

*Handwritten notes:*  
 I don't think we should be taking @ all. As you suggest we can end of...

*Handwritten notes:*  
 P.S. On 12th June...  
 Mr. [unclear]...  
 6/6

*Handwritten notes:*  
 up 15 1/4...  
 much...  
 under 1/4...

*Handwritten notes:*  
 There is a useful check of monetary indicators (M1, M2, M3, M4, M5, M6, M7, M8, M9, M10, M11, M12, M13, M14, M15, M16, M17, M18, M19, M20, M21, M22, M23, M24, M25, M26, M27, M28, M29, M30, M31, M32, M33, M34, M35, M36, M37, M38, M39, M40, M41, M42, M43, M44, M45, M46, M47, M48, M49, M50, M51, M52, M53, M54, M55, M56, M57, M58, M59, M60, M61, M62, M63, M64, M65, M66, M67, M68, M69, M70, M71, M72, M73, M74, M75, M76, M77, M78, M79, M80, M81, M82, M83, M84, M85, M86, M87, M88, M89, M90, M91, M92, M93, M94, M95, M96, M97, M98, M99, M100) in your market working folder

PROVISIONAL MONEY FIGURES : BANKING MAY

The provisional money supply figures for banking May will be published by the Bank at 2.30 pm on Tuesday 10 June.

SUMMARY

2. **M0** rose by 0.1 per cent (compared with 0.1 per cent in the first guess and 0.5 per cent in the forecast). This will appear in the press notice as a rise of "up to 1/4 per cent". Annual growth of M0, at 3.4 per cent (slightly up from last month's 3.2 per cent), remains in the lower half of its 2-6 per cent target range.

3. **£M3** is provisionally estimated to have risen by 3.0 per cent (well above both first guess of 2.4 per cent and forecast of 0.9 per cent). This will appear in the press notice as a rise of "about 3 per cent". The annual growth rate of £M3 has increased to 19.5 per cent (from last month's 16.6 per cent), its highest since June 1981 and near the April 1981 peak of 20.0 per cent. The three month annualised rate, at 39.1, is the highest we have on record. Further comparisons with previous records (are set out in table 4 attached).

4. Table 1 (below) gives the implied growth rates in both aggregates to mid-May. Tables 5, 6 and 7 (attached) give growth

*Handwritten notes:*  
 under X



rates since September 1985 for these and other aggregates.

Table 1 : Monetary Aggregates (provisional)

	Banking May	Figures Press Notice	Annual Growth Rates		
			3 months	6 months	12 months
M0	0.1	up to $\frac{1}{4}$	3.5	4.1	3.4
£M3	3.0	about 3	39.1	21.9	19.5

5. Sterling lending increased broadly in line with the forecast, by around £1.7 billion, following the £2.8 billion average for March and April, which reflected changes in capital allowances.

6. The externals were the main unexpectedly expansionary factor, at £1.5 billion.

7. Underfunding in May contributed £0.5 billion to the other expansionary pressures. Cumulative underfunding from April is £1.0 billion.

8. Among the components there was exceptionally strong (and unseasonal) growth in non-interest bearing sight deposits.

9. PLS2A's annual growth has increased to 15 per cent (from 13.6 per cent) breaching the 12-14 per cent band for its annual growth for the first time in 4½ years. (Table 8 attached sets out the relationship between £M3 and PSLA growth.)

#### PRESENTATION OF FIGURES

10. Once again we have bad news for the markets - news which we have difficulty in explaining, even to ourselves. Both the March and the April £M3 figures were bad (2.2 and 3.2 per cent respectively) but this was widely expected (at least in March) as a direct consequence of capital allowance changes; and the evidence of high bank lending appeared to confirm this explanation. Now that bank lending has fallen back to something like its underlying trend, continuing unsubdued growth in £M3

is clearly worrying. Market expectations are for an increase of perhaps 0.8-1.0 per cent, perhaps justifying a further  $\frac{1}{2}$  point off interest rates, so the £M3 figure - including an unprecedented 39 per cent 3-month annualised rate - will be a shock.

11. The message from other indicators of monetary conditions is mixed. The behaviour of M0, the exchange rate, and bank lending offer reassurance. But house prices are showing stronger growth.

12. The suggested line to take in the attached draft briefing is, by design, measured. It acknowledges that the £M3 figures remain somewhat puzzling, in particular because other evidence suggests policy is more or less on track, and draws the conclusion that £M3 growth does not, for these reasons, call for action, though it does signal the need for increased vigilance.

13. The Bank's draft press notice, for publication at 2.30 pm on Tuesday 10 June, is attached.

14. Can I please have comments on the press notice by lunch-time on Monday 9 June, and on the draft press briefing by close on that day.

#### DETAIL

##### M0

15. M0 rose by only 0.1 per cent this month. The annual growth rate of M0 at 3.4 per cent, much as forecast, was up slightly on April's 3.2 per cent, as last May's low figures dropped out. Notes and coin in circulation rose by 30. Bankers' balances were unchanged, close to their target level. While we do not expect to see much change from this level during the forecast period, some modest reaction to past interest rate falls might be expected to work through later in the year.

##### £M3: components

16. Table 2 sets out the changes in the components of £M3 (and PSL2A).

TABLE 2: The Components of £M3 and PSL2A May 1986

			£ million, seasonally adjusted		
			Banking May	growth in previous 12 Months April	
				monthly rate	percentage increase
Notes and coin in circulation			109	19	1.8
Bank deposits:					
Retail	(a)	interest bearing	580	478	17.2
	(b)	non-interest bearing	1,121	90	5.1
Wholesale (including £CDs)			2,132	995	25.2
Change in £M3			3,942	1,582	16.6
Bills and other non-building society flows in PSL2A			-126	13	1.0
Building Society:					
Inflows	(a)	retail (incl. interest credited)	954	1,171	14.8
	(b)	wholesale	101	64	n/a
Liquid Assets (inc -)			-469	-335	n/a
Change in PSL2A			4,402	2,495	13.6

17. All the components of £M3 rose in May (as they did in the two preceding months). Notes and coin rose by £110 million. NIB sight deposits rose by an exceptional £1,120 million, the largest monthly increase since June 1985, when they increased by £2 billion in advance of the Abbey Life sale. IB sight deposits rose by £1,440 million, mainly in retail banks, following similar big increases in March and April. Time deposits (including CDs) rose by £1,270 million following last month's exceptional £2,690 million.

18. Retail deposits (IB and NIB) rose by £1.7 billion, mainly because of the exceptional behaviour of NIB sight deposits. This is about three times the previous 12-month average (see Table 2 attached). Wholesale deposits normally lead £M3 growth (their recent annual growth rate is about 25 per cent) and these too grew strongly - at £2,130 million around double their monthly average.

19. It is always difficult to interpret changes among the components - their monthly paths, even seasonally adjusted, are highly erratic - but the exceptional increase in NIB sight deposits does seem to call for explanation. Normally, we would associate such an increase with an identifiable distortion, typically a share issue or similarly large transaction close to make-up-day, generating large "shadows" before or after it, and inflating the volume of payments in transit through clearing systems, or held temporarily in banks' suspense accounts.

20. On this occasion, however, the weekly data do little to support this kind of explanation. Instead of a sharp rise in the final week, which a specific distortion might be expected to produce, the weekly figures began to look unusually high from early in calendar May and the margin over their normal monthly profile gradually increased as the banking month continued. Although there are a number of factors which might have produced a one-off distortion - a £1.1 billion gilt redemption three days before the banking month ended, the monthly PAYE take which unusually occurred during the three final days of the banking month, a £400 million payment for the Saatchi rights issue, due the day after make-up-day, and possibly up to

£800 million disposals of gilts by building societies - none could wholly explain what has in fact occurred, even if we could substantiate a relationship. But we believe there may be some contribution from one or more of these sources, among which the heavy gilt redemption remains the strongest candidate.

21. NIB sight is a strongly seasonal series. In unadjusted terms, May is usually a low point as the Easter build-up in NIB sight deposits unwinds before the next build up towards the Summer begins. If we believe specific distortions do not fully account for the divergence from past behaviour, we have to look to an (erratic) change in the expected seasonal unwinding or to longer-run developments for explanations. One such possibility, clearly, is that we are seeing the effects of interest rate reductions.

### £M3: counterparts

22. Table 3 compares the provisional counterparts of growth in £M3 to the forecast in Mr Walsh's monetary prospects submission of 14 May. The counterparts also appear, in simplified form, in the Bank's draft provisionals press notice.

23. £M3 rose by £3,940 million, about £2.7 billion above forecast. The provisional figures confirm that the difference is virtually entirely accounted for by the externals and NNDLs which, taken together, were as strong an expansionary influence as sterling lending. Of the £2.6 billion turnaround from forecast, the externals contributed £1.8 billion.

24. The domestic counterparts, including wide funding, were much as forecast. Sterling lending, at £1,705 million, returned to around its 1985 monthly average, following the £5½ billion capital allowances surge over March and April. This month's figure is in line with the forecast which assumes that the capital allowances effect unwinds only slowly. This month's increase was divided more or less equally between retail and other banks. Banks' lending for house purchase is provisionally estimated to be broadly the same as in April and well below the average

## SECRET AND PERSONAL

TABLE 3: PROVISIONAL STERLING M3 IN BANKING MAY 1986

<u>DOMESTIC COUNTERPARTS</u>		£ million seasonally adjusted	
		<u>Provisional</u>	<u>Forecast</u> <sup>1</sup>
CGBR:	own account	+480	+340
	on-lending to LAs	+1,380	+1482
	on-lending to PCs	-220	-193
		<hr/>	<hr/>
		+1,640	+1,630
Other public sector:	Local Authorities	-500	-885
	Public Corporations	-360	-95
	PC currency deposits	-5	-
		<hr/>	<hr/>
		-865	-980
Net purchases of CG debt by non-bank private sector (inc -):			
	Gilts	+570	+420
	Treasury bills	-	-
	National Savings	-240	-215
	Certificates of tax deposit	-160	-130
	Other	-	-
		<hr/>	<hr/>
		+170	+75
External and fc finance of public sector		-485	-250
Sterling lending to the private sector:			
	Bank lending to private sector	+725	
	Issue Department Commercial bills <sup>2</sup> (inc. Shipbuilding repos)	+980	
		<hr/>	<hr/>
		+1,705	+1,600
Sub-total: Domestic Counterparts plus external and fc finance of the public sector		+2,165	+2,075
<u>EXTERNAL COUNTERPARTS</u> <sup>3</sup>			
External and foreign currency finance			
	£ deposits net from banks abroad (inc -)	-100	
	Other overseas £ deposits (inc -)	+930	
	£ lending to overseas non-banks	+175	
	Banks' net foreign currency liabs (inc -)	+265	
	Foreign Currency net non-dep liabilities	+190	
	Seasonal adjustment	+85	
		<hr/>	<hr/>
		+1,545	-335
<u>NET NON-DEPOSIT LIABILITIES (inc -)</u>		+230	-500
<u>STERLING M3</u>		+3,940	+1,240
(monthly % change)		(+3.0%)	(+0.9%)
OVER(-)/UNDERFUNDING(+) <sup>4</sup>		+460	+470

1 As circulated in the Monetary Prospects Submission of 14 May 1986.

2 There was also an increase in Banking department holdings. Total holdings by the Bank rose £1,500 million.

3 Excluding external flows to the public sector.

4 Wide definition

in the last half of 1985.

25. The overall impact of the public sector (including funding) was expansionary by £460 million, as forecast. This was the result of a £775 million "PSBR", a £170 million net redemption of CG debt to the nbps (reflecting heavy gilt redemptions in the month), offset by a £480 million increase in external funding of the public sector, largely reflecting a £540 million increase in overseas holdings of gilts. In the three months to banking May there was a cumulative underfund of nearly £2 billion, compared with a £½ billion overfund during the corresponding period in 1985. The £2½ billion shift towards expansion (together with the capital allowances changes) goes some way to account for the high 3-month rate for £M3.

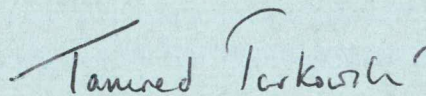
26. Within the "PSBR" LAs borrowed £1.4 billion from Central Government (smaller than last month's £3 billion, but still unusually large) of which £500 million was repaid to other sources, particularly bank borrowing, and £360 million deposited with banks. PCs were in surplus, and repaid to both Central Government and other sources.

27. Gross gilt sales were £1,582 million, but redemptions and next maturities were marginally higher at £1,646 million. Overseas residents were net buyers (£540 million), mainly from the nbps.

28. The externals were very strongly expansionary, by £1,545 million in May. As usual it is difficult to extract any firm intelligence from the movements which go to make up this total. The largest single factor is a £0.9 billion run down in overseas non-banks' sterling deposits (though it largely offset an equally large increase in April). Given the huge monthly swing involved, it is rash to build elaborate theories, though some may be very speculatively advanced. One possible relation is with the turnaround in the UK current account from a £600 million deficit in calendar March to a £400 million surplus in calendar April, which might be expected to boost £M3 and the externals - though this was thought to have been evident in the figures for banking April. Other factors which may have

lead to the run down in overseas deposits are the heavy overseas purchases of gilts this month and the buoyancy of UK eurosterling issues (£600 million). It is also conceivable that new investments abroad may be slackening in the face of domestic opportunities, or that we are seeing the effects of cross-currency hedging and arbitrage operations, though this is difficult to prove.

29. Sterling NNDLs were also expansionary, in spite of capital issues worth £400 million by the monetary sector (contractionary). This was in part accounted for by an interbank difference of £350 million.



T TARKOWSKI

cc: Mr Norgrove - No 10  
Mr George - Bank of England  
Mr Mann - FSD, Bank of England



## Broad Aggregates : Comparison with Previous Peaks

percentage change

£M3

## 3 months at an annual rate to :

May 1986	February 1978	August 1980
39.1	25.8	33.8

## 6 months at an annual rate to :

May 1986	May 1978	December 1980
21.9	22.3	26.1

## 12 months to :

May 1986	July 1978	April 1981
19.5	16.7	20.6

PSL2A

## 3 months at an annual rate to :

May 1986	February 1978	January 1979
23.3	21.7	18.8

## 6 months at an annual rate to :

May 1986	April 1978	May 1979
16.4	19.6	17.9

## 12 months to :

May 1986	March 1978	November 1979	April 1981
15.0	16.6	16.1	15.5

## 1984-85 KEY AGGREGATES

Table 5

TARGET AGGREGATES

	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY
<u>£M3</u>									
(Exc. Public sector deposit)									
Monthly change (£ millions)	+2,125	+960	+2,404	+741	+96	+1,227	+2,834	+4,065	+3,942
Monthly % change	+1.8	+0.8	+2.0	+0.6	+0.1	+1.0	+2.2	+3.2	+3.0
Three-monthly % change a.r.	+12.5	+19.5	+19.8	+14.3	+11.1	+6.8	+14.0	+28.7	+39.1
Six-monthly % change a.r.	+18.7	+13.8	+17.3	+13.4	+15.2	+13.1	+14.1	+19.5	+21.9
12 Monthly % change	+14.2	+14.6	+14.4	+15.1	+14.1	+14.8	+16.4	+16.6	+19.5
<u>MO</u>									
Averaged weekly									
Monthly change (£ millions)	+59	-33	+79	+49	+205	-92	+65	+37	+21
Monthly % change	+0.4	-0.2	+0.6	+0.3	+1.4	-0.6	+0.5	+0.3	+0.1
Three-monthly % change a.r.	+1.1	-1.5	+3.0	+2.7	+9.8	+4.6	+5.1	+0.3	+3.5
Six-monthly % change a.r.	+3.3	+1.4	+2.7	+1.9	+4.0	+3.8	+3.9	+4.9	+4.1
12-monthly % change	+4.2	+3.4	+3.4	+2.4	+4.5	+3.5	+3.6	+3.2	+3.4
<u>OTHER AGGREGATES</u>									
<u>PSL2</u>									
Monthly change (£ millions)	+2,710	2,515	+4,422	+1,644	+1,736	+3,426	+3,936	+5,153	+4,656
Monthly % change	+1.3	+1.2	+2.1	+0.8	+0.8	+1.6	+1.8	+2.3	+2.0
Three-monthly % change a.r.	+10.4	+16.0	+20.1	+17.5	+15.6	+13.2	+17.8	+24.9	+27.1
Six-monthly % change a.r.	+12.8	+11.6	+16.0	+13.9	+15.8	+16.6	+17.6	+20.1	+19.9
12-monthly % change	+14.4	+14.3	+14.2	+14.9	+13.8	+14.5	+15.2	+15.8	+17.9
<u>M2</u>									
unadjusted									
Monthly change (£ millions)	+1,512	1,457	+2,209	+1,836	+490	+326	+2,045	+2,776	+1,727
Monthly % change	+1.1	+1.0	+1.6	+1.3	+0.3	+0.2	+1.4	+1.9	+1.1
12-monthly % change	+8.3	+8.9	+9.6	+9.3	+8.8	+9.6	+10.1	+11.2	+12.5
(exc re-classifications)	+7.6	+8.2	+8.9	+8.7	+8.2	+9.0	+9.5	+10.5	+11.8
<u>Levels :</u>									
£M3 (Exc. Pub Sec Deps)	120,809	121,773	124,172	124,876	124,920	126,064	128,953	133,024	136,970
MO (Averaged weekly)	14,159	14,126	14,205	14,254	14,459	14,367	14,432	14,469	14,490
PSL 2	208,916	211,432	215,844	217,445	219,131	222,474	226,361	231,515	236,172
M2 (unadjusted)	140,531	141,988	144,197	146,033	146,523	146,849	148,897	151,673	153,400

Table 6

## OTHER NARROW AGGREGATES

	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY
<u>NIB M1</u>									
Monthly change (£ millions)	-309	+157	+455	+167	+34	-82	+187	+186	+1,230
Monthly % change	-0.9	+0.5	+1.3	+0.5	+0.1	-0.2	+0.5	+0.5	+3.5
Three-monthly % change a.r.	-22.2	+4.7	+3.6	+9.6	+8.0	+1.4	+1.6	+3.4	+20.0
Six-monthly % change a.r.	+1.7	+2.1	+3.0	-7.6	+6.4	+2.5	+5.5	+5.7	+10.3
12-monthly % change	+2.1	+2.3	+1.5	+1.1	+3.0	+2.7	+3.6	+3.9	+6.6
<u>M1</u>									
Monthly change (£ millions)	+12	+1,325	+1,421	+961	-418	+94	+1,464	+1,377	+2,668
Monthly % change	-	+2.4	+2.5	+1.6	-0.7	+0.2	+2.5	+2.3	+4.3
Three-monthly % change a.r.	+4.8	+24.5	+21.2	+29.2	+14.4	+4.4	+7.8	+21.3	+42.5
Six-monthly % change a.r.	+23.2	+21.8	+22.0	+16.4	+19.3	+12.5	+18.0	+17.8	+22.0
12-monthly % change	+17.0	+18.0	+17.1	+17.9	+19.4	+20.0	+20.6	+19.8	+22.0
<u>M2</u>									
Provisionally seasonally adjust									
Monthly change (£ millions)	+1,668	+1,584	+2,704	+675	+722	+930	+1,693	+1,889	+2,570
Monthly % change	+1.2	+1.1	+1.9	+0.5	+0.5	+0.6	+1.1	+1.3	+1.7
Three-monthly % change a.r.	+4.6	+14.7	+18.2	+14.8	+12.0	+6.5	+9.5	+12.9	+17.7
Six-monthly % change a.r.	+7.5	+9.7	+13.0	+9.6	+13.3	+12.2	+12.1	+12.4	+12.0
12-monthly % change	+8.3	+8.9	+9.5	+9.3	+8.6	+9.3	+9.8	+11.0	+12.5
<u>Levels :</u>									
NIBM1	33,673	33,831	34,286	34,454	34,489	34,408	34,599	34,786	36,017
M1	56,080	57,410	58,830	59,790	59,400	59,490	60,990	62,360	65,030
M2 (Partially S/A)	141,303	142,888	145,592	146,268	147,991	147,922	149,619	151,509	154,080

Table 7

## OTHER WIDE AGGREGATES

		SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY
<u>PSL1</u>	Monthly change (£ millions)	+1,790	+1,182	+2,372	+652	-252	+1,235	+3,062	+4,180	+3,671
	Monthly % change	+1.5	+0.9	+1.9	+0.5	-0.2	+1.0	+2.4	+3.2	+2.7
	Three-monthly % change a.r.	+10.1	+17.1	+18.6	+14.2	+9.1	+5.2	+13.2	+29.1	+38.2
	Six-monthly % change a.r.	+17.1	+12.5	+16.2	+12.1	13.0	+11.7	+13.7	+18.7	+20.5
	12-monthly % change	+13.7	+13.9	+13.5	+14.3	+13.1	+13.9	+15.6	+15.5	+18.4
<u>PSL2A</u>	Monthly change (£ milions)	+2,451	+1,957	+3,690	+1,308	+1,329	+3,041	+3,786	+4,771	+4,402
	Monthly % change	+1.1	+0.9	+1.6	+0.6	+0.6	+1.3	+1.6	+1.9	+1.8
	Three-monthly % change a.r.	+9.5	+13.1	+15.0	+12.6	+11.4	+10.0	+14.5	+20.9	+23.3
	Six-monthly % change a.r.	+13.5	+11.2	+13.6	+11.1	+12.2	+12.5	+13.6	+16.0	+16.4
	12-monthly % change	+13.4	+13.1	+12.9	+13.4	+12.4	+13.0	+13.5	+13.6	+15.0
<u>M3</u>	(Exc. Public Sector Deposits)									
	Monthly change (£ millions)	+2,479	+297	+3,009	+849	+162	+1,671	+3,316	+3,835	+4,725
	Monthly % change	+1.8	+0.2	+2.1	+0.6	+0.1	+1.2	+2.3	+2.6	+3.1
	Three-monthly % change a.r.	+12.9	+18.8	+17.9	+12.4	+11.9	+7.7	+15.0	+26.7	+36.7
	Six-monthly % change a.r.	+14.6	+12.8	+15.8	+12.7	+15.3	+12.7	+13.7	+19.1	+21.3
12-monthly % change	+13.4	+13.1	+12.9	+12.9	+10.9	+11.6	+14.1	+15.9	+18.5	
<u>Levels :</u>										
PSL1		124,668	125,851	128,213	128,817	128,515	129,667	132,680	136,861	140,533
PSL2A		230,122	232,080	235,760	237,025	238,304	241,262	245,061	249,833	254,236
M3 (ex. Pub. Sec. Deps)		140,341	140,631	143,630	144,456	144,567	146,157	149,526	153,365	158,089

Contributions to difference between £M3 and PSL2A

	latest 12 months	latest 3 months
Building Society holdings of £M3 (+ increase)	+ 2.6	+ 0.7
Building Society deposits (-)	-	+ 1.8
LA temporary debt (-)	+ 1.7	+ 1.1
CTDs and others (-)	+ 0.3	- 0.4
£M3 growth rate less PSL2A growth rate	<u>4.5</u>	<u>3.2</u>

(+) increase/(-) decrease £M3 growth relative to PSL2A growth

The above table looks at the reasons why PSL2A growth has been lower than that of £M3 over the last twelve and three months. The table illustrates the importance of those components which directly affect the relative growth rates of PSL2A and £M3, such as building society bank deposits. It also, in broad terms, shows the relative growth of building society deposits to banks deposits, net of those components/counterparts of £M3 which are included in the PSLs.

Over the last year there has been a fast build-up in building society bank deposits and a sharp rundown in LA temporary debt holdings by the nbps. Both of these factors have increased £M3 growth relative to PSL2A. In broad terms building society deposits have grown as fast as £M3 less the above factors.

Over the last three months the story is somewhat different. While the PSL components of £M3 account for about half of the difference in the PSL2A/£M3 differential, the rest is due to slower growth of building society deposits than bank deposits net of building society bank deposits etc.

MONEY SUPPLY IN BANKING MAY: PRESS BRIEFING

LINE TO TAKE

The rapid growth of £M3 is somewhat puzzling given that other indicators, including the exchange rate and MO, suggest that policy is broadly on track. It does not call for any immediate action on interest rates, but increases the need to monitor the other relevant indicators of monetary conditions.

*Growth in MO continues the trend on bottom of its target range. But through bank capital, will down a bit.*

FACTUAL

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

*Inputs figures for March & April (cap allowances) growth of £M3 was v. much higher than expected.*

- (i) Policy: See Chancellor's major statement on monetary policy in 16 April speech to the Lombard Association.
- (ii) MO: Well within new 2-6 per cent target range.
- (iii) £M3: (see line to take above).
- (iv) Sterling lending: This month's increase (£1.7 billion) below 1985 average (£1.8 billion), after two months which were clearly distorted by changes in capital allowances.
- (v) Exchange rate: Firm.

*We have proved an amount of capital allowances.*

*That will put us back, there is no more money and then we will be back.*

B. POSITIVE

- (i) Overall Strategy  
Experience continues to confirm value of clear commitment to MTF5 and ultimate objective of lower inflation. Record on money GDP growth and on inflation (3 per cent and forecast to continue low) demonstrates success of strategy.

(ii) Commitment

Government has repeatedly shown itself ready to act decisively when necessary for maintenance of sound financial conditions. Will certainly do so again if necessary.

(iii) Interest rates

Down 2½ per cent since Budget. Demonstrates confidence both here and abroad in the Government's approach.

(iv) Other countries

Most major countries, following the UK's lead, now operate policy in very similar way.

C. DEFENSIVE

(i) Monetary policy too tight/too loose?

Necessary to look at whole range of evidence on monetary conditions. Signals conflicting, and requiring careful interpretation in the light of developments over a period of months. Balance of evidence does not suggest conditions too loose (M0, real interest rates, exchange rate) or too tight (broad money, bank lending). But kept under constant review.

(ii) £M3 annual growth already above higher target range published in 1986 MTFS

£M3 growth remains puzzling, because other indicators (M0, exchange rate, real interest rates) appear to suggest policy is broadly on track. Lombard Association Speech explained reasons for setting target range for 1986-87 at 11-15 per cent, and need to weigh developments in £M3 against other evidence before reaching conclusions on what they

are telling us about monetary conditions.

- (iii) Interest rates should be raised because of high £M3 growth?

FSBR explained "if the underlying growth of M0 or £M3 were to move significantly outside their target ranges, the Government would take action on interest rates unless other indicators suggested clearly that monetary conditions remained satisfactory."

- (iv) Sterling lending

Increase in banking May (£1.7 billion) below 1985 average (£1.8 billion). No sign that underlying trend has changed.

- (v) Interest rates solely reflect pound's strength/weakness?

No. See Lombard Speech. Government's first priority remains defeat of inflation.



## PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING MAY 1986

Preliminary information suggests that, in the five weeks to 21 May 1986, M0 may have risen by up to 1/4% and £M3 may have risen by about 3%, after seasonal adjustment.

## Note for Editors

1 The provisional estimates for May suggest that recent rates of growth are approximately as follows:

Rates of growth, annualised %; seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	3 1/2	4	3 1/4
£M3	39	21 3/4	19 1/2

2 Provisional counterparts to the change in £M3 in banking May are:

£ billion, seasonally adjusted

PSBR <sup>(1)</sup>	+0.8
Debt sales to nbps <sup>(2)</sup> and external flows to public sector <sup>(3)</sup> (of which, debt sales to nbps +0.2)	-0.3
Sterling lending to private sector <sup>(4)</sup>	+1.7
Other counterparts <sup>(5)</sup>	+1.7
	<u>+3.9</u>

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

3 The PSBR, net of debt sales to the non-bank private sector and external flows to the public sector, was expansionary by about £0.5 billion, reflecting in particular a concentration of gilt-edged maturities. The growth in sterling lending to the private sector was about £1.7 billion, compared with an average of about £1.9 billion a month over the preceding six months. Other counterparts taken together were expansionary by about £1.7 billion, compared with an average contractionary influence of some £0.2 billion a month over the last year.

4 Full money and banking figures for May, including revised estimates of the growth rates given above, will be published on 19 June.

PLUP



FROM: MRS R LOMAX  
DATE: 9 JUNE 1986

MR TARKOWSKI

cc Chief Secretary  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Sedgwick  
Mr Culpin  
Mr Walsh  
Mr Richardson

**PROVISIONAL MONEY FIGURES: BANKING MAY**

The Chancellor was grateful for your minute of 6 June. He would like to consider the wording of the line to take at this afternoon's meeting on markets.

2. On a small point, the Chancellor does not like - and never has - the words 'up to  $\frac{1}{4}$  per cent'; he would much prefer 'under  $\frac{1}{4}$  per cent'.

A handwritten signature in cursive script, appearing to read 'R.L.' followed by a period.

RACHEL LOMAX

covering SECRET  
UNTIL 2.30 PM TUESDAY 10 JUNE 1986

FROM: T TARKOWSKI  
DATE: 10 JUNE 1986

MR PICKFORD

cc: PPS  
PS/Chief Secretary  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Scholar  
Mr Peretz  
Mr Sedgwick  
Mr Culpin  
Mr Walsh  
Mr Hannah  
Mr Richardson

**BANKING MAY: PROVISIONAL MONEY FIGURES AND MONTHLY  
STATEMENT OF THE CLEARING BANKS**

- ... I attach the press briefing agreed by the Chancellor for today's provisionals, incorporating a revised line to take and a number of other changes which have been asked for.
- ... 2. Also attached is the Bank's Press Notice which is unchanged from the draft circulated with my 6 June minute (we have taken up the Chancellor's objection to the phrase "up to  $\frac{1}{4}$ %" with the Bank: Mr Walsh is minuting separately. The point is covered in factual (ii).
- ... 3. I also attach the regular Monthly Statement of the London and Scottish Banks. The text is on the usual lines and the figures are consistent with our own. Any questions on it should be referred to the CLSB press office (01 626-8486).

  
T TARKOWSKI

SECRET AND PERSONAL  
UNTIL 2.30PM ON TUESDAY 10 JUNE 1986

MONEY SUPPLY IN BANKING MAY: PRESS BRIEFING

LINE TO TAKE

Growth of M0 continued towards the bottom of the target range. But, though bank lending in May was as expected well down on the inflated figures for March and April which were affected by changes in capital allowances, growth of £M3 was very much higher than expected. Taking all factors into account, there is no reason to believe that monetary conditions are too lax.

FACTUAL

See Bank's press notice. Additional points:

- (i) Policy: See Chancellor's major statement on monetary policy in 16 April speech to the Lombard Association.
- (ii) M0: Annual growth well within 2-6 per cent target range. The monthly increase was between 0 and  $\frac{1}{4}$  per cent. Precise figure in next week's full money figures.
- (iii) £M3: Trends affected by the freeing up of the financial system over recent years and the shift from negative to positive <sup>real</sup> interest rates since the 1970s.
- (iv) Sterling lending: This month's increase (£1.7 billion) below 1985 average (£1.8 billion), after two months which were clearly distorted by changes in capital allowances.
- (v) Exchange rate: Firm.

B. POSITIVE

- (i) Overall Strategy  
Experience continues to confirm value of clear

commitment to MTF5 and ultimate objective of lower inflation. Record on money GDP growth and on inflation (3 per cent and forecast to continue low) demonstrates success of strategy.

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(ii) £M3 annual growth already above higher target range published in 1986 MTF5

Lombard Association Speech explained reasons for setting target range for 1986-87 at 11-15 per cent,

and need to weigh developments in £M3 against other evidence before reaching conclusions on what they are telling us about monetary conditions. Taking all factors into account, no reason to believe monetary conditions are too lax.

- (iii) Interest rates should be raised because of high £M3 growth?

FSBR explained "if the underlying growth of M0 or £M3 were to move significantly outside their target ranges, the Government would take action on interest rates unless other indicators suggested clearly that monetary conditions remained satisfactory."

- (iv) Sterling lending

Increase in banking May (£1.7 billion) below 1985 average (£1.8 billion). No sign that underlying trend has changed.

- (v) Interest rates solely reflect pound's strength/weakness?

No. See Lombard Speech. Government's first priority remains defeat of inflation.

- (vi) Experience with targets in other Countries

The latest (monthly) figures available for other major countries indicate that targeted aggregates abroad which include the liabilities of financial intermediaries may be affected by many of the same factors that are affecting £M3. In the US, M1 is growing at an annual rate of 10.1 per cent in relation to its target range of 3-8 per cent. In Germany, CBM is growing at a rate of 8.1 per cent compared with its target range of 3.5-5.5 per cent. In France, M3 is growing at an annual rate of 7.0 per cent in relation to the 3-5 per cent target range.

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING MAY 1986

Preliminary information suggests that, in the five weeks to 21 May 1986, M0 may have risen by up to 1/4% and £M3 may have risen by about 3%, after seasonal adjustment.

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4 Full money and banking figures for May, including revised estimates of the growth rates given above, will be published on 19 June.

# PRESS INFORMATION from Banking Information Service

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

NOT FOR PUBLICATION BEFORE 2.30 pm

10th June 1986

## MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS

MAY 1986

Sterling advances to the UK private sector by the London and Scottish banks rose by £451 million in the five weeks to 21st May. After allowing for an expected seasonal fall, a repurchase of DTI shipbuilding paper from the Bank of England under the sale and repurchase agreements and for transit items, there was an underlying rise of around £680 million; this was much in line with the average monthly increase which obtained before the last two months' large rises (of some £2,000 million and £1,800 million respectively).

The analysis of advances, which is not seasonally adjusted, shows few significant movements this month with the bulk of the lending going to persons: house purchase lending rose by £191 million and other personal lending by £184 million including over £60 million of credit card lending. There were small rises for leasing companies (£66 million) and for manufacturers (£69 million after excluding the repurchase of shipbuilding paper) who also borrowed through bill finance; retailers however, repaid £143 million of borrowing.

The remaining sale and repurchase agreements with the Bank of England were allowed to run off, so that the banks repurchased £1,664 million of ECGD-backed promissory notes (which accounts for the rise in advances to overseas residents), £220 million of DTI shipbuilding paper and £121 million of gilts. Holdings of other investments and bills both fell and lending to the LDMA was reduced by £318 million. The banks borrowed some £600 million net in the inter-bank and CD markets.

On the liabilities side of the balance sheet, deposits from the UK private sector again rose sharply, by £2,030 million. A seasonal fall was expected, however, and after allowing also for transit items, the underlying rise was of the order of £2,500 million, well up on last month. This was largely in sight deposits, with current accounts quite buoyant and the high interest personal accounts continuing to attract significant inflows. Public sector deposits rose, seasonally, by £318 million, largely from local authorities but overseas residents' deposits fell by £259 million.



Eligible liabilities rose by £1,994 million to £99,799 million.

QUARTERLY ANALYSIS OF ADVANCES

FEBRUARY - MAY 1986

The analysis of advances for the London and Scottish Banks' Groups shows a total increase of £3,879 million over the three months to 21st May, with sterling advances accounting for £4,186 million. Seasonal influences were broadly neutral during the quarter, as was the net effect of sale and repurchase agreements on DTI shipbuilding paper (included within lending to manufacturing), so that the underlying rise was of the order of £4,000 million, approximately double the underlying increase in each of the previous two quarters; bill finance was, however, quite contractionary over the period.

The increases were well-spread over nearly every category, with the only exception being a small reduction in borrowing by the energy and water industries (-£90 million). Lending to persons accounted for £1,162 million, as against £850 million in the previous quarter; house purchase lending rose from £388 million to £578 million and other personal lending rose from £462 million to £584 million. Lending to financial institutions, which had fallen in the previous quarter, rose by £1,075 million, of which leasing companies accounted for £655 million as a result of the changes to capital allowances at the end of the financial year. Lending to "business and other services" increased by £752 million, as against £439 million in the previous period, as did lending to manufacturers, up by £470 million, against £269 million earlier.

For further information, please contact:

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

Brian Apps, Press and Information Officer (01-626 8486)

## BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT 21st May, 1986

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

£ millions

TABLE 1. AGGREGATE BALANCES

	Total Outstanding	Change on Month
<b>LIABILITIES</b>		
<b>STERLING DEPOSITS :</b>		
U.K. monetary sector	26,591	+ 520
U.K. private sector	85,575	+ 2,030
U.K. public sector	2,896	+ 318
Overseas residents	13,905	- 259
Certificates of deposit	9,052	+ 217
	138,020	+ 2,826
of which : Sight	54,147	+ 1,787
Time (inc. C.D.'s)	83,873	+ 1,039
<b>FOREIGN CURRENCY DEPOSITS :</b>		
U.K. monetary sector	15,693	- 46
Other U.K. residents	6,123	+ 238
Overseas residents	44,861	- 1,023
Certificates of deposit	5,513	- 226
	72,190	- 1,057
<b>TOTAL DEPOSITS</b>	210,210	+ 1,769
<b>NOTES IN CIRCULATION</b>	918	+ 12
<b>OTHER LIABILITIES (a)</b>	34,928	- 596
<b>TOTAL LIABILITIES</b>	246,056	+ 1,185
<b>ASSETS</b>		
<b>STERLING</b>		
Cash & balances with Bank of England:		
Cash ratio deposits	464	+ 29
Other balances	2,334	+ 267
	2,799	+ 296
Market loans :		
Discount houses	3,837	- 318
Other U.K. monetary sector	26,554	- 344
U.K. monetary sector C.D.'s	3,793	+ 477
Local authorities	715	- 39
Other	3,166	- 99
	38,065	- 323
Bills :		
Treasury bills	186	- 28
Other bills	3,141	- 103
	3,327	- 131
Investments :		
British Government stocks	3,851	+ 394
Other	4,081	- 113
	7,932	+ 281
Advances :		
U.K. private sector	88,682	+ 451
U.K. public sector	311	- 29
Overseas residents	5,726	+ 1,663
	94,719	+ 2,084
Other sterling assets (a)	13,275	- 290
<b>FOREIGN CURRENCIES</b>		
Market loans :		
U.K. monetary sector	16,112	- 1,076
Certificates of deposit	526	+ 68
Other	34,619	+ 183
	51,257	- 825
Bills		
	760	+ 74
Advances :		
U.K. private sector	6,606	+ 60
U.K. public sector	888	- 9
Overseas residents	17,613	- 249
	25,107	- 198
Other foreign currency assets (a)	8,815	+ 217
<b>TOTAL ASSETS</b>	246,056	+ 1,185
<b>ACCEPTANCES</b>	4,707	+ 359
<b>ELIGIBLE LIABILITIES</b>	99,799	+ 1,994

(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
<b>LIABILITIES</b>								
<b>Sterling deposits</b>								
outstanding	138,020	5,894	32,720	23,838	23,987	40,295	7,900	3,386
change on month	+ 2,826	+ 178	+ 565	+ 321	+ 1,193	+ 490	+ 16	+ 63
<b>Foreign currency deposits</b>								
outstanding	72,190	1,066	14,130	10,656	14,450	19,981	3,292	8,615
change on month	- 1,057	+ 15	- 510	+ 410	+ 67	- 1,263	- 39	+ 263
<b>Total deposits</b>								
outstanding	210,210	6,960	46,849	34,494	38,437	60,276	11,192	12,001
change on month	+ 1,769	+ 193	+ 55	+ 730	+ 1,260	- 773	- 24	+ 326
<b>STERLING ASSETS</b>								
<b>Cash and Balances with the Bank of England</b>								
outstanding	2,799	334	595	252	531	556	501	30
change on month	+ 296	+ 26	+ 121	- 24	+ 21	+ 74	+ 62	+ 17
<b>Market loans :</b>								
<b>U.K. monetary sector</b>								
outstanding	30,391	853	6,425	4,879	5,360	10,797	1,013	1,064
change on month	- 662	+ 23	- 584	+ 199	+ 181	- 465	- 42	+ 27
<b>Other</b>								
outstanding	7,675	171	1,986	1,122	1,272	2,567	242	314
change on month	+ 339	- 3	+ 164	- 73	+ 349	- 139	+ 25	+ 15
<b>Bills</b>								
outstanding	3,327	69	1,254	969	161	679	142	53
change on month	- 131	- 7	+ 148	- 213	- 40	+ 58	- 54	- 23
<b>British government stocks</b>								
outstanding	3,851	270	836	692	799	841	214	200
change on month	+ 394	+ 40	+ 92	- 47	+ 245	+ 17	- 8	+ 56
<b>Advances</b>								
outstanding	94,719	4,764	23,799	16,251	16,337	24,699	6,572	2,297
change on month	+ 2,084	+ 116	+ 531	+ 401	+ 547	+ 260	+ 135	+ 94
<b>FOREIGN CURRENCY ASSETS</b>								
<b>Market loans and bills</b>								
outstanding	52,017	394	10,058	8,267	8,236	16,601	2,170	6,291
change on month	- 751	- 42	- 685	+ 473	- 90	- 633	- 61	+ 287
<b>Advances</b>								
outstanding	25,107	872	3,857	3,408	6,184	5,961	1,384	3,440
change on month	- 198	+ 8	+ 117	- 34	+ 85	- 261	+ 32	- 145
<b>ACCEPTANCES</b>								
outstanding	4,707	269	886	272	1,321	1,085	475	400
change on month	+ 359	+ 4	- 66	- 54	+ 243	+ 239	+ 46	- 53
<b>ELIGIBLE LIABILITIES</b>								
outstanding	99,799	4,855	24,306	17,646	17,032	27,342	6,558	2,061
change on month	+ 1,994	+ 162	+ 898	+ 164	+ 236	+ 579	+ 16	- 60

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

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

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

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

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

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

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

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

ANALYSIS OF ADVANCES TO U.K. RESIDENTS BY THE LONDON & SCOTTISH BANKS' GROUPS  
AS AT 21st MAY, 1986

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

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

£ millions

	Total Outstanding	Change on Quarter
1. <u>AGRICULTURE, FORESTRY &amp; FISHING</u>	5,698	+ 129
of which sterling	5,688	+ 127
2. <u>ENERGY &amp; WATER SUPPLY INDUSTRIES</u>		
Oil & extraction of natural gas	738	- 41
Other energy industries	577	- 45
Water supply	244	- 22
Total item 2	1,559	- 109
of which sterling	603	- 90
3. <u>MANUFACTURING INDUSTRY</u>		
Extraction of minerals and ores	314	- 12
Metal manufacturing	498	- 23
Non-metallic mineral product manufacture	645	- 14
Chemical industry	742	+ 3
Mechanical engineering	1,260	+ 75
Electrical & electronic engineering	1,319	- 152
Motor vehicles	375	+ 9
Other transport equipment	982	- 15
Other engineering & metal goods	1,311	- 2
Food, drink & tobacco	1,988	+ 251
Textiles, leather, clothing & footwear	1,131	+ 19
Other manufacturing	2,941	+ 65
Total item 3	13,505	+ 205
of which sterling	11,894	+ 464
4. <u>CONSTRUCTION</u>	4,239	+ 64
of which sterling	4,121	+ 67
5. <u>GARAGES, DISTRIBUTION, HOTELS &amp; CATERING</u>		
Garages & retail motor trade	1,823	- 61
Other retail distribution	4,682	+ 380
Wholesale distribution	2,941	+ 25
Hotels & catering	2,812	+ 81
Total item 5	12,258	+ 426
of which sterling	11,565	+ 566
6. <u>TRANSPORT</u>		
Air transport	230	+ 2
Other transport	1,780	+ 22
Total item 6	2,010	+ 23
of which sterling	1,567	+ 54
7. <u>POSTAL SERVICES &amp; TELECOMMUNICATIONS</u>	71	+ 8
of which sterling	70	+ 8
8. <u>FINANCIAL</u>		
Building societies	78	- 64
Investment & unit trusts etc.	1,359	+ 204
Insurance companies, pension funds etc.	1,223	+ 115
Leasing companies	4,670	+ 653
Other financial	3,693	+ 257
Total item 8	11,022	+ 1,165
of which sterling	8,334	+ 1,075
9. <u>BUSINESS &amp; OTHER SERVICES</u>		
Central & local government	463	+ 6
Property companies	4,210	+ 109
Hiring of movables	586	+ 30
Other services	7,846	+ 663
Total item 9	13,106	+ 807
of which sterling	12,167	+ 752
10. <u>PERSONS</u>		
Bridging finance for house purchase	776	+ 26
Other house purchase	16,381	+ 553
Other advances to persons	15,863	+ 582
Total item 10	33,020	+ 1,161
of which sterling	32,984	+ 1,162
<u>TOTAL ADVANCES TO U.K. RESIDENTS</u>	96,487	+ 3,879
of which in sterling	88,993	+ 4,186
in foreign currencies	7,494	- 307

SECRET

UNTIL 2.30PM ON THURSDAY 19 JUNE

FROM: T TARKOWSKI  
DATE: 17 June 1986

MR CASSELL

*par*

cc: PPS ✓  
PS/Chief Secretary  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Peretz  
Mr Sedgwick  
Mr Scholar  
Mr Walsh  
Mr Culpin  
Miss Peirson  
Mr Pickford  
Mr Hannah  
Dr Rowlatt  
Mr Devereux  
Mr Richardson  
Mr Heath  
Mr Ross Goobey

**FULL MONEY FIGURES - BANKING MAY**

I attach the Bank's draft press release on the full money figures and accompanying banking statistics which will be published at 2.30pm on Thursday 19 June (the Chancellor will be taking First Order Questions in the House that day).

2. The full figures are entirely consistent with the rounded figures published in the provisional press release last week. The text follows the established pattern, apart from:

- (a) a reference in paragraph 8 to the concentration of gilt maturities in banking May;
- (b) separate comparisons in paragraphs 8 between the changes in NNDLS and externals and their previous 12-month averages (normally the comparison is given only for NNDLS and externals combined).

SECRET

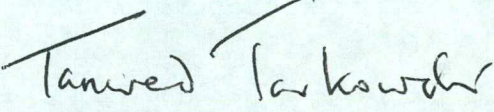
UNTIL 2.30PM ON THURSDAY 19 JUNE

SECRET

UNTIL 2.30PM ON THURSDAY 19 JUNE

3. The press briefing agreed for last week's provisionals press notice is attached. I have added defensive (vii) on growth on PSL2A (described in the press release as "PSL2, including term shares ...") and factual (vi) on the externals, and there are a number of minor consequential. Otherwise the briefing is unchanged.

4. Could I please have comments on the Bank's draft press release by noon on Wednesday 18 June, and any comments on the revised press briefing by close that day.

  
T TARKOWSKI

SECRET

UNTIL 2.30PM THURSDAY 19 JUNE

SECRET AND PERSONAL  
UNTIL 2.30PM ON THURSDAY 19 JUNE 1986

**MONEY SUPPLY IN BANKING MAY: PRESS BRIEFING**

**LINE TO TAKE**

Growth of M0 continued towards the bottom of the target range. But, though bank lending in May was as expected well down on the inflated figures for March and April which were affected by changes in capital allowances, growth of £M3 was very much higher than expected. Taking all factors into account, there is no reason to believe that monetary conditions are too lax.

**FACTUAL**

See Bank's press notice. Additional points:

- (i) Policy: See Chancellor's major statement on monetary policy in 16 April speech to the Lombard Association.
- (ii) M0: Annual growth well within 2-6 per cent target range. The monthly increase was 0.1 per cent.
- (iii) £M3/PSLs: Trends affected by the freeing up of the financial system over recent years and the shift from negative to positive real interest rates since the 1970s.
- (iv) Sterling lending: This month's increase (£1.7 billion) below 1985 average (£1.8 billion), after two months which were clearly distorted by changes in capital allowances.
- (v) Exchange rate: Firm.
- (vi) Externals: Expansionary by £1,300 million (average over preceding 12 months expansionary by £20 million). No self-evident reason. Detailed questions to Bank.

SECRET AND PERSONAL  
UNTIL 2.30PM ON THURSDAY 19 JUNE 1986

**B. POSITIVE**

(i) Overall Strategy

Experience continues to confirm value of clear commitment to MTFs and ultimate objective of lower inflation. Record on money GDP growth and on inflation (2.8 per cent and forecast to continue low) demonstrates success of strategy.

(ii) Commitment

Government has repeatedly shown itself ready to act decisively when necessary for maintenance of sound financial conditions. Will certainly do so again if necessary.

(iii) Interest rates

Down 2½ per cent since Budget. Demonstrates confidence both here and abroad in the Government's approach.

(iv) Other countries

Most major countries, following the UK's lead, now operate policy in very similar way.

**C. DEFENSIVE**

(i) Monetary policy too tight/too loose?

Necessary to look at whole range of evidence on monetary conditions. Signals conflicting, and requiring careful interpretation in the light of developments over a period of months. Balance of evidence does not suggest conditions too loose (M0, real interest rates, exchange rate) or too tight (broad money, bank lending). But kept under constant review.



**SECRET AND PERSONAL**  
**UNTIL 2.30PM ON THURSDAY 19 JUNE 1986**

- (ii) £M3 annual growth already above higher target range published in 1986 MTF5
- Lombard Association Speech explained reasons for setting target range for 1986-87 at 11-15 per cent, and need to weigh developments in £M3 against other evidence before reaching conclusions on what they are telling us about monetary conditions. Taking all factors into account, no reason to believe monetary conditions are too lax.
- (iii) Interest rates should be raised because of high £M3 growth?
- FSBR explained "if the underlying growth of M0 or £M3 were to move significantly outside their target ranges, the Government would take action on interest rates unless other indicators suggested clearly that monetary conditions remained satisfactory."
- (iv) Sterling lending
- Increase in banking May (£1.7 billion) slightly below 1985 average (£1.8 billion). No sign that underlying trend has changed.
- (v) Interest rates solely reflect pound's strength/weakness?
- No. See Lombard Speech. Government's first priority remains defeat of inflation.
- (vi) Experience with targets in other Countries
- The latest (monthly) figures available for other major countries indicate that targeted aggregates abroad which include the liabilities of financial intermediaries may be affected by many of the same factors that are affecting £M3. In the US, M1 is

SECRET AND PERSONAL  
UNTIL 2.30PM ON THURSDAY 19 JUNE 1986

growing at an annual rate of 12.6 per cent in relation to its target range of 3-8 per cent. In Germany, CBM is growing at a rate of 7.0 per cent compared with its target range of 3.5-5.5 per cent.

(vii) High growth of PSLs

All broad aggregates affected by similar factors (see factual iii).

**MONEY AND BANKING FIGURES: BANKING MAY 1986**

(All figures are seasonally adjusted, unless otherwise stated.)

1 During the five weeks to 21 May 1986, M0 (average of weekly levels) rose by £20 million (+0.1%) (Table B) and £M3 rose by £3,940 million (+3.0%) (Table E).

2 Recent rates of growth of the above aggregates are as follows:

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 3.5	+ 4.1	+ 3.4
£M3	+39.1	+21.9	+19.5

3 Within £M3 there was a rise in banking May of £110 million in notes and coin, a rise of £1,120 million in non-interest-bearing sight deposits and a rise of £1,440 million in interest-bearing sight deposits. M1 rose by £2,670 million (+4.3%). Time deposits (including sterling certificates of deposit) of the UK private sector rose by £1,270 million.

4 The sterling value of private sector foreign currency deposits rose by £730 million, comprising a rise of £870 million reflecting transactions and a fall of £140 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £4,670 million (+3.0%) (Table E).

5 M2 (not seasonally adjusted) rose by £1,940 million (+1.3%) (Table F). PSL2 rose by £4,050 million (+1.7%) (Table G); if term shares with building societies were included, the increase would be 1.5%.

6 Rates of growth of monetary and liquidity aggregates over the last three, six and twelve months are shown in the attached table.

7 Amongst the counterparts to the change in £M3, the net effect of public sector transactions (the PSBR less debt sales to the non-bank private sector and external flows to the public sector) was expansionary by £480 million (see columns 1-7 of Table A). The central government borrowing requirement was £1,640 million and the direct contribution of local authorities and public corporations to the public sector borrowing requirement (net of non-bank private sector purchases of their debt) was contractionary by £870 million. The non-bank private sector's holdings of central government debt

fell by £190 million; within this holdings of gilt-edged stock fell by £570 million reflecting a concentration of stock maturities, partly offset by net purchases of National Savings of £240 million and CTDs of £160 million. External and foreign currency finance of the public sector was contractionary by £480 million.

8 Sterling lending to the private sector rose by £1,700 million. Foreign currency lending to the private sector rose by £1,070 million in transactions terms.

9 The external and foreign currency transactions of UK banks were expansionary by £1,300 million (see columns 9-12 of Table A), compared with an average expansionary influence of only £20 million a month over the preceding twelve months. Net non-deposit sterling liabilities fell by £460 million, an expansionary influence compared with an average contractionary influence of £220 million a month over the preceding twelve months.

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

Estimated seasonal movements - banking June 1986

11 The provisional seasonal movements for the four weeks ended 18 June 1986 are as follows:

	£ million
Notes and coin in circulation with the public	- 140
Private sector sterling sight bank deposits	+ 250
M1	+ 110
Other private sector sterling bank deposits	- 460
£M3	<u>- 350</u>
M0 (averaged series)	<u>0</u>
Bank lending in sterling to the private sector	<u>- 830</u>

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

DRAFT SECRET

MONETARY AND LIQUIDITY AGGREGATES: BANKING MAY 1986

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 3.5	+ 4.1	+ 3.4
M1	+ 42.5	+22.0	+22.0
of which:			
Non-interest bearing M1	+ 20.0	+10.3	+ 6.6
M2 (not seasonally adjusted)*	..	..	+12.6
£M3	+ 39.1	+21.9	+19.5
M3	+ 36.5	+21.2	+18.5
PSL1	+ 38.1	+20.5	+18.3
PSL2	+ 25.7	+19.3	+17.6
PSL2, including term shares with building societies and bank deposits with an original maturity longer than two years	+ 22.1	+15.8	+14.7

\*the growth of M2 over the 12 months to mid-May 1986 includes £900 million resulting from changes made by certain building societies in the terms of some accounts. Excluding such reclassified amounts, the growth in M2 over the latest 12 months is 12.0%.

## Banking statistics

21 May 1986

**A Public sector borrowing requirement, and other counterparts to changes in £M3**

[Table 11.3 in the Quarterly Bulletin]

Month ended (unadjusted)	Public sector borrowing requirement (surplus-)		Purchases (-) of public sector debt by UK private sector (other than banks)			External and foreign currency finance of public sector (increase-)		Banks' sterling lending to UK private sector [b]	External and foreign currency transactions of UK banks [c]				Net non-deposit sterling liabilities (increase-)	Money stock £M3 (columns 1-13)
	Central government borrowing requirement	Other public sector contribution	Other public sector debt	Central government debt [a]		Purchases of British government stocks by overseas sector	Other		Sterling deposits from net of market loans to banks abroad (increase-)	Other overseas sterling deposits (increase-)	Other sterling lending to overseas sector [d]	Banks' net foreign currency liabilities [e] (increase-)		
				British government stocks	Other									
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1985 May 15	+ 489	+ 67	- 586	- 106	- 347	+ 217	+ 866	+ 300	- 67	+ 263	- 467	- 384	+ 245	
June 19 [f]	+ 2,638	- 434	- 12	- 220	- 718	+ 267	+ 758	+ 394	- 255	- 267	+ 1,231	- 311	+ 3,071	
July 17 [f]	- 1,162	- 478	- 11	- 409	- 342	- 4	+ 3,104	+ 18	- 236	- 410	+ 260	- 438	- 108	
Aug. 21	+ 2,319	- 366	- 247	- 177	- 15	+ 49	+ 1,107	+ 261	- 591	- 603	- 170	+ 490	+ 2,057	
Sept. 18	+ 1,667	- 319	- 86	- 34	- 155	+ 18	+ 428	+ 419	- 76	- 96	+ 213	- 155	+ 1,824	
Oct. 16	+ 564	- 599	- 519	- 525	- 76	- 130	+ 3,417	+ 712	- 703	+ 165	+ 365	- 1,642	+ 1,029	
Nov. 20	+ 2,666	- 1,125	- 737	- 109	- 400	- 193	+ 1,200	- 388	+ 243	- 166	- 170	+ 1,702	+ 2,523	
1986 Dec. 11	+ 1,490	+ 223	- 224	- 76	- 34	- 26	+ 1,031	+ 256	- 114	+ 18	- 1,137	- 535	+ 872	
Jan. 15	- 2,785	- 172	- 80	+ 504	- 291	- 1	+ 1,513	- 287	+ 355	+ 352	+ 529	+ 171	- 899	
Feb. 19	- 786	- 175	- 276	- 100	+ 152	- 247	+ 1,374	+ 208	- 512	+ 73	+ 1,351	- 484	+ 432	
Mar. 19	+ 942	- 313	+ 453	- 507	+ 236	+ 131	+ 2,346	+ 51	- 466	- 656	+ 581	+ 56	+ 2,854	
Apr. 16	+ 4,274	- 1,065	- 712	- 273	- 219	+ 321	+ 3,632	+ 569	- 933	+ 656	- 14	- 1,126	+ 5,110	
May 21	+ 1,622	- 772	+ 569	- 369	- 477		+ 1,235	- 102	+ 929	+ 127	+ 257	+ 569	+ 3,588	
Month ended (seasonally adjusted)														
1985 May 15	+ 383	- 4	- 586	- 115	- 347	+ 213	+ 1,438		+ 179			- 653	+ 508	
June 19 [f]	+ 762	- 18	- 12	- 262	- 718	+ 263	+ 1,379		+ 1,267			- 14	+ 2,647	
July 17	- 92	- 477	- 11	- 438	- 342	- 9	+ 1,528		- 423			- 576	- 840	
Aug. 21	+ 2,090	- 355	- 247	- 314	- 15	+ 44	+ 1,750		- 985			+ 247	+ 2,215	
Sept. 18	+ 1,955	- 334	- 86	+ 3	- 155	+ 13	+ 993		+ 60			- 324	+ 2,125	
Oct. 16	+ 914	- 660	- 519	- 477	- 76	- 135	+ 2,118		+ 561			- 766	+ 960	
Nov. 20	+ 1,905	- 1,089	- 737	- 36	- 400	- 198	+ 1,885		- 327			+ 1,401	+ 2,404	
1986 Dec. 11	+ 118	+ 450	- 224	- 56	- 34	- 31	+ 2,135		- 999			- 618	+ 741	
Jan. 15	+ 53	- 353	- 80	+ 467	- 291	+ 49	+ 384		+ 37			- 170	+ 96	
Feb. 19	+ 684	- 235	- 276	- 225	+ 152	- 252	+ 1,589		+ 826			- 1,036	+ 1,227	
Mar. 19	+ 857	- 367	+ 453	- 378	+ 236	+ 127	+ 2,572		- 625			- 41	+ 2,834	
Apr. 16	+ 2,708	- 1,354	- 712	- 201	- 219	+ 318	+ 2,965		+ 677			- 117	+ 4,065	
May 21	+ 1,638	- 865	+ 569	- 378	- 481		+ 1,704		+ 1,300			+ 455	+ 3,942	

[a] Purchases (-) of central government debt by the UK private sector (other than banks) can be analysed by instrument as follows:

Month ended	Marketable debt		National savings		Tax instruments		Other	Total (columns 4 and 5 above)	
	Stocks	Treasury bills	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
1985 May 15	- 586	+ 25	- 211	- 241	+ 81	+ 102	- 1	- 692	- 701
June 19	- 12	+ 42	- 270	- 375	+ 6	+ 69	+ 2	- 232	- 274
July 17	- 11	+ 8	- 196	- 273	- 217	- 169	- 4	- 420	- 449
Aug. 21	- 247	- 56	- 273	- 384	+ 149	+ 123	+ 3	- 424	- 561
Sept. 18	- 86	+ 6	- 228	- 229	+ 190	+ 228	- 2	- 120	- 83
Oct. 16	- 519	+ 17	- 191	- 197	- 351	- 297	-	- 1,044	- 996
Nov. 20	- 737	- 4	- 281	- 184	+ 171	+ 147	+ 5	- 846	- 773
1986 Dec. 11	- 224	+ 56	- 23	- 61	- 106	- 48	- 3	- 300	- 280
Jan. 15	- 80	+ 89	- 122	- 19	+ 534	+ 394	+ 3	+ 424	+ 387
Feb. 19	- 276	- 30	- 138	- 74	+ 62	- 127	+ 6	- 376	- 501
Mar. 19	+ 453	- 80	- 30	+ 55	- 398	- 354	+ 1	- 54	+ 75
Apr. 16	+ 712	- 22	- 65	- 46	- 189	- 136	+ 3	- 985	- 913
May 21	+ 569	+ 22	- 211	- 241	- 179	- 158	- 1	+ 200	+ 191

[b] Including holdings of sterling certificates of deposit issued by building societies, and 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.

[c] A seasonally-adjusted breakdown of these transactions is not available.

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

[e] Including net non-deposit liabilities in foreign currency. (See the Quarterly Bulletin for June 1985—page 185.)

[f] See footnote [e] to Table E on page 3.

**B M0, the wide monetary base**

£ millions: percentages in italics

End-banking-month series							Monthly-average series					
Notes and coin in circulation outside the Bank of England				Bankers' deposits with the Banking Department			Notes and coin in circulation outside the Bank of England		Bankers' operational deposits with the Banking Department	M0 (wide monetary base) (columns 5 + 6)		
In circulation with public		Held by banks (till money)		Operational deposits	Cash ratio deposits	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted	Seasonally adjusted		
Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted	Seasonally adjusted		
1		2		3	4	5		6	7			
<b>Amount outstanding at</b>												
1985 Apr. 17	12,435	12,384	1,312	1,320	162	582	1985 Apr. 17	13,907	13,864	162	14,069	14,026
May 15	12,441	12,464	1,275	1,290	187	628	May 15	13,761	13,861	156	13,917	14,017
June 19	12,438	12,486	1,350	1,379	93	628	June 19	13,888	13,944	178	14,066	14,122
July 17	12,674	12,464	1,403	1,328	214	628	July 17	13,988	13,962	217	14,205	14,179
Aug. 21	12,658	12,514	1,468	1,420	100	628	Aug. 21	14,105	13,959	141	14,246	14,100
Sept. 18	12,536	12,561	1,393	1,391	120	628	Sept. 18	14,031	14,026	133	14,164	14,159
Oct. 16	12,413	12,466	1,436	1,451	94	628	Oct. 16	13,905	14,003	123	14,028	14,126
Nov. 20	12,476	12,528	1,444	1,468	156	674	Nov. 20	13,890	14,043	162	14,052	14,205
Dec. 11	12,909	12,467	1,636	1,502	174	674	Dec. 11	14,324	14,124	130	14,454	14,254
1986 Jan. 15	12,399	12,576	1,582	1,558	187	674	1986 Jan. 15	14,774	14,224	235	15,009	14,459
Feb. 19	12,441	12,590	1,481	1,537	150	673	Feb. 19	13,910	14,198	169	14,079	14,367
Mar. 19	12,532	12,612	1,529	1,596	249	673	Mar. 19	14,000	14,245	187	14,187	14,432
Apr. 16	12,611	12,618	1,460	1,488	141	673	Apr. 16	14,312	14,271	198	14,510	14,469
May 21	12,824	12,728	1,553	1,532	313	721	May 21	14,221	14,296	194	14,415	14,490
<b>Change in month ended</b>												
1985 May 15	+ 6	+ 80	- 37	- 30	+ 25	+ 46	1985 May 15	- 146	- 3	- 6	- 152	- 9 -0.1
June 19	- 3	+ 21	+ 75	+ 88	- 94	-	June 19	+ 127	+ 83	+ 22	+ 149	+ 105 +0.7
July 17	+ 236	- 23	+ 53	- 51	+ 121	-	July 17	+ 100	+ 18	+ 39	+ 139	+ 57 +0.4
Aug. 21	- 16	+ 50	+ 65	+ 92	- 114	-	Aug. 21	+ 117	- 3	- 76	+ 41	- 79 -0.6
Sept. 18	- 122	+ 47	- 75	- 29	+ 20	-	Sept. 18	- 74	+ 67	- 8	- 82	+ 59 +0.4
Oct. 16	- 123	- 96	+ 43	+ 60	- 26	-	Oct. 16	- 126	- 23	- 10	- 136	- 33 -0.2
Nov. 20	+ 63	+ 62	+ 8	+ 17	+ 62	+ 46	Nov. 20	- 15	+ 40	+ 39	+ 24	+ 79 +0.6
Dec. 11	+ 433	- 62	+ 192	+ 34	+ 18	-	Dec. 11	+ 434	+ 81	- 32	+ 402	+ 49 +0.3
1986 Jan. 15	- 510	+ 108	- 54	+ 55	+ 13	-	1986 Jan. 15	+ 450	+ 100	+ 105	+ 555	+ 205 +1.4
Feb. 19	+ 42	+ 13	- 101	- 21	- 37	- 1	Feb. 19	- 864	- 26	- 66	- 930	- 92 -0.6
Mar. 19	+ 91	+ 21	+ 48	+ 59	+ 99	-	Mar. 19	+ 90	+ 47	+ 18	+ 108	+ 65 +0.5
Apr. 16	+ 79	+ 5	- 69	- 108	- 108	-	Apr. 16	+ 312	+ 26	+ 11	+ 323	+ 37 +0.3
May 21	+ 213	+ 109	+ 93	+ 43	+ 172	+ 48	May 21	- 91	+ 25	- 4	- 95	+ 21 +0.1

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

£ millions

Transactions in:	Banking Department	Issue Department		
	Commercial bills [a]	Commercial bills [a]	Shipbuilding paper [a]	Export credit paper [b]
<b>Month ended</b>				
1985 May 15	+ 637	+ 185	+ 12	+ 25
June 19	- 1,729	+ 523	- 65	- 406
July 17	+ 1,963	- 1,208	+ 19	+ 272
Aug. 21	- 2,765	+ 989	+ 50	+ 28
Sept. 18	- 652	- 82	- 5	+ 30
Oct. 16	+ 369	- 246	- 47	- 14
Nov. 20	- 1,464	+ 1,635	- 131	- 890
Dec. 11	- 1,015	+ 2,248	- 114	- 1,363
1986 Jan. 15	+ 2,815	- 2,132	-	+ 777
Feb. 19	+ 1,981	- 1,780	+ 11	+ 781
Mar. 19	- 1,421	- 189	+ 320	+ 682
Apr. 16	- 3,216	+ 70	+ 110	- 535
May 21	+ 298	+ 1,199	- 221	- 1,705
<b>Amount outstanding at mid-May 1986</b>	997	8,647	-	-

[a] Included within column 8 of Table A.

[b] Included within column 11 of Table A.

[Table 11.1 in the Quarterly Bulletin]

## D Money stock: amounts outstanding

£ millions	Notes and coin in circulation with public <i>1</i>	UK private sector sterling sight deposits		Money stock M1[b]		UK private sector sterling time deposits[c]	Money stock £M3[b]		UK private sector deposits in other currencies [c] <i>7</i>	Money stock M3[b]	
		Non-interest-bearing[a]	Interest-bearing <i>3</i>	Unadjusted <i>4</i>	Seasonally adjusted		Unadjusted <i>6</i>	Seasonally adjusted		Unadjusted <i>8</i>	Seasonally adjusted
Month ended											
1985 Apr. 17	12,435	21,467	18,604	52,506	51,980	61,240	113,746	114,120	18,244	131,990	132,370
May 15	12,441	21,440	19,422	53,303	53,210	60,733	114,036	114,660	18,787	132,823	133,440
June 19[d] [e]	12,438	23,496	19,435	55,369	55,390	61,823	117,192	117,360	18,807	135,999	136,170
July 17[e]	12,674	21,250	20,822	54,746	54,320	62,338	117,084	116,490	18,209	135,293	134,690
Aug. 21	12,658	21,169	21,923	55,750	56,040	63,391	119,141	118,660	19,159	138,300	137,820
Sept. 18[d]	12,536	21,253	22,248	56,037	56,080	64,983	121,020	120,810	19,524	140,544	140,340
Oct. 16	12,413	21,574	23,537	57,524	57,410	64,525	122,049	121,770	18,861	140,910	140,630
Nov. 20	12,476	21,717	24,536	58,729	58,830	65,843	124,572	124,170	19,466	144,038	143,630
Dec. 11[d]	12,909	22,430	25,265	60,604	59,790	64,838	125,442	124,880	19,578	145,020	144,460
1986 Jan. 15	12,399	21,618	24,999	59,016	59,400	65,527	124,543	124,920	19,644	144,187	144,570
Feb. 19	12,441	21,216	25,052	58,709	59,490	66,255	124,964	126,060	20,088	145,052	146,160
Mar. 19[d]	12,532	21,718	26,158	60,408	60,990	67,507	127,915	128,950	20,571	148,486	149,530
Apr. 16	12,611	22,603	27,676	62,890	62,360	70,135	133,025	133,020	20,341	153,366	153,370
May 21	12,824	22,999	28,947	64,770	65,030	71,843	136,613	136,970	21,071	157,684	158,040

[Table 11.2 in the Quarterly Bulletin]

## E Money stock: changes [f]

£ millions: percentages in italics

£ millions	Notes and coin in circulation with public <i>1</i>	UK private sector sterling sight deposits		Money stock M1[b]		UK private sector sterling time deposits [c] <i>5</i>	Money stock £M3[b]		UK private sector deposits in other currencies [c]		Money stock M3[b]	
		Non-interest-bearing[a]	Interest-bearing <i>3</i>	Unadjusted <i>4</i>	Seasonally adjusted		Transactions	Valuation changes[g]	Unadjusted <i>8</i>	Seasonally adjusted		
Month ended (unadjusted)												
1985 May 15	+ 6	- 27	+ 818	+ 797	- 552	+ 245	+ 337	+ 206	+ 788			
June 19[e]	- 3	+ 2,056	+ 3	+ 2,056	+ 1,015	+ 3,071	+ 655	- 655	+ 3,071			
July 17[e]	+ 236	- 2,246	+ 1,387	- 623	+ 515	- 108	+ 754	- 1,352	- 706			
Aug. 21	- 16	- 81	+ 1,101	+ 1,004	+ 1,053	+ 2,057	+ 577	+ 373	+ 3,007			
Sept. 18	- 122	+ 87	+ 288	+ 253	+ 1,571	+ 1,824	- 249	+ 603	+ 2,178			
Oct. 16	- 123	+ 321	+ 1,289	+ 1,487	- 458	+ 1,029	+ 146	- 809	+ 366			
Nov. 20	+ 63	+ 143	+ 999	+ 1,205	+ 1,318	+ 2,523	+ 873	- 268	+ 3,128			
Dec. 11	+ 433	+ 713	+ 729	+ 1,875	- 1,003	+ 872	- 171	+ 279	+ 980			
1986 Jan. 15	- 510	- 812	- 290	- 812	+ 713	- 899	+ 348	- 282	- 833			
Feb. 19	+ 42	- 402	+ 53	- 307	+ 739	+ 432	+ 565	- 121	+ 876			
Mar. 19	+ 91	+ 499	+ 1,080	+ 1,670	+ 1,184	+ 2,854	+ 686	- 204	+ 3,336			
Apr. 16	+ 79	+ 885	+ 1,518	+ 2,482	+ 2,628	+ 5,110	+ 147	- 377	+ 4,880			
May 21	+ 213	+ 396	+ 1,271	+ 1,880	+ 1,708	+ 3,588	+ 874	- 144	+ 4,318			
Month ended (seasonally adjusted)												
1985 May 15	+ 80	+ 230	+ 915	+ 1,225 + 2.4	- 717	+ 508 + 0.4	+ 337	+ 206	+ 1,051 + 0.8			
June 19[e]	+ 21	+ 2,044	+ 107	+ 2,172 + 4.1	+ 475	+ 2,647 + 2.3	+ 655	- 655	+ 2,647 + 2.0			
July 17[e]	- 23	- 2,387	+ 1,337	- 1,073 - 1.9	+ 233	- 840 - 0.7	+ 754	- 1,352	- 1,438 - 1.1			
Aug. 21	+ 50	+ 492	+ 1,175	+ 1,717 + 3.2	+ 498	+ 2,215 + 1.9	+ 577	+ 373	+ 3,165 + 2.3			
Sept. 18	+ 47	- 356	+ 321	+ 12 -	+ 2,113	+ 2,125 + 1.8	- 249	+ 603	+ 2,479 + 1.8			
Oct. 16	- 96	+ 253	+ 1,168	+ 1,325 + 2.4	- 365	+ 960 + 0.8	+ 146	- 809	+ 297 + 0.2			
Nov. 20	+ 62	+ 393	+ 966	+ 1,421 + 2.5	+ 983	+ 2,404 + 2.0	+ 873	- 268	+ 3,009 + 2.1			
Dec. 11	- 62	+ 229	+ 794	+ 961 + 1.6	- 220	+ 741 + 0.6	- 171	+ 279	+ 849 + 0.6			
1986 Jan. 15	+ 108	- 74	- 452	- 418 - 0.7	+ 514	+ 96 + 0.1	+ 348	- 282	+ 162 + 0.1			
Feb. 19	+ 13	- 95	+ 176	+ 94 + 0.2	+ 1,133	+ 1,227 + 1.0	+ 565	- 121	+ 1,671 + 1.2			
Mar. 19	+ 21	+ 166	+ 1,277	+ 1,464 + 2.5	+ 1,370	+ 2,834 + 2.2	+ 686	- 204	+ 3,316 + 2.3			
Apr. 16	+ 5	+ 181	+ 1,191	+ 1,377 + 2.3	+ 2,688	+ 4,065 + 3.2	+ 147	- 377	+ 3,835 + 2.6			
May 21	+ 109	+ 1,121	+ 1,438	+ 2,668 + 4.3	+ 1,274	+ 3,942 + 3.0	+ 874	- 144	+ 4,672 + 3.0			

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the Quarterly Bulletin).

[b] M1 equals columns 1 + 2 + 3. £M3 equals M1 + column 5. M3 equals £M3 + column 7.

[c] Including certificates of deposit.

[d] Changes in the monthly-reporting population occurred in these months. See also the additional notes to Table 3 in the Quarterly Bulletin, and, for December 1985 and March 1986, footnotes [b] and [c] respectively to Table H on page 5.

[e] The figures for the banking months of June and July 1985 are heavily distorted by the large flow of funds associated with the oversubscription to the sale of shares in Abbey Life Group p.l.c. These flows probably added substantial amounts to deposits and lending in banking June, but the distortion should have been unwound in banking July.

[f] 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.)

[g] See additional notes to Tables 6 and 11 of the Quarterly Bulletin.



## F Transactions balances and components of M2

[Table 11.1 and 11.2 in the Quarterly Bulletin]

£ millions: not seasonally adjusted

	Notes and coin in circulation with public	UK private sector sterling non-interest- bearing sight deposits with banks[a]	Non-interest- bearing M1[b]	Other UK private sector sterling retail deposits with banks	UK private sector retail shares and deposits with building societies	National Savings Bank ordinary account	M2[b]	Public sector retail deposits with banks	Overseas retail deposits with banks
	1	2	3	4	5	6	7	8	9
<b>Amounts outstanding</b>									
1985 May 15	12,441	21,440	33,881	33,291	67,315	1,752	136,239	1,060	4,152
June 19[c][d]	12,438	23,496	35,934	33,893	68,096	1,750	139,673	1,086	4,186
July 17[d]	12,674	21,250	33,924	34,709	68,267	1,733	138,633	1,015	4,404
Aug. 21	12,658	21,169	33,827	35,004	68,291	1,740	138,862	993	4,452
Sept. 18[c]	12,536	21,253	33,789	35,188	69,825	1,729	140,531	885	4,475
Oct. 16	12,413	21,574	33,987	35,637	70,630	1,734	141,988	1,107	4,541
Nov. 20	12,476	21,717	34,193	36,885	71,408	1,711	144,197	1,251	4,532
Dec. 11[c]	12,909	22,430	35,339	36,328	72,673	1,693	146,033	923	4,681
1986 Jan. 15	12,399	21,618	34,017	36,861	73,906	1,739	146,523	1,137	4,905
Feb. 19	12,441	21,216	33,657	37,014	74,464	1,714	146,849	997	4,895
Mar. 19[c]	12,532	21,718	34,250	37,641	75,284	1,722	148,897	1,071	5,054
Apr. 16	12,611	22,603	35,214	38,644	76,097	1,718	151,673	1,218	5,294
May 21	12,824	22,999	35,823	39,490	76,553	1,742	153,608	1,167	5,335
<b>Changes in month ended [e]</b>									
1985 June 19[d]	- 3	+2,056	+ 2053	+ 602	+ 781	- 2	+3,434	+ 26	+ 34
July 17[d]	+ 236	-2,246	-2,010	+ 816	+ 171	- 17	-1,040	- 71	+ 218
Aug. 21	- 16	- 81	- 97	+ 295	+ 24	+ 7	+ 229	- 22	+ 48
Sept. 18	- 122	+ 87	- 35	+ 184	+1,374	- 11	+1,512	- 108	+ 23
Oct. 16	- 123	+ 321	+ 198	+ 449	+ 805	+ 5	+1,457	+ 222	+ 66
Nov. 20	+ 63	+ 143	+ 206	+1,248	+ 778	- 23	+2,209	+ 144	- 9
Dec. 11	+ 433	+ 713	+1,146	- 557	+1,265	- 18	+1,836	- 328	+ 149
1986 Jan. 15	- 510	- 812	-1,322	+ 533	+1,233	+ 46	+ 490	+ 214	+ 224
Feb. 19	+ 42	- 402	- 360	+ 153	+ 558	- 25	+ 326	- 140	- 10
Mar. 19	+ 91	+ 499	+ 590	+ 627	+ 820	+ 8	+2,045	+ 74	+ 159
Apr. 16	+ 79	+ 885	+ 964	+1,003	+ 813	- 4	+2,776	+ 147	+ 240
May 21	+ 213	+ 396	+ 609	+ 846	+ 456	+ 24	+1,935	- 51	+ 41

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the Quarterly Bulletin).

[b] Non-interest-bearing M1 equals columns 1+2. M2 equals non-interest-bearing M1+columns 4+5+6.

[c] See footnote [d] to Table D on page 3.

[d] See footnote [e] to Table E on page 3.

[e] See footnote [f] to Table E on page 3.

## G Private sector liquidity, and other deposits

[Summary of Table 12 in the Quarterly Bulletin]

£ millions: percentages in *italics*

Month ended	Money													
	Seasonally adjusted	Other money- market instruments Seasonally adjusted	Savings institution deposits and securities		Certificates of tax deposit		PSL1 (columns 1+2+5)	PSL2 (columns 1+2+3+6)	PSL1	PSL2	Other shares and deposits with building societies			
			Seasonally adjusted		Seasonally adjusted						Unadjusted			
			Total (net)	of which shares and deposits with building societies [a]	Issues net of sur- renders	Column 5 less build- ing society holdings					Seasonally adjusted	Seasonally adjusted	Amount outstanding	Change in month
1	2	3	4	5	6	7	8	9	10	11	12			
1985 May 15	112,924	3,088	81,890	78,361	2,975	2,634	118,987	200,536	+ 254	+0.2	+ 328	+0.2	19,052	+790
June 19[b]	115,587	3,311	82,497	79,314	2,900	2,539	121,798	203,934	+2,778	+2.3	+3,392	+1.7	19,349	+297
July 17[b]	114,666	3,308	83,154	80,352	3,062	2,672	121,036	203,800	- 719	-0.6	- 75	-	19,489	+140
Aug. 21	116,852	3,095	83,727	81,490	2,929	2,530	122,876	206,204	+1,894	+1.6	+2,460	+1.2	19,659	+170
Sept. 18	119,000	2,972	84,648	82,754	2,696	2,296	124,668	208,916	+1,790	+1.5	+2,710	+1.3	19,393	-266
Oct. 16	119,954	2,904	86,024	84,332	2,993	2,537	125,851	211,419	+1,182	+0.9	+2,502	+1.2	18,828	-565
Nov. 20	122,328	3,039	88,070	86,432	2,846	2,390	128,213	215,827	+2,372	+1.9	+4,418	+2.1	18,076	-752
Dec. 11	122,987	2,936	89,108	87,774	2,894	2,406	128,817	217,437	+ 652	+0.5	+1,653	+0.8	17,690	-386
1986 Jan. 15	122,985	3,030	90,845	89,857	2,500	2,251	128,515	219,111	- 252	-0.2	+1,724	+0.8	17,235	-455
Feb. 19	124,149	2,891	93,167	91,605	2,627	2,238	129,667	222,445	+1,235	+1.0	+3,417	+1.6	16,870	-365
Mar. 19	126,931	2,768	94,208	93,165	2,981	2,409	132,680	226,316	+3,062	+2.4	+3,920	+1.8	16,674	-196
Apr. 16	131,025	2,719	95,242	94,704	3,117	2,472	136,861	231,458	+4,180	+3.2	+5,141	+2.3	16,320	-354
May 21	134,885	2,352	95,840	96,106	3,275	2,430	140,512	235,507	+3,650	+2.7	+4,048	+1.7	15,983	-337

[a] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies.

[b] See footnote [e] to Table E on page 3.





Sterling assets *continued*

			Bills				Advances			Banking Department lending to central government (net)	Investments	
			Treasury bills	Eligible local authority bills	Eligible bank bills	Other	UK public sector	UK private sector	Overseas		British government stocks	Other
British banks:	1986	Apr. 16	277	358	3,476	74	419	77,921	2,845	446	5,368	2,922
		May 21	368	395	3,594	76	326	78,237	4,408	518	5,873	2,978
Accepting houses	1986	Apr. 16	5	14	372	53	51	3,812	1,075	—	299	1,521
		May 21	4	11	317	57	57	3,994	1,091	—	207	1,354
Other British banks	1986	Apr. 16	1	—	251	78	65	20,463	1,673	—	367	1,707
		May 21	22	—	322	57	57	20,562	1,707	—	395	1,749
Overseas banks:	1986	Apr. 16	1	—	20	4	69	7,422	1,292	—	213	391
		May 21	1	—	46	7	67	7,561	1,325	—	231	391
Japanese banks	1986	Apr. 16	4	—	—	—	582	1,732	986	—	22	1,555
		May 21	6	—	—	—	474	1,727	855	—	101	1,684
Other overseas banks	1986	Apr. 16	22	8	254	190	456	14,506	2,727	—	327	1,160
		May 21	41	—	257	183	440	14,525	2,693	—	323	1,369
Consortium banks	1986	Apr. 16	—	—	—	4	23	496	259	—	110	265
		May 21	—	—	2	4	23	553	262	—	110	287
Total	1986	Apr. 16	310	395	4,373	403	1,665	126,352	10,857	446	6,706	9,521
		May 21	442	406	4,538	384	1,444	127,159	12,341	518	7,240	9,812

Other currency assets

			Market loans and advances						Bills	Investments	Sterling and other currencies Miscellaneous assets(c)	Acceptances	Eligible liabilities	
			Total	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector						Overseas
British banks:	1986	Apr. 16	49,171	15,515	11,332	351	179	4,330	32,979	648	5,262	15,513	3,344	89,620
		May 21	48,780	15,747	10,710	339	173	4,593	32,966	679	5,202	15,459	3,732	92,107
Accepting houses	1986	Apr. 16	10,666	3,890	2,904	525	17	965	6,255	63	1,401	1,890	3,899	7,005
		May 21	10,601	3,683	3,005	560	15	980	6,041	62	1,407	1,908	4,085	6,757
Other British banks	1986	Apr. 16	27,734	9,731	6,376	133	714	2,320	18,191	26	1,169	1,994	1,125	21,833
		May 21	27,045	9,335	5,718	209	711	2,067	18,339	81	1,490	1,612	1,040	21,987
Overseas banks:	1986	Apr. 16	77,761	22,750	8,172	1,243	30	9,599	58,717	52	2,551	4,086	3,319	10,291
		May 21	77,100	22,825	7,587	1,219	30	9,797	58,467	101	2,490	4,272	3,325	10,387
Japanese banks	1986	Apr. 16	158,844	25,382	27,341	1,432	571	7,883	121,617	99	14,773	656	2,220	7,529
		May 21	164,266	26,084	28,564	1,379	542	8,609	125,172	105	15,034	690	2,268	7,542
Other overseas banks	1986	Apr. 16	145,273	36,408	29,840	7,100	142	10,763	97,428	1,164	8,938	2,158	6,457	21,719
		May 21	143,552	36,026	29,385	7,121	116	10,469	96,462	1,199	9,305	2,330	6,703	21,678
Consortium banks	1986	Apr. 16	12,930	5,587	1,404	338	—	281	10,907	101	1,072	757	245	1,494
		May 21	13,038	5,646	1,334	342	3	344	11,015	113	1,058	267	239	1,442
Total	1986	Apr. 16	482,379	119,263	87,369	11,122	1,653	36,141	346,094	2,153	35,166	27,054	20,609	159,491
		May 21	484,382	119,346	86,303	11,169	1,590	36,859	348,462	2,340	35,986	26,538	21,392	161,900

Sterling assets <i>continued</i>				Other currency assets				Total assets/liabilities		
British government stocks	Investments		Other sterling assets	Total	Certificates of deposit	Bills	Other			
	Local authorities	Other								
292	37	335	51	340	148	135	57	8,713		Dec. 11
47	28	362	58	226	120	40	66	7,986		1986 Jan. 15
185	27	391	57	335	99	104	132	8,377		Feb. 19
593	22	403	70	217	84	35	98	8,826		Mar. 19
482	22	407	69	272	86	39	147	9,147		Apr. 16
288	20	414	41	374	83	95	196	8,691		May 21

# K UK monetary sector: transactions in liabilities and assets<sup>[a]</sup>

[Table 6 in the Quarterly Bulletin]

£ millions

Month ended	Total	Liabilities											Non-deposit liabilities (net)	
		Total		Domestic deposits				Overseas sector deposits						
		Unadjusted	Seasonally adjusted	Public sector		Private sector		Sterling	Other currencies	Sterling	Other currencies	Sterling		Other currencies
				Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted							
1985 May 15	- 3,723	+ 506	+ 628	- 105	- 172	+ 35	+ 239	+ 428	+ 337	- 220	- 5,103	+ 1,094		
June 19	+ 10,926	+ 3,903	+ 3,370	+ 189	+ 104	- 15	+ 3,074	+ 2,626	+ 655	- 263	+ 5,893	+ 1,393		
July 17 [b]	+ 7,479	+ 378	- 129	- 3	- 37	- 29	- 344	- 817	+ 754	+ 421	+ 4,401	+ 2,279		
Aug. 21 [b]	+ 433	+ 2,902	+ 2,908	+ 269	+ 183	- 17	+ 2,073	+ 2,165	+ 577	+ 291	- 2,375	- 385		
Sept. 18	+ 9,869	+ 1,419	+ 1,811	- 277	- 17	- 1	+ 1,946	+ 2,078	- 249	- 6	+ 8,049	+ 407		
Oct. 16	+ 1,071	+ 1,758	+ 1,573	+ 445	+ 356	+ 15	+ 1,152	+ 1,056	+ 146	- 208	- 2,391	+ 1,912		
Nov. 20	+ 10,592	+ 3,820	+ 3,500	+ 483	+ 281	+ 4	+ 2,460	+ 2,342	+ 873	- 536	+ 8,881	- 1,573		
1986 Dec. 11	+ 2,585	- 344	+ 194	- 558	- 384	- 54	+ 439	- 803	- 171	+ 66	+ 1,131	+ 1,732		
Jan. 15	+ 7,841	+ 431	+ 648	+ 466	+ 306	+ 6	- 389	- 12	+ 348	+ 1,337	+ 7,338	- 1,265		
Feb. 19	+ 10,103	+ 759	+ 1,609	- 160	- 134	- 36	+ 390	+ 1,214	+ 565	+ 666	+ 7,700	+ 978		
Mar. 19	+ 8,024	+ 3,473	+ 3,672	+ 22	+ 171	+ 2	+ 2,763	+ 2,813	+ 686	+ 1,351	+ 3,526	- 326		
Apr. 16	+ 13,856	+ 6,538	+ 5,681	+ 1,375	+ 1,489	+ 15	+ 5,031	+ 4,060	+ 147	+ 1,013	+ 5,524	+ 781		
May 21	+ 8,724	+ 4,613	+ 4,725	+ 360	+ 14	+ 4	+ 3,373	+ 3,833	+ 874	- 754	+ 5,604	- 739		

Month ended	Total	Assets											
		Lending to public sector					Lending to private sector					Lending to overseas sector	
		Sterling		Central government	Other	Other currencies	Sterling		Other currencies	Sterling	Other currencies		
		Unadjusted	Seasonally adjusted				Unadjusted	Seasonally adjusted					
1985 May 15	- 3,723	- 155	- 486	+ 181	- 336	+ 108	+ 669	+ 1,241	- 241	+ 251	- 4,355		
June 19 [b]	+ 10,926	+ 1,765	+ 150	+ 1,992	- 227	- 67	+ 300	+ 921	+ 12	+ 15	+ 8,901		
July 17 [b]	+ 7,479	- 3,562	- 2,300	- 3,324	- 238	- 78	+ 4,293	+ 2,717	+ 546	- 479	+ 6,759		
Aug. 21	+ 433	+ 2,915	+ 2,403	+ 3,275	- 360	- 9	+ 68	+ 711	- 1,231	- 670	- 640		
Sept. 18	+ 9,869	+ 879	+ 1,275	+ 1,370	- 491	- 19	+ 515	+ 1,080	+ 408	+ 211	+ 7,875		
Oct. 16	+ 1,071	- 1,024	- 808	- 668	- 356	+ 257	+ 3,710	+ 2,411	- 25	- 20	- 1,827		
Nov. 20	+ 10,592	+ 1,136	+ 278	+ 1,708	- 572	- 170	- 304	+ 381	+ 185	+ 43	+ 9,702		
1986 Dec. 11	+ 2,585	+ 1,133	+ 672	+ 1,479	- 346	+ 25	- 1,103	+ 1	- 123	+ 1,589	+ 1,064		
Jan. 15	+ 7,841	- 3,204	- 1,312	- 3,276	+ 72	+ 220	+ 3,645	+ 2,516	+ 2,191	+ 273	+ 4,716		
Feb. 19	+ 10,103	- 2,622	- 1,287	- 2,141	- 481	+ 3	+ 3,143	+ 3,358	+ 589	- 492	+ 9,482		
Mar. 19	+ 8,024	+ 1,686	+ 1,891	+ 1,740	- 54	- 52	+ 2,215	+ 2,441	+ 1,209	- 402	+ 3,368		
Apr. 16	+ 13,856	+ 3,047	+ 1,449	+ 3,369	- 322	+ 17	+ 3,672	+ 3,005	+ 716	+ 1,840	+ 4,564		
May 21	+ 8,724	- 7	- 339	+ 342	- 349	- 61	+ 257	+ 726	+ 1,069	+ 1,905	+ 5,561		

[a] This table comprises all banks included in Table 3 in the *Quarterly Bulletin* together with the discount market. Interbank items are excluded and adjustments made to allow for transit items (see additional notes to Table 6 in the *Quarterly Bulletin*).

[b] See footnote [c] to Table E on page 3.

## Symbols and conventions

- nil or less than £½ million.

--- figures above and below are not strictly comparable.

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**MONEY AND BANKING FIGURES: BANKING JUNE 1986**

(All figures are seasonally adjusted, unless otherwise stated.)

1 During the four weeks to 18 June 1986, M0 (average of weekly levels) rose by £80 million (+0.5%) (Table B) and £M3 rose by £1,710 million (+1.3%) (Table E).

2 Recent rates of growth of the above aggregates are as follows:

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 3.8	+ 4.4	+ 3.1
£M3	+33.6	+23.4	+18.3

3 Within £M3 there was a rise in banking June of £130 million in notes and coin, a fall of £210 million in non-interest-bearing sight deposits and a rise of £820 million in interest-bearing sight deposits. M1 rose by £740 million (+1.1%). Time deposits (including sterling certificates of deposit) of the UK private sector rose by £980 million.

4 The sterling value of private sector foreign currency deposits rose by £1,670 million, comprising a rise of £1,430 million reflecting transactions and a rise of £240 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £3,380 million (+2.1%) (Table E).

5 M2 (not seasonally adjusted) rose by £2,110 million (+1.4%) (Table F). PSL2 on the new definition (including building society term shares and SAYE deposits, and bank deposits with an original term longer than two years) rose by £3,200 million (+1.3%) (Table G).

6 Rates of growth of monetary and liquidity aggregates over the last three, six and twelve months are shown in the attached table.

7 Amongst the counterparts to the change in £M3, the net effect of public sector transactions (the PSBR less debt sales to the non-bank private sector and external flows to the public sector) was expansionary by £420 million (see columns 1-7 of Table A). The central government borrowing requirement was £1,790 million and the direct contribution of local authorities and public corporations to the public sector borrowing requirement (net of non-bank private sector purchases of their debt) was contractionary by £580 million. There were net purchases of central government debt by the

non-bank private sector of £1,120 million; within this gilt-edged stock accounted for £560 million, National Savings for £350 million, CTDs for £110 million and Treasury bills for £100 million. External and foreign currency finance of the public sector was expansionary by £320 million.

8 Sterling lending to the private sector rose by £2,150 million. Foreign currency lending to the private sector rose by £370 million in transactions terms.

9 The external and foreign currency transactions of UK banks were expansionary by £50 million (see columns 9-12 of Table A). Net non-deposit sterling liabilities rose by £900 million, a contractionary influence.

10 In banking June, the amount of sterling commercial paper outstanding increased by an estimated £30 million, to £50 million. UK banks reported holdings of £20 million, entirely paper issued by overseas companies and therefore included in sterling lending overseas (Table K) within the external and foreign currency transactions of UK banks (Table A)

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

#### Estimated seasonal movements - banking July 1986

12 The provisional seasonal movements for the four weeks ended 16 July 1986 are as follows:

	£ million
Notes and coin in circulation with the public	+ 270
Private sector sterling sight bank deposits	+ 330
M1	<u>+ 600</u>
Other private sector sterling bank deposits	- 10
£M3	<u>+ 590</u>
M0 (averaged series)	<u>+ 90</u>
Bank lending in sterling to the private sector	<u>+1,600</u>

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

MONETARY AND LIQUIDITY AGGREGATES: BANKING JUNE 1986

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 3.8	+ 4.4	+ 3.1
M1	+ 35.4	+20.8	+18.6
of which:			
Non-interest bearing M1	+ 16.1	+ 8.6	+ 0.2
M2 (not seasonally adjusted)*	..	..	+11.5
£M3	+ 33.6	+23.4	+18.3
M3	+ 35.7	+24.9	+18.6
PSL1	+ 32.5	+22.5	+17.2
PSL2	+ 20.1	+17.2	+14.1

\*the growth of M2 over the 12 months to mid-June 1986 includes £900 million resulting from changes made by certain building societies in the terms of some accounts. Excluding such reclassified amounts, the growth in M2 over the latest 12 months is 10.9%.





## B M0, the wide monetary base

[Table 2 in the Quarterly Bulletin]

£ millions: percentages in italics

End-banking-month series							Monthly-average series						
Notes and coin in circulation outside the Bank of England				Bankers' deposits with the Banking Department			Notes and coin in circulation outside the Bank of England		Bankers' operational deposits with the Banking Department	M0 (wide monetary base) (columns 5 + 6)			
In circulation with public		Held by banks (till money)		Operational deposits	Cash ratio deposits								
Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted	Seasonally adjusted			
1	2	3	4	5	6	7							
Amount outstanding at							Average amount outstanding in month ended						
1985 May 15	12,441	12,464	1,275	1,290	187	628	1985 May 15	13,761	13,861	156	13,917	14,017	
June 19	12,438	12,486	1,350	1,379	93	628	June 19	13,888	13,944	178	14,066	14,122	
July 17	12,674	12,464	1,403	1,328	214	628	July 17	13,988	13,962	217	14,205	14,179	
Aug. 21	12,658	12,514	1,468	1,420	100	628	Aug. 21	14,105	13,959	141	14,246	14,100	
Sept. 18	12,536	12,561	1,393	1,391	120	628	Sept. 18	14,031	14,026	133	14,164	14,159	
Oct. 16	12,413	12,466	1,436	1,451	94	628	Oct. 16	13,905	14,003	123	14,028	14,126	
Nov. 20	12,476	12,528	1,444	1,468	156	674	Nov. 20	13,890	14,043	162	14,052	14,205	
Dec. 11	12,909	12,467	1,636	1,502	174	674	Dec. 11	14,324	14,124	130	14,454	14,254	
1986 Jan. 15	12,399	12,576	1,582	1,558	187	674	1986 Jan. 15	14,774	14,224	235	15,009	14,459	
Feb. 19	12,441	12,590	1,481	1,537	150	673	Feb. 19	13,910	14,198	169	14,079	14,367	
Mar. 19	12,532	12,612	1,529	1,596	249	673	Mar. 19	14,000	14,245	187	14,187	14,432	
Apr. 16	12,611	12,618	1,460	1,488	141	673	Apr. 16	14,312	14,271	198	14,510	14,469	
May 21	12,820	12,724	1,553	1,532	313	721	May 21	14,221	14,296	194	14,415	14,490	
June 18	12,807	12,856	1,467	1,499	163	721	June 18	14,330	14,408	158	14,488	14,566	
Change in month ended							Change between average amounts outstanding						
1985 June 19	- 3	+ 21	+ 75	+ 88	- 94	-	1985 June 19	+ 127	+ 83	+ 22	+ 149	+ 105	+0.7
July 17	+ 236	- 23	+ 53	- 51	+ 121	-	July 17	+ 100	+ 18	+ 39	+ 139	+ 57	+0.4
Aug. 21	- 16	+ 50	+ 65	+ 92	- 114	-	Aug. 21	+ 117	- 3	- 76	+ 41	- 79	-0.6
Sept. 18	- 122	+ 47	- 75	- 29	+ 20	-	Sept. 18	- 74	+ 67	- 8	- 82	+ 59	+0.4
Oct. 16	- 123	- 96	+ 43	+ 60	- 26	-	Oct. 16	- 126	- 23	- 10	- 136	- 33	-0.2
Nov. 20	+ 63	+ 62	+ 8	+ 17	+ 62	+ 46	Nov. 20	- 15	+ 40	+ 39	+ 24	+ 79	+0.6
Dec. 11	+ 433	- 62	+ 192	+ 34	+ 18	-	Dec. 11	+ 434	+ 81	- 32	+ 402	+ 49	+0.3
1986 Jan. 15	- 510	+ 108	- 54	+ 55	+ 13	-	1986 Jan. 15	+ 450	+ 100	+ 105	+ 555	+ 205	+1.4
Feb. 19	+ 42	+ 13	- 101	- 21	- 37	- 1	Feb. 19	- 864	- 26	- 66	- 930	- 92	-0.6
Mar. 19	+ 91	+ 21	+ 48	+ 59	+ 99	-	Mar. 19	+ 90	+ 47	+ 18	+ 108	+ 65	+0.5
Apr. 16	+ 79	+ 5	- 69	- 108	- 108	-	Apr. 16	+ 312	+ 26	+ 11	+ 323	+ 37	+0.3
May 21	+ 209	+ 105	+ 93	+ 43	+ 172	+ 48	May 21	- 91	+ 25	- 4	- 95	+ 21	+0.1
June 18	- 13	+ 131	- 86	- 33	- 150	-	June 18	+ 109	+ 112	- 36	+ 73	+ 76	+0.5

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

£ millions

Transactions in:	Banking Department	Issue Department		
	Commercial bills [a]	Commercial bills [a]	Shipbuilding paper [a]	Export credit paper [b]
Month ended				
1985 June 19	- 1,729	+ 523	- 65	- 406
July 17	+ 1,963	- 1,208	+ 19	+ 272
Aug. 21	- 2,765	+ 989	+ 50	+ 28
Sept. 18	- 652	- 82	- 5	+ 30
Oct. 16	+ 369	- 246	- 47	- 14
Nov. 20	- 1,464	+ 1,635	- 131	- 890
Dec. 11	- 1,015	+ 2,248	- 114	- 1,363
1986 Jan. 15	+ 2,815	- 2,132	-	+ 777
Feb. 19	+ 1,981	- 1,780	+ 11	+ 781
Mar. 19	- 1,421	- 189	+ 320	+ 682
Apr. 16	- 3,216	+ 70	- 110	- 535
May 21	+ 298	+ 1,199	- 221	- 1,705
June 18	- 234	- 1,733	-	-
Amount outstanding at mid-June 1986	763	6,914	-	-

[a] Included within column 8 of Table A.

[b] Included within column 11 of Table A.









*Sterling assets continued*

				Bills				Advances			Banking Department lending to central government (net)	Investments	
				Treasury bills	Eligible local authority bills	Eligible bank bills	Other	UK public sector	UK private sector	Overseas		British government stocks	Other
<b>British banks:</b>	Retail banks	1986 May 21	368	395	3,594	76	339	78,237	4,408	518	5,873	2,978	
		1986 June 18	385	326	3,471	92	277	79,359	4,434	497	5,789	3,414	
Accepting houses	1986 May 21	4	11	317	57	57	3,989	1,091	—	207	1,354		
	1986 June 18	7	2	254	45	56	4,056	1,123	—	253	1,374		
Other British banks	1986 May 21	22	—	322	57	57	20,688	1,707	—	395	1,749		
	1986 June 18	23	—	210	65	49	21,084	1,722	—	409	1,777		
<b>Overseas banks:</b>	American banks	1986 May 21	1	—	46	7	67	7,584	1,325	—	231	366	
		1986 June 18	2	—	75	20	74	7,472	1,338	—	169	400	
Japanese banks	1986 May 21	6	—	—	—	474	1,727	855	—	101	1,684		
	1986 June 18	4	—	—	—	432	2,029	827	—	72	1,719		
Other overseas banks	1986 May 21	41	—	257	183	440	14,525	2,688	—	323	1,369		
	1986 June 18	41	8	268	182	456	14,791	2,694	—	325	1,429		
<b>Consortium banks</b>	1986 May 21	—	—	2	4	23	553	262	—	110	287		
	1986 June 18	—	—	2	4	24	527	268	—	112	187		
<b>Total</b>	1986 May 21	442	406	4,538	384	1,457	127,303	12,336	518	7,240	9,787		
	1986 June 18	462	336	4,280	408	1,368	129,318	12,406	497	7,129	10,300		

**Other currency assets**

				Market loans and advances						Bills	Investments	Sterling and other currencies Miscellaneous assets[c]	Acceptances	Eligible liabilities
				Total	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector					
<b>British banks:</b>	Retail banks	1986 May 21	48,780	15,747	10,710	339	173	4,593	32,966	679	5,202	15,459	3,732	92,107
		1986 June 18	50,039	15,027	12,095	359	182	4,424	32,979	687	5,192	14,949	3,581	93,569
Accepting houses	1986 May 21	10,584	3,683	2,988	560	15	980	6,041	62	1,407	1,926	4,085	6,755	
	1986 June 18	10,989	3,747	3,012	577	15	1,031	6,354	49	1,430	1,944	3,294	6,794	
Other British banks	1986 May 21	27,045	9,335	5,718	209	711	2,067	18,339	81	1,490	1,578	1,040	21,977	
	1986 June 18	27,362	10,033	5,747	225	705	2,286	18,400	82	1,321	1,720	1,003	21,637	
<b>Overseas banks:</b>	American banks	1986 May 21	77,092	22,809	7,587	1,219	30	9,786	58,471	101	2,490	4,285	3,325	10,387
		1986 June 18	77,256	23,735	7,800	1,052	31	10,408	57,965	103	2,547	4,422	3,076	9,935
Japanese banks	1986 May 21	164,266	26,084	28,564	1,379	542	8,609	125,172	105	15,034	690	2,272	7,542	
	1986 June 18	164,207	25,799	28,447	1,334	568	8,630	125,229	107	15,470	679	1,973	7,930	
Other overseas banks	1986 May 21	143,552	36,022	29,384	7,121	116	10,470	96,462	1,199	9,305	2,330	6,703	21,678	
	1986 June 18	145,154	36,559	30,810	6,828	117	10,530	96,868	1,186	9,394	2,597	6,507	21,920	
<b>Consortium banks</b>	1986 May 21	12,801	5,558	1,334	342	3	344	10,778	113	1,034	266	239	1,442	
	1986 June 18	12,803	5,527	1,350	359	3	314	10,777	120	1,053	269	232	1,312	
<b>Total</b>	1986 May 21	484,120	119,238	86,285	11,169	1,590	36,849	348,229	2,340	35,962	76,534	21,396	161,888	
	1986 June 18	487,810	120,427	89,261	10,734	1,621	37,623	348,572	2,334	36,407	26,580	19,666	163,097	

[Table 4 in the Quarterly Bulletin]

*Sterling assets continued*

Investments			Other sterling assets	Other currency assets				Total assets/liabilities			
British government stocks	Local authorities	Other		Total	Certificates of deposit	Bills	Other		1986	Jan.	15
47	28	362	58	226	120	40	66	7,986	1986	Jan. 15	
185	27	391	57	335	99	104	132	8,377	Feb.	19	
593	22	403	70	217	84	35	98	8,826	Mar.	19	
482	22	407	69	272	86	39	147	9,147	Apr.	16	
288	20	414	41	374	83	95	196	8,691	May	21	
365	15	398	41	286	71	86	129	9,014	June	18	

# K UK monetary sector: transactions in liabilities and assets<sup>[a]</sup>

[Table 6 in the Quarterly Bulletin]

£ millions

Month ended		Liabilities												Deposit liabilities (net)
		Total	Domestic deposits								Overseas sector deposits			
			Total		Public sector		Private sector		Sterling	Other currencies	Sterling	Other currencies		
			Unadjusted	Seasonally adjusted	Sterling		Other currencies							
					Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted				
1985	June 19 <sup>[b]</sup>	+ 10,847	+ 3,903	+ 189	+ 104	- 15	- 15	+ 3,074	+ 2,626	+ 655	- 263	+ 5,893	+ 1,314	
	July 17 <sup>[b]</sup>	+ 7,479	+ 378	- 129	- 37	- 29	- 29	- 344	- 817	+ 754	+ 421	+ 4,401	+ 2,279	
	Aug. 21	+ 420	+ 2,902	+ 275	+ 189	- 17	- 17	+ 2,067	+ 2,159	+ 577	+ 291	- 2,375	- 398	
	Sept. 18	+ 9,852	+ 1,419	+ 1,811	- 272	- 12	- 12	+ 1,941	+ 2,073	- 249	- 6	+ 8,049	+ 390	
	Oct. 16	+ 1,185	+ 1,763	+ 1,578	+ 434	+ 345	+ 15	+ 1,168	+ 1,072	+ 146	- 208	- 2,390	+ 2,020	
	Nov. 20	+ 10,768	+ 3,823	+ 3,503	+ 483	+ 281	+ 4	+ 2,463	+ 2,345	+ 873	- 536	+ 8,880	- 1,399	
1986	Dec. 11	+ 2,315	- 352	+ 186	- 558	- 384	- 54	+ 431	+ 795	- 171	+ 66	+ 1,131	+ 1,470	
	Jan. 15	+ 8,021	+ 438	+ 655	+ 466	+ 306	+ 6	+ 382	- 5	+ 348	+ 1,337	+ 7,338	- 1,092	
	Feb. 19	+ 10,007	+ 782	+ 1,632	- 160	- 134	- 36	+ 413	+ 1,237	+ 565	+ 666	+ 7,701	+ 838	
	Mar. 19	+ 7,928	+ 3,443	+ 3,642	+ 22	+ 171	+ 2	+ 2,733	+ 2,783	+ 686	+ 1,351	+ 3,526	- 392	
	Apr. 16	+ 14,060	+ 6,573	+ 3,716	+ 1,353	+ 1,467	+ 15	+ 5,088	+ 4,117	+ 147	+ 1,013	+ 5,523	+ 951	
	May 21	+ 8,474	+ 4,592	+ 4,704	+ 433	+ 87	+ 4	+ 3,280	+ 3,738	+ 875	- 756	+ 5,346	- 708	
	June 18	- 893	+ 3,072	+ 3,469	+ 274	+ 468	- 7	+ 1,380	+ 1,583	+ 1,425	- 936	- 3,637	+ 608	

Month ended		Assets											
		Total	Lending to public sector				Lending to private sector				Lending to overseas sector		
			Sterling		Other currencies	Other	Sterling		Other currencies	Sterling	Other currencies		
			Unadjusted	Seasonally adjusted			Central government	Unadjusted				Seasonally adjusted	
					Unadjusted	Seasonally adjusted			Other				
1985	June 19 <sup>[b]</sup>	+ 10,847	+ 1,765	+ 150	+ 1,992	- 227	- 70	+ 256	+ 877	- 17	+ 9	+ 8,904	
	July 17 <sup>[b]</sup>	+ 7,479	- 3,562	- 2,300	- 3,324	- 238	- 78	+ 4,296	+ 2,720	+ 542	- 478	+ 6,759	
	Aug. 21	+ 420	+ 2,915	+ 2,403	+ 3,275	- 360	- 10	+ 45	+ 688	- 1,220	- 671	- 639	
	Sept. 18	+ 9,852	+ 879	+ 1,275	+ 1,370	- 491	- 18	+ 493	+ 1,058	+ 411	+ 212	+ 7,875	
	Oct. 16	+ 1,185	- 1,024	- 808	- 668	- 356	+ 257	+ 3,829	+ 2,530	- 29	- 21	- 1,827	
	Nov. 20	+ 10,768	+ 1,136	+ 278	+ 1,708	- 572	- 170	- 120	+ 565	+ 175	+ 44	+ 9,703	
1986	Dec. 11	+ 2,315	+ 1,133	+ 672	+ 1,479	- 346	+ 24	- 1,387	- 283	- 106	+ 1,588	+ 1,063	
	Jan. 15	+ 8,021	- 3,204	- 1,312	- 3,276	+ 72	+ 221	+ 3,873	+ 2,744	+ 2,165	+ 274	+ 4,692	
	Feb. 19	+ 10,007	- 2,627	- 1,292	- 2,141	- 486	+ 4	+ 3,048	+ 3,263	+ 585	- 492	+ 9,489	
	Mar. 19	+ 7,928	+ 1,691	+ 1,896	+ 1,740	- 49	- 51	+ 2,104	+ 2,330	+ 1,226	- 402	+ 3,360	
	Apr. 16	+ 14,060	+ 3,047	+ 1,449	+ 3,369	- 322	+ 16	+ 3,849	+ 3,182	+ 741	+ 1,845	+ 4,562	
	May 21	+ 8,474	+ 6	- 326	+ 355	- 349	- 58	+ 236	+ 705	+ 1,059	+ 1,909	+ 5,322	
	June 18	- 893	- 187	- 977	- 22	- 165	+ 15	+ 3,047	+ 3,881	+ 373	- 322	- 3,819	

[a] This table comprises all banks included in Table 3 in the *Quarterly Bulletin* together with the discount market. Interbank items are excluded and adjustments made to allow for transit items (see additional notes to Table 6 in the *Quarterly Bulletin*).

[b] See footnote [c] to Table E on page 3.

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--- figures above and below are not strictly comparable.

Owing to rounding of figures, the sum of the separate items will sometimes differ from the total shown.

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## Sterling assets continued

				Bills				Advances			Banking Department lending to central government (net)	Investments	
				Treasury bills	Eligible local authority bills	Eligible bank bills	Other	UK public sector	UK private sector	Overseas		British government stocks	Other
<b>British banks:</b>	1986	May	21	368	395	3,594	76	339	78,237	4,408	518	5,873	2,978
				385	326	3,471	92	277	79,359	4,434	497	5,789	3,414
Retail banks	1986	May	21	4	11	317	57	57	3,989	1,091	—	207	1,354
				7	2	254	45	56	4,056	1,123	—	253	1,374
Accepting houses	1986	May	21	22	—	322	57	57	20,688	1,707	—	395	1,749
				23	—	210	65	49	21,084	1,722	—	409	1,777
Other British banks	1986	May	21	1	—	46	7	67	7,584	1,325	—	231	366
				2	—	75	20	74	7,472	1,338	—	169	400
Overseas banks:	1986	May	21	6	—	—	—	474	1,727	855	—	101	1,684
				4	—	—	—	432	2,029	827	—	72	1,719
American banks	1986	May	21	41	—	257	183	440	14,525	2,688	—	323	1,369
				41	8	268	182	456	14,791	2,694	—	325	1,429
Japanese banks	1986	May	21	—	—	2	4	23	553	262	—	110	287
				—	—	2	4	24	527	268	—	112	187
Other overseas banks	1986	May	21	—	—	—	—	—	—	—	—	—	—
				—	—	—	—	—	—	—	—	—	—
Consortium banks	1986	May	21	442	406	4,538	384	1,457	127,303	12,336	518	7,240	9,787
				462	336	4,280	408	1,368	129,318	12,406	497	7,129	10,300
<b>Total</b>	1986	May	21										

## Other currency assets

				Market loans and advances						Bills	Investments	Sterling and other currencies	Acceptances	Eligible liabilities	
				Total	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector						Overseas
<b>British banks:</b>	1986	May	21	48,780	15,747	10,710	339	173	4,593	32,966	679	5,202	15,459	3,732	92,107
				50,039	15,027	12,095	359	182	4,424	32,979	687	5,192	14,949	3,581	93,569
Retail banks	1986	May	21	10,584	3,683	2,988	560	15	980	6,041	62	1,407	1,926	4,085	6,755
				10,989	3,747	3,012	577	15	1,031	6,354	49	1,430	1,944	3,294	6,794
Accepting houses	1986	May	21	27,045	9,335	5,718	209	711	2,067	18,339	81	1,490	1,578	1,040	21,977
				27,362	10,033	5,747	225	705	2,286	18,400	82	1,321	1,720	1,003	21,637
Other British banks	1986	May	21	77,092	22,809	7,587	1,219	30	9,786	58,471	101	2,490	4,285	3,325	10,387
				77,256	23,735	7,800	1,052	31	10,408	57,965	103	2,547	4,422	3,076	9,935
Overseas banks:	1986	May	21	164,266	26,084	28,564	1,379	542	8,609	125,172	105	15,034	690	2,272	7,542
				164,207	25,799	28,447	1,334	568	8,630	125,229	107	15,470	679	1,973	7,930
American banks	1986	May	21	143,552	36,022	29,384	7,121	116	10,470	96,462	1,199	9,305	2,330	6,703	21,678
				145,154	36,559	30,810	6,828	117	10,530	96,868	1,186	9,394	2,597	6,507	21,920
Japanese banks	1986	May	21	12,801	5,558	1,334	342	3	344	10,778	113	1,034	266	239	1,442
				12,803	5,527	1,350	359	3	314	10,777	120	1,053	269	232	1,312
Other overseas banks	1986	May	21	484,120	119,238	86,285	11,169	1,590	36,849	348,229	2,340	35,962	26,534	21,396	161,888
				487,810	120,427	89,261	10,734	1,621	37,623	348,572	2,334	36,407	26,580	19,666	163,097
Consortium banks	1986	May	21												
<b>Total</b>	1986	May	21												

[Table 4 in the Quarterly Bulletin]

Sterling assets continued				Other currency assets				Total assets/liabilities	
British government stocks	Investments		Other sterling assets	Total	Certificates of deposit	Bills	Other		
	Local authorities	Other							
47	28	362	58	226	120	40	66	7,986	1986 Jan. 15
185	27	391	57	335	99	104	132	8,377	Feb. 19
593	22	403	70	217	84	35	98	8,826	Mar. 19
482	22	407	69	272	86	39	147	9,147	Apr. 16
288	20	414	41	374	83	95	196	8,691	May 21
365	15	398	41	286	71	86	129	9,014	June 18

FROM: H G WALSH  
DATE: 19 JUNE 1986

PPS

*put*

cc: PS/Economic  
Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Peretz  
Mr Sedgwick  
Mr Culpin  
Mr Richardson

**PROVISIONAL MONEY FIGURES : BANKING MAY**

Your minute of 9 June recorded the Chancellor's dislike of the words "up to  $\frac{1}{4}$  per cent" as used in the Bank's press release for the provisional money figures for May, as applied to growth in M0.

2. The Bank have now reviewed this question and decided that the words "up to" should no longer appear to describe any increase in an aggregate. Their standard repertoire of language to be used in rounding figures will be changed so that a provisional figure of 0.0625-0.1875 per cent will in future be described as "0%- $\frac{1}{4}$ %" in the press release. (They have not adopted "under  $\frac{1}{4}$  per cent" because a rounded final figure corresponding to a provisional at the upper end of the range could in their view legitimately be described as  $\frac{1}{4}$  per cent.) The change should however prevent the press from quoting the increase simply as " $\frac{1}{4}$ %".

*H.W.*

H G WALSH

FROM: R M HEATH  
DATE: 27 JUNE 1986

1. MR RICHARDSON *max*  
*27*  
*vi*

2. CHANCELLOR

cc: Chief Secretary  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Cassell  
Mr Scholar  
Mr Percetz  
Mr Sedgwick  
Mr Walsh o/r  
Mr Hannah o/r  
Mr Ross Goobey

### MONEY SUPPLY IN BANKING JUNE : "FIRST GUESS"

I attach the Bank's monthly note setting out their "first guess" at the money supply figures for banking June, which ended on 18 June.

#### Summary

2. £M3 is estimated to have risen 1.0 per cent, compared with a forecast increase of 0.9 per cent. This suggests a final outturn in the range of 1 per cent to 1½ per cent. On this basis the annual growth rate of £M3 to banking June would be in the range of 18 per cent to 18½ per cent, remaining, as forecast, well above its 11-15 per cent target range. M0 rose by 0.5 per cent (forecast: 0.5 per cent). Annual growth remains in the bottom half of its target range, at 3.1 per cent. Table 1 below gives the implied growth rates in the target aggregates.

Table 1: Monetary Aggregates - First guess : banking June

Monthly percentage change	per cent	
	<u>M0</u>	<u>£M3</u>
First guess	0.5	1.0
Likely outturn	0.5	1 - 1½
3 month annualised rate	3.8	31½ - 34
6 month annualised rate	4.4	22½ - 23½
Annual rate	3.1	18 - 18½

M0

3. The annual growth rate for M0 at 3.1 per cent is slightly below last month's 3.4 per cent, and remains comfortably in the bottom half of its target range. This is in line with the forecast which predicts a modest acceleration in M0's annual growth rate to 4 per cent by the middle of August.

£M3 components

4. In banking June £M3 is thought to have increased by £1,350 million, or 1.0 per cent, compared with our forecast increase of 0.9 per cent, circulated in Mr Walsh's monetary prospects submission of 19 June (which superseded the forecast reported in the Bank's note). Among the components, notes and coin rose by £130 million following last month's increase of £110 million. Non-interest bearing sight deposits which rose unusually strongly last month by £1120 million, declined by £420 million. Interest bearing sight deposits continue to rise rapidly. In June they increased by £980 million, a cumulative increase of £4.9 billion in the last four months (71 per cent at an annual rate). Retail ib sight have risen 28 per cent at an annual rate since February. Time deposits rose £660 million, a smaller increase than May.

5. We do not as yet know definitely that factors distorting the components have been at work, but the Bank note the large rights issue of the Prudential (£0.4 billion) on make-up day and NatWest (£0.7 billion) this week. The Thames over-subscription on Wednesday (£0.8 billion subscribed) could have conceivably affected £M3, although make-up day was the previous Wednesday.

£M3 counterparts

6. Table 2 (attached) compares £M3 counterparts in the first guess with those in the forecast. There is little difference.

7. The "PSBR" is estimated at £1,420 million, about £225 million below forecast. This is accounted for by the CGBR contribution, which was around £235 million less expansionary than forecast. The other public sector was close to forecast.

8. Central Government net debt sales, at £1160 million, were very close to forecast, but the effects of the lower than expected "PSBR" on the funding position were largely offset by external flows to the public sector leaving underfunding - at £710 million - not significantly different from forecast (£605 million).

9. Sterling lending is estimated at £1,210 million, much as forecast.

10. At this stage, the division between NNDLs and externals is not on the same basis as that used in the forecast, and the position is further complicated by the treatment of the residual error, which is included in NNDLs. But the externals and NNDLs taken together are around £160 million more expansionary than forecast.

Timetable

11. We will receive provisional June figures on Friday 4 July, and they will be published on Tuesday 8 July. Full money and banking figures will appear on Thursday 19 June.

12. I am sending a copy of this minute to Mr Norgrove at No 10 Downing Street.

R. Heath.

R M HEATH

TABLE 2 : BANKING JUNE 1986

"First guess" compared to forecast

		£ millions, seasonally adjusted	
		FIRST GUESS	FORECAST*
CGBR (ex bank deposits)		+1,790	+2,025
CG debt:			
	Gilts	-600	-600
	Treasury Bills	-110	-
	National Savings	-340	-385
	CTD's	-120	-105
		-----	-----
		-1160	-1090
Other public sector:	LA	-410	-370
	PC	+40	-10
		---	---
		-370	-380
External and fc. finance of the public sector		+450	50
Sterling lending to UK private sector (inc. Issue Dept. commercial bills)		+1,210	+1,360
Net private externals**		+70	-500
Residual (includes NNDLs** and reporting differences)		-630	-220
		-----	-----
£M3		+1,350	+1,245
		-----	-----
(Monthly percentage change)		(+1.0%)	(+0.9%)
Wide over(-)/underfunding(+)		+710	+605

\* As circulated in Mr Walsh's "Monetary Prospects" submission of 19 June 1986.

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

27.6.86

THE GOVERNOR'S SECRETARY (2)  
 THE DEPUTY GOVERNOR  
 MR LOEHNIS  
 MR GEORGE  
 MR FLEMMING  
 MR COLEBY  
 MR WILLETTS  
 MR PLENDERLEITH  
 MR TAYLOR  
 MR W A ALLEN

MR COLLINS  
 MR J G HILL  
 MR HOTSON  
 MR MANN  
 MR McCONNACHIE  
 MR MIDGLEY / GROUP 7/2  
 MR PENNINGTON / GROUP 2/2  
 MR THORP  
 MR TOWNEND  
 MR M ST J WRIGHT / GROUP 2/4  
 MR WALSH (HMT)  
 MR HEATH (HMT)

FROM: Miss R Borer / R L Sheath / P A Bull

BANKING JUNE 1986 - A FIRST ESTIMATE

£ millions, seasonally adjusted

The provisional estimates of the monetary aggregates for banking June will be published at 2.30 pm on Tuesday 8 July and the full money and banking figures will be published at 2.30 pm on Thursday 17 July. Even after 17 July, some of the information contained in this note remains confidential to the Bank, and group 2/3 should be consulted if there is doubt about its availability.

1 Figures received from the weekly reporting banks show an increase in £M3 of 1350 in banking June. An estimate of the monetary sector as a whole, based on these returns, would suggest a final outturn in the range of +1% to +1 1/2% (compared with a forecast increase of 0.6%) and a 12-month growth rate in the range of +18% to +18 1/2%, well outside the target range of 11-15% announced in the Budget.

2 Among the components of £M3, notes and coin are estimated to have risen by 130, and private sector non-interest-bearing sight deposits to have decreased by 420. Private sector interest-bearing sight deposits are estimated to have risen by 980. Private sector time deposits (including CDs) are estimated to have risen by 660: within this, time deposits rose by 990 and CDs decreased by 330. Within the total increase of 980 in interest bearing deposits, retail IB deposits rose by 870. Some build-up of deposits may have been associated with two large rights issues (Prudential Assurance, £0.4 billion, on make-up

day; National Westminster Bank £0.7 billion the following week).

3 Our latest estimate for M0 for banking June is +0.5, or +3.1% over the last twelve months, within the new target range of 2-6% announced in the Budget. This includes figures received from the Scottish note issuing banks and also revised estimates for coin. Information has not yet been received from the Northern Irish banks.

4 The table attached compares counterparts to £M3 with the forecast as circulated in the FR of 23 June. The estimated CGBR is +1790, ie 300 below forecast: within this, the CG own account was +1410 while on-lending to LAs was +180, and on-lending to PCs was +190. Net purchases (-) of central government debt from the non-bank private sector are estimated to have been -1150, compared to a forecast of net purchases of -1490. Gilts contributed -600, ie a increase of nbps holdings, compared to the forecast increase of -1040. There were net purchases of CTDs of -110, of National Savings of -340, and of Treasury Bills of -110.

5 The direct contribution of the rest of the public sector is estimated to have been contractionary by -370, (70 less contractionary than forecast). Local authorities were -410, (40 less contractionary than forecast), and PCs were +40, (40 above forecast).

6 "Narrow overfunding" (ie the CGBR plus the direct contribution of the rest of the public sector, net of CG debt sales to the non-bank private sector) was +260, ie an underfund. External and foreign currency finance of the public sector (EFCFPS) was +450. "Wide overfunding" (ie the sum of narrow overfunding and EFCFPS) was +710, ie an underfund, compared with a forecast of +200.

7 Bank lending in sterling to the private sector is estimated to have



increased by 1210, compared with a forecast rise of 1360.

8 Other identified external and foreign currency transactions (ie excluding EFCFPS) were +70, very different from the forecast of -500; this may be a poor guide to the final outturn for the externals.

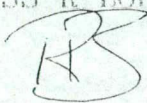
9 The residual (including NNDLs) was contractionary by 630, compared with a forecast contraction of -220.

Financial Statistics Division

Money & Banking Aggregates Group BB-1

27 June 1986

MISS R BORER (4471) / R L SHEATH / P A BULL





*post*

FROM: MRS R LOMAX  
DATE: 30 June 1986

MR HEATH

cc Mr Cassell  
Mr Peretz  
Mr Walsh  
Mr Richardson

**MONEY SUPPLY IN BANKING JUNE: "FIRST GUESS"**

The Chancellor was grateful for your minute of 27 June.

A handwritten signature in cursive script, appearing to be "Rl".

RACHEL LOMAX

SECRET AND PERSONAL

FROM: R M HEATH  
DATE: 4 JULY 1986

1. MR PERETZ ✓  
2. CHANCELLOR

cc: Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Scholar  
Mr Sedgwick  
Mr Culpin  
Mr Walsh o/r  
Mr Richardson  
Mr Hannah o/r  
Mr Ridlington  
Mr Ross Goobey

note ahead  
DLP

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heard and the figures at this stage.)

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PROVISIONAL MONEY FIGURES : BANKING JUNE

Re 417

The provisional money supply figures for banking June will be published by the Bank at 2.30 pm on Tuesday 8 July.

SUMMARY

2. **M0** rose by 0.5 per cent (compared with 0.5 per cent in the first guess and 0.5 per cent in the forecast). This will appear in the press notice as a rise of "about  $\frac{1}{2}$  per cent". Annual growth of M0, at 3.1 per cent (below last month's 3.4 per cent), remains in the lower half of its 2-6 per cent target range.

3. **£M3** is provisionally estimated to have risen by 1.3 per cent (above both the first guess of 1.0 per cent and forecast of 0.9 per cent). This will appear in the press notice as a rise of "about  $1\frac{1}{4}$  per cent". This puts the annual growth rate of £M3 at 18.3 per cent (down from last month's 19.5 per cent).

4. Table 1 (below) gives the implied growth rates in both aggregates to mid-June. Tables 4, 5 and 6 (attached) give growth rates since October 1985 for these and other aggregates.

Table 1 : Monetary Aggregates (provisional)

	Banking June	Figures Press Notice	Annual Growth Rates		
			3 months	6 months	12 months
M0	0.5	about $\frac{1}{2}$	3.8	4.4	3.1
£M3	1.3	about $1\frac{1}{4}$	33.6	23.4	18.3

5. There is one known distortion which has increased £M3 and bank lending by £200 million and has unwound in banking July. This involved a financial transaction between a group of companies and a monetary sector institution. On the other hand if there were any special factors affecting £M3 at the end of banking May, there is little sign of their unwinding, reducing the growth of £M3. (The Bank have warned us that the amount of transactions associated with the Big Bang and the general high level of merger activity is causing them to find more distortions in the reporting banks' figures than usual at this stage of the reporting cycle. Therefore by Tuesday the <sup>Bank's assessment of the</sup> net effect of distortions on £M3 and bank lending may have altered.)

6. Sterling lending increased by £2,149 million compared with an average of £1800 million over the previous 12 months. The bank lending figure was boosted by a known transaction of £170 million attributable to Big Bang, *separate from the £200 million mentioned above.*

7. PSL2A has been rechristened PSL2 from this month. Its annual growth rate has returned (just) to the 12-14 per cent band which it breached last month, but remains 1 per cent higher than the 13 per cent annual growth rate it was showing at the end of last year, and earlier in 1986.

#### PRESENTATION OF FIGURES

8. The £M3 figures this month in themselves do not look particularly bad and are close to market speculation. The only cause of adverse market reaction could be the absence of any significant deceleration; and this could be compounded by the relatively high bank lending figure.

9. M0 continues to be well behaved and sterling is steady although house prices continue to rise. The slowdown in PSL2 12 month growth rate is also encouraging although this is partly a reflection of the distortions caused by the Abbey Life share issue, which led to rapid growth of broad money a year ago. The indications on monetary conditions are mixed as they were one month ago: in fact these latest figures change the picture relatively little. Nor do they throw any further light on the reasons for £M3's growth.

10. So the suggested line to take in the attached draft briefing is also much the same as hitherto explaining the need to look at a range of indicators over a period of months. This is the line which has been used consistently in the recent past and seems now to be reasonably well accepted by commentators.

11. The Bank's draft press notice, for publication at 2.30 pm on Tuesday 8 July is attached.

12. Can I please have comments on the press notice by lunch-time on Monday 7 July, and on the draft press briefing by close on that day.

#### DETAIL

##### M0

13. M0 rose by 0.5 per cent in June. The annual growth rate of M0 at 3.1 per cent, as forecast, was slightly below May's 3.4 per cent. M0's annual growth has been in the 3 per cent to 3½ per cent range since February this year. Notes in circulation rose by £112 million, the largest increase since January 1985 but bankers' balances fell by £36 million. The outturn for the first two weeks of banking July suggests little change in the annual growth rate of M0.

##### £M3: components

14. Table 2 sets out the changes in the components of £M3 (and PSL2). There was a slowdown in the growth of all the components of £M3 in June with the exception of notes and coin. NIB sight deposits fell by £209 million following the huge £1 billion rise in May. IB sight rose by £815 million, although £200 million of the increase is due to a known distortion involving a group of companies and a monetary sector institution which has now unwound. Time and CD deposits rose by £977 million, a figure which looks large except in comparison with the previous four months when growth averaged £1.6 billion.

15. Retail deposits (IB and NIB) rose by £312 million; well below the rates of the previous three months and below the 1985/86

TABLE 2: The Components of £M3 and PSL2 June 1986

			£ million, seasonally adjusted		
			Banking June	growth in previous 12 Months to May	
				monthly rate	percentage increase
Notes and coin in circulation			131	21	2.0
Bank deposits:					
Retail	(a)	interest bearing	521	516	18.4
	(b)	non-interest bearing	-209	162	9.1
Wholesale (including £CDs)			1,271	1,164	29.6
Change in £M3			1,714	1,865	19.5
Bills and other non-building society flows in PSL2			323	11	0.9
Building Society:					
Inflows	(a)	retail (incl. interest credited)	836	1,167	14.6
	(b)	wholesale	-110	37	n/a
Liquid Assets (inc -)			166	-392	n/a
Change in PSL2			2,929	2,686	14.6

average. This mainly reflected the fall in NIB sight. Interest bearing deposits keep on growing quickly. The twelve and six month annualised growth rates are above 18 per cent compared with around 14-15 per cent for building societies and around 5 per cent for National Savings, although the latter is now recovering. Wholesale deposits rose by £1,271 million again down on the previous three months. This slowdown is almost entirely explained by building society behaviour. In June they ran down their bank deposits by £490 million (seasonally adjusted) compared with a monthly average increase of £600 million between March to May. This in part reflects the societies' first quarterly instalment of composite rate tax in banking June, but the fall in bank deposits appears to far exceed the amounts of tax involved.

### £M3: counterparts

16. Table 3 compares the provisional counterparts of growth in £M3 to the forecast in Mr Walsh's monetary prospects submission of 19 June. The counterparts also appear, in simplified form, in the Bank's draft provisionals press notice.

17. The main source of difference between forecast and outturn was in bank lending. It was also the major source of difference between the first guess and provisionals, an increasingly common occurrence. In three of the last four months bank lending has been around £1 billion higher in the provisionals than the first guess.

18. The June increase of £2,149 million is above the £1,800 million average for the previous twelve months. However the Bank have identified two special factors. Firstly, the £200 million distortion mentioned in the components section had its counterparty in bank lending. Secondly, the Bank have identified £170 million of bank investments which can be attributed to a monetary sector institution purchasing a non-monetary sector institution in preparation for the Big Bang. The latter transaction is offset in net non-deposit liabilities (as the non-monetary institution reinvested back in the monetary

## SECRET AND PERSONAL

TABLE 3: PROVISIONAL STERLING M3 IN BANKING JUNE 1986

		£ million seasonally adjusted	
<u>DOMESTIC COUNTERPARTS</u>		<u>Provisional</u>	<u>Forecast</u> <sup>1</sup>
CGBR:	own account	+1414	+1645
	on-lending to LAs	+184	+187
	on-lending to PCs	+192	+194
		<hr/>	<hr/>
		+1,790	+2,025
Other public sector:	Local Authorities	-452	-369
	Public Corporations	-135	-10
	PC currency deposits	+7	-
		<hr/>	<hr/>
		-580	-380
Net purchases of CG debt by non-bank private sector (inc -):			
	Gilts	-565	-600
	Treasury bills	-101	-
	National Savings	-341	-385
	Certificates of tax deposit	-114	-105
	Other	+7	-
		<hr/>	<hr/>
		-1114	-1090
External and fc finance of public sector		+323	50
Sterling lending to the private sector:			
	Bank lending to private sector	+3881	
	Issue Department Commercial bills <sup>2</sup>	-1732	
		<hr/>	<hr/>
		+2,149	+1,360
Sub-total: Domestic Counterparts plus external and fc finance of the public sector		+2568	+1965
<u>EXTERNAL COUNTERPARTS</u> <sup>3</sup>			
External and foreign currency finance			
	£ deposits net from banks abroad (inc -)	+958	
	Other overseas £ deposits (inc -)	+260	
	£ lending to overseas non-banks	-612	
	Banks' net foreign currency liabs (inc -)	-1205	
	Foreign Currency net non-dep liabilities	+542	
	Seasonal adjustment	+102	
		<hr/>	<hr/>
		+45	-500
<u>NET NON-DEPOSIT LIABILITIES (inc -)</u>		-899	-220
<u>STERLING M3</u>		+1,714	+1,245
(monthly % change)		(+1.3%)	(+0.9%)
OVER(-)/UNDERFUNDING(+) <sup>4</sup>		+419	+605

1 As circulated in the Monetary Prospects Submission of 19 June 1986.

2 There was also a decrease in Banking department holdings. Total holdings by the Bank fell by £1966 million.

3 Excluding external flows to the public sector.

4 Wide definition



sector) and so does not impact on £M3. These special factors would reduce bank lending to close to the average for the past year.

19. In June there was wide underfunding( of £419 million) for the fourth consecutive month (although we are still some way ahead of the striking rate of gilt sales required to achieve a full fund over the year as a whole). The modified 'PSBR' was £1,210 million compared with a forecast of £1.6 billion. The CG own account was £1.4 billion, slightly below forecast. LA borrowing returned to more normal levels after the huge borrowing rates in April and May. The PC's borrowed less than had been anticipated.

20. Gross gilt sales at £1,158 million were below target in June and with redemptions of around £½ billion net sales were again relatively low. National Savings had their best inflow since August last year at £341 million (seasonally adjusted).

21. The banking externals once again show heavy reductions in overseas sterling deposits. This meant that for the second month the wider sterling aggregate, which includes overseas sterling deposits, grew considerably more slowly than £M3 (see table 5). However, unlike May, the overseas non-banks moved into sterling on a net basis (because they reduced their sterling borrowing by even more than they reduced deposits) and the reduction in the net overseas banks' sterling position was more than offset by UK banks switching into sterling. Overall the externals were flat.

22. UK residents increased their foreign currency deposits by a huge £1.7 billion and this caused M3, unlike the wider sterling aggregate, to grow considerably faster than £M3 (again see table 5).

23. Net non-deposit liabilities were a negative influence in £M3 by £900 million. This is an unusually large figure for NNDLs. The main explanation was a sharp fall of £608 million

in the interbank difference. This offsets cumulative increases of £710 million over the previous three months. Within the other components of NNDLs there were some unusually large figures. In particular, banks' capital increased by £792 million (negative influence on NNDLs and not accounted for by the NatWest issue which occurred in banking July) and monetary sector investments in other monetary sector institutions increased by £258 million (positive influence on NNDLs). These figures could be associated with Big Bang activity in that they represent inter-monetary sector investment (to the extent that this is the case, it has no effect on £M3). It is possible that some of the rundown in overseas banks' sterling deposits was invested in UK monetary sector institutions, again having no net effect on £M3. This is however speculation. It is known nonetheless that the £170 million Big Bang impact on bank lending was offset in NNDLs.

R. Heath

R M HEATH

cc: Mr Norgrove - No 10  
 Mr George - Bank of England  
 Mr Mann - FSD, Bank of England

These figures throw no new light on the reasons for £M3 growth, and there is little in them to alter our - or the market's - assessment of conditions. So a low key presentation seems right, with a standard line. Factual (iv) in the briefing would give something to say if attention centres on the high growth of bank lending. But we will need to look at it again on Tuesday when the Bank have reassessed the size of the various distortions. An alternative approach would be simply to say that developments and financial innovations are making it increasingly difficult to read meaning into movements of the individual counterparts.

DLC

D L C PERETZ

X  
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SECRET AND PERSONAL  
UNTIL 2.30 PM ON TUESDAY 8 JULY 1986

**MONEY SUPPLY IN BANKING JUNE: PRESS BRIEFING**

**LINE TO TAKE**

M0 is well within target range and the exchange rate remains firm. Sterling M3 growth remains difficult to interpret. Taking all factors into account there is no reason to believe that conditions are either too loose or too tight.

**A. FACTUAL**

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

- (i) Policy: See Chancellor's major statement on monetary policy in 16 April speech to the Lombard Association.
- (ii) M0: Well within 2-6 per cent target range.
- (iii) £M3: (see line to take above).
- (iv) Sterling lending: This month's increase (£2.1 billion) above 1985 average (£1.8 billion), but some evidence that may have been <sup>affected</sup> ~~distorted~~ by ~~around £200 million~~ as a consequence of the build-up to Big Bang <sup>by</sup> bank lending affected through monetary sector purchases of financial institutions, which would produce an offsetting change in the other counterparts, and thus have no effect on £M3. }ck?
- (v) Exchange rate: Remains firm

**B. POSITIVE**

- (i) Overall Strategy  
Experience continues to confirm value of clear commitment to MTFs and ultimate objective of lower inflation. Record on money GDP growth and on inflation (3 per cent and forecast to continue low) demonstrates success of strategy.

*See para 6  
of Mr Heath's  
minute.*

(ii) Commitment

Government has repeatedly shown itself ready to act decisively when necessary for maintenance of sound financial conditions. Will certainly do so again if necessary.

(iii) Interest rates

Down 2½ per cent since Budget. Demonstrates confidence both here and abroad in the Government's approach.

(iv) Other countries

Most major countries, ~~following the UK's lead,~~ now operate policy in very similar way.

C. DEFENSIVE

(i) Monetary policy too tight/too loose?

Necessary to look at whole range of evidence on monetary conditions. Signals conflicting, and requiring careful interpretation in the light of developments over a period of months. Balance of evidence does not suggest conditions too loose (M0, real interest rates, exchange rate) or too tight (broad money, bank lending). But kept under constant review.

(ii) £M3 annual growth already above higher target range published in 1986 MTFS

£M3 growth remains difficult to interpret, because other indicators (M0, exchange rate, real interest rates) appear to suggest policy is broadly on track. Lombard Association Speech explained reasons for setting target range for 1986-87 at 11-15 per cent, and need to weigh developments in £M3 against other evidence before reaching conclusions on what they are telling us about monetary conditions.

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(iii) Interest rates should be raised because of high £M3 growth?

FSBR explained "if the underlying growth of M0 or £M3 were to move significantly outside their target ranges, the Government would take action on interest rates unless other indicators suggested clearly that monetary conditions remained satisfactory."

(iv) Underfunding?

Gross gilt sales have been proceeding at a pace more than adequate to meet funding requirement over 1986-87 as a whole. But net sales appear low, largely because recent months have seen an unusually heavy bunching of gilt redemptions early in the financial year (average of £900 million a month in last four months). (Although figures for redemptions are not published in the banking statistics, outside commentators can get a good idea of the totals involved from table S4 in the June Edition of Fin.Stats. This lists all outstanding Government stocks. Last gilt redemption was 12% Treasury.)

(v) Interest rates solely reflect pound's strength/weakness?

No. See Lombard Speech. Government's first priority remains defeat of inflation.

## 1985-86 KEY AGGREGATES

Table 4

TARGET AGGREGATES

		OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE
<u>£M3</u>	(Exc. Public sector deposit)									
	Monthly change (£ millions)	+976	+2,407	+733	+103	+1,250	+2,804	+4,122	+3,847	+1,714
	Monthly % change	+0.8	+2.0	+0.6	+0.1	+1.0	+2.2	+3.2	+2.9	+1.3
	Three-monthly % change a.r.	+19.5	+19.9	+14.3	+11.1	+6.9	+14.0	+28.9	+38.8	+33.6
	Six-monthly % change a.r.	+13.8	+17.3	+13.4	+15.2	+13.2	+14.2	+19.6	+21.8	+23.4
	12 Monthly % change	+14.6	+14.4	+15.1	+14.1	+14.9	+16.4	+16.7	+19.5	+18.3
<u>MO</u>	Averaged weekly									
	Monthly change (£ millions)	-33	+79	+49	+205	-92	+65	+37	+21	+76
	Monthly % change	-0.2	+0.6	+0.3	+1.4	-0.6	+0.5	+0.3	+0.1	+0.5
	Three-monthly % change a.r.	-1.5	+3.0	+2.7	+9.8	+4.6	+5.1	+0.3	+3.5	+3.8
	Six-monthly % change a.r.	+1.4	+2.7	+1.9	+4.0	+3.8	+3.9	+4.9	+4.1	+4.4
	12-monthly % change	+3.4	+3.4	+2.4	+4.5	+3.5	+3.6	+3.2	+3.4	+3.1
<u>OTHER AGGREGATES</u>										
<u>PSL2</u>	Monthly change (£ millions)	1,961	+3,690	+1,308	+1,306	+3,034	+3,740	+4,692	+3,609	+2,909
	Monthly % change	+0.9	+1.6	+0.6	+0.6	+1.3	+1.6	+1.9	+1.4	+1.1
	Three-monthly % change a.r.	+13.1	+15.0	+12.7	+11.3	+19.9	+14.3	+20.7	+21.5	+19.6
	Six-monthly % change a.r.	+11.2	+13.6	+11.1	+12.2	+12.4	+13.5	+15.9	+15.6	+16.9
	12-monthly % change	+13.1	+12.9	+13.2	+12.4	+12.9	+13.5	+13.5	+14.6	+14.0
<u>M2</u>	Monthly change (£ millions)	1,461	+2,212	+1,828	+497	+349	+2,015	+2,810	+2,099	+2,111
unadjusted	Monthly % change	+1.0	+1.6	+1.3	+0.3	+0.2	+1.4	+1.9	+1.4	+1.4
	12-monthly % change	+8.9	+9.6	+9.3	+8.8	+9.7	+10.1	+11.2	+12.8	+11.5
	(exc re-classifications)	+8.2	+8.9	+8.7	+8.2	+9.0	+9.5	+10.6	+12.1	+10.9
<u>Levels :</u>	£M3 (Exc. Pub Sec Deps)	121,783	124,172	124,876	124,930	126,094	128,953	133,076	136,929	138,671
	MO (Averaged weekly)	14,126	14,205	14,254	14,459	14,367	14,432	14,469	14,490	14,566
	PSL 2	232,073	235,753	237,018	238,274	241,225	244,978	249,671	253,281	256,493
	M2 (unadjusted)	141,993	144,205	146,033	146,530	146,879	148,897	151,707	153,806	155,917

Table 5

## OTHER WIDE AGGREGATES

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE
<u>PSL1</u>									
Monthly change (£ millions)	+1,198	+2,375	+644	-245	+1,258	+3,032	+4,237	+3,479	+1,970
Monthly % change	+1.0	+1.9	+0.5	-0.2	+1.0	+2.3	+3.2	+2.5	+1.4
Three-monthly % change a.r.	+17.1	+18.6	+14.2	+9.1	+5.3	+13.2	+29.3	+37.5	+32.6
Six-monthly % change a.r.	+12.5	+16.3	+12.1	13.0	+11.7	+13.7	+18.8	+20.3	+22.5
12-monthly % change	+13.9	+13.5	+14.3	+13.1	+13.9	+15.4	+15.6	+18.2	17.2
<u>Wider £ Agg</u>									
Monthly change (£ milions)	+967	+2,552	+591	+745	+1,554	+3,219	+4,486	+3,021	+496
Monthly % change	+0.7	+1.7	+0.4	+0.5	+1.0	+2.1	+2.9	+1.9	+0.3
Three-monthly % change a.r.	+15.9	+15.6	+11.8	+11.1	+8.0	+15.7	+27.1	+31.5	+22.4
Six-monthly % change a.r.	+11.1	+14.5	+11.4	+13.5	+11.8	+13.7	+18.8	+19.2	+19.0
12-monthly % change	+13.9	+13.3	+13.8	+13.5	+14.2	+14.3	+14.9	+16.8	+15.1
<u>M3</u>									
(Exc. Public Sector Deposits)									
Monthly change (£ millions)	+313	+3,012	+841	+169	+1,694	+3,286	+3,892	+4,578	+3,379
Monthly % change	+0.2	+2.1	+0.6	+0.1	+1.2	+2.2	+2.6	+3.0	+2.1
Three-monthly % change a.r.	+18.9	+17.9	+12.4	+11.9	+7.7	+15.0	+26.9	+36.3	+35.7
Six-monthly % change a.r.	+12.8	+15.8	+12.7	+15.3	+12.7	+13.7	+19.2	+21.1	+24.9
12-monthly % change	+13.1	+12.9	+12.9	+10.9	+11.6	+14.1	+15.9	+18.5	+18.6

Levels :

PSL1	125,856	128,221	128,817	128,522	129,697	132,680	136,918	140,398	142,392
Wider £ Agg	145,929	148,464	149,052	149,747	151,212	154,525	159,012	162,039	162,537
M3 (ex. Pub. Sec. Deps)	140,641	143,640	144,456	144,577	146,187	149,526	153,417	157,998	161,405

Table 6

## OTHER NARROW AGGREGATES

		OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE
<u>NIB M1</u>	Monthly change (£ millions)	+162	+458	+159	+41	-59	+157	+221	+1,176	-78
	Monthly % change	+0.5	+1.4	+0.5	+0.1	-0.2	+0.5	+0.6	+3.4	-0.2
	Three-monthly % change a.r.	+4.8	+3.7	+9.6	+8.0	+1.7	+1.6	+3.8	+19.3	+16.1
	Six-monthly % change a.r.	+2.2	+3.0	-7.6	+6.4	+2.7	+5.5	+5.9	+10.1	+8.6
	12-monthly % change	+2.3	+1.6	+1.1	+3.0	+2.7	+3.6	+4.0	+6.5	+0.2
<u>M1</u>	Monthly change (£ millions)	+1,330	+1,424	+953	-411	+117	+1,434	+1,412	+2,653	+737
	Monthly % change	+2.4	+2.5	+1.6	-0.7	+0.2	+2.4	+2.3	+4.3	+1.1
	Three-monthly % change a.r.	+24.5	+21.3	+29.2	+14.4	+4.6	+7.8	+21.5	+42.4	+35.4
	Six-monthly % change a.r.	+21.8	+22.1	+16.4	+19.4	+12.6	+18.0	+17.9	+22.0	+20.9
	12-monthly % change	+18.0	+17.1	+17.9	+19.5	+20.0	+20.6	+19.8	+22.1	+18.6
<u>M2</u>	Provisionally seasonally adjust									
	Monthly change (£ millions)	+1,588	+2,707	+667	+729	+953	+1,663	+1,923	+2,776	+1,068
	Monthly % change	+1.1	+1.9	+0.5	+0.5	+0.6	+1.1	+1.3	+1.8	+0.7
	Three-monthly % change a.r.	+14.7	+18.2	+14.8	+12.0	+6.6	+9.5	+12.9	+18.3	+16.3
	Six-monthly % change a.r.	+9.7	+13.0	+9.6	+13.3	+12.3	+12.1	+12.5	+12.3	+12.8
12-monthly % change	+8.9	+9.6	+9.3	+8.6	+9.3	+9.8	+11.1	+12.7	+11.2	
<u>Levels :</u>	NIBM1	33,836	34,294	34,454	34,496	34,438	34,599	34,821	35,998	35,921
	M1	57,410	58,840	59,790	59,400	59,520	60,990	62,400	65,050	65,800
	M2 (Partially S/A)	142,893	145,600	146,268	147,998	147,952	149,619	151,543	154,320	155,389



## PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING JUNE 1986

Preliminary information suggests that, in the four weeks to 18 June 1986, M0 may have risen by about 1/2% and £M3 may have risen by about 1 1/4%, after seasonal adjustment.

## Note for Editors

1 The provisional estimates for June suggest that recent rates of growth are approximately as follows:

Rates of growth, annualised %; seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	3 3/4	4 1/2	3 1/4
£M3	33 1/2	23 1/2	18 1/4

2 Provisional counterparts to the change in £M3 in banking June are:

£ billion, seasonally adjusted

PSBR <sup>(1)</sup>	+1.2
Debt sales to nbps <sup>(2)</sup> and external flows to public sector <sup>(3)</sup> (of which, debt sales to nbps -1.1)	-0.8
Sterling lending to private sector <sup>(4)</sup>	+2.1
Other counterparts <sup>(5)</sup>	-0.8
	<u>+1.7</u>

(1) Strictly, the PSBR less net purchases of local authorities' and public corporations' debt by the non-bank private sector.

(2) Net purchases (-) of CG debt by the non-bank private sector.

(3) External and foreign currency finance of the public sector (-).

(4) Including Issue Department holdings of commercial bills.

(5) The banks' external and foreign currency transactions and net non-deposit sterling liabilities.

3 The PSBR, net of debt sales to the non-bank private sector and external flows to the public sector, was expansionary by about £0.4 billion. The growth in sterling lending to the private sector was about £2.1 billion, compared with an average of about £1.9 billion a month over the preceding six months. Other counterparts taken together were contractionary.

4 Full money and banking figures for June, including revised estimates of the growth rates given above, will be published on 17 July.