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PART B

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PART B

Begin: 7/7/86

DD: 25 years

Ends: 26/9/86 (CONTINUED) *[Signature]* 5/9/95

CHANCELLOR'S PAPERS ON
MONEY FIGURES AND
MONETARY TARGETTING

PO -CH /NI./over
0842

PART B

SECRET AND PERSONAL

FROM: MRS R LOMAX *YWP*

DATE: 7 JULY 1986

MR HEATH

cc Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Cassell
 Mr Peretz
 Mr Scholar
 Mr Sedgwick
 Mr Culpin
 Mr Walsh o/r
 Mr Ross Goobey

PROVISIONAL MONEY FIGURES: BANKING JUNE

The Chancellor was grateful for your minute of 4 July.

2. He has noted Mr Peretz' suggestion that we should start saying that developments and financial innovations are making it increasingly difficult to read meaning into movements of the individual counterparts: the Chancellor thinks we ought to start saying this soon.

3. He is content with the draft press briefing, subject to the following points:-

- FACTUAL - (iv): The Chancellor is not sure what is meant by "bank lending effected through monetary sector purchases of financial institutions".

- POSITIVE - (iv): Delete "following the UK's lead".

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

RACHEL LOMAX

.21/20

covering SECRET
UNTIL 2.30 PM TUESDAY 8 JULY 1986

FROM: M G RICHARDSON
DATE: 8 JULY 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

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

- ... I attach the press briefing for today's provisionals; it incorporates a revised factual (iv) on sterling lending that takes account of the Chancellor's comments and some late information from the Bank on special factors.
- ... 2. Also attached are the Bank's Press Notice which is unchanged from the draft circulated with Mr Heath's minute and 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).


M G RICHARDSON

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: Developments and financial innovations are making it increasingly difficult to read meaning into movements of individual counterparts. Bank lending has been affected (perhaps by around £300 million) by the build-up to Big Bang. Taking such special factors into account, this month's sterling lending increase (£2.1 billion) is in line with 1985 average (£1.8 billion).
- (v) Exchange rate: Remains firm

B. POSITIVE

- (i) Overall Strategy
Experience continues to confirm value of clear commitment to MTF'S 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 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.

- (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.

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

PRESS INFORMATION from Banking Information Service

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

NOT FOR PUBLICATION BEFORE 2.30 pm

8th July 1986

MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS

JUNE 1986

Sterling advances to the UK private sector by the London and Scottish banks rose by £1,199 million in the four weeks to 18th June. A seasonal fall was expected, however, and after allowing also for a reduction in transit items, the underlying movement becomes an increase of around £1,950 million, thus returning to the average rise of March and April after last month's more "normal" increase of £680 million. Bill finance, however, is likely to have been contractionary this month, with the Bank of England's bill holdings falling sharply, and acceptances granted by the London and Scottish banks also falling.

The analysis of advances, which is not seasonally adjusted, shows that the bulk of lending was to persons and to the financial sector. Lending for house purchase rose strongly, no doubt partly seasonally, by £324 million, and other personal lending by £141 million, roughly half of which was in credit card credit. Within the financial category, lending to insurance companies and pension funds rose by £146 million, leasing companies by £191 million and "other financial" by £97 million. Other notable changes were increases of £205 million to "other services", £124 million to retailers and £100 million to agriculture and a fall of £108 million to manufacturers.

Within the banks' other assets, holdings of gilts fell by £161 million, but other investments rose by £474 million, largely the result of injections of capital into merchant banking/security dealing subsidiaries in the build-up to "Big Bang". Lending to the LDMA rose by £110 million and the banks were able to reduce their net borrowing in the inter-bank and CD markets by £136 million.

On the liabilities side of the balance sheet, deposits from the UK private sector continued to rise, by £1,319 million. After adjustment for seasonal factors and for transit items, there was an underlying rise of around £1,650 million, well down on last

month's exceptionally high figure, but still substantial. The increase was fairly evenly split between time deposits and interest-bearing sight deposits, although the high interest personal accounts contributed rather less than in recent months; non-interest-bearing accounts fell back after last month's unusually large increase. Deposits from the public sector were little changed, but deposits from overseas residents recovered £109 million of last month's rare fall.

Eligible liabilities rose by £1,458 million to £101,251 million.

For further information, please contact:

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

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

BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT 18th JUNE, 1986

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

f millions

TABLE 1. AGGREGATE BALANCES

	Total Outstanding	Change on Month
LIABILITIES		
STERLING DEPOSITS :		
U.K. monetary sector	26,321	- 221
U.K. private sector	86,889	+ 1,319
U.K. public sector	2,873	- 23
Overseas residents	14,007	+ 109
Certificates of deposit	<u>8,969</u>	<u>- 83</u>
	139,060	+ 1,100
of which : Sight	55,064	+ 919
Time (inc. C.D.'s)	83,996	+ 181
FOREIGN CURRENCY DEPOSITS :		
U.K. monetary sector	16,825	+ 1,153
Other U.K. residents	6,784	+ 661
Overseas residents	43,739	- 278
Certificates of deposit	<u>5,445</u>	<u>+ 58</u>
	72,792	+ 1,594
TOTAL DEPOSITS	<u>211,852</u>	<u>+ 2,695</u>
NOTES IN CIRCULATION	925	+ 7
OTHER LIABILITIES (a)	<u>35,348</u>	<u>+ 315</u>
TOTAL LIABILITIES	<u>248,125</u>	<u>+ 3,017</u>
ASSETS		
STERLING		
Cash & balances with Bank of England:		
Cash ratio deposits	464	0
Other balances	<u>2,125</u>	<u>- 210</u>
	2,589	- 210
Market loans :		
Discount houses	3,946	+ 110
Other U.K. monetary sector	26,064	- 436
U.K. monetary sector C.D.'s	4,061	+ 268
Local authorities	694	- 22
Other	<u>3,477</u>	<u>+ 313</u>
	38,242	+ 233
Bills :		
Treasury bills	150	- 35
Other bills	<u>3,275</u>	<u>+ 134</u>
	3,425	+ 98
Investments :		
British Government stocks	3,690	- 161
Other	<u>4,555</u>	<u>+ 474</u>
	8,245	+ 312
Advances :		
U.K. private sector	90,023	+ 1,199
U.K. public sector	285	- 26
Overseas residents	<u>5,849</u>	<u>+ 125</u>
	96,157	+ 1,298
Other sterling assets (a)	12,782	- 452
FOREIGN CURRENCIES		
Market loans :		
U.K. monetary sector	17,368	+ 1,330
Certificates of deposit	545	+ 19
Other	<u>34,131</u>	<u>+ 416</u>
	52,044	+ 1,765
Bills	770	+ 10
Advances :		
U.K. private sector	6,654	+ 55
U.K. public sector	891	+ 3
Overseas residents	<u>17,558</u>	<u>- 51</u>
	25,103	+ 7
Other foreign currency assets (a)	<u>8,770</u>	<u>- 45</u>
TOTAL ASSETS	<u>248,125</u>	<u>+ 3,017</u>
ACCEPTANCES	4,450	- 248
ELIGIBLE LIABILITIES	101,251	+ 1,458

(a) includes items in suspense and in transit

FOR TABLE 2 SEE OVER

f millions	C.L.S.B. GROUPS	BANK OF SCOTLAND	BARCLAYS	LLOYDS	MIDLAND	NATIONAL WESTMINSTER	ROYAL BANK OF SCOTLAND	STANDARD CHARTERED
LIABILITIES								
Sterling deposits								
outstanding	139,060	5,671	32,432	24,341	23,821	41,210	8,021	3,564
change on month	+ 1,100	- 223	- 287	+ 503	- 106	+ 915	+ 121	+ 178
Foreign currency deposits								
outstanding	72,792	1,052	14,184	11,037	14,061	20,810	3,387	8,262
change on month	+ 1,594	- 14	+ 54	+ 381	+ 603	+ 829	+ 95	- 354
Total deposits								
outstanding	211,852	6,723	46,616	35,378	37,882	62,020	11,407	11,826
change on month	+ 2,695	- 236	- 233	+ 884	+ 497	+ 1,744	+ 216	- 175
STERLING ASSETS								
Cash and Balances with the Bank of England								
outstanding	2,589	330	531	252	497	501	461	17
change on month	- 210	- 4	- 64	+ 1	- 34	- 55	- 40	- 13
Market loans :								
U.K. monetary sector								
outstanding	30,010	656	6,226	4,580	5,160	11,105	1,150	1,133
change on month	- 327	- 197	- 199	- 299	- 146	+ 307	+ 137	+ 69
Other								
outstanding	8,232	159	2,073	1,198	1,283	3,001	176	342
change on month	+ 559	- 12	+ 87	+ 76	+ 13	+ 434	- 66	+ 28
Bills								
outstanding	3,425	120	1,040	1,052	200	761	201	51
change on month	+ 98	+ 51	- 214	+ 82	+ 39	+ 83	+ 59	- 2
British government stocks								
outstanding	3,690	244	781	625	770	866	205	200
change on month	- 161	- 26	- 56	- 67	- 30	+ 26	- 9	0
Advances								
outstanding	96,157	4,811	23,844	16,789	16,619	25,041	6,664	2,390
change on month	+ 1,298	+ 46	+ 46	+ 538	+ 141	+ 342	+ 91	+ 93
FOREIGN CURRENCY ASSETS								
Market loans and bills								
outstanding	52,814	388	10,482	8,854	8,015	16,971	2,247	5,856
change on month	+ 1,775	- 6	+ 425	+ 587	+ 758	+ 370	+ 77	- 436
Advances								
outstanding	25,103	866	3,656	3,279	6,065	6,315	1,413	3,510
change on month	+ 7	- 7	- 201	- 129	- 108	+ 354	+ 29	+ 70
ACCEPTANCES								
outstanding	4,450	260	702	371	1,190	1,059	435	433
change on month	- 248	- 9	- 183	+ 99	- 122	- 26	- 40	+ 33
ELIGIBLE LIABILITIES								
outstanding	101,251	4,883	24,195	18,521	17,268	27,602	6,655	2,128
change on month	+ 1,458	+ 27	- 111	+ 875	+ 243	+ 260	+ 98	+ 67

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 de Zoete Wedd 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., Northern Bank Ltd., Northern Bank Development Corporation Ltd., and Clydesdale Bank Finance Corporation Ltd.

Crocker National Bank left the Midland Group during the month.

The National Westminster Group comprises National Westminster Bank PLC, Coutts & Co., Coutts Finance Co., NatWest Investment 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 Bank Ltd.

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

SECRET
UNTIL 2.30 PM ON THURSDAY 17 JULY

FROM: R M HEATH
DATE: 15 JULY 1986

MR CASSELL

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 Ross Goobey

FULL MONEY FIGURES - BANKING JUNE

... I attach the Bank's draft press release on the full money figures and accompanying banking statistics which will be published at 2.30 pm on Thursday 17 July.

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 reference in paragraph 10 to the amount of sterling commercial paper outstanding at the end of the month.

3. The press briefing agreed for last week's provisionals ... press notice is attached. I have added defensive (vi) on growth on PSL2 (the new definition). Otherwise the briefing is unchanged except for the line on the exchange rate (in factual (v)).

4. Could I please have comments on the Bank's draft press release by noon on Wednesday 16 July, and any comments on the revised press briefing by close that day.

R. Heath.

R M HEATH

SECRET AND PERSONAL
UNTIL 2.30 PM ON THURSDAY 17 JULY 1986

MONEY SUPPLY IN BANKING JUNE: PRESS BRIEFING

LINE TO TAKE

M0 is well within target range. 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.
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- (v) Exchange rate: Some recent adjustment reflecting lower oil prices.

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.

(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.

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

(iv) Other countries

Most major countries now operate policy in very similar way.

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(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.

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£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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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."

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

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

- (vi) Growth of PSL's

All broad aggregates and their relative growth have been affected by the liberalisation of the financial system in recent years and the shift from negative to positive real interest rates in the 1980's.

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). BS2 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 ^bbanking 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	+ 600
Other private sector sterling bank deposits	- 10
£13	<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
EM3	+ 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%.

Banking statistics

18 June 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]	Other	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 June 19 [f]	+ 2,638	- 437	- 12	- 220	- 718	+ 270	+ 714	+ 394	- 255	- 273	+ 1,275	- 305	+ 3,071	
July 17 [f]	- 1,162	- 478	- 11	- 409	- 342	- 4	+ 3,107	+ 18	- 236	- 409	+ 262	- 444	- 108	
Aug. 21	+ 2,319	- 373	- 247	- 177	- 15	+ 50	+ 1,084	+ 261	- 591	- 604	- 145	+ 489	+ 2,051	
Sept. 18	+ 1,667	- 323	- 86	- 34	- 155	+ 18	+ 406	+ 419	- 76	- 95	+ 233	- 154	+ 1,819	
Oct. 16	+ 564	- 588	- 519	- 525	- 76	- 130	+ 3,536	+ 712	- 703	+ 164	+ 352	- 1,742	+ 1,045	
Nov. 20	+ 2,666	- 1,125	- 737	- 109	- 400	- 193	+ 1,384	- 388	+ 243	- 165	- 183	+ 1,533	+ 2,526	
Dec. 11	+ 1,490	+ 222	- 224	- 76	- 34	- 25	+ 747	+ 257	- 115	+ 17	- 1,130	- 265	+ 864	
1986 Jan. 15	- 2,785	- 171	- 80	+ 504	- 291	- 2	+ 1,741	- 289	- 353	+ 356	+ 517	- 39	- 892	
Feb. 19	- 786	- 179	- 276	- 100	+ 152	- 248	+ 1,279	+ 215	- 519	- 73	+ 1,356	- 366	+ 455	
Mar. 19	+ 942	- 307	+ 453	- 507	+ 236	+ 138	+ 2,235	+ 44	- 459	- 656	+ 564	+ 149	+ 2,824	
Apr. 16	+ 4,274	- 1,044	- 712	- 273	- 219	+ 322	+ 3,809	+ 547	- 911	+ 661	- 101	- 1,186	+ 5,167	
May 21	+ 1,629	- 837	+ 568	- 370	- 536	+ 55	+ 1,214	+ 130	+ 696	+ 134	+ 257	+ 549	+ 3,489	
June 18	+ 3,038	- 1,029	563	- 515		328	+ 1,314	+ 958	+ 260	- 604	+ 670	- 1,150	+ 1,367	
Month ended (seasonally adjusted)														
1985 June 19 [f]	+ 762	- 21	- 12	- 262	- 718	+ 266	+ 1,335		+ 1,305			- 8	+ 2,647	
July 17 [f]	- 92	- 477	- 11	- 438	- 342	- 9	+ 1,531		- 420			- 582	- 840	
Aug. 21	+ 2,090	- 362	- 247	- 314	- 15	+ 45	+ 1,727		- 961			+ 246	+ 2,209	
Sept. 18	+ 1,955	- 338	- 86	+ 3	- 155	+ 12	+ 971		+ 81			- 323	+ 2,120	
Oct. 16	+ 914	- 649	- 519	- 477	- 76	- 135	+ 2,237		+ 547			- 866	+ 976	
Nov. 20	+ 1,905	- 1,089	- 737	- 36	- 400	- 198	+ 2,069		- 339			+ 1,232	+ 2,407	
Dec. 11	+ 118	+ 449	- 224	- 56	- 34	- 30	+ 1,851		- 993			- 348	+ 733	
1986 Jan. 15	+ 53	- 352	- 80	+ 467	- 291	+ 48	+ 612		+ 26			- 380	+ 103	
Feb. 19	+ 684	- 239	- 276	- 225	+ 152	- 253	+ 1,494		+ 831			- 918	+ 1,250	
Mar. 19	+ 857	- 361	+ 453	- 378	+ 236	+ 126	+ 2,461		- 642			+ 52	+ 2,804	
Apr. 16	+ 2,708	- 1,333	- 712	- 201	- 219	+ 319	+ 3,142		+ 595			- 177	+ 4,122	
May 21	+ 1,645	- 930	+ 568	- 379	- 536	+ 51	+ 1,683		+ 1,306			+ 435	+ 3,843	
June 18	+ 1,794	- 579	- 563	- 557		324	+ 2,148		+ 46			- 899	+ 1,714	

[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 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	+ 568	+ 21	- 211	- 241	- 180	- 159	-	+ 198	+ 1,989
June 18	- 563	- 100	- 245	- 350	- 177	- 114	+ 7	- 1,078	- 1,120

[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

£ million Percentages in italics

End-banking-month series								Monthly-average series									
Notes and coin in circulation outside the Bank of England								Notes and coin in circulation outside the Bank of England									
In circulation with public				Held by banks (till money)				Bankers' deposits with the Banking Department		Operational deposits		Cash ratio deposits		Bankers' operational deposits with the Banking Department		M0 (wide monetary base) (columns 5 + 6)	
Unadjusted		Seasonally adjusted		Unadjusted		Seasonally adjusted		Unadjusted		Unadjusted		Unadjusted		Unadjusted		Seasonally adjusted	
1		2		3		4		5		6		7		8		9	
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	19	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	- 33	-		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	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]

Month ended	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]	Money stock M3[b]	
		Non-interest-bearing[a]	Interest-bearing	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
1985 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]	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	63,385	119,135	118,660	19,159	138,294	137,820
Sept. 18[d]	12,536	21,253	22,248	56,037	56,080	64,972	121,009	120,800	19,524	140,533	140,330
Oct. 16	12,413	21,579	23,537	57,529	57,410	64,525	122,054	121,780	18,861	140,915	140,640
Nov. 20	12,476	21,725	24,536	58,737	58,840	65,843	124,580	124,170	19,466	144,046	143,640
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	21,625	24,999	59,023	59,400	65,527	124,550	124,930	19,644	144,194	144,580
Feb. 19	12,441	21,246	25,052	58,739	59,520	66,255	124,994	126,090	20,088	145,082	146,190
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	22,638	27,676	62,925	62,400	70,157	133,082	133,080	20,341	153,423	153,420
May 21	12,820	22,980	28,986	64,786	65,050	71,785	136,571	136,930	21,072	157,643	158,000
June 18[d]	12,807	23,197	29,640	65,644	65,800	72,316	137,960	138,660	22,737	160,697	161,400

E Money stock: changes [f]

[Table 11.2 in the Quarterly Bulletin]

£ millions: percentages in italics

Month ended	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]		Money stock M3[b]			
		Non-interest-bearing[a]	Interest-bearing				Transactions	Valuation changes[g]				
										<i>2</i>	<i>3</i>	<i>7</i>	8
Month ended (unadjusted)												
1985 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	+ 1,047	+ 2,051	+ 577	+ 373	+ 3,001			
Sept. 18	- 122	+ 87	+ 288	+ 253	+ 1,566	+ 1,819	- 249	+ 603	+ 2,173			
Oct. 16	- 123	+ 326	+ 1,289	+ 1,492	- 447	+ 1,045	+ 146	+ 809	+ 382			
Nov. 20	+ 63	+ 146	+ 999	+ 1,208	+ 1,318	+ 2,526	+ 873	- 268	+ 3,131			
Dec. 11	+ 433	+ 705	+ 729	+ 1,867	- 1,003	+ 864	- 171	+ 279	+ 972			
1986 Jan. 15	+ 510	- 805	- 290	- 1,605	+ 713	- 892	+ 348	- 282	- 826			
Feb. 19	+ 42	- 379	+ 53	- 284	+ 739	+ 455	+ 565	- 121	+ 899			
Mar. 19	+ 91	+ 469	+ 1,080	+ 1,640	+ 1,184	+ 2,824	+ 686	- 204	+ 3,306			
Apr. 16	+ 79	+ 920	+ 1,518	+ 2,517	+ 2,650	+ 5,167	+ 147	- 377	+ 4,937			
May 21	+ 209	+ 342	+ 1,310	+ 1,861	+ 1,628	+ 3,489	+ 875	- 144	+ 4,220			
June 18	- 13	+ 217	+ 641	+ 845	+ 522	+ 1,367	+ 1,425	+ 240	+ 3,032			
Month ended (seasonally adjusted)												
1985 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	+ 492	+ 2,209	+ 1.9	+ 577	+ 373	+ 3,159	+ 2.3
Sept. 18	+ 47	- 356	+ 321	+ 12	-	+ 2,108	+ 2,120	+ 1.8	- 249	+ 603	+ 2,474	+ 1.8
Oct. 16	- 96	+ 258	+ 1,168	+ 1,330	+ 2.4	- 354	+ 976	+ 0.8	+ 146	+ 809	+ 313	+ 0.2
Nov. 20	+ 62	+ 396	+ 966	+ 1,424	+ 2.5	+ 983	+ 2,407	+ 2.0	+ 873	- 268	+ 3,012	+ 2.1
Dec. 11	- 62	+ 221	+ 794	+ 953	+ 1.6	- 220	+ 733	+ 0.6	- 171	+ 279	+ 841	+ 0.6
1986 Jan. 15	+ 108	- 67	- 452	- 411	- 0.7	+ 514	+ 103	+ 0.1	+ 348	- 282	+ 169	+ 0.1
Feb. 19	+ 13	- 72	+ 176	+ 117	+ 0.2	+ 1,133	+ 1,250	+ 1.0	+ 565	- 121	+ 1,694	+ 1.2
Mar. 19	+ 21	+ 136	+ 1,277	+ 1,434	+ 2.4	+ 1,370	+ 2,804	+ 2.2	+ 686	- 204	+ 3,286	+ 2.2
Apr. 16	+ 5	+ 216	+ 1,191	+ 1,412	+ 2.3	+ 2,710	+ 4,122	+ 3.2	+ 147	- 377	+ 3,892	+ 2.6
May 21	+ 105	+ 1,067	+ 1,477	+ 2,649	+ 4.2	+ 1,194	+ 3,843	+ 2.9	+ 875	- 144	+ 4,574	+ 3.0
June 18	+ 131	- 209	+ 815	+ 737	+ 1.1	+ 977	+ 1,714	+ 1.3	+ 1,425	+ 240	+ 3,379	+ 2.1

[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

£ millions, not seasonally adjusted

[Table 11.1 and 11.2 in the Quarterly Bulletin]

	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 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	35,189	69,825	1,729	140,532	885	4,475
Oct. 16	12,413	21,579	33,992	35,637	70,630	1,734	141,993	1,107	4,541
Nov. 20	12,476	21,725	34,201	36,885	71,408	1,711	144,205	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	21,625	34,024	36,861	73,906	1,739	146,530	1,137	4,905
Feb. 19	12,441	21,246	33,687	37,014	74,464	1,714	146,879	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	22,638	35,249	38,644	76,096	1,718	151,707	1,218	5,294
May 21	12,820	22,980	35,800	39,498	76,762	1,742	153,802	1,167	5,336
June 18 [c]	12,807	23,197	36,004	40,336	77,845	1,728	155,913	1,124	5,435
Changes in month ended [e]									
1985 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	+ 185	+ 1,374	- 11	+ 1,513	- 108	+ 23
Oct. 16	- 123	+ 326	+ 203	+ 448	+ 805	+ 5	+ 1,461	+ 222	+ 66
Nov. 20	+ 63	+ 146	+ 209	+ 1,248	+ 778	- 23	+ 2,212	+ 144	- 9
Dec. 11	+ 433	+ 707	+ 1,138	- 557	+ 1,265	- 18	+ 1,828	- 328	+ 149
1986 Jan. 15	- 510	- 805	- 1,315	+ 533	+ 1,233	+ 46	+ 497	+ 214	+ 224
Feb. 19	+ 42	- 379	- 337	+ 153	+ 558	- 25	+ 349	- 140	- 10
Mar. 19	+ 91	+ 469	+ 560	+ 627	+ 820	+ 8	+ 2,015	+ 74	+ 159
Apr. 16	+ 79	+ 920	+ 999	+ 1,003	+ 812	- 4	+ 2,810	+ 147	+ 240
May 21	+ 209	+ 343	+ 551	+ 854	+ 666	+ 24	+ 2,095	- 51	+ 42
June 18	- 13	+ 217	+ 204	+ 838	+ 1,083	- 14	+ 2,111	- 43	+ 99

[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

£ millions, percentages in italics

[Summary of Table 12 in the Quarterly Bulletin]

Month ended	Money [a]		Savings institution deposits and securities		Certificates of tax deposit		Other sterling shares and deposits [c]	PSL1 (columns 1+2+5)	PSL2 (old definition (columns 1+2+3+6))	PSL2 (new) definition (columns 1+2+3+6+7)	PSL1	PSL2 (old) definition	PSL2 (new) definition			
	Seasonally adjusted	Other money-market instruments Seasonally adjusted	Seasonally adjusted		Seasonally adjusted											
	1	2	Total (net)	of which shares and deposits with building societies [b]	Issues net of surrenders	Column 5 less building society holdings	Unadjusted	Seasonally adjusted	Seasonally adjusted	Seasonally adjusted	Seasonally adjusted change in month	Seasonally adjusted change in month	Seasonally adjusted change in month			
	1	2	3	4	5	6	7	8	9	10	11	12	13			
1985 June 19	115,587	3,311	82,497	79,314	2,900	2,539	21,124	121,798	203,934	225,058	+2,778	+2.3	+3,392	+1.7	+3,731	+1.7
July 17	114,666	3,308	83,154	80,352	3,062	2,672	21,309	121,036	203,800	225,109	- 719	-0.6	- 75	-	+ 110	
Aug. 21 [d]	116,846	3,095	83,727	81,490	2,929	2,530	21,465	122,870	206,198	227,663	+1,888	+1.6	+2,454	+1.2	+2,610	+1.2
Sept. 18	118,989	2,972	84,648	82,754	2,696	2,296	21,206	124,657	208,905	230,111	+1,785	+1.5	+2,705	+1.3	+2,446	+1.1
Oct. 16	119,959	2,904	86,024	84,332	2,993	2,537	20,648	125,856	211,425	232,073	+1,198	+1.0	+2,519	+1.2	+1,961	+0.9
Nov. 20	122,336	3,039	88,072	86,432	2,846	2,390	19,916	128,221	215,837	235,753	+2,375	+1.9	+4,422	+2.7	+3,690	+1.6
Dec. 11	122,987	2,936	89,109	87,774	2,894	2,406	19,580	128,817	217,438	237,018	+ 644	+0.5	+1,644	+0.8	+1,308	+0.6
1986 Jan. 15	122,992	3,030	90,828	89,857	2,500	2,251	19,173	128,522	238,274	238,274	- 245	-0.2			+1,306	+0.6
Feb. 19	124,149	2,891	93,129	91,605	2,627	2,238	18,788	129,697	241,225	241,225	+1,258	+1.0			+3,034	+1.3
Mar. 19	126,931	2,768	94,170	93,165	2,981	2,409	18,700	132,680	244,978	244,978	+3,032	+2.3			+3,740	+1.6
Apr. 16	131,082	2,719	95,058	94,682	3,117	2,472	18,318	136,918	249,649	249,649	+4,237	+3.2			+4,670	+1.9
May 21	134,843	2,277	95,735	95,928	3,276	2,431	17,983	140,396	253,269	253,269	+3,477	+2.5			+3,619	+1.4
June 18	136,581	2,419	97,559	96,915	3,390	2,491	17,722	142,390	256,772	256,772	+1,970	+1.4			+3,200	+1.3

[a] EM3 less deposits of over 2 years original maturity.

[b] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies; excludes holdings of term shares and SAYE deposits

[c] Building society term shares and SAYE deposits and bank deposits of over 2 years original maturity.

[d] 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									CDs etc and other short-term paper issued	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				
1986 Jan. 15	953	210,777	8,612	1,488	47,535	7,056	39,553	2,018	62,707	26,895	14,912	5,856	28,266	
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	28,307	
Mar. 19 [b]	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	6,405	29,780	
May 21	998	236,665	10,619	1,731	53,132	7,402	46,340	3,224	66,855	28,458	18,903	5,953	29,647	
June 18	1,006	236,839	10,447	1,770	53,918	7,376	45,512	3,416	67,229	27,830	19,341	5,832	30,439	

	Total deposits	Other currency liabilities						Total liabilities/assets	of which sterling	
		Sight and time deposits			CDs etc and other short-term paper issued	Items in suspense and transmission	Capital and other funds		Liabilities	Assets
		UK monetary sector	Other United Kingdom	Overseas						
1986 Jan. 15	496,324	85,065	18,869	327,237	65,153	5,408	14,066	761,650	245,851	244,694
Feb. 19	505,022	87,761	19,408	332,378	65,475	6,528	14,968	776,212	249,695	247,191
Mar. 19 [b]	508,486	89,692	19,661	332,743	66,391	6,882	14,647	787,778	257,763	254,695
Apr. 16	504,308	88,164	19,716	331,944	64,483	6,616	13,972	794,335	269,439	266,471
May 21	506,789	87,394	20,458	330,767	68,170	6,660	13,831	800,542	273,263	270,033
June 18	511,818	89,732	21,818	330,566	69,703	7,016	13,565	806,515	274,117	271,560

	Notes and coin	Sterling assets									
		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
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 [b]	2,200	667	—	245	6,674	34	50,944	7,170	695	3,437	10,733
Apr. 16	2,149	667	—	140	6,580	37	54,459	7,626	872	3,271	11,531
May 21	2,258	713	—	310	5,970	27	55,252	8,023	874	3,091	11,538
June 18	2,170	713	—	165	6,322	93	53,871	8,634	985	3,001	11,908

Sterling assets continued

	Treasury bills	Bills			Other	Total	Advances			Banking Department lending to central government (net)
		Eligible local authority bills	Eligible bank bills	Other			UK public sector	UK private sector	Overseas	
1986 Jan. 15	244	620	5,112	318	132,934	2,004	119,307	11,623	-2,106	
Feb. 19	168	510	7,728	318	132,095	1,761	119,645	10,689	-4,270	
Mar. 19 [b]	235	533	6,267	348	133,931	1,744	122,134	10,053	-2,693	
Apr. 16	310	394	4,373	403	139,029	1,665	126,507	10,857	446	
May 21	442	406	4,538	385	141,094	1,443	127,302	12,336	518	
June 18	463	337	4,278	409	143,091	1,368	129,317	12,406	497	

Sterling assets continued

	Investments			Miscellaneous assets			Total	Other currency assets					
	British government stocks	Other public sector	Other	Items in suspense and collection	Assets leased	Other		Market loans and advances	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector	Overseas
1986 Jan. 15	7,121	313	7,732	9,597	1,582	5,895	474,590	119,752	84,835	11,313	1,766	35,049	341,627
Feb. 19	6,919	543	8,139	9,246	1,528	5,919	484,465	120,897	87,169	10,670	1,740	35,327	349,560
Mar. 19 [b]	6,510	544	8,293	10,480	1,508	5,942	488,152	121,379	89,852	11,156	1,669	36,173	349,301
Apr. 16	6,706	535	8,985	10,506	1,519	5,932	482,379	119,264	87,370	11,121	1,653	36,142	346,093
May 21	7,238	505	9,281	10,089	1,466	6,017	484,120	119,237	86,284	11,169	1,590	36,849	348,228
June 18	7,131	480	9,820	9,673	1,457	6,062	487,810	120,428	89,262	10,734	1,621	37,622	348,572

Other currency assets continued

	Bills	Investments		Miscellaneous assets			Other	Acceptances		Eligible liabilities
		Total	United Kingdom	Overseas	Items in suspense and collection	Assets leased		Sterling	Other currencies	
1986 Jan. 15	2,076	33,365	2,582	30,783	5,417	10	1,499	18,661	2,883	149,068
Feb. 19	2,200	34,470	2,580	31,890	6,297	7	1,581	19,462	2,858	149,965
Mar. 19 [b]	2,191	34,441	2,641	31,801	6,740	7	1,551	17,873	3,083	152,860
Apr. 16	2,154	35,166	2,621	32,545	6,617	7	1,541	17,483	3,126	159,488
May 21	2,338	35,963	2,797	33,166	6,780	12	1,297	18,357	3,040	161,890
June 18	2,334	36,409	2,915	33,494	6,925	11	1,467	16,610	3,056	163,098

[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] 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
British banks: Retail banks	1986	May 21	368	395	3,594	76	339	78,237	4,408	518	5,873	2,978
		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
		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
		June 18	23	—	210	65	49	21,084	1,722				—	409	1,777
Overseas banks: American banks	1986	May 21	1	—	46	7	67	7,584	1,325	—	231	366
		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
		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
		June 18	41	8	268	182	456	14,791	2,694				—	325	1,429
Consortium banks	1986	May 21	—	—	2	4	23	553	262	—	112	287
		June 18	—	—	2	4	24	527	268				—	110	187
Total	1986	May 21	442	406	4,538	384	1,457	127,303	12,336	518	7,240	9,812
		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	Overseas					
British banks: 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
		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
		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
		June 18	27,362	10,033	5,747	225	705	2,286	18,400	82	1,321	1,720	1,003	21,637
Overseas banks: 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
		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
		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
		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
Consortium banks	1986	May 21	12,801	5,558	1,334	342	3	344	10,778	113	1,034	266	239	1,442
		June 18	12,803	5,527	1,350	359	3	314	10,777	120	1,053	269	232	1,312
Total	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
		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				Other currency assets				Total assets/liabilities		
British government stocks	Local authorities	Other	Other sterling assets	Total	Certificates of deposit	Bills	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

K UK monetary sector: transactions in liabilities and assets^[a]

[Table 6 in the Quarterly Bulletin]

£ millions

Month ended	Total	Liabilities												Non-deposit liabilities (net)
		Domestic deposits												
		Total		Public sector				Private sector				Overseas sector deposits		
		Unadjusted	Seasonally adjusted	Sterling		Other currencies	Sterling		Other currencies	Sterling	Other currencies			
Unadjusted	Seasonally adjusted			Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted						
1985														
June 19 [b]	+ 10.847	+ 3.903	+ 3.370	+ 189	+ 104	- 15	+ 3.074	+ 2.626	+ 655	- 263	+ 5.893	+ 1.314		
July 17 [b]	+ 7.479	+ 378	- 129	- 3	- 37	- 29	- 344	- 817	+ 754	+ 421	+ 4.401	+ 2.279		
Aug. 21	+ 420	+ 2.902	+ 2.908	+ 275	+ 189	- 17	+ 2.067	+ 2.159	+ 577	+ 291	+ 2.375	- 398		
Sept. 18	+ 9.852	+ 1.419	+ 1.811	- 272	- 12	- 1	+ 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	+ 858		
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	+ 5.716	+ 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	Total	Assets										
		Lending to public sector					Lending to private sector				Lending to overseas sector	
		Sterling					Sterling		Other currencies		Sterling	Other currencies
		Total	Central government	Other	Other currencies	Other	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted		
Unadjusted	Seasonally adjusted											
1985												
June 19 [b]	+ 10.847	+ 1.765	+ 150	+ 1.992	- 227	- 70	+ 256	+ 877	- 17	+ 9	+ 8.904	
July 17 [b]	+ 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.

Symbols and conventions

--- and 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.

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PWP
for market
meeting on Wed.

1. MR PERETZ
2. CHANCELLOR

Thanks.

Dep 25/7

Ch. (Headline £M3 figure quite good, but components puzzling.) AA 28/7.

FROM: R M HEATH
DATE: 25 JULY 1986

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr Richardson

MONEY SUPPLY IN BANKING JULY : "FIRST GUESS"

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

Summary

2. **£M3** is estimated to have fallen by 0.3 per cent, compared with a forecast increase of 0.2 per cent. This suggests a final outturn in the range of $-\frac{1}{2}$ per cent to flat. On this basis the annual growth rate of **£M3** to banking July would be in the range of $18\frac{1}{2}$ per cent to 19 per cent, remaining, as forecast, well above its 11-15 per cent target range. **M0** rose by 0.2 per cent (forecast: flat). Annual growth remains in the bottom half of its target range, at 2.9 per cent. Table 1 below gives the implied growth rates in the target aggregates.

Table 1: Monetary Aggregates - First guess : banking July

Monthly percentage change	per cent	
	<u>M0</u>	<u>£M3</u>
First guess	0.2	-0.3
Likely outturn	0.2	$-\frac{1}{2}$ - 0
<hr/>		
3 month annualised rate	3.4	$15\frac{3}{4}$ - 18
6 month annualised rate	1.8	22 - $23\frac{1}{4}$
Annual rate	2.9	$18\frac{1}{2}$ - 19
<hr/>		
Six month comparisons of three month averages annualised	3.4	21 - $21\frac{1}{4}$

3. The annual growth rate for M0 at 2.9 per cent is slightly below last month's 3.1 per cent, and remains comfortably in the bottom half of its target range. This is in line with the forecast which predicts an acceleration in M0's annual growth rate to 4 per cent by the middle of August. In July bankers operational balances were particularly low and this depressed all the growth rates.

£M3 components

4. In banking July £M3 is thought to have fallen by £360 million, or 0.3 per cent, compared with our forecast increase of 0.2 per cent, circulated in Mr Walsh's monetary prospects submission of 17 July (which superseded the forecast reported in the Bank's note). Among the components, notes and coin fell by £90 million following last month's increase of £131 million. Non-interest bearing sight deposits rose by £200 million. Interest bearing sight deposits continue to rise strongly. In July they increased by £640 million, a cumulative increase of £5.4 billion in the last five months (60 per cent at an annual rate). M1 as a result has risen 30½ per cent at an annual rate since February and by 22½ per cent in the last year. Time deposits fell by £1.1 billion. Wholesale deposits fell by £840 million, reversing sharp rises in recent months, and more than explaining the fall in £M3. Retail deposits rose by £570 million - so it looks as if personal sector holdings of £M3 have continued to rise strongly.

5. We do not think there were any factors distorting the components, as all the large share issues, such as Thames TV and Morgan Grenfell, occurred before the end of calendar June. TVam's issue, on make up day itself, involved amounts that were unlikely to have had a major impact.

£M3 counterparts

6. Table 2 (attached) compares £M3 counterparts in the first guess with those in the forecast. There is little difference on the public sector forecast, but bank lending was around £300 million higher than expected and NNDLs and externals were substantially more contractionary.

The seasonally adjusted "PSBR" is estimated at £460 million, about £195 million above forecast. This is accounted for by the OPS contribution, which was around £140 million more expansionary than forecast. The CGBR contribution was close to forecast.

8. Central Government net debt sales, at £1235 million, were very close to forecast, but the effects of the higher than expected "PSBR" on the funding position were largely offset by external flows to the public sector leaving seasonally adjusted overfunding - at £1240 million close to forecast (£1195 million).

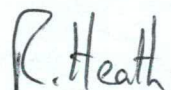
9. Sterling lending is estimated at £2170 million, around £300 million above forecast, and £250 million above the average for the last six months.

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 were around £900 million more contractionary than forecast. Within NNDLs the National Westminster rights issue and Morgan Grenfell share sale had a combined contractionary effect of £870 million.

Timetable

11. We will receive provisional July figures on Friday 1 August, and they will be published on Tuesday 5 August. Full money and banking figures will appear on Thursday 14 August.

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



R M HEATH

SECRET AND PERSONAL

TABLE 2 : BANKING JULY 1986

"First guess" compared to forecast

	£ millions, seasonally adjusted	
	FIRST GUESS	FORECAST*
CGBR (ex bank deposits)	+620	+565
CG debt: Gilts	-850	-780
Treasury Bills	+150	+100
National Savings	-400	-435
CTD's	-160	-120
	-----	-----
	-1,270	-1235
Other public sector: LA	+170	+130
PC	-330	-430
	----	----
	-160	-300
External and fc. finance of the public sector	-430	-225
Sterling lending to UK private sector (inc. Issue Dept. commercial bills)	+2,170	+1,850
Net private externals**	-780	+415
Residual (includes NNDLs** and reporting differences)	-510	-800
	-----	-----
£M3	-360	+270
	-----	-----
(Monthly percentage change)	(-0.3%)	(+0.2%)
Wide over(-)/underfunding(+)	-1,240	-1,195

* As circulated in Mr Walsh's "Monetary Prospects" submission of 17 July 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.

SECRET AND PERSONAL

25.7.86

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 P A BULL

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: C R Mann / R L Sheath

BANKING JULY 1986 - A FIRST ESTIMATE

£ millions, seasonally adjusted

The provisional estimates of the monetary aggregates for banking July will be published at 2.30 pm on Tuesday 5 August and the full money and banking figures will be published at 2.30 pm on Thursday 14 August. Even after 14 August, 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 a decrease in £M3 of 360 in banking July. An estimate of the monetary sector as a whole, based on these returns, would suggest a final outturn in the range of -1/2% to 0% (compared with a forecast increase of 0.2%) and a 12-month growth rate in the range of +18 1/2% to +19%, well outside the target range of 11-15%.

2 We do not believe that there are any substantial distortions in the figures. Although the Thames TV and Morgan Grenfell share sales were heavily oversubscribed, these sales took place before the end of calendar June and all transactions associated with them appear to have unwound before the mid-July make-up day. The TVam share sale which took place on the make-up day was also oversubscribed (£200 million subscribed for only £20 million worth of shares) but the amounts involved are not large enough to have had a major impact on the money figures.

3 Among the components of £M3, notes and coin are estimated to have fallen by 90, 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 640. Private sector time deposits (including CDs) are estimated to have fallen by 1100: within this, time deposits fell by 600 and CDs decreased by 500. Within the total decrease of 460 in interest bearing deposits is included a rise in retail IB deposits of 370.

4 Our latest estimate for M0 for banking July is +0.2, or +2.9% 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.

5 The table attached compares counterparts to £M3 with the forecast as circulated in the FR of 17 July. The estimated CGBR is +620, ie 450 below forecast: within this, the CG own account was +320 while on-lending to LAs was +110, and on-lending to PCs was +190. Net purchases (-) of central government debt from the non-bank private sector are estimated to have been -1260, compared to a forecast of net purchases of -1450. Gilts contributed -850, ie a increase of nbps holdings, compared to the forecast increase of -1100. There were net purchases of CTDs of -160, of National Savings of -400, and net sales of Treasury Bills of +150.

6 The direct contribution of the rest of the public sector is estimated to have been contractionary by -160, (340 less contractionary than forecast). Local authorities were +170, (240 less contractionary than

forecast), and PCs were -330 (100 less contractionary than forecast).

7 "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 -810, ie an overfund. External and foreign currency finance of the public sector (EFCFPS) was -430. "Wide overfunding" (ie the sum of narrow overfunding and EFCFPS) was -1240, ie an overfund, compared with a forecast of -1130.

8 Bank lending in sterling to the private sector is estimated to have increased by 2170, compared with a forecast rise of 1770.

9 Other identified external and foreign currency transactions (ie excluding EFCFPS) were -780, very different from the forecast of 340; this may be a poor guide to the final outturn for the externals.

10 The residual (including NNDLs) was contractionary by - 510, compared with a forecast contraction of -750. This includes the increase in banks' capital due to the National Westminster rights issue and the Morgan Grenfell share sale, whose combined contractionary effect is about 870.

Financial Statistics Division

Money & Banking Aggregates Group BB-1

25 July 1986

R L SHEATH / C R MANN



Ch

Peter had a word
with me about this and
asked me to say he was
strongly in favour of
publishing cash figures
for money & the counterparts.

AA

31/7.

CONFIDENTIAL

FROM: F CASSELL
31 July 1986

CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Sedgwick, o.r.
Mr Peretz
Mr Kelly
Miss Peirson
Mr Pickford
Mr Hannah
Mr Richardson

*I entered
agree with
this.
Mr.*

SEASONALLY ADJUSTED PSBR AND MONEY

I fear I need to trouble you, before the holidays, with a question concerning the presentation of the money and PSBR numbers when the banking statistics move to calendar months this autumn. We need to take your mind on one major issue now since the Bank are proposing to publish an article on the new statistical arrangements in their next Quarterly Bulletin, which goes to press in early September.

2. The issue, in the baldest terms, is should we cease publishing the money numbers in seasonally-adjusted form?

3. Since the introduction, in 1983, of a monthly PSBR press notice we have had some success in weaning commentators off the seasonally adjusted numbers. For a number of years we have persevered hard with the message that seasonal adjustments remove only a small part of the fluctuations in the figures and that simply grossing up seasonally-adjusted numbers for the year so far is bound to be a poor guide to the outcome for the year as a whole. That message seems finally to have got through - commentators make little reference these days to the seasonally adjusted quarterly PSBR figures which are still published.

4. This presentational gain could be put at risk, however, by the advent of calendar month reporting for the banks, welcome though that development is in itself.

*But
Times
article
on funding.*

CONFIDENTIAL

CONFIDENTIAL

5. When the banking statistics move over to calendar months (beginning with figures for October to be published in November) we shall lose the "PSBR" (i.e. the PSBR less net purchases of other public sector debt by the non-bank private sector) from the £M3 counterparts and replace it with the PSBR. But the Bank want to continue to publish the counterpart information in the monthly provisionals press notice, as at present, in seasonally adjusted form.

6. Under the calendar month reporting regime the PSBR press notice itself will be out one or two working days before the money figures. We certainly do not propose any change in that press notice - so the "news" on the PSBR will continue to be in unadjusted form. But that line will be difficult to hold if, after only a short interval, the Bank publish the same number in seasonally adjusted terms.

7. We have considered with Sir Peter Middleton, Sir Terry Burns and others here a number of detailed options that might avoid this problem. Our preference is illustrated by the attached mock-up of a provisionals press notice for October that adopts a similar format to the present notice but presents all the information, including the changes in MO and £M3, in unadjusted form. We do not believe that a middle course would be sensible - either we seasonally adjust all the monthly numbers or none of them.

8. Quite apart from preserving the integrity of the unadjusted PSBR, a good case can be made for presenting the monthly money numbers (both the provisionals and full figures) unadjusted:

- seasonally adjusted numbers can mislead commentators, as with the PSBR, into believing that all the erratic fluctuations had been smoothed out

CONFIDENTIAL

- seasonal patterns vary and this variation is particularly difficult to capture in rapidly changing financial markets

- the calendar month £M3 seasonals being prepared by the Bank are based on partial information for 4 years only, a very short period for this sort of exercise

- unadjusted money figures would focus attention on the cash flows actually occurring in the marketplace and not on the notional flows created by the Bank's seasonal adjusters.

9. If we adopted this course, we would have to say more, qualitatively, when the figures were published about regularly recurring factors (tax, interest charging, etc.) likely to explain a particular month's money figure. But, as with the PSBR, we could cover this in the regular briefing we give to the press and other commentators, at the same time as discussing non-recurring special factors. We could explain that, given only partial and short-term historical information for calendar months, we did not feel confident enough to quantify the impact of the various seasonal factors that may have been at work (indeed we would have to stress this in explaining what distinguishes us from the US, Germany and Japan who do publish seasonally adjusted monthly money figures). We could point out that we target the 12 month growth rates - and there are strong arguments for looking at growth over this longer period, since short term movements have a large erratic element. And we could add that, since a longer backrun of information was available, quarterly seasonal adjustments for the monetary aggregates and counterparts would continue to be published.

10. A separate, but related, issue is whether we could take the opportunity of the new reporting regime to try

CONFIDENTIAL

to reduce the present emphasis on £M3 counterparts, for example by introducing more information on components (perhaps subdividing £M3 into NIBM1, etc.) alongside the counterparts. We doubt whether we could drop the counterparts information altogether - there is of course a lot of market interest in the banking lending figure. But we do not need to decide this now. The urgent issue is the one of seasonal adjustment.

11. It will not be easy to convince the Bank of our views on this (and as you know they regard the money press releases as theirs, not ours). They seem strongly wedded to the idea of showing the counterparts in seasonally adjusted form, including the PSBR, partly on the grounds that they do not want to deprive the market of information it already receives (eg on the progress of funding the PSBR, seasonally adjusted). I need to discuss all this with the Bank during August and press on them quite radical changes in the article they propose to publish in the September Bulletin (the first draft of which has runs of seasonally adjusted figures).

12. Before I do battle I should be grateful to know whether you are content with the approach we propose i.e. that we should try to move away from publishing monthly seasonally adjusted money figures and counterparts, and move towards a form of (unadjusted) provisionals press notice on the lines of the attached.



F CASSELL

ANNEX**PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: OCTOBER 1986**

Preliminary information suggests that, in the month to 31 October 1986, M0 rose by about X% and £M3 rose by about Y%.

Notes for Editors

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

Rates of growth, annualised %, not seasonally adjusted.

	Latest 3 months	Latest 6 months	Latest 12 months
M0	X1%	X2%	X3%
£M3	Y1%	Y2%	Y3%

2. Provisional counterparts to the change in £M3 in October are as follows:

£ billion, not seasonally adjusted

	<u>October</u>	<u>Latest 12 months</u>
PSBR	0.0	0.0
Debt sales to nbps ⁽¹⁾ and external flows to public sector ⁽²⁾ (of which, debt sales to nbps +0.0)	0.0	0.0
Sterling lending to private sector ⁽³⁾	0.0	0.0
Other counterparts ⁽⁴⁾	0.0	0.0
	—	—
	0.0	0.0
	—	—

(1) Net purchases (-) of public sector debt by the non-bank private sector.

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

(3) Including Issue Department holdings of commercial bills.

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

3. Full money and banking figures for October, including revised estimates of the figures given above, will be published on 1 December.

CONFIDENTIAL

FROM: F CASSELL
31 July 1986

CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Sedgwick, o.r.
Mr Peretz
Mr Kelly
Miss Peirson
Mr Pickford
Mr Hannah
Mr Richardson

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CONFIDENTIAL

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Sterling lending to private sector ⁽³⁾	0.0	0.0
Other counterparts ⁽⁴⁾	0.0	0.0
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SECRET AND PERSONAL

FROM: R M HEATH

DATE: 1 AUGUST 1986

1. MR RICHARDSON *mer*2. CHANCELLOR *Ch*

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

Thanks. Bank subject to X.

Picture as foreshadowed by Gov. I have muted out separately that briefing should bring out slower growth in personal sector £M3 (Colin Mowles note). AA 1/8

PROVISIONAL MONEY FIGURES : BANKING JULY

The provisional money supply figures for banking July will be published by the Bank at 2.30 pm on Tuesday 5 August.

SUMMARY

2. M0 rose by 0.2 per cent (compared with 0.2 per cent in the first guess and flat in the forecast). This will appear in the press notice as a rise of "about $\frac{1}{4}$ per cent". Annual growth of M0, at 3.0 per cent (below last month's 3.1 per cent), remains in the lower half of its 2-6 per cent target range.

3. £M3 is provisionally estimated to have risen by 0.1 per cent (above the first guess of -0.3 per cent, but below the forecast of +0.2 per cent). This will appear in the press notice as a rise of "0- $\frac{1}{4}$ per cent". This puts the annual growth rate of £M3 at 19.3 per cent (up from last month's 18.3 per cent).

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

Table 1 : Monetary Aggregates (provisional)

	Banking July	Figures Press Notice	Annual Growth Rates		
			3 months	6 months	12 months
M0	0.2	about $\frac{1}{4}$	3.7	2.0	3.0
£M3	0.1	0 - $\frac{1}{4}$	18.4	23.5	19.3

5. Sterling lending increased by £2,983 million compared with an average of £1,880 million over the previous 12 months.
6. The figures confirm the recent trend of a substantial build up of private sector sight deposits, both interest bearing and non-interest bearing.
7. PSL2 annual growth rate was 14.6 per cent in July, above the 12-14 per cent band.

PRESENTATION OF FIGURES

8. The July growth in £M3 is the lowest since January - perhaps marginally below market expectations. However the annual growth rate at 19.3 per cent is close to the recent peak in May (growth was lower in June because it was distorted by the Abbey Life issue a year ago). The bank lending figure is the second largest ever, exceeded only by April this year. So the markets seem unlikely to derive much comfort from the news, and could react adversely if they concentrate on the bank lending figure.

9. M0 continues to be well behaved but house prices continue to rise. Sterling had displayed recent signs of weakness triggered by lower oil prices. The annual growth of PSL2, albeit 5 percentage points below £M3, seems to be established above the 12-14 per cent range evident for the past few years. In summary the latest figures in themselves - apart from the exchange rate - confirm rather than change the picture of recent trends.

10. The suggested line to take in the attached draft briefing is also much the same as hitherto; it plays down the importance of £M3 and emphasises 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 5 August is attached.

12. Can I please have comments on the press notice by lunch-

time on Monday 4 August, and on the draft press briefing by close on that day.

DETAIL

M0

13. M0 rose by 0.2 per cent in July. The annual growth rate of M0 at 3.0 per cent, as forecast, was slightly below June's 3.1 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 £59 million. Bankers' balances fell by £24 million from an already low level in banking June. The outturn for the first two weeks of banking August suggests a rise in the annual growth rate of M0, as forecast, above 3½ per cent.

£M3: Components and Retail Deposits

14. Table 2 sets out the changes in the counterparts to £M3 (and PSL2). It can be seen that the slowdown in the growth of £M3 was caused by the fall in wholesale deposits. Retail deposits continue to rise strongly.

15. Notes and coins fell by £96 million following two months in which they increased by over £100 million. Nib sight deposits rose by £320 million following a £209 million fall in June. Nib sight deposits have risen by £1½ billion or 11 per cent (at an annual rate) since February. This contrasts with the same period last year when nib sight deposits fell by £184 million. Retail interest bearing deposits rose by £490 million close to the outturn in June, again continuing the consistently strong rate of inflows evident since February (23.3 per cent growth at an annual rate). As a consequence of the above, nib M1, over the last twelve months, has risen by 8 per cent (compared with 1.2 per cent in December), M1 by 22.2 per cent (18 per cent in December) and M2 by 13.8 per cent (9.3 per cent in December).

16. Looking at retail deposits at banks, building societies and national savings combined (see table 3), it would appear that at present building societies are losing out to both their

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

			£ million, seasonally adjusted		
			Banking July	growth in previous 12 Months to June	
				monthly rate	percentage increase
Notes and coin in circulation			-96	30	2.9
Bank deposits:					
Retail	(a)	interest bearing	493	531	18.7
	(b)	non-interest bearing	322	-25	-1.3
Wholesale (including £CDs)			-517	1,250	31.6
Change in £M3			202	1,786	18.3
Bills and other non-building society flows in PSL2			-191	23	1.8
Building Society:					
Inflows	(a)	retail (incl. interest credited)	658	1,143	14.1
	(b)	wholesale	-54	33	n/a
Liquid Assets (inc -)			300	-318	n/a
Change in PSL2			915	2,667	14.2

SECRET

TABLE 3: RETAIL DEPOSITS

		Seasonally adjusted			
		Banks	Building ¹ Societies	National ² Savings	Total
<u>% change</u>		O	P	R	T
1984-85 ³		7.1	14.8	12.3	11.9
1985-86 ³		12.6	14.6	7.1	12.9
Over 12 months					
1985	August	9.1	15.3	12.7	12.9
	September	9.1	15.2	9.9	12.4
	October	9.9	14.6	10.0	12.4
	November	11.0	14.4	9.7	12.5
	December	10.1	14.5	9.4	12.3
1986	January	9.4	14.2	8.7	11.8
	February	11.0	14.2	8.6	12.3
	March	11.4	14.6	7.8	12.5
	April	12.6	14.8	7.1	12.9
	May	14.8	14.6	7.0	13.4
	June	10.6	14.1	6.8	11.8
	July	15.6	13.5	7.2	13.1
Over 6 months at annual rate					
1986	February	10.4	14.8	5.2	11.9
	March	13.7	15.5	3.2	12.9
	April	14.9	15.4	2.2	13.1
	May	15.0	14.5	2.5	12.7
	June	15.2	14.4	4.4	13.1
	July	17.9	12.6	7.0	13.3
<u>£mn changes</u>					
monthly average					
1984-85		294	1028	262	1583
1985-86		568	1172	161	1908
monthly change					
1986	February	168	1440	74	1682
	March	795	1341	-55	2081
	April	1111	1119	46	2276
	May	1863	997	241	3101
	June	312	858	350	1520
	July	815	658	403	1877

Notes

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

SECRET

competitors. Building society retail inflows, net of interest credited, in the latest three months are roughly half the rate of the first three months of the year. Not only have bank deposits growth been strong recently but national savings have recovered. In unadjusted terms national savings inflows have recovered from £290 million in Q1 to £782 in the latest three months. (The seasonal adjustment factors make this difference even larger.)

17. Wholesale deposits at banks fell by £520 million in July, following a rise of £1,267 million in June, which itself was considerably slower than the £2.3 billion average increase in the previous three months. In July the Bank estimate that building society bank deposits fell by £260 million. This is the second consecutive monthly fall following a long period in which building societies built up their bank deposits. The reversal could reflect their weaker retail inflows.

£M3 Counterparts

18. Table 4 compares the provisional counterparts of growth in £M3 to the forecast in Mr Walsh's monetary prospects submission of 17 July. The counterparts also appear, in simplified form, in the Bank's draft provisionals press notice.

19. The main source of difference between forecast and outturn was in bank lending, but this was offset by larger net non-deposit liabilities and negative externals. As noted last month a large difference between bank lending in the first guess and the provisionals is becoming increasingly common. In four out of the last five months bank lending has been around $\frac{3}{4}$ to £1 billion higher in the provisionals than in the first guess.

21. The July increase of £2,980 million in bank lending is the second largest on record and compares with an average of £1,880 million in the previous six months. There is no obvious explanation for this huge increase. The one special factor in July was an unwinding of a £200 million special factor in June (ie bank lending would have exceeded £3 billion otherwise).

22. Breaking lending down by instrument shows that bank

SECRET AND PERSONAL

TABLE 4: PROVISIONAL STERLING M3 IN BANKING JULY 1986

		£ million seasonally adjusted	
<u>DOMESTIC COUNTERPARTS</u>		<u>Provisional</u>	<u>Forecast</u> ¹
CGBR:	own account	+313	+280
	on-lending to LAs	+117	+105
	on-lending to PCs	+192	+180
		<hr/>	<hr/>
		+622	+565
Other public sector:	Local Authorities	+61	+130
	Public Corporations	-393	-430
	PC currency deposits	-8	-
		<hr/>	<hr/>
		-340	-300
Net purchases of CG debt by non-bank private sector (inc -):			
	Gilts	-534	-780
	Treasury bills	+147	-100
	National Savings	-403	-435
	Certificates of tax deposit	-157	-120
	Other	-8	-
		<hr/>	<hr/>
		-955	-1,235
External and fc finance of public sector		-470	-225
Sterling lending to the private sector:			
	Bank lending to private sector	+383	
	Issue Department Commercial bills ²	+2,600	
		<hr/>	<hr/>
		+2,983	+1,850
Sub-total: Domestic Counterparts plus external and fc finance of the public sector		+1,840	+655
<u>EXTERNAL COUNTERPARTS</u> ³			
External and foreign currency finance			
	£ deposits net from banks abroad (inc -)	+136	
	Other overseas £ deposits (inc -)	-472	
	£ lending to overseas non-banks	-81	
	Banks' net foreign currency liabs (inc -)	+289	
	Foreign Currency net non-dep liabilities	-185	
	Seasonal adjustment	-134	
		<hr/>	<hr/>
		-447	+415
<u>NET NON-DEPOSIT LIABILITIES (inc -)</u>		-1,191	-800
<u>STERLING M3</u>		+202	+270
(monthly % change)		(+0.1%)	(+0.2%)
OVER(-)/UNDERFUNDING(+) ⁴		-1,143	1,195

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

2 There was also an increase in Banking department holdings. Total holdings by the Bank rose by £2,615 million.

3 Excluding external flows to the public sector.

4 Wide definition

investments continue to grow strongly at £275 million and that purchases of building society CDs and time deposits were unusually high at £266 million. However in themselves they do not explain the exceptionally high figure. Bill finance increased by a large £1,937 million with Bank of England holdings rising by a record £2,600 million. These purchases of bills reflected the large £2,406 million overfund of the PSBR in unadjusted terms.

23. The large overfund, together with a known £1 billion of banks' issues alone, will have drained liquidity; this helps explain the fall in wholesale deposits and may also have led to some additional short term (bill finance) borrowing.

24. In July there was wide overfunding seasonally adjusted of £1,143 million. This reduces to £260 million the cumulative underspend since mid March. The modified 'PSBR' was £282 million compared with a forecast of £265 million. LA borrowing and PC borrowing at £117 million and £192 million respectively were close to normal levels following the surge in LA borrowing earlier in the financial year.

25. Gross gilt sales at £1,568 million were below the ambitious £2 billion target in July. Net sales, at £1 billion, were at their highest level since April 1985. National Savings continued their recent recovery at £403 million seasonally adjusted.

26. The banking externals were a negative influence of £447 million on £M3 after three months in which there had been a large cumulative addition to money. This mainly reflected a modest increase in overseas sterling deposits and a small fall in overseas non banks sterling borrowing.

27. UK residents increased their foreign currency deposits by £985 million following the huge increase of £1,639 million

in June. This caused M3, like the wider sterling aggregate, to grow faster than £M3 (see table 5).

28. Net non deposit liabilities were a negative influence on £M3 by £1,191 million, following the £915 million negative influence in June. These are two unusually large figures for nndls. The main explanation in July was a £1,094 million increase in banks capital which was largely due to the National Westminster rights issue and the Morgan Grenfell share issue.



R M HEATH

PP 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 5 AUGUST 1986

MONEY SUPPLY IN BANKING JULY: PRESS BRIEFING

LINE TO TAKE

M0 is well within target range. 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: Developments and financial innovations are making it increasingly difficult to read meaning into movements of individual counterparts. The coincidence in this month's figures of a record negative impact on £M3 of the 'other counterparts' and a near record rise in bank lending casts doubt on the significance of the size of both counterparts.
- (v) Exchange rate: Some recent adjustment reflecting lower oil prices.

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 (2.5 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.

(iv) Other countries

Most major countries 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) 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, 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.

UNTIL 2.30PM ON TUESDAY 5 AUGUST 1986

- (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) Funding policy

Same as announced in Mansion House speech: "to fund the PSBR over the year as a whole; no more, no less" (not a full fund every month - impracticable - so temporary over/under funding will occur).

- (v) Funding progress?

Gross gilt sales have been proceeding at a pace more than adequate to meet funding requirement over 1986-87 as a whole. Net sales are uneven owing to redemption profiles. Monthly under/over funding also affected by PSBR profile. £1140 overfund in July broadly offsets cumulative underfund in past three months. Such variations likely to continue.

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

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

- (vii) Growth of PSL's

All broad aggregates and their relative growth have been affected by the liberalisation of the financial system in recent years and the shift from negative to positive real interest rates in the 1980's.

Table 5

OTHER NARROW AGGREGATES

		NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY
<u>NIB M1</u>	Monthly change (£ millions)	+458	+166	+34	-59	+199	+180	+1,171	-77	+226
	Monthly % change	+1.4	+0.5	+0.1	-0.2	+0.6	+0.5	+3.4	-0.2	+0.6
	Three-monthly % change a.r.	+3.7	+9.7	+8.0	+1.7	+2.0	+3.8	+19.3	+15.5	+16.0
	Six-monthly % change a.r.	+3.0	-7.6	+6.4	+2.7	+5.8	+5.9	+10.1	+8.6	+9.7
	12-monthly % change	+1.6	+1.2	+3.0	+2.7	+3.7	+4.0	+6.5	+0.2	+8.1
<u>M1</u>	Monthly change (£ millions)	+1,424	+960	-418	+117	+1,476	+1,371	+2,648	+737	+728
	Monthly % change	+2.5	+1.6	-0.7	+0.2	+2.5	+2.2	+4.2	+1.1	+1.1
	Three-monthly % change a.r.	+21.3	+29.2	+14.4	+4.6	+8.1	+21.5	+42.4	+35.0	+29.1
	Six-monthly % change a.r.	+22.1	+16.4	+19.4	+12.6	+18.2	+17.9	+22.0	+20.8	+25.2
	12-monthly % change	+17.1	+18.0	+19.5	+20.0	+20.7	+19.8	+22.1	+18.6	+22.3
<u>M2</u>	Provisionally seasonally adjust									
	Monthly change (£ millions)	+2,707	+674	+722	+953	+1,705	+1,882	+2,771	+1,483	+1,332
	Monthly % change	+1.9	+0.5	+0.5	+0.6	+1.2	+1.3	+1.8	+1.0	+0.9
	Three-monthly % change a.r.	+18.2	+14.8	+12.0	+6.6	+9.6	+12.9	+18.3	+17.4	+15.6
	Six-monthly % change a.r.	+13.0	+9.6	+13.3	+12.3	+12.1	+12.5	+12.3	+13.4	+14.3
	12-monthly % change	+9.6	+9.3	+8.6	+9.3	+9.8	+11.1	+12.7	+11.5	+13.8
<u>Levels :</u>	NIBM1	34,294	34,461	34,496	34,438	34,641	34,822	35,994	35,918	36,145
	M1	58,840	59,800	59,400	59,520	61,030	62,400	65,050	65,800	66,530
	M2 (Partially S/A)	145,600	146,275	146,998	147,952	149,661	151,544	154,316	155,800	157,133

1985-86 KEY AGGREGATES

Table 6

TARGET AGGREGATES

		NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY
<u>£M3</u>	(Exc. Public sector deposit)									
	Monthly change (£ millions)	+2,407	+740	+96	+1,250	+2,846	+4,081	+3,832	+1,712	+202
	Monthly % change	+2.0	+0.5	+0.1	+1.0	+2.3	+3.2	+2.9	+1.3	+0.1
	Three-monthly % change a.r.	+19.9	+14.4	+11.1	+6.9	+14.1	+28.9	+38.8	+33.4	+18.4
	Six-monthly % change a.r.	+17.3	+13.4	+15.2	+13.2	+14.2	+19.6	+21.8	+23.4	+23.5
	12 Monthly % change	+14.4	+15.1	+14.1	+14.9	+16.4	+16.7	+19.5	+18.3	+19.3
<u>MO</u>	Averaged weekly									
	Monthly change (£ millions)	+79	+49	+205	-92	+65	+37	+21	+76	+35
	Monthly % change	+0.6	+0.3	+1.4	-0.6	+0.5	+0.3	+0.1	+0.5	+0.2
	Three-monthly % change a.r.	+3.0	+2.7	+9.8	+4.6	+5.1	+0.3	+3.5	+3.8	+3.7
	Six-monthly % change a.r.	+2.7	+1.9	+4.0	+3.8	+3.9	+4.9	+4.1	+4.4	+2.0
	12-monthly % change	+3.4	+2.4	+4.5	+3.5	+3.6	+3.2	+3.4	+3.1	+3.0
<u>OTHER AGGREGATES</u>										
<u>PSL2</u>	Monthly change (£ millicns)	+3,690	+1,315	+1,299	+3,034	+3,783	+4,629	+3,832	+3,290	+915
	Monthly % change	+1.6	+0.6	+0.5	+1.3	+1.6	+1.9	+1.5	+1.3	+0.4
	Three-monthly % change a.r.	+15.0	+12.7	+11.3	+9.9	+14.4	+20.6	+21.9	+20.6	+13.5
	Six-monthly % change a.r.	+13.6	+11.1	+12.2	+12.4	+13.5	+15.9	+15.8	+17.5	+17.0
	12-monthly % change	+12.9	+13.4	+12.4	+12.9	+13.5	+13.5	+14.7	+14.2	+14.6
<u>M2</u>	Monthly change (£ millions)	+2,212	+1,835	+490	+349	+2,057	+2,769	+2,094	+2,474	+1,861
<u>unadjusted</u>	Monthly % change	+1.6	+1.3	+0.3	+0.2	+1.4	+1.9	+1.4	+1.6	+1.2
	12-monthly % change	+9.6	+9.3	+8.8	+9.7	+10.2	+11.2	+12.8	+11.8	+14.0
	(exc re-classifications)	+8.9	+8.7	+8.2	+9.0	+9.5	+10.6	+12.1	+11.1	+13.3
<u>Levels :</u>	£M3 (Exc. Pub Sec Deps)	124,172	124,886	124,930	126,094	129,003	133,086	136,919	138,651	138,856
	MO (Averaged weekly)	14,205	14,254	14,459	14,367	14,432	14,469	14,490	14,566	14,601
	PSL 2	235,763	237,035	238,284	241,235	245,031	249,661	253,494	257,087	258,003
	M2 (unadjusted)	144,205	146,040	146,530	146,879	148,939	151,708	153,802	156,276	158,137

Table 7

OTHER WIDE AGGREGATES

	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY
<u>PSL1</u>									
Monthly change (£ millions)	+2,375	+651	-252	+1,258	+3,074	+4,196	+3,466	+1,997	-52
Monthly % change	+1.9	+0.5	-0.2	+1.0	+2.4	+3.2	+2.5	+1.4	-
Three-monthly % change a.r.	+18.6	+14.3	+9.1	+5.3	+13.3	+29.3	+37.5	+32.4	+16.8
Six-monthly % change a.r.	+16.3	+12.1	+13.0	+11.7	+13.8	+18.8	+20.3	+22.5	+22.9
12-monthly % change	+13.5	+14.3	+13.1	+13.9	+15.4	+15.6	+18.2	17.2	+17.8
<u>Wider £ Agg</u>									
Monthly change (£ milions)	+2,552	+598	+738	+1,554	+3,261	+4,445	+3,077	+473	+538
Monthly % change	+1.7	+0.4	+0.5	+1.0	+2.2	+2.9	+1.9	+0.3	+0.3
Three-monthly % change a.r.	+15.6	+11.9	+11.1	+8.0	+15.8	+27.1	+31.7	+22.4	+10.7
Six-monthly % change a.r.	+14.5	+11.4	+13.5	+11.8	+13.8	+18.8	+19.3	+19.0	+18.6
12-monthly % change	+13.3	+13.8	+13.5	+14.2	+14.3	+14.9	+16.9	+15.1	+16.0
<u>M3</u>									
(Exc. Public Sector Deposits)									
Monthly change (£ millions)	+3,012	+847	+169	+1,694	+3,285	+3,851	+4,563	+3,351	+1,187
Monthly % change	+2.1	+0.6	+0.1	+1.2	+2.2	+2.6	+3.0	+2.1	+0.7
Three-monthly % change a.r.	+17.9	+12.4	+11.9	+7.7	+15.0	+26.8	+36.1	+35.4	+25.9
Six-monthly % change a.r.	+15.8	+12.7	+15.3	+12.7	+13.7	+19.1	+21.1	+24.8	+26.3
12-monthly % change	+12.9	+12.9	+10.9	+11.6	+14.1	+15.9	+18.4	+18.6	+20.7
<u>Levels :</u>									
PSL1	128,221	128,824	128,522	129,697	132,722	136,919	140,386	142,407	142,356
Wider £ Agg	148,464	149,062	149,747	151,212	154,575	159,022	162,099	162,567	163,108
M3 (ex. Pub. Sec. Deps)	143,640	144,466	144,577	146,187	149,526	153,377	157,938	161,315	162,502

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING JULY 1986

Preliminary information suggests that, in the four weeks to 16 July 1986, M0 may have risen by about 1/4% and £M3 may have risen by 0%-1/4%, after seasonal adjustment.

Note for Editors

1 The provisional estimates for July 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	2	3
£M3	18 1/2	23 1/2	19 1/4

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

£ billion, seasonally adjusted

PSBR ⁽¹⁾	+0.2
Debt sales to nbps ⁽²⁾ and external flows to public sector ⁽³⁾ (of which, debt sales to nbps -0.9)	-1.4
Sterling lending to private sector ⁽⁴⁾	+3.0
Other counterparts ⁽⁵⁾	-1.6
	<u>+0.2</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 contractionary by about £1.2 billion. The growth in sterling lending to the private sector was about £3.0 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 July, including revised estimates of the growth rates given above, will be published on 14 August.

SECRET AND PERSONAL

PLP



FROM: A C S ALLAN
DATE: 4 AUGUST 1986

MR R M HEATH

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr Culpin
Mr Peretz
Mr Walsh
Mr Richardson
Mr Ridlington
Mr Ross Goobey

PROVISIONAL MONEY FIGURES: BANKING JULY

The Chancellor was grateful for your note of 1 August with the provisional money supply figures for banking July. He was content with the briefing subject to the point he has raised separately: that it should bring out the point that personal sector £M3 has been growing more slowly than the total.

ACSA
A C S ALLAN



MR CASSELL

FROM: A C S ALLAN

DATE: 4 AUGUST 1986

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Peretz
Mr Kelly
Miss Peirson
Mr Hannah
Mr Richardson

SEASONALLY ADJUSTED PSBR AND MONEY

The Chancellor was grateful for your minute of 31 July. He entirely agrees with the approach you propose.

ACSA

A C S ALLAN

What I am on - no record status - Ch, please to pose for the personal sector £M3, but are unhappy about saying anything about personal sector £M3. I think their concern is somewhat over-stated, but am not inclined to press for it to be included too formally in the briefing. I know Robert is seized of the point as one way of illustrating the difficulties of interpreting £M3 growth.

FROM: M G RICHARDSON
DATE: 4 August 1986

CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr Culpin
Mr Peretz o/r
Mr Walsh o/r
Mr Mowl
Mr Ridlington
Mr Heath
Mr Ross Goobey

PROVISIONAL MONEY FIGURES: BANKING JULY

Mr Allan's minute of earlier today asked that the briefing on the July provisionals should make reference to the relatively slow growth of personal sector £M3. However, examination of the latest figures (not available at the time of Mr Mowl's submission last week) suggests that such a course might backfire.

2. Personal sector £M3 data are available only on a quarterly basis; the latest figures publicly available refer to Q1 1986 and Q2 will appear in the September BEQB. The twelve month growth rates will then be as follows:

	Q1	Q2	%
£M3 (s/a)	16.6	18.6	
£M3 (unadjusted)	15.7	18.4	
Personal sector £M3 (unadjusted)	10.9	12.9	

Although the annual rate of growth of personal sector £M3 was lower than that of £M3 in the second quarter, its acceleration was slightly faster than that of £M3.

3. In the monthly statistics the closest approximation to personal sector deposits is retail deposits. These are not given in the Provisionals press release, but will appear with the full money figures published on 14 August in unadjusted form. Twelve

2005-11

! It seems to me to be clutching at straws to invoke second differences

AA 4/8

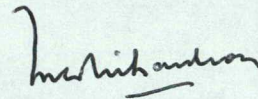
month growth rates for the last three banking months are as follows:

	May	June	July	%
£M3 (s/a)	19.5	18.3	19.3	
retail deposits (s/a)	14.8	10.6	15.6	

Monthly figures are more erratic, but present the same problem: the annual growth of retail deposits is accelerating (this partly reflects the Building Societies' loss of share to banks referred to in Mr Heath's minute of 4 August). Indeed the figures appearing on Thursday week will show an (erratic) acceleration of nearly 50% over last month's growth rate.

4. Our normal practice is to give very little explanation of the provisional money figures beyond the bare data in the press release. We make an exception and give further information when we can be confident that it is accurate and that it will help the presentation of monetary growth. I am not sure that the above figures give sufficient confidence to make an exception for personal/retail deposits. For this reason I should be grateful for confirmation that the provisional briefing should refer to this component rather than remain unamended.

5. This minute has been agreed with Mr Mowl.



M G RICHARDSON

SECRET

pup



FROM: A C S ALLAN
DATE: 5 AUGUST 1986

MR RICHARDSON

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr Culpin
Mr Peretz
Mr Walsh
Mr Mowl
Mr Ridlington
Mr Heath
Mr Ross Goobey

PROVISIONAL MONEY FIGURES: BANKING JULY

The Chancellor has seen your minute of 4 August. He was not proposing any on-the-record statement about the detailed numbers for the growth of personal sector £M3. But, as he has already indicated, he believes that the point about the relatively slower growth of personal sector £M3 should be part of the general background briefing for use on occasions such as this. He notes that the Q2 data still shows personal sector £M3 growing at 13 per cent compared with total £M3 growing at 18½ per cent.

A handwritten signature in black ink that reads 'A C S Allan'.

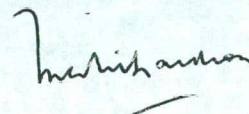
A C S ALLAN

PPS in
pwpFROM: M G RICHARDSON
DATE: 5 AUGUST 1986

MR CULPIN

cc: PPS ✓
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr Peretz o/r
Mr Walsh o/r
Mr Ridlington**BANKING JULY: PROVISIONAL MONEY FIGURES AND MONTHLY
STATEMENT OF THE CLEARING BANKS**

- ... I attach the press briefing for today's provisionals. It is unchanged from the material submitted with Mr Heath's minute of 1 August; you are aware of the Chancellor's view that the growth rate of personal sector/retail deposits is a useful background point.
- ... 2. Also attached are the Bank's Press Notice which is unchanged from the draft circulated with Mr Heath's minute and 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).



M G RICHARDSON

SECRET AND PERSONAL
UNTIL 2.30 PM ON TUESDAY 5 AUGUST 1986

MONEY SUPPLY IN BANKING JULY: PRESS BRIEFING

LINE TO TAKE

M0 is well within target range. 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: Developments and financial innovations are making it increasingly difficult to read meaning into movements of individual counterparts. The coincidence in this month's figures of a record negative impact on £M3 of the 'other counterparts' and a near record rise in bank lending casts doubt on the significance of the size of both counterparts.
- (v) Exchange rate: Some recent adjustment reflecting lower oil prices.

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 (2.5 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.

(iv) Other countries

Most major countries 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) 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, 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.

UNTIL 2.30PM ON TUESDAY 5 AUGUST 1986

- (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) Funding policy

Same as announced in Mansion House speech: "to fund the PSBR over the year as a whole no more, no less" (not a full fund every month - impracticable - so temporary over/under funding will occur).

- (v) Funding progress?

Gross gilt sales have been proceeding at a pace more than adequate to meet funding requirement over 1986-87 as a whole. Net sales are uneven owing to redemption profiles. Monthly under/over funding also affected by PSBR profile. £1140 overfund in July broadly offsets cumulative underfund in past three months. Such variations likely to continue.

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

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

- (vii) Growth of PSL's

All broad aggregates and their relative growth have been affected by the liberalisation of the financial system in recent years and the shift from negative to positive real interest rates in the 1980's.

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING JULY 1986

Preliminary information suggests that, in the four weeks to 16 July 1986, M0 may have risen by about 1/4% and £M3 may have risen by 0%–1/4%, after seasonal adjustment.

Note for Editors

1 The provisional estimates for July 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	2	3
£M3	18 1/2	23 1/2	19 1/4

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

£ billion, seasonally adjusted

PSBR ⁽¹⁾	+0.2
Debt sales to nbps ⁽²⁾ and external flows to public sector ⁽³⁾ (of which, debt sales to nbps -0.9)	-1.4
Sterling lending to private sector ⁽⁴⁾	+3.0
Other counterparts ⁽⁵⁾	-1.6
	<u>+0.2</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 contractionary by about £1.2 billion. The growth in sterling lending to the private sector was about £3.0 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 July, including revised estimates of the growth rates given above, will be published on 14 August.

PRESS INFORMATION from Banking Information Service

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

NOT FOR PUBLICATION BEFORE 2.30 pm

5th August 1986

MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS

JULY 1986

Sterling advances to the U.K. private sector by the London and Scottish banks rose by £1,795 million in the four weeks to 16th July. A large seasonal rise was expected, largely on account of quarterly interest charging, and after allowing both for this and for transit items, the underlying movement is a modest rise of some £250 million, much lower than in recent months. On the other hand, bill finance probably expanded strongly this month, with acceptances granted by the London and Scottish banks showing an increase of some £900 million.

Analysis of advances, which is not seasonally adjusted, shows increases in most categories, as would be expected with quarterly interest charging. Lending to persons, however, accounted for more than half the rise, with a record increase for mortgage lending of £670 million, and other personal lending also rising strongly by £332 million (including some £60 million of credit card credit). Other large movements included advances to agriculture (+£278 million) and to "other services" (+£304 million); advances to manufacturers rose by only £223 million, but they also borrowed £470 million through acceptance credits.

Within the banks' other assets, lending to the L.D.M.A. rose by £375 million. The banks reduced both their borrowing (by £459 million) and their lending (by £846 million) in the inter-bank and C.D. markets, the net effect being to increase their borrowing by £387 million.

On the liabilities side of the balance sheet, deposits from the U.K. private sector continued to rise, by £792 million. However, after adjustment for seasonal factors and for transit items, this became an underlying rise of £370 million, the smallest

rise for some months. Sight deposits more than accounted for the rise, with further inflows to high-interest personal accounts, time deposits falling back after last month's rise. Public sector deposits rose, by £103 million, and overseas deposits by £69 million.

The increase in "other liabilities" partly reflects the rights issue of over £700 million by National Westminster Bank.

Eligible liabilities rose by £1,582 million to £102,834 million.

HOUSE PURCHASE FINANCE

Gross loans advanced for house purchase nearly doubled in the quarter to 30th June to £1,570 million, against £820 million in the previous quarter and £925 million in the corresponding quarter last year. The increase was no doubt partly seasonal, but also partly due to promotional campaigns by some of the banks.

Approvals of new mortgages in the latest quarter also doubled, with 46,300 new mortgages to a value of £1,518 million being approved, against 22,900 mortgages worth £747 million in the previous quarter and 36,800 mortgages worth £1,185 million in the corresponding period of 1985.

For further information, please contact:

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

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

LONDON AND SCOTTISH BANKS AND CERTAIN SUBSIDIARIES

HOUSE PURCHASE FINANCE

1. GROSS LOANS MADE (excluding bridging finance)

Three months to 30th June, 1986 £1,570 million

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

In the three months to 30th June 1986, 46,300 new loans were approved for a total value of £1,518 million (an average value of £32,800), broken down in percentage terms as follows:

(i) Size of Loan

(ii) Purchase Price of Property

	<u>%</u>			<u>%</u>	
	<u>Value</u>	<u>Number</u>		<u>Number</u>	
Under £10,000	1	4	Under £15,000	9	
£10,000 - £19,999	8	18	£15,000 - £19,999	3	
£20,000 - £29,999	18	25	£20,000 - £29,999	11	
£30,000 - £49,999	42	39	£30,000 - £49,999	31	
£50,000 and over	31	14	£50,000 and over	46	
	—	—		—	
	*100	*100		100	
	—	—		—	

*of which:

First-time purchasers	13	14
New dwellings	9	8

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.

BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT 16th JULY, 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
LIABILITIES		
STERLING DEPOSITS :		
U.K. monetary sector	25,727	- 594
U.K. private sector	87,681	+ 792
U.K. public sector	2,976	+ 103
Overseas residents	14,076	+ 69
Certificates of deposit	9,104	+ 135
	139,564	+ 504
of which : Sight	56,415	+ 1,351
Time (inc. C.D.'s)	83,149	- 847
FOREIGN CURRENCY DEPOSITS :		
U.K. monetary sector	16,882	+ 56
Other U.K. residents	6,859	+ 76
Overseas residents	43,938	+ 199
Certificates of deposit	5,333	- 112
	73,012	+ 219
TOTAL DEPOSITS	212,575	+ 723
NOTES IN CIRCULATION	952	+ 26
OTHER LIABILITIES (a)	37,199	+ 1,851
TOTAL LIABILITIES	250,725	+ 2,600
ASSETS		
STERLING		
Cash & balances with Bank of England:		
Cash ratio deposits	464	0
Other balances	2,097	- 28
	2,560	- 28
Market loans :		
Discount houses	4,321	+ 375
Other U.K. monetary sector	25,318	- 746
U.K. monetary sector C.D.'s	3,961	- 100
Local authorities	625	- 69
Other	3,630	+ 153
	37,855	- 386
Bills :		
Treasury bills	164	+ 25
Other bills	3,257	- 29
	3,421	- 4
Investments :		
British Government stocks	3,748	+ 58
Other	4,519	- 36
	8,266	+ 22
Advances :		
U.K. private sector	91,818	+ 1,795
U.K. public sector	265	- 20
Overseas residents	5,779	- 70
	97,863	+ 1,706
Other sterling assets (a)	13,655	+ 873
FOREIGN CURRENCIES		
Market loans :		
U.K. monetary sector	17,379	+ 11
Certificates of deposit	520	- 25
Other	34,452	+ 321
	52,351	+ 307
Bills	702	- 68
Advances :		
U.K. private sector	6,871	+ 217
U.K. public sector	883	- 8
Overseas residents	17,421	- 137
	25,175	+ 72
Other foreign currency assets (a)	8,877	+ 107
TOTAL ASSETS	250,725	+ 2,600
ACCEPTANCES	5,331	+ 881
ELIGIBLE LIABILITIES	102,834	+ 1,582

(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
LIABILITIES								
Sterling deposits outstanding	139,564	5,842	32,576	24,504	24,195	41,114	8,032	3,299
change on month	+ 504	+ 171	+ 144	+ 163	+ 374	- 96	+ 12	- 265
Foreign currency deposits outstanding	73,012	1,031	14,819	10,685	13,781	20,915	3,530	8,251
change on month	+ 219	- 22	+ 635	- 352	- 280	+ 105	+ 143	- 10
Total deposits outstanding	212,575	6,873	47,396	35,189	37,977	62,029	11,562	11,551
change on month	+ 723	+ 150	+ 780	- 189	+ 95	+ 9	+ 154	- 275
STERLING ASSETS								
Cash and Balances with the Bank of England outstanding	2,560	317	487	249	497	521	476	13
change on month	- 28	- 13	- 43	- 3	- 1	+ 21	+ 14	- 4
Market loans :								
U.K. monetary sector								
outstanding	29,640	700	6,358	5,286	4,650	10,792	918	936
change on month	- 370	+ 44	+ 132	+ 706	- 510	- 313	- 232	- 197
Other								
outstanding	8,216	109	1,971	1,143	1,256	3,185	236	316
change on month	- 16	- 50	- 102	- 55	- 27	+ 184	+ 60	- 26
Bills								
outstanding	3,421	135	1,030	752	206	948	291	59
change on month	- 4	+ 15	- 10	- 299	+ 6	+ 187	+ 90	+ 8
British government stocks								
outstanding	3,748	256	749	635	843	855	207	203
change on month	+ 58	+ 12	- 31	+ 10	+ 73	- 11	+ 3	+ 3
Advances								
outstanding	97,863	4,961	24,099	16,589	17,275	25,741	6,737	2,460
change on month	+ 1,706	+ 151	+ 255	- 199	+ 656	+ 700	+ 74	+ 70
FOREIGN CURRENCY ASSETS								
Market loans and bills								
outstanding	53,053	384	10,928	8,540	7,901	17,107	2,395	5,798
change on month	+ 240	- 4	+ 446	- 314	- 114	+ 136	+ 148	- 57
Advances								
outstanding	25,175	853	3,740	3,312	6,103	6,255	1,409	3,503
change on month	+ 72	- 13	+ 84	+ 33	+ 38	- 59	- 4	- 7
ACCEPTANCES								
outstanding	5,331	268	1,267	501	1,197	1,200	451	446
change on month	+ 881	+ 8	+ 565	+ 131	+ 7	+ 141	+ 16	+ 13
ELIGIBLE LIABILITIES								
outstanding	102,834	5,063	24,505	17,990	18,489	27,889	6,846	2,052
change on month	+ 1,582	+ 180	+ 310	- 531	+ 1,221	+ 288	+ 191	- 76

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 de Zoete Wedd 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., Northern Bank Ltd., Northern Bank Development Corporation Ltd., and Clydesdale Bank Finance Corporation Ltd.

The National Westminster Group comprises National Westminster Bank PLC, Coutts & Co., Coutts Finance Co., NatWest Investment 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 Bank Ltd.

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

SECRET
UNTIL 2.30 PM ON THURSDAY 14 AUGUST

FROM: R M HEATH
DATE: 12 AUGUST 1986

MR CASSELL

cc: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Peretz c/r
Mr Sedgwick
Mr Scholar
Mr Walsh
Mr Culpin
Mr Pickford
Dr Rowlatt
Mr Richardson
Mr Ross Goobey

FULL MONEY FIGURES - BANKING JULY

... I attach the Bank's draft press release on the full money figures and accompanying banking statistics which will be published at 2.30 pm on Thursday 14 August.

2. The full figures are entirely consistent with the rounded figures published in the provisional press release last week. The text follows the same pattern as last month including a reference in paragraph 10 to the amount of sterling commercial paper outstanding at the end of the month.

3. The press briefing agreed for last week's provisionals ... press notice is attached. The briefing is unchanged.

4. Could I please have comments on the Bank's draft press release by noon on Wednesday 13 August, and any comments on the revised press briefing by close that day.

R. Heath.
R M HEATH

SECRET AND PERSONAL
UNTIL 2.30 PM ON THURSDAY 14 AUGUST 1986

MONEY SUPPLY IN BANKING JULY: PRESS BRIEFING

LINE TO TAKE

M0 is well within target range. 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: Developments and financial innovations are making it increasingly difficult to read meaning into movements of individual counterparts. The coincidence in this month's figures of a record negative impact on £M3 of the 'other counterparts' and a near record rise in bank lending casts doubt on the significance of the size of both counterparts.
- (v) Exchange rate: Some recent adjustment reflecting lower oil prices.

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 (2.5 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.

(iv) Other countries

Most major countries 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) or too tight (broad money, bank lending). But kept under constant review.

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£M3 growth remains difficult to interpret, because other indicators (M0, 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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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."

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Same as announced in Mansion House speech: "to fund the PSBR over the year as a whole no more, no less". (not a full fund every month - impracticable - so temporary over/under funding will occur).

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

- (vii) Growth of PSL's

All broad aggregates and their relative growth have been affected by the liberalisation of the financial system in recent years and the shift from negative to positive real interest rates in the 1980's.

MONEY AND BANKING FIGURES: BANKING JULY 1986

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

1 During the four weeks to 16 July 1986, M0 (average of weekly levels) rose by £40 million (+0.2%) (Table B) and £M3 rose by £200 million (+0.1%) (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	+ 3.7	+ 2.0	+ 3.0
£M3	+18.4	+23.5	+19.3

3 Within £M3 there was a fall in banking July of £100 million in notes and coin, a rise of £320 million in non-interest-bearing sight deposits and a rise of £500 million in interest-bearing sight deposits. M1 rose by £720 million (+1.1%). Time deposits (including sterling certificates of deposit) of the UK private sector fell by £530 million.

4 The sterling value of private sector foreign currency deposits rose by £1,210 million, comprising a rise of £1,190 million reflecting transactions and a rise of £30 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £1,410 million (+0.9%) (Table E).

5 M2 (not seasonally adjusted) rose by £1,860 million (+1.2%) (Table F). PSL2 rose by £910 million (+0.4%) (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 contractionary by £1,170 million (see columns 1-7 of Table A). The central government borrowing requirement was £580 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 £340 million. There were net purchases of central government debt by the non-bank private sector of £940 million; within this gilt-edged stock accounted for

£540 million, National Savings for £390 million and CTDs for £160 million, partly offset by net sales by the private sector of Treasury bills of £150 million. External and foreign currency finance of the public sector was contractionary by £470 million.

8 Sterling lending to the private sector rose by £3,010 million. Foreign currency lending to the private sector rose by £1,000 million in transactions terms.

9 The external and foreign currency transactions of UK banks were contractionary by £450 million (see columns 9-12 of Table A). Net non-deposit sterling liabilities rose by £1,190 million, a contractionary influence.

10 In banking July, the amount of sterling commercial paper outstanding increased by an estimated £90 million, to £140 million. For the first time, the monetary sector reported holdings of commercial paper issued by UK companies of £10 million; changes in holdings of such paper are included in sterling lending to the private sector (Tables A and K). Monetary sector holdings of commercial paper issued by overseas companies, changes in which are included in sterling lending to the overseas sector (Table K) and within the external and foreign currency transactions of UK banks (Table A), fell by £10 million, to £10 million.

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 August 1986

12 The provisional seasonal movements for the five weeks ending 20 August 1986 are as follows:

	£ million
Notes and coin in circulation with the public	- 60
Private sector sterling sight bank deposits	<u>- 560</u>
M1	- 620
Other private sector sterling bank deposits	<u>+ 160</u>
£M3	<u>- 460</u>
M0 (averaged series)	<u>+ 140</u>
Bank lending in sterling to the private sector	<u>- 960</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 JULY 1986

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 3.7	+ 2.0	+ 3.0
M1	+ 29.0	+25.2	+22.3
of which:			
Non-interest bearing M1	+ 16.0	+ 9.7	+ 8.0
M2 (not seasonally adjusted)*	..	..	+13.9
£M3	+ 18.4	+23.5	+19.3
M3	+ 25.9	+26.3	+20.7
PSL1	+ 16.8	+22.9	+17.8
PSL2	+ 13.5	+17.0	+14.6

*the growth of M2 over the 12 months to mid-July 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 13.3%.

Banking statistics

16 July 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 July 17 [f]	- 1,162	-	478	- 29	- 409	- 324	- 4	+ 3,107	+ 18	- 236	- 409	+ 262	- 444	- 108
Aug. 21	+ 2,319	-	373	- 248	- 177	- 14	+ 50	+ 1,084	+ 261	- 591	- 604	- 145	+ 489	+ 2,051
Sept. 18	+ 1,667	-	323	- 85	- 34	- 156	+ 17	+ 406	+ 419	- 76	- 95	+ 233	- 154	+ 1,819
Oct. 16	+ 564	-	588	- 514	- 525	- 81	- 130	+ 3,536	+ 712	- 703	+ 164	+ 352	- 1,742	+ 1,045
Nov. 20	+ 2,666	-	1,125	- 737	- 109	- 400	- 193	+ 1,384	- 388	+ 243	+ 165	+ 183	+ 1,533	+ 2,526
Dec. 11	+ 1,490	+ 222	-	- 224	- 76	- 34	- 25	+ 980	+ 257	- 115	+ 17	- 1,130	- 491	+ 871
1986 Jan. 15	- 2,785	- 171	-	- 81	+ 504	- 290	- 2	+ 1,508	- 289	- 353	+ 356	+ 516	- 188	- 899
Feb. 19	- 786	- 179	-	- 263	- 100	+ 152	- 248	+ 1,279	+ 215	- 519	+ 85	+ 1,357	- 368	+ 455
Mar. 19	+ 942	- 307	-	+ 440	- 507	+ 236	+ 130	+ 2,362	+ 44	- 459	- 644	+ 564	+ 65	+ 2,866
Apr. 16	+ 4,274	- 1,054	-	- 693	- 273	+ 226	+ 322	+ 3,682	+ 547	- 911	- 659	- 106	- 1,095	+ 5,126
May 21	+ 1,629	- 837	-	+ 569	- 370	- 539	+ 55	+ 1,214	+ 59	+ 696	+ 133	+ 278	+ 591	+ 3,478
June 18	+ 3,038	- 1,020	-	- 540	- 524	- 35	+ 363	+ 1,372	+ 979	+ 260	- 606	- 682	- 1,240	+ 1,365
July 16	- 717	- 342	-	- 536	- 370	-	- 467	+ 4,600	+ 86	- 422	- 81	+ 105	- 1,072	+ 784
Month ended (seasonally adjusted)														
1985 July 17	- 92	-	477	- 29	- 438	- 324	- 9	+ 1,531	-	- 420	-	- 582	- 840	
Aug. 21	+ 2,090	-	362	- 248	- 314	- 14	+ 45	+ 1,727	-	- 961	-	+ 246	+ 2,209	
Sept. 18	+ 1,955	-	338	- 85	+ 3	- 156	+ 12	+ 971	-	+ 81	-	- 323	+ 2,120	
Oct. 16	+ 914	-	649	- 514	- 477	- 81	- 135	+ 2,237	-	+ 547	-	- 866	+ 976	
Nov. 20	+ 1,905	-	1,089	- 737	- 36	- 400	- 198	+ 2,069	-	- 339	-	+ 1,232	+ 2,407	
Dec. 11	+ 118	+ 449	-	- 224	- 56	- 34	- 30	+ 2,084	-	- 993	-	- 574	+ 740	
1986 Jan. 15	+ 53	- 352	-	- 81	+ 467	- 290	+ 48	+ 379	-	+ 25	-	- 153	+ 96	
Feb. 19	+ 684	- 239	-	- 263	- 225	+ 152	- 253	+ 1,494	-	+ 820	-	- 920	+ 1,250	
Mar. 19	+ 857	- 361	-	+ 440	- 378	+ 236	+ 126	+ 2,588	-	- 630	-	- 32	+ 2,846	
Apr. 16	+ 2,708	- 1,343	-	- 693	- 201	- 226	+ 319	+ 3,015	-	+ 588	-	- 86	+ 4,081	
May 21	+ 1,645	- 930	-	+ 569	- 379	- 539	+ 51	+ 1,683	-	+ 1,255	-	+ 477	+ 3,832	
June 18	+ 1,794	- 570	-	- 540	- 566	- 35	+ 359	+ 2,206	-	+ 53	-	- 989	+ 1,712	
July 16	+ 575	- 338	-	- 536	- 399	-	- 471	+ 3,005	-	- 446	-	- 1,193	+ 197	

[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 July 17	- 29	+ 8	- 196	- 273	- 217	- 169	- 4	- 438	- 467
Aug. 21	- 248	- 56	- 273	- 384	+ 149	+ 123	+ 3	- 425	- 562
Sept. 18	- 85	+ 6	- 228	- 229	+ 190	+ 228	- 2	- 119	- 82
Oct. 16	- 514	+ 17	- 191	- 197	- 351	- 297	-	- 1,039	- 991
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	- 81	+ 89	- 122	- 19	+ 534	+ 394	+ 3	+ 423	+ 386
Feb. 19	- 263	- 30	- 138	- 74	+ 62	- 127	+ 6	- 363	- 488
Mar. 19	+ 440	- 80	- 30	+ 55	- 398	- 354	+ 1	- 67	+ 62
Apr. 16	- 693	- 22	- 65	- 46	- 189	- 136	+ 3	- 966	- 894
May 21	+ 569	+ 21	- 211	- 241	- 180	- 159	-	+ 199	+ 190
June 18	- 540	- 199	- 245	- 350	- 177	- 114	- 3	- 1,064	- 1,106
July 16	- 536	+ 147	- 311	- 388	- 206	- 158	-	- 906	- 935

[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			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	June 19	12,438	12,486	1,350	1,379	93	628	1985	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			
	July 16	12,973	12,756	1,611	1,538	76	720		July 16	14,482	14,467	134	14,616	14,601			
Change in month ended								Change between average amounts outstanding									
1985	July 17	+ 236	- 23	+ 53	- 51	+ 121	-	1985	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			
	July 16	+ 166	- 101	+ 144	+ 39	- 87	- 1		July 16	+ 152	+ 59	- 24	+ 128	+ 35 +0.2			

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				
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
1986				
Dec. 11	- 1,015	+ 2,248	- 114	- 1,363
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	-	-
July 16	+ 15	+ 2,600	-	-
Amount outstanding at mid-July 1986	778	9,514	-	-

[a] Included within column 8 of Table A.

[b] Included within column 11 of Table A.

D Money stock: amounts outstanding

£ 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 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	63,385	119,135	118,660	19,159	138,294	137,820
Sept. 18[d]	12,536	21,253	22,248	56,037	56,080	64,972	121,009	120,800	19,524	140,533	140,330
Oct. 16	12,413	21,579	23,537	57,529	57,410	64,525	122,054	121,780	18,861	140,915	140,640
Nov. 20	12,476	21,725	24,536	58,737	58,840	65,843	124,580	124,170	19,466	144,046	143,640
Dec. 11[d]	12,909	22,437	25,265	60,611	59,800	64,838	125,449	124,890	19,577	145,026	144,470
1986 Jan. 15	12,399	21,625	24,999	59,023	59,400	65,527	124,550	124,930	19,643	144,193	144,580
Feb. 19	12,441	21,246	25,052	58,739	59,520	66,255	124,994	126,090	20,087	145,081	146,190
Mar. 19[d]	12,532	21,760	26,158	60,450	60,030	67,507	127,957	129,000	20,527	148,484	149,530
Apr. 16	12,611	22,639	27,676	62,926	62,400	70,157	133,083	133,090	20,297	153,380	153,380
May 21	12,820	22,980	28,986	64,786	65,050	71,775	136,561	136,920	21,028	157,589	157,940
June 18	12,807	23,198	29,639	65,644	65,800	72,304	137,948	138,650	22,441	160,389	161,100
July 16	12,973	23,662	30,331	66,966	66,520	71,766	138,732	138,850	23,652	162,384	162,500

E Money stock: changes [f]

£ millions: percentages in italics

£ 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	M1[b]	£M3[b]		Transactions	Valuation changes [g]	M3[b]	M3[b]		
											1	2	3	4	5	6	7	8
Month ended (unadjusted)												
1985 July 17[e]	+ 236	- 2,246	+ 1,387	- 623	- 108	+ 515	- 108	+ 754	- 1,352	- 706	- 108	- 706
Aug. 21	- 16	81	+ 1,101	+ 1,004	+ 2,051	+ 1,047	+ 2,051	+ 577	+ 373	+ 3,001	+ 3,001	+ 3,001
Sept. 18	- 122	+ 87	+ 288	+ 253	+ 1,819	+ 1,566	+ 1,819	- 249	+ 603	+ 2,173	+ 2,173	+ 2,173
Oct. 16	- 123	+ 326	+ 1,289	+ 1,492	+ 1,045	- 447	+ 1,045	+ 146	- 809	+ 382	+ 382	+ 382
Nov. 20	+ 63	+ 146	+ 999	+ 1,208	+ 2,526	+ 1,318	+ 2,526	+ 873	- 268	+ 3,131	+ 3,131	+ 3,131
Dec. 11	+ 433	+ 712	+ 729	+ 1,874	+ 871	- 1,003	+ 871	- 172	+ 279	+ 978	+ 978	+ 978
1986 Jan. 15	- 510	- 812	- 290	- 1,612	- 899	+ 713	- 899	+ 348	- 282	- 833	- 833	- 833
Feb. 19	+ 42	- 379	+ 53	- 284	+ 455	+ 739	+ 455	+ 565	- 121	+ 899	+ 899	+ 899
Mar. 19	+ 91	+ 511	+ 1,080	+ 1,682	+ 2,866	+ 1,184	+ 2,866	+ 642	- 203	+ 3,305	+ 3,305	+ 3,305
Apr. 16	+ 79	+ 879	+ 1,518	+ 2,476	+ 5,126	+ 2,650	+ 5,126	+ 146	- 376	+ 4,896	+ 4,896	+ 4,896
May 21	+ 209	+ 341	+ 1,310	+ 1,860	+ 3,478	+ 1,618	+ 3,478	+ 875	- 144	+ 4,209	+ 4,209	+ 4,209
June 18	- 13	+ 218	+ 640	+ 845	+ 1,365	+ 520	+ 1,365	+ 1,175	+ 238	+ 2,778	+ 2,778	+ 2,778
July 16	+ 166	+ 464	+ 692	+ 1,322	+ 784	- 538	+ 784	+ 1,186	+ 25	+ 1,995	+ 1,995	+ 1,995
Month ended (seasonally adjusted)												
1985 July 17[e]	- 23	- 2,387	+ 1,337	- 1,073	- 840	+ 233	- 840	+ 754	- 1,352	- 1,438	- 1,438	- 1,438
Aug. 21	+ 50	+ 492	+ 1,175	+ 1,717	+ 2,209	+ 492	+ 2,209	+ 577	+ 373	+ 3,159	+ 3,159	+ 3,159
Sept. 18	+ 47	- 356	+ 321	+ 12	+ 2,120	+ 2,108	+ 2,120	- 249	+ 603	+ 2,474	+ 2,474	+ 2,474
Oct. 16	- 96	+ 258	+ 1,168	+ 1,330	+ 976	- 354	+ 976	+ 146	- 809	+ 313	+ 313	+ 313
Nov. 20	+ 62	+ 396	+ 966	+ 1,424	+ 2,407	+ 983	+ 2,407	+ 873	- 268	+ 3,012	+ 3,012	+ 3,012
Dec. 11	- 62	+ 228	+ 794	+ 960	+ 740	- 220	+ 740	- 172	+ 279	+ 847	+ 847	+ 847
1986 Jan. 15	+ 108	- 74	- 452	- 418	+ 96	+ 514	+ 96	+ 348	- 282	+ 162	+ 162	+ 162
Feb. 19	+ 13	- 72	+ 176	+ 117	+ 1,250	+ 1,133	+ 1,250	+ 565	- 121	+ 1,694	+ 1,694	+ 1,694
Mar. 19	+ 21	+ 178	+ 1,277	+ 1,476	+ 2,846	+ 1,370	+ 2,846	+ 642	- 203	+ 3,285	+ 3,285	+ 3,285
Apr. 16	+ 5	+ 175	+ 1,191	+ 1,371	+ 4,081	+ 2,710	+ 4,081	+ 146	- 376	+ 3,851	+ 3,851	+ 3,851
May 21	+ 105	+ 1,066	+ 1,477	+ 2,648	+ 3,832	+ 1,184	+ 3,832	+ 875	- 144	+ 4,563	+ 4,563	+ 4,563
June 18	+ 131	+ 208	+ 814	+ 737	+ 1,712	+ 975	+ 1,712	+ 1,175	+ 238	+ 3,125	+ 3,125	+ 3,125
July 16	- 101	+ 322	+ 502	+ 723	+ 197	- 526	+ 197	- 1,186	+ 25	+ 1,408	+ 1,408	+ 1,408

[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

£ millions: not seasonally adjusted

[Table 11.1 and 11.2 in the Quarterly Bulletin]

	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 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	35,189	69,825	1,729	140,532	885	4,475
Oct. 16	12,413	21,579	33,992	35,637	70,630	1,734	141,993	1,107	4,541
Nov. 20	12,476	21,725	34,201	36,885	71,408	1,711	144,205	1,251	4,532
Dec. 11[c]	12,909	22,437	35,346	36,328	72,673	1,693	146,040	923	4,681
1986 Jan. 15	12,399	21,625	34,024	36,861	73,906	1,739	146,530	1,137	4,905
Feb. 19	12,441	21,246	33,687	37,014	74,464	1,714	146,879	997	4,895
Mar. 19[c]	12,532	21,760	34,292	37,641	75,284	1,722	148,939	1,071	5,054
Apr. 16	12,611	22,639	35,250	38,644	76,096	1,718	151,708	1,218	5,294
May 21	12,820	22,980	35,800	39,498	76,762	1,742	153,802	1,167	5,336
June 18	12,807	23,198	36,005	40,336	78,207	1,728	156,276	1,124	5,435
July 16	12,973	23,662	36,635	40,961	78,844	1,692	158,132	1,143	5,549
Changes in month ended [e]									
1985 Aug. 21	- 16	- 81	- 97	+ 295	+ 24	+ 7	+ 229	- 22	+ 48
Sept. 18	- 122	+ 87	- 35	+ 185	+ 1,374	- 11	+ 1,513	- 108	+ 23
Oct. 16	- 123	+ 326	+ 203	+ 448	+ 805	+ 5	+ 1,461	+ 222	+ 66
Nov. 20	+ 63	+ 146	+ 209	+ 1,248	+ 778	- 23	+ 2,212	+ 144	- 9
Dec. 11	+ 433	+ 712	+ 1,145	- 557	+ 1,265	- 18	+ 1,835	- 328	+ 149
1986 Jan. 15	- 510	- 812	- 1,322	+ 533	+ 1,233	+ 46	+ 490	+ 214	+ 224
Feb. 19	+ 42	- 379	- 337	+ 153	+ 558	- 25	+ 349	- 140	- 10
Mar. 19	+ 91	+ 511	+ 602	+ 627	+ 820	+ 8	+ 2,057	+ 74	+ 159
Apr. 16	+ 79	+ 879	+ 958	+ 1,003	+ 812	- 4	+ 2,769	+ 147	+ 240
May 21	+ 209	+ 341	+ 550	+ 854	+ 666	+ 24	+ 2,094	- 51	+ 42
June 18	- 13	+ 218	+ 205	+ 838	+ 1,445	- 14	+ 2,474	- 43	+ 99
July 16	+ 166	+ 464	+ 630	+ 625	+ 637	- 36	+ 1,856	+ 19	+ 114

[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

[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		Other sterling shares and deposits [c]	PSL1 (columns 1+2+5) Seasonally adjusted	PSL2 (old definition) (columns 1+2+3+6) Seasonally adjusted	PSL2 (new definition) (columns 1+2+3+6+7) Seasonally adjusted	PSL1 Seasonally adjusted change in month	PSL2 (old definition) Seasonally adjusted change in month	PSL2 (new definition) Seasonally adjusted change in month	
			Seasonally adjusted		Seasonally adjusted									Unadjusted
			Total (net)	of which shares and deposits with building societies [b]	Issues net of surrenders	Column 5 less building society holdings								
1	2	3	4	5	6	7	8	9	10	11	12	13		
1985 July 17[d]	114,666	3,308	83,161	80,352	3,062	2,672	21,309	121,036	203,807	225,116	- 719	- 0.6	- 73	+ 112
Aug. 21[d]	116,846	3,095	83,736	81,490	2,929	2,530	21,465	122,870	206,207	227,672	+ 1,888	+ 1.6	+ 2,456	+ 1.2
Sept. 18	118,989	2,972	84,657	82,754	2,696	2,296	21,206	124,657	208,914	230,120	+ 1,785	+ 1.5	+ 2,705	+ 1.3
Oct. 16	119,959	2,904	86,035	84,332	2,993	2,537	20,648	125,856	211,435	232,083	+ 1,198	+ 1.0	+ 2,520	+ 1.2
Nov. 20	122,336	3,039	88,082	86,432	2,846	2,390	19,916	128,221	215,847	235,763	+ 2,375	+ 1.9	+ 4,422	+ 2.1
Dec. 11	122,994	2,936	89,119	87,774	2,894	2,406	19,580	128,824	217,455	237,035	+ 651	+ 0.5	+ 1,651	+ 0.8
1986 Jan. 15	122,992	3,030	90,838	89,857	2,500	2,251	19,173	128,522	238,284	238,284	- 252	- 0.2		+ 1,299
Feb. 19	124,179	2,891	93,139	91,605	2,627	2,238	18,788	129,697	241,235	241,235	+ 1,258	+ 1.0		+ 3,034
Mar. 19	126,973	2,768	94,181	93,166	2,981	2,409	18,700	132,722	245,031	245,031	+ 3,074	+ 2.4		+ 3,783
Apr. 16	131,083	2,719	95,069	94,683	3,117	2,472	18,318	136,919	249,661	249,661	+ 4,196	+ 3.2		+ 4,629
May 21	134,833	2,277	95,970	96,148	3,276	2,431	17,983	140,386	253,494	253,494	+ 3,466	+ 2.5		+ 3,832
June 18	136,569	2,448	97,983	97,261	3,390	2,491	17,596	142,407	257,087	257,087	+ 1,997	+ 1.4		+ 3,290
July 16	136,719	2,085	99,281	98,193	3,548	2,598	17,316	142,352	257,999	257,999	- 56	-		+ 911

[a] £M3 less deposits of over 2 years original maturity.

[b] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies; excludes holdings of term shares and SAYE deposits.

[c] UK non-bank private sector's holdings of term shares and SAYE deposits with building societies and sterling bank deposits of over two years original maturity.

[d] 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									CDs etc and other short-term paper issued	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				
1986 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	28,307	
Mar. 19 [b]	967	221,917	9,722	1,468	49,107	7,258	43,287	1,899	63,372	28,251	17,553	6,503	28,481	
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	29,775	
May 21	998	236,735	10,619	1,731	53,132	7,402	46,350	3,224	66,845	28,529	18,903	5,953	29,591	
June 18	1,006	236,889	10,447	1,770	53,918	7,376	45,526	3,416	67,215	27,880	19,341	5,832	30,403	
July 16	1,036	238,646	11,102	1,654	55,051	7,941	44,634	3,527	66,842	27,630	20,265	6,770	31,459	

£ millions	Total deposits	Other currency liabilities						Total liabilities/ assets	of which sterling	
		Sight and time deposits			CDs etc and other short-term paper issued	Items in suspense and transmission	Capital and other funds		Liabilities	Assets
		UK monetary sector	Other United Kingdom	Overseas						
1986 Feb. 19	505,022	87,761	19,408	332,378	65,475	6,528	14,968	776,212	249,695	247,191
Mar. 19 [b]	508,486	89,692	19,661	332,743	66,391	6,882	14,647	787,883	257,868	254,800
Apr. 16	504,308	88,164	19,716	331,944	64,483	6,616	13,977	794,335	269,434	266,471
May 21	506,789	87,394	20,458	330,767	68,170	6,660	13,816	800,542	273,278	270,033
June 18	511,590	89,732	21,565	330,591	69,703	7,017	13,561	806,299	274,131	271,570
July 16	515,189	88,527	22,574	331,704	72,385	7,448	14,032	814,580	277,911	275,247

£ millions	Notes and coin	Sterling assets									
		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
1986 Feb. 19	2,140				666	—						146	6,165	39	47,720	7,354	769	3,408	9,941
Mar. 19 [b]	2,200	667	—	245	6,674	34	50,944	7,170	695	3,437	10,733
Apr. 16	2,149	667	—	140	6,580	37	54,459	7,626	872	3,271	11,531
May 21	2,258	713	—	310	5,970	27	55,252	8,023	874	3,091	11,538
June 18	2,170	713	—	165	6,362	53	53,881	8,632	985	3,002	11,908
July 16	2,312	712	—	72	6,896	35	53,750	8,820	1,121	2,832	12,028

£ millions	Sterling assets continued									
	Treasury bills	Bills			Other	Total	Advances			Banking Department lending to central government (net)
		Eligible local authority bills	Eligible bank bills	Other			UK public sector	UK private sector	Overseas	
1986 Feb. 19	168	510	7,728	318	132,095	1,761	119,645	10,689	-4,270	
Mar. 19 [b]	235	533	6,267	348	134,086	1,744	122,289	10,053	-2,693	
Apr. 16	310	394	4,373	403	139,029	1,665	126,507	10,857	446	
May 21	442	406	4,538	385	141,094	1,456	127,302	12,336	518	
June 18	453	346	4,278	404	143,095	1,367	129,317	12,410	497	
July 16	527	335	4,182	372	144,757	1,306	131,262	12,189	475	

£ millions	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
1986 Feb. 19	6,932	543	8,126	9,246	1,528	5,919	484,465	120,897	87,169	10,670	1,740	35,327	349,560
Mar. 19 [b]	6,510	544	8,293	10,430	1,508	5,942	488,152	121,379	89,852	11,156	1,669	36,173	349,301
Apr. 16	6,708	535	8,983	10,506	1,519	5,932	482,379	119,264	87,370	11,121	1,653	36,142	346,093
May 21	7,238	505	9,281	10,089	1,466	6,017	484,120	119,237	86,284	11,169	1,590	36,849	348,228
June 18	7,155	481	9,797	9,673	1,457	6,062	487,489	120,334	89,242	10,754	1,621	37,622	348,251
July 16	7,261	432	9,989	10,281	1,411	6,106	491,011	120,693	86,043	12,494	1,590	38,525	352,361

£ millions	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
1986 Feb. 19	2,200	34,470	2,581	31,889	6,297	7	1,581	19,462	2,858	149,965
Mar. 19 [b]	2,191	34,441	2,634	31,807	6,740	7	1,551	17,873	3,083	152,881
Apr. 16	2,154	35,166	2,622	32,544	6,617	7	1,541	17,483	3,126	159,488
May 21	2,338	35,963	2,804	33,159	6,780	12	1,297	18,357	3,040	161,954
June 18	2,428	36,409	2,920	33,489	6,926	11	1,467	16,610	3,056	163,151
July 16	2,364	36,627	3,078	33,549	7,579	11	1,741	18,567	3,204	165,194

[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] 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.

I Banks: group detail^[a]

£ millions

		Notes out-standing	Liabilities													
			Total	Sterling deposits					Other currency deposits							
				of which sight deposits	UK monetary sector	UK public sector	UK private sector	Overseas	CDs etc and other short-term paper issued	Total	UK monetary sector	Other United Kingdom	Overseas	CDs etc and other short-term paper issued		
British banks:																
	Retail banks:															
	1986 June 18	1,006	122,979	54,633	11,519	3,504	89,247	10,884	7,824	47,221	6,955	4,962	29,504	5,799		
	July 16	1,036	124,653	56,771	11,884	3,381	90,436	11,167	7,784	47,542	6,624	5,196	29,755	5,967		
	1986 June 18	—	13,722	3,266	2,654	280	7,637	1,360	1,699	11,881	2,983	2,014	6,412	471		
	July 16	—	13,438	3,320	2,258	291	7,779	1,295	1,816	12,248	3,018	2,234	6,533	464		
	1986 June 18	—	35,766	7,040	16,645	754	10,171	4,617	3,580	25,224	7,346	1,525	14,178	2,175		
	July 16	—	35,768	7,051	16,644	837	10,015	4,490	3,782	25,350	7,368	1,626	14,067	2,290		
Overseas banks:																
	1986 June 18	—	14,195	2,888	5,276	49	3,833	3,456	1,580	81,143	7,035	5,159	48,407	20,541		
	July 16	—	14,169	3,008	5,228	37	3,579	3,678	1,648	79,771	8,289	5,495	46,775	19,213		
	1986 June 18	—	12,633	437	6,984	183	1,841	2,202	1,423	179,374	37,857	2,515	116,105	22,898		
	July 16	—	12,831	496	7,042	212	1,798	2,168	1,611	182,524	36,141	2,708	117,220	26,454		
	1986 June 18	—	35,448	4,948	12,059	411	7,925	11,901	3,151	154,244	23,738	5,002	108,103	17,400		
	July 16	—	35,445	4,686	11,738	417	7,864	11,890	3,536	155,253	23,260	4,933	109,452	17,609		
Consortium banks:																
	1986 June 18	—	2,146	299	839	6	386	832	88	12,505	4,066	380	7,642	418		
	July 16	—	2,340	417	949	7	421	876	88	12,500	4,020	377	7,714	388		
Total	1986 June 18	1,006	236,889	73,511	55,976	5,187	121,133	35,252	18,341	511,592	89,980	21,557	330,351	69,702		
	July 16	1,036	238,644	75,749	55,743	5,182	121,892	35,564	20,265	515,188	88,720	22,569	331,516	72,385		

		Sterling and other currency liabilities Items in suspense and transmission, capital and other funds	Total liabilities/assets	Sterling assets												
				Notes and coin	Balances with Bank of England (including cash ratio deposits)	Secured money with LDMA	Market loans									
							Other UK monetary sector [b]	UK monetary sector CDs	UK local authorities	Overseas						
British banks:																
	Retail banks:															
	1986 June 18	30,614	201,819	2,141	540	3,976	19,117	3,652	1,614	1,866						
	July 16	32,424	205,656	2,281	449	4,275	19,782	3,659	1,546	2,145						
	1986 June 18	3,848	29,451	3	30	315	5,249	1,368	233	896						
	July 16	4,117	29,804	3	30	424	5,057	1,250	222	848						
	1986 June 18	8,715	69,704	3	105	329	10,513	1,348	411	1,170						
	July 16	8,808	69,926	3	101	386	9,956	1,457	387	1,172						
Overseas banks:																
	1986 June 18	4,331	99,668	4	57	511	3,240	568	103	1,308						
	July 16	4,754	98,695	4	59	545	3,462	614	92	1,124						
	1986 June 18	848	192,855	—	35	380	4,249	42	76	2,526						
	July 16	1,068	196,423	—	35	374	4,192	42	56	2,497						
	1986 June 18	6,474	196,165	19	103	824	11,002	1,425	496	3,769						
	July 16	6,483	197,182	20	104	854	10,632	1,557	466	3,915						
Consortium banks:																
	1986 June 18	1,984	16,636	1	6	27	564	228	70	372						
	July 16	2,054	16,895	1	6	37	705	241	64	326						
Total	1986 June 18	56,814	806,298	2,170	876	6,362	53,934	8,631	3,003	11,907						
	July 16	59,708	814,581	2,312	784	6,895	53,786	8,820	2,833	12,027						

[a] Some smaller institutions report at end-quarters only; the coverage of some of the groups in these tables will therefore not be complete. The groups affected are Accepting houses, Other British, American, Other overseas and Consortium, but in no case is the coverage of total liabilities/assets less than 97.5%.

[b] Including unsecured money with LDMA.

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

J Discount market: balance sheet

£ millions

		Liabilities: borrowed funds							Other currencies				
		Sterling					Overseas	Total	UK monetary sector	Other United Kingdom	Overseas		
		of which	Bank of England	Other UK monetary sector	Other United Kingdom								
		Total	Call and overnight	Other									
1986 Feb.	19	7,761	7,170	591	179	6,085	1,485	12	333	112	103	118	
	Mar. 19	8,327	7,770	557	192	6,610	1,512	13	216	70	84	62	
	Apr. 16	8,551	7,615	936	259	6,452	1,822	18	271	59	98	114	
	May 21	7,966	7,140	826	—	6,107	1,848	11	372	115	128	129	
	June 18	8,377	7,607	770	128	6,382	1,861	6	286	74	143	69	
	July 16	9,011	8,310	701	88	6,926	1,992	5	347	173	126	48	
		Sterling assets											
		Total	Cash ratio deposits with the Bank of England	Bills			Other bills	UK monetary sector	UK monetary sector CDs	Funds lent			
				Treasury bills	Local authority bills	Other public sector bills				Building society CDs and time deposits	UK local authorities	Other United Kingdom	Overseas
1986 Feb.	19	8,042	7	54	70	20	3,711	269	2,690	263	137	149	12
	Mar. 19	8,609	7	103	44	20	3,661	212	2,660	388	132	138	156
	Apr. 16	8,876	7	236	90	20	4,523	228	2,098	317	115	255	7
	May 21	8,317	8	60	61	5	4,002	339	2,376	232	109	291	71
	June 18	8,728	8	167	225	—	4,208	214	2,570	200	102	205	10
	July 16	9,388	8	229	211	—	3,923	193	3,178	330	92	263	26

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	June 18	376	336	3,471	92	277	79,359	4,434	497	5,790	3,414
		July 16	432	326	3,541	87	265	80,831	4,302	475	5,735	3,242
Accepting houses	1986	June 18	7	2	254	45	56	4,056	1,123	—	253	1,374
		July 16	36	1	260	41	50	4,023	1,100	—	241	1,360
Other British banks	1986	June 18	23	—	210	65	49	21,084	1,722	—	409	1,777
		July 16	21	—	174	74	49	21,333	1,734	—	391	1,894
Overseas banks:	1986	June 18	2	—	75	20	74	7,472	1,338	—	191	379
		July 16	1	—	29	19	69	7,467	1,267	—	327	394
Japanese banks	1986	June 18	4	—	—	—	435	2,029	827	—	72	1,719
		July 16	4	—	—	—	435	2,137	851	—	74	1,746
Other overseas banks	1986	June 18	41	8	268	176	456	14,791	2,700	—	326	1,428
		July 16	33	8	177	144	414	14,940	2,652	—	380	1,502
Consortium banks	1986	June 18	—	—	2	6	24	527	266	—	112	187
		July 16	—	—	1	6	24	530	284	—	114	282
Total	1986	June 18	453	346	4,280	404	1,368	129,318	12,410	497	7,153	10,278
		July 16	527	335	4,182	371	1,306	131,261	12,190	475	7,262	10,420

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	June 18	50,039	15,027	12,095	359	182	4,424	32,979	687	5,192	14,949	3,581	93,569
		July 16	50,293	15,145	11,565	309	178	4,556	33,685	622	5,108	16,261	4,449	94,734
Accepting houses	1986	June 18	10,763	3,747	3,012	577	15	1,031	6,128	49	1,430	1,944	3,294	6,794
		July 16	11,400	3,870	3,333	632	21	1,167	6,247	49	1,283	2,126	3,773	6,823
Other British banks	1986	June 18	27,362	10,033	5,747	225	705	2,286	18,400	82	1,321	1,720	1,003	21,637
		July 16	27,698	9,940	6,384	228	700	2,319	18,067	76	1,339	1,679	1,031	22,064
Overseas banks:	1986	June 18	77,256	23,735	7,780	1,072	31	10,408	57,965	103	2,547	4,422	3,076	9,935
		July 16	75,368	23,065	6,719	1,084	28	10,713	56,053	119	2,571	4,162	3,204	9,752
Japanese banks	1986	June 18	164,207	25,799	28,447	1,334	542	8,630	125,229	85	15,470	679	1,973	7,930
		July 16	167,121	26,621	26,624	1,393	542	8,744	129,819	85	15,982	793	2,098	8,206
Other overseas banks	1986	June 18	145,154	36,559	30,810	6,828	117	10,530	96,868	1,186	9,394	2,599	6,507	21,968
		July 16	146,419	36,755	29,699	7,774	117	10,770	98,060	1,214	9,287	2,464	6,976	22,269
Consortium banks	1986	June 18	12,709	5,434	1,350	359	3	314	10,683	214	1,053	269	232	1,319
		July 16	12,712	5,297	1,719	304	3	256	10,429	199	1,057	304	239	1,345
Total	1986	June 18	487,490	120,334	89,241	10,754	1,621	37,623	348,252	2,428	36,407	26,580	19,666	163,150
		July 16	491,011	120,693	86,043	12,494	1,589	38,525	352,360	2,364	36,627	28,789	21,770	165,193

[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
185	27	391	57	335	99	104	132	1986 Feb. 19
593	22	403	70	217	84	35	98	Mar. 19
482	22	407	69	272	86	39	147	Apr. 16
288	20	414	41	374	83	95	196	June 18
365	15	398	41	286	71	86	129	June 18
357	14	497	67	346	180	59	107	July 16

K UK monetary sector: transactions in liabilities and assets[a]

[Table 6 in the Quarterly Bulletin]

£ millions

Month ended		Liabilities											
		Total	Domestic deposits								Overseas sector deposits		Non-deposit liabilities (net)
			Total		Public sector		Other currencies	Private sector		Sterling	Other currencies		
			Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted		Sterling	Other currencies			Unadjusted		Seasonally adjusted
1985	July 17 [b]	+ 7,479	+ 378	- 129	- 3	- 37	- 29	- 344	- 817	+ 754	+ 421	+ 4,401	+ 2,279
	Aug. 21	+ 410	+ 2,902	+ 2,908	+ 275	+ 189	- 17	+ 2,067	+ 2,159	+ 577	+ 291	- 2,375	- 408
	Sept. 18	+ 9,857	+ 1,419	+ 1,811	- 272	- 12	- 1	+ 1,941	+ 2,073	- 249	- 6	+ 8,049	+ 395
	Oct. 16	+ 1,180	+ 1,763	+ 1,578	+ 434	+ 345	+ 15	+ 1,168	+ 1,072	+ 146	- 208	- 2,390	+ 2,015
	Nov. 20	+ 10,768	+ 3,823	+ 3,503	+ 483	+ 281	+ 4	+ 2,463	+ 2,345	+ 873	- 536	+ 8,880	- 1,399
1986	Dec. 11	+ 2,549	- 346	+ 192	- 558	- 384	- 54	+ 438	+ 802	- 172	+ 66	+ 1,132	+ 1,697
	Jan. 15	+ 7,785	+ 431	+ 648	+ 466	+ 306	+ 6	- 389	- 12	+ 348	+ 1,337	+ 7,338	- 1,321
	Feb. 19	+ 10,011	+ 782	+ 1,632	- 160	- 134	- 36	+ 413	+ 1,237	+ 565	+ 666	+ 7,701	+ 862
	Mar. 19	+ 8,056	+ 3,441	+ 3,640	+ 22	+ 171	+ 2	+ 2,775	+ 2,825	+ 642	+ 1,351	+ 3,570	- 306
	Apr. 16	+ 13,918	+ 6,531	+ 5,674	+ 1,353	+ 1,467	- 15	+ 5,047	+ 4,076	+ 146	+ 1,013	+ 5,524	+ 850
	May 21	+ 8,467	+ 4,581	+ 4,693	+ 433	+ 87	+ 4	+ 3,269	+ 3,727	- 875	- 686	+ 5,346	- 774
	June 18	- 1,043	+ 2,820	+ 3,217	+ 274	+ 468	- 7	+ 1,378	+ 1,581	+ 1,175	- 956	- 3,612	+ 705
	July 16	+ 5,956	+ 1,821	+ 1,467	+ 9	- 25	+ 8	+ 618	+ 298	+ 1,186	+ 461	+ 2,416	+ 1,258

Month ended		Assets											
		Total	Lending to public sector					Other currencies	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
1985	July 17 [b]	+ 7,479	- 3,562	- 2,300	- 3,324	- 238	- 78	+ 4,296	+ 2,720	+ 542	- 478	+ 6,759	
	Aug. 21	+ 410	+ 2,915	+ 2,403	+ 3,275	- 360	- 10	+ 45	+ 688	- 1,220	- 671	- 649	
	Sept. 18	+ 9,857	+ 879	+ 1,275	+ 1,370	- 491	- 18	+ 493	+ 1,058	+ 411	+ 212	+ 7,880	
	Oct. 16	+ 1,180	- 1,024	- 808	- 668	- 356	+ 257	+ 3,829	+ 2,530	- 29	- 21	- 1,832	
	Nov. 20	+ 10,768	+ 1,136	+ 278	+ 1,708	- 572	- 170	- 120	+ 565	+ 175	+ 44	+ 9,703	
1986	Dec. 11	+ 2,549	+ 1,133	+ 672	+ 1,479	- 346	+ 24	- 1,154	- 50	- 106	+ 1,588	+ 1,064	
	Jan. 15	+ 7,785	- 3,204	- 1,312	- 3,276	+ 72	+ 221	+ 3,640	+ 2,511	+ 2,151	+ 274	+ 4,703	
	Feb. 19	+ 10,011	- 2,614	- 1,279	- 2,128	- 486	+ 4	+ 3,048	+ 3,263	+ 590	- 504	+ 9,487	
	Mar. 19	+ 8,056	+ 1,678	+ 1,883	+ 1,727	- 49	- 51	+ 2,231	+ 2,457	+ 1,221	- 390	+ 3,367	
	Apr. 16	+ 13,918	+ 3,049	+ 1,451	+ 3,371	- 322	+ 16	+ 3,722	+ 3,055	+ 733	+ 1,843	+ 4,555	
	May 21	+ 8,467	+ 4	- 328	+ 353	- 349	- 58	+ 236	+ 705	+ 1,061	+ 1,907	+ 5,317	
	June 18	- 1,043	- 164	- 954	- 8	- 156	+ 15	+ 3,105	+ 3,939	+ 367	- 323	- 4,043	
	July 16	+ 5,956	+ 11	+ 1,507	+ 291	- 280	- 32	+ 2,000	+ 405	+ 995	+ 44	+ 2,938	

[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.

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FROM: R M HEATH

DATE: 28 AUGUST 1986

1. MR WALSH ^{H.W.} ^{28/8}
2. ECONOMIC SECRETARY

cc: Chancellor ✓
Sir P Middleton o/r
Sir T Burns
Mr Cassell o/r
Mr Peretz
Mr Scholar o/r
Mr Sedgwick
Mr Andren
Dr Rowlatt
Mr Richardson

M0 FIGURES

The latest weekly figures for M0, covering the first week of banking September, are attached. They indicate that the 12 month growth in M0 continues to be in the 4 to 4½ per cent range—broadly consistent with the forecast.

More information on M0 in banking August will become available in about a weeks time, with the provisional money figures.

R. Heath

R M HEATH

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MO, THE WIDE MONETARY BASE

Banking months (weekly averaged*)	Levels £ million (changes in brackets)				MO		% change on previous month		% change on year earlier	
	Notes (s.a.) and coin		Bankers' deposits				Notes (s.a.) and coin	MO	Notes (s.a.) and coin	MO
March	14,245	(+47)	185	(+18)	14,432	(+65)	+0.3	+0.5	+3.3	+3.6
April	14,271	(+26)	196	(+11)	14,469	(+37)	+0.2	+0.3	+2.9	+3.2
May	14,296	(+25)	192	(-4)	14,490	(+21)	+0.2	+0.1	+3.2	+3.4
June	14,408	(+112)	156	(-36)	14,566	(+76)	+0.8	+0.5	+3.3	+3.1
July	14,467	(+59)	132	(-24)	14,601	(+35)	+0.4	+0.2	+3.6	+3.0
August	14,530	(+63)	167	(+35)	14,697	(+96)	+0.5	+0.2	+4.1	+4.3
September (of 5 wks)	14,642	(+112)	136	(-32)	14,778	(+81)	+0.8	+0.5	+4.4	+4.4
Latest 4 weeks/	14,597	(+138)	155	(+25)	14,752	(+163)	+1.0	+1.1	+4.3	+4.2

Weekly data**

Banking August

						MO		% change on previous week
July	23rd	14,453	(+22)	151	(+76)	14,604	(+99)	+0.7
	30th	14,472	(+19)	200	(+49)	14,672	(+68)	+0.5
August	7th	14,525	(+53)	134	(-66)	14,660	(-12)	-0.1
	13th	14,596	(+71)	106	(-28)	14,703	(+43)	+0.3
	20th	14,640	(+50)	242	(+136)	14,882	(+179)	+1.2

Banking September

August	27th	14,642	(+2)	136	(-107)	14,778	(-104)	-0.7
--------	------	--------	------	-----	--------	--------	--------	------

* except coin and unbacked issue

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

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SECRET AND PERSONAL

1. MR RICHARDSON *MR*2. CHANCELLOR *Richardson*FROM: R M HEATH
DATE: 29 AUGUST 1986CC: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Peretz
Mr Kelly o/r**MONEY SUPPLY IN BANKING AUGUST: "FIRST GUESS"**

I attach the Bank's monthly note setting out their "first guess" at the money supply figures for banking August, which ended on 20 August.

Summary

2. **£M3** is estimated to have risen by 0.6 per cent, compared with a forecast increase of 0.8 per cent. This suggests a final outturn in the range of $\frac{1}{2}$ per cent to 1 per cent. On this basis the annual growth rate of **£M3** to banking August would be in the range of $17\frac{1}{2}$ per cent to $18\frac{1}{2}$ per cent, remaining, as forecast, well above its 11-15 per cent target range. **M0** rose by 0.6 per cent (forecast: 0.5). Annual growth is in the middle of its target range, at 4.1 per cent. Table 1 below gives the implied growth rates in the target aggregates.

Table 1: Monetary Aggregates - First guess : banking August

Monthly percentage change	per cent	
	<u>M0</u>	<u>£M3</u>
First guess	0.6	0.6
Likely outturn	0.6	$\frac{1}{2}$ - 1
3 month annualised rate	5.4	$7\frac{1}{2}$ - $9\frac{3}{4}$
6 month annualised rate	4.4	$22\frac{1}{4}$ - $23\frac{1}{2}$
Annual rate	4.1	$17\frac{1}{2}$ - $18\frac{1}{2}$

M0

3. The annual growth rate for M0 at 4.1 per cent compares with 3 per cent last month and is in the middle of its 2-6 per cent target range. This is in line with the forecast. The sharp rise in the annual growth rate of M0 this month is largely explained by the erratic fall of 0.6 per cent in August last year, which now drops out of the annual comparison.

£M3 components

4. In banking August £M3 is thought to have risen by £890 million, or 0.6 per cent, compared with our forecast increase of 0.8 per cent, circulated in Mr Walsh's monetary prospects submission of 14 August (which superseded the forecast reported in the Bank's note). Among the components, notes and coin increased by £160 million following last month's decrease of £101 million. Non-interest bearing sight deposits again rose strongly. In August they increased by £310 million giving a cumulative increase of £1.8 billion since February, an annual rate of 18 per cent. Interest bearing sight deposits continue to rise strongly. In August they increased by £630 million, a cumulative increase of £6 billion in the last six months (54 per cent at an annual rate). M1 as a result has risen 29 per cent at an annual rate since February and by 20½ per cent in the last year. Time deposits fell by £210 billion.

5. We do not think there were any factors distorting the components.

£M3 counterparts

6. Table 2 (attached) compares £M3 counterparts in the first guess with those in the forecast. There is little difference between the public sector and bank lending forecasts and outturns; but NNDLs and externals were moderately more contractionary.

7. The seasonally adjusted "PSBR" is estimated at £1730 million, about £135 million below forecast. This is accounted for by the OPS contribution, which was around £130 million less expansionary than forecast. The CGBR contribution was close to forecast.

8. Central Government net debt sales to the nbps, at

SECRET AND PERSONAL

£1680 million, were very close to forecast and were the largest since September 1983. National savings at £580 million, and gilt sales, at £940 million, were particularly large in comparison with recent months. External finance of the public sector was also strong at £440 million. In total there was overfunding of the "PSBR" of £390 million leaving a cumulative overfund since mid March of £135 million.

9. Sterling lending is estimated at £2000 million, almost exactly on forecast, and about £250 million below the average for the previous six months. However in recent months there has been a tendency for bank lending to be increased, by up to £1 billion, between the first guess and the provisionals.

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 were around £265 million more contractionary than forecast.

Timetable

11. We will receive provisional August figures on Friday 5 September, and they will be published on Tuesday 9 September. Full money and banking figures will appear on Thursday 18 September.

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

R. Heath.

R M HEATH

TABLE 2 : BANKING AUGUST 1986

"First guess" compared to forecast

		£ millions, seasonally adjusted	
		FIRST GUESS	FORECAST*
CGBR (ex bank deposits)		+1490	+1495
CG debt: Gilts	-940	-1,090	
Treasury Bills	-	-	
National Savings	-580	-500	
CTD's	-170	-70	
	----	----	
		-1,680	-1,660
Other public sector: LA	+130	+185	
PC	+110	+185	
	---	---	
		+240	+370
External and fc. finance of the public sector		-440	-650
Sterling lending to UK private sector (inc. Issue Dept. commercial bills)		+2,000	+1,970
Net private externals **		-670	-135
Residual (includes NNDLs** and reporting differences)		-50	-320
		-----	-----
£M3		+890	+1,070
		-----	-----
(Monthly percentage change)		(+0.6%)	(+0.8%)
Wide over(-)/underfunding(+)		-390	-445

* As circulated in Mr Walsh's "Monetary Prospects" submission of 14 August 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.

29.8.86

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 P A BULL

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: P A Bull / R L Sheath

BANKING AUGUST 1986 - A FIRST ESTIMATE

£ millions, seasonally adjusted

The provisional estimates of the monetary aggregates for banking August will be published at 2.30 pm on Tuesday 9 September and the full money and banking figures will be published at 2.30 pm on Thursday 18 September. Even after 18 September, 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 a increase in £M3 of 890 in banking August. An estimate of the monetary sector as a whole, based on these returns, would suggest a final outturn in the range of 1/2% to 1% (compared with a forecast increase of 0.8%) and a 12-month growth rate in the range of +17 1/2% to +18 1/2%, well outside the target range of 11-15%.

2 Among the components of £M3, notes and coin are estimated to have increased by 160, and private sector non-interest-bearing sight deposits to have increased by 310. Private sector interest-bearing sight deposits are estimated to have risen by 630. Private sector time deposits (including CDs) are estimated to have fallen by 210: within this, time deposits fell by 30 and CDs decreased by 190.

3 Our latest estimate for M0 for banking August is +0.6%, or +4.1% over the last twelve months, within the target range of 2-6%. 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 14 August. The estimated CGBR is +1490, ie 60 below forecast: within this, the CG own account was +1500; on-lending transactions were negligible. Net purchases (-) of central government debt by the non-bank private sector are estimated to have been -1680, compared to a forecast of net purchases of -1600. Gilts contributed -940, ie a increase of nbps holdings, compared to the forecast increase of -1090. There were net purchases of CTDs of -170, and of National Savings of -580; there was no change in holdings of Treasury Bills.

5 The direct contribution of the rest of the public sector is estimated to have been expansionary by +240, (80 less expansionary than forecast). Local authorities were +130, (10 less expansionary than forecast), and PCs were +110 (80 less expansionary 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 an underfund of +50. External and foreign currency finance of the public sector (EFCFPS) was -440. "Wide overfunding" (ie the sum of narrow overfunding and EFCFPS) was -390, ie an overfund, compared with a forecast of -180.

7 Bank lending in sterling to the private sector is estimated to have increased by 2000, compared with a forecast rise of 1750.

8 Other identified external and foreign currency transactions (ie excluding EFCFPS) were -670, compared to a forecast of -200;

this may be a poor guide to the final outcome for the externals.

? The residual (including NNDLs) was contractionary by - 50, compared with a forecast contraction of -320.

Financial Statistics Division

Money & Banking Aggregates Group BB-1

29 August 1986

P A BULL (4427) / R L SHATH / (4471)

B

M

S E C R E T

FIRST ESTIMATE COMPARED TO FORECAST
BANKING AUGUST 1986

£ millions, seasonally adjusted

	FIRST ESTIMATE	FORECAST *
CGBR (surplus -)	1490	1550
Other public sector	240	320
Of which: LAs	130	140
PCs	110	190
"Modified PSBR"	1730	1870
Debt sales (-) to NBPS	-1680	-1600
Of which: Gilts	-940	-1090
Treasury bills	0	0
National savings	-580	-480
CTDs etc	-170	-40
"Over-funding(narrow)" (-)	50	270
Ext & FC Finance of public sector	-440	-450
"Over-funding(wide)" (-)	-390	-180
Bank lending to UK private sector (incl Issue commercial bills)	2000	1750
Other Externals	-670	-200
Residual (including NNDLs)	-50	-320
£M3	890	1050
1 month % growth rate	0.6 %	0.8 %
M0		
Notes and coin	50	
Bankers' operational deposits	30	
M0	80	
1 month % growth rate	0.6 %	

RATES OF GROWTH, ANNUALISED %

	Latest 3 months	Latest 6 months	Latest 12 months
£M3	8.4	22.7	17.8
M0	5.4	4.4	4.1

*As circulated in the Financial Report dated 14.8.86

PWP



FROM: A C S ALLAN

DATE: 1 September 1986

MR HEATH

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Peretz
Mr Kelly
Mr Richardson

The Chancellor was grateful for your minute of 29 August setting out the Bank's "first guess" at the money supply figures for banking August.

ACSA

A C S ALLAN

SECRET AND PERSONAL

FROM: R M HEATH
DATE: 5 SEPTEMBER 1986

1. MR KELLY ^{was} _{S.A.}
2. CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell o/r
Mr Scholar
Mr Culpin
Mr Peretz
Mr Grice
Mr Richardson
Mr Pike
Mr Brook o/a
Mr Ross Goobey

Ch
As usual, "first guess" moved
optimistic. Press notice / maybe OIC?
MA
5/9.

OK.
(cont comment
on para 19).
M.

PROVISIONAL MONEY FIGURES: BANKING AUGUST

The provisional money supply figures for banking August will be published by the Bank at 2.30 pm on Tuesday 9 September.

SUMMARY

2. **M0** rose by 0.5 per cent (compared with 0.6 per cent in the first guess and 0.5 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 4.1 per cent (above last month's 3.0 per cent), is in the middle of its 2-6 per cent target range.

3. **£M3** is provisionally estimated to have risen by 1.2 per cent (above both the first guess of +0.6 per cent, and the forecast of 0.8 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 18.5 per cent (down from last month's 19.3 per cent). In unadjusted terms the annual growth rate is 17.3 per cent. There are sometimes small differences between the seasonally adjusted and unadjusted annual changes but this difference is unusually large.

4. Table 1 (below) gives the implied growth rates in both aggregates to mid-August. Tables 5, 6 and 7 (attached) give growth rates since December 1985 for these and other aggregates.

Table 1: Monetary Aggregates (provisional)

	Banking August	Figures Press Notice	Annual Growth Rates		
			3 months	6 months	12 months
M0	0.5	about $\frac{1}{2}$	5.4	4.4	4.1
£M3	1.2	about $1\frac{1}{4}$	10.9	24.0	18.5

SECRET AND PERSONAL

5. Sterling lending in seasonally adjusted terms increased by £2,446 million very close to the average over the last six months. The July increase in bank lending has now been revised up to a record £3,058 million. In unadjusted terms the August increase of £1,484 million was well below July's £4,653 million.

6. The figures continue to confirm the substantial build up of private sector sight deposits, both interest bearing and non-interest bearing, which appears to have began in banking March (see table 5).

7. PSL2 annual growth rate was 14.5 per cent in August, close to the annual growth evident in each month since May, but above the 12-14 per cent evident in recent years. The annual growth rate of the wider £ aggregate, which includes overseas residents' deposits, was 15 per cent in August.

PRESENTATION OF FIGURES

*random
wrr!*

8. The August figures may not be taken very well. The growth of £M3 is about ½ per cent above our, and market, expectations; and the main reason for this is yet another large increase in bank lending. As the PSBR is almost fully funded (on a seasonally adjusted basis) this financial year so far and indeed over the last twelve months, commentators are likely to point to bank lending as the underlying cause of fast £M3 growth, with no respite in sight.

9. M0 is showing signs of some acceleration, as we expected, given the reduction in interest rates earlier this year. House price rises are still uncomfortably high, though the acceleration seems to have eased. Sterling has, however, stabilised in recent weeks, and risen in the last few days - partly on oil prices, partly on the FRN. In short, overall monetary conditions might be judged not to have changed very much: £M3 growth is faster than expected, M0 much as forecast and the exchange rate has strengthened slightly.

SECRET AND PERSONAL

10. In the absence of new positive factors the suggested line to take in the attached draft briefing is also much the same as hitherto; it plays down the importance of £M3 and emphasises 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, although it is unlikely to dispel adverse comment. There are no obvious special factors to mention; and in any event it risks being counter-productive to mention special factors (which never seem to unwind) month after month. There is a new defensive line suggested for questions about the relevance of movements in overseas interest rates.

11. The Bank's draft press notice for publication at 2.30 pm on Tuesday 9 September is attached.

12. Can I please have comments on the press notice by lunch-time on Monday 8 September, and on the draft press briefing by close on that day.

DETAIL

M0

13. M0 rose by 0.5 per cent in August. The annual growth rate of M0 at 4.1 per cent, close to forecast, is above July's 3.0 per cent. M0's annual growth had been in the 3-3½ per cent since February this year, although the six month rate has been around 4 per cent during most of this period (but was significantly lower prior to that). The particularly large jump in the annual rate in August is partly the result of a 0.6 per cent decline in August last year dropping out. The outturn for the first two weeks of banking September suggests that the annual growth rate of M0 continues to be in the 4-4½ per cent range.

£M3: Components and Retail Deposits

14. Table 2 sets out the changes in the components to £M3 (and PSL2). It can be seen that, with the exception of notes and coin, August was a 'normal' month relative to the previous year, in terms of components.

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

				£ million, seasonally adjusted		
				Banking August	growth in previous 12 Months to July	
					monthly rate	percentage increase
Notes and coin in circulation				166	23	2.3
Bank deposits:						
Retail	(a)	interest bearing		363	505	17.4
	(b)	non-interest bearing		248	200	11.5
Wholesale (including £CDs)				891	1143	28.4
Change in £M3				1668	1871	19.3
Bills and other non-building society flows in PSL2				326	9	-0.7
Building Society:						
Inflows	(a)	retail (incl. interest credited)		930	1090	12.6
	(b)	wholesale		149	14	n/a
Liquid Assets (inc -)				-197	-258	n/a
Change in PSL2				2876	2726	14.5

SECRET

TABLE 3 RETAIL DEPOSITS

Seasonally adjusted

	Seasonally adjusted			
	Banks	Building ¹ Societies	National ² Savings	Total
<u>% change</u>	O	P	R	T
1984-853	7.1	14.8	12.3	11.9
1985-863	12.6	14.6	7.1	12.9
Over 12 months				
1985				
September	9.1	15.2	9.9	12.4
October	9.9	14.6	10.0	12.4
November	11.0	14.4	9.7	12.5
December	10.1	14.5	9.4	12.3
1986				
January	9.4	14.2	8.7	11.8
February	10.8	14.2	8.6	12.3
March	11.0	14.6	7.8	12.4
April	12.0	14.8	7.1	12.7
May	14.3	14.5	7.0	13.2
June	9.7	14.0	6.8	11.6
July	15.1	13.3	7.2	12.9
August	14.4	12.9	7.7	12.5
Over 6 months at annual rate				
1986				
March	13.0	15.5	3.2	12.7
April	13.6	15.4	2.2	12.7
May	13.9	14.4	2.5	12.3
June	13.9	14.3	4.4	12.6
July	16.9	12.2	6.9	12.8
Aug	18.8	11.0	10.3	13.3
<u>fmn changes</u>				
monthly average				
1984-85	294	1028	262	1583
1985-86	568	1172	161	1908
monthly change				
1986				
March	695	1341	-55	1982
April	971	1104	46	2121
May	1907	967	241	3115
June	260	833	350	1443
July	905	560	388	1853
Aug	611	930	575	2116

Notes

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

SECRET

SECRET AND PERSONAL

15. Notes and coin rose by £166 million following a fall of £101 million in July. Nib sight deposits rose by £248 million following a £322 million rise in July, and an average increase of £200 million in the previous year. Nib sight deposits have risen by £1¼ billion or 17 per cent (at an annual rate) since February. This contrasts with the same period last year when Nib sight deposits rose by £308 million. Retail interest bearing deposits rose by £363 million, below the July outturn of £583 million and the lowest rate of increase since February. Nevertheless there has been a strong rate of inflows since February (20 per cent growth at an annual rate). As a consequence of the above, M1 has risen by 30 per cent at an annual rate over the last six months and by 21 per cent in the last twelve months.

16. Table 3 looks at retail deposits at banks, building societies and National Savings combined. It can be seen that building societies recovered slightly in August from their low point in July. Nevertheless building societies took only 45 per cent of the market compared with 55 per cent in the previous year, although August was a normal month for retail inflows. While this was partly attributable to competition from bank deposits, the building societies appear to be losing funds to National Savings. At £575 million, inflows into National Savings were at their highest rate since September 1984. The inflow into National Savings (unadjusted) so far this banking financial year is £1¼ billion or £3.1 billion at an annual rate.

17. Wholesale deposits at banks rose by £890 million in August, this followed a fall of £670 million in July, and an average increase of £1.9 billion per month in the previous five months. In August the Bank estimate that building society bank deposits rose by £37 million (s.a.). This follows two consecutive monthly falls (totalling £995 million) following a long period in which building societies built up their bank deposits largely at the expense of gilts.

£M3 Counterparts

18. Table 4 compares the provisional counterparts of growth in £M3 to the forecast in Mr Walsh's monetary prospects submission of 14 August. The counterparts also appear, in simplified form, in the Bank's draft provisionals press notice.

19. The main source of difference between forecast and outturn was in bank lending and mndls. Once again there was a large difference between bank lending in the first guess and the provisionals, and an upward revision to £M3. The £M3 revision of +0.6 per cent between the first guess and provisionals compares with an average increase of 0.45 per cent in the last six months.

20. The August increase of £2,452 million in bank lending is below the increase in July, which has been revised up to a record £3,058 million, but is close to the average of the previous six months. The unadjusted increase in bank lending was £1,490 million in August compared with £4,653 million in July. There is no obvious explanation for yet another huge seasonally adjusted increase.

21. Breaking lending down by instrument shows that at £192 million purchases of building society CDs and time deposits were unusually high for the second successive month (July increase £266 million). This could reflect the continuing need for building societies to tap the wholesale markets when retail inflows are subdued (see paragraph 16). Unlike recent months bank investments were flat. This could imply that the Big Bang related investments are coming to an end. One noticeable feature of the bank lending figures is the growth of advances by the non-retail banks. In the last twelve months their advances rose by 24 per cent against 14 per cent by the retail banks.

22. In August there was wide overfunding seasonally adjusted of £597 million. There has now been a cumulative overfund of £328 million since mid-March. The modified 'PSBR' was £1,491 million compared with a forecast of £1,865 million. The difference was entirely due to lower borrowing by the local authorities and public corporations.

Why don't they adjust for the guess in the know has
↑
to get your view on the present

TABLE 4: PROVISIONAL STERLING M3 IN BANKING AUGUST 1985

£ million seasonally adjusted

<u>DOMESTIC COUNTERPARTS</u>		<u>Provisional</u>	<u>Forecast</u> ¹
CGBR:	own account	+1501	1480
	on-lending to LAs	-3	54
	on-lending to PCs	-11	-42
		<hr/>	<hr/>
		+1487	+1495
Other public sector:	Local Authorities	+7	+185
	Public Corporations	-8	+185
	PC currency deposits	+5	-
		<hr/>	<hr/>
		+4	370
Net purchases of CG debt by non-bank private sector (inc -):			
	Gilts	-782	-1090
	Treasury bills	-5	-
	National Savings	-575	-500
	Certificates of tax deposit	-166	-70
	Other	+1	-
		<hr/>	<hr/>
		-1527	-1660
External and fc finance of public sector		-561	-650
Sterling lending to the private sector:			
	Bank lending to private sector	+1894	
	Issue Department Commercial bills ²	+552	
		<hr/>	<hr/>
		+2446	+1970
Sub-total: Domestic Counterparts plus external and fc finance of the public sector		+1849	+1525
<u>EXTERNAL COUNTERPARTS</u> ³			
External and foreign currency finance			
	£ deposits net from banks abroad (inc -)	-39	
	Other overseas £ deposits (inc -)	+205	
	£ lending to overseas non-banks	-172	
	Banks' net foreign currency liabs (inc -)	-746	
	Foreign Currency net non-dep liabilities	+392	
	Seasonal adjustment	+51	
		<hr/>	<hr/>
		-309	-135
<u>NET NON-DEPOSIT LIABILITIES (inc -)</u>		128	-320
<u>STERLING M3</u>		1668	1070
(monthly % change)		(1.2%)	(+0.8%)
OVER(-)/UNDERFUNDING(+) ⁴		-597	-445

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

2 There was also an increase in Banking department holdings. Total holdings by the Bank rose by £429 million.

3 Excluding external flows to the public sector.

4 Wide definition.

SECRET AND PERSONAL

23. Gross gilt sales at £1,864 million were just below the ambitious £2 billion target in August. Net sales, at £1.8 billion, were at their highest level since February 1985. However an unusually large take-up by the monetary sector (£530 million) meant that net sales to the nbps and overseas sectors were not as large as forecast. National Savings inflows were very strong at £575 million (seasonally adjusted).

24. The Banking externals were a negative influence of £310 million on £M3. This mainly reflected a switch into sterling by the monetary sector. Overseas residents run down their sterling deposits causing the wider sterling aggregate (which includes overseas sterling deposits) to rise by 0.9 per cent in August and 15 per cent over the last twelve months.

25. UK residents increased their foreign currency deposits by £472 million following the huge increases totalling £2.6 billion in the previous two months. Over the last three months residents' foreign currency borrowing has increased by £2.5 billion.

26. Net non-deposit liabilities, unusually, were a positive influence on £M3 of £128 million, following the £1,483 million negative influence in July. Banks raised little capital in August following the National Westminster rights issue and the Morgan Grenfell share issue in banking July.

R. Heath.

R M HEATH

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

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING AUGUST 1986

Preliminary information suggests that, in the five weeks to 20 August 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 August 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	5 1/2	4 1/2	4
£M3	11	24	18 1/2

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

£ billion, seasonally adjusted

PSBR(1)	+1.5
Debt sales to nbps(2) and external flows to public sector(3) (of which, debt sales to nbps -1.5)	-2.1
Sterling lending to private sector(4)	+2.4
Other counterparts(5)	-0.1
	<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 contractionary by about £0.6 billion. The growth in sterling lending to the private sector was about £2.4 billion, compared with an average of about £2.3 billion a month over the preceding six months. Other counterparts taken together were contractionary.

4 Full money and banking figures for August, including revised estimates of the growth rates given above, will be published on 18 September.

SECRET AND PERSONAL
UNTIL 2.30 PM ON TUESDAY 9 SEPTEMBER 1986

MONEY SUPPLY IN BANKING AUGUST: PRESS BRIEFING

LINE TO TAKE

M0 is around the middle of its target range. Sterling M3 growth remains difficult to interpret. The exchange rate is steady. 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: About the middle of its 2-6 per cent target range.
- (iii) £M3: (see line to take above).
- (iv) Sterling lending: Seasonally adjusted figure around the average for the last six months. The growth of sterling lending in unadjusted terms at £1½ billion was £1 billion below the seasonally adjusted figure. (The unadjusted change in bank lending can be calculated by using the seasonal factor released together with last month's full money figures.) (In general developments and financial innovations are making it increasingly difficult to read meaning into movements of individual counterparts.)
- (v) Exchange rate: Firmer recently, partly reflecting firmer oil prices.

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 (around 2½ per cent and expected to stay low) demonstrates success of strategy.

(ii) Commitment

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

(iii) Interest rates

Down 2½ per cent since Budget.

(iv) Other countries

Most major countries 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 or too tight. But kept under constant review.

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

The twelve month growth rate has fallen since last month, but £M3 growth remains difficult to interpret. 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) Interest rates should be cut following falls in US?

Decisions are made on basis of range of evidence, as explained in Lombard Association Speech. Movements in overseas interest rates and financial markets are by no means the only factor to be taken into account, but they can obviously affect financial markets in the UK.

- (v) Funding policy

Same as announced in Mansion House speech: "to fund the PSBR over the year as a whole no more, no less". (not a full fund every month - impracticable - so temporary over/under funding will occur).

- (vi) Funding progress?

Gross gilt sales have been proceeding at a pace more than adequate to meet funding requirement over 1986-87 as a whole. Net sales are uneven owing to redemption profiles. Monthly under/over funding also affected by PSBR profile.

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

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

Table 5

OTHER NARROW AGGREGATES

		DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG
<u>NIB M1</u>	Monthly change (£ millions)	+166	+34	-59	+199	+180	+1,171	-77	+221	+414
	Monthly % change	+0.5	+0.1	-0.2	+0.6	+0.5	+3.4	-0.2	+0.6	+1.1
	Three-monthly % change a.r.	+9.7	+8.0	+1.7	+2.0	+3.8	+19.3	+15.5	+16.0	+6.3
	Six-monthly % change a.r.	-7.6	+6.4	+2.7	+5.8	+5.9	+10.1	+8.6	+9.7	+12.6
	12-monthly % change	+1.2	+3.0	+2.7	+3.7	+4.0	+6.5	+0.2	+8.0	+7.5
<u>M1</u>	Monthly change (£ millions)	+960	-418	+117	+1,475	+1,371	+2,648	+737	+723	+1,351
	Monthly % change	+1.6	-0.7	+0.2	+2.5	+2.2	+4.2	+1.1	+1.1	+2.0
	Three-monthly % change a.r.	+29.2	+14.4	+4.6	+8.1	+21.5	+42.4	+35.0	+29.0	+18.4
	Six-monthly % change a.r.	+16.4	+19.4	+12.6	+18.2	+17.9	+22.0	+20.8	+25.2	+29.9
	12-monthly % change	+18.0	+19.5	+20.0	+20.7	+19.8	+22.1	+18.6	+22.3	+20.9
<u>M2</u>	Provisionally seasonally adjust									
	Monthly change (£ millions)	+747	+720	+853	+1,605	+1,748	+2,814	+1,441	+1,207	+1,653
	Monthly % change	+0.5	+0.5	+0.6	+1.1	+1.2	+1.9	+0.9	+0.8	+1.1
	Three-monthly % change a.r.	+14.7	+12.0	+6.6	+9.0	+12.0	+17.8	+17.1	+15.3	+11.7
	Six-monthly % change a.r.	+9.4	+13.1	+12.2	+11.8	+12.0	+12.0	+13.0	+13.6	+14.7
12-monthly % change	+9.1	+8.4	+9.1	+9.5	+10.5	+12.3	+11.2	+13.4	+13.5	
<u>Levels :</u>	NIBM1	34,461	34,496	34,438	34,641	34,822	35,994	35,918	36,140	+36,554
	M1	59,800	59,400	59,520	61,030	62,400	65,050	65,800	66,520	67,880
	M2 (Partially S/A)	145,829	146,550	147,404	149,013	150,762	153,577	155,019	156,227	157,880

1985-86 KEY AGGREGATES

Table 6

TARGET AGGREGATES

	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG
<u>£M3</u> (Exc. Public sector deposit)									
Monthly change (£ millions)	+740	+96	+1,240	+2,842	+4,083	+3,832	+1,783	+134	+1,668
Monthly % change	+0.6	+0.1	+1.0	+2.3	+3.2	+2.9	+1.3	+0.1	+1.2
Three-monthly % change a.r.	+14.4	+11.1	+6.9	+14.1	+28.8	+38.7	+33.6	+18.4	+10.9
Six-monthly % change a.r.	+13.4	+15.2	-13.2	+14.2	+19.6	+21.7	+23.5	+23.5	+24.0
12 Monthly % change	+15.1	+14.1	+14.9	+16.4	+16.7	+19.5	+18.3	+19.3	+18.5
<u>MO</u> Averaged weekly									
Monthly change (£ millions)	+49	+205	-92	+65	+37	+21	+76	+35	+80
Monthly % change	+0.3	+1.4	-0.6	+0.5	+0.3	+0.1	+0.5	+0.2	+0.5
Three-monthly % change a.r.	+2.7	+9.8	+4.6	+5.1	+0.3	+3.5	+3.8	+3.7	+5.4
Six-monthly % change a.r.	+1.9	+4.0	+3.8	+3.9	+4.9	+4.1	+4.4	+2.0	+4.4
12-monthly % change	+2.4	+4.5	+3.5	+3.6	+3.2	+3.4	+3.1	+3.0	+4.1

OTHER AGGREGATES

<u>PSL2</u> Monthly change (£ millions)	+1,310	+1,265	+1,941	+3,711	+4,612	+3,865	+3,389	+906	+2,876
Monthly % change	+0.6	+0.5	+1.2	+1.5	+1.9	+1.5	+1.3	+0.4	+1.1
Three-monthly % change a.r.	+12.7	+11.3	+9.7	+14.0	+20.3	+21.8	+20.8	+13.7	+11.8
Six-monthly % change a.r.	+11.1	+12.2	+12.3	+13.4	+15.7	+15.6	+17.4	+17.0	+16.7
12-monthly % change	+13.4	+12.4	+12.9	+13.4	+13.4	+14.6	+14.2	+14.5	+14.5
<u>M2</u> Monthly change (£ millions)	+1,908	+488	+249	+1,957	+2,635	+2,137	+2,432	+1,857	+594
unadjusted Monthly % change	+1.3	+0.3	+0.2	+1.3	+1.8	+1.4	+1.6	+1.2	+0.4
12-monthly % change	+9.2	+8.6	+9.4	+9.9	+10.6	+12.4	+11.4	+13.6	+14.0
(exc re-classifications)	+8.5	+8.0	+8.7	+9.2	+10.0	+11.8	+10.8	+13.0	+13.4
<u>Levels :</u>									
£M3 (Exc. Pub Sec Deps)	124,886	124,930	126,094	129,993	133,076	136,909	138,721	138,856	140,523
MO (Averaged weekly)	14,254	14,459	14,367	14,432	14,469	14,490	14,566	14,601	14,681
PSL 2	237,036	238,251	241,118	244,842	249,455	253,321	257,013	257,920	260,797
M2 (unadjusted)	145,594	146,082	146,331	148,291	150,926	153,063	155,495	157,352	157,946

Table 7

OTHER WIDE AGGREGATES

	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG
<u>PSL1</u>									
Monthly change (£ millions)	+646	-225	+1,250	+3,074	+4,188	+3,504	+2,059	+161	+1,794
Monthly % change	+0.5	-0.2	+1.0	+2.4	+3.2	+2.6	+1.5	+0.1	+1.3
Three-monthly % change a.r.	+14.3	+9.2	+5.3	+13.3	+29.2	+37.6	+32.8	+17.8	+11.9
Six-monthly % change a.r.	+12.1	13.1	+11.8	+13.8	+18.8	+20.3	+22.7	+23.4	+24.1
12-monthly % change	+14.3	+13.1	+13.9	+15.4	+15.6	+18.3	17.3	+18.1	+17.8
<u>Wider £ Agg</u>									
Monthly change (£ millions)	+598	+738	+1,544	+3,257	+4,447	+3,077	+543	+469	+1,502
Monthly % change	+0.4	+0.5	+1.0	+2.2	+2.9	+1.9	+0.3	+0.3	+0.9
Three-monthly % change a.r.	+11.9	+11.1	+8.0	+15.7	+27.1	+31.7	+22.6	+10.7	+6.3
Six-monthly % change a.r.	+11.4	+13.5	+11.8	+13.8	+18.8	+19.2	+19.1	+18.6	+18.4
12-monthly % change	+13.8	+13.5	+14.2	+14.3	+14.9	+16.9	+15.2	+16.0	+15.0
<u>M3</u>									
(Exc. Public Sector Deposits)									
Monthly change (£ millions)	+847	+162	+1,684	+3,281	+3,853	+4,563	+3,196	+1,345	+2,140
Monthly % change	+0.6	+0.1	+1.2	+2.2	+2.6	+3.0	+2.0	+0.8	+1.3
Three-monthly % change a.r.	+12.4	+11.9	+7.7	+15.0	+26.7	+36.1	+34.9	+25.9	+18.0
Six-monthly % change a.r.	+12.7	+15.3	+12.7	+13.7	+19.1	+21.0	+24.5	+26.3	+26.7
12-monthly % change	+12.9	+10.9	+11.6	+14.1	+15.9	+18.4	+18.4	+20.7	+19.5

Levels :

PSL1	128,824	128,549	129,725	132,750	136,939	140,444	142,527	142,689	144,484
Wider £ Agg	149,062	149,747	151,212	154,565	159,012	162,089	162,637	163,108	164,610
M3 (ex. Pub. Sec. Deps)	144,466	144,577	146,187	149,526	153,377	157,938	161,155	162,502	164,642

SECRET & PERSONAL

*Agreed.
M.*

FROM: DAVID PERETZ
8 September 1986

MR ALLAN

*Ch
Point in briefing doesn't seem
to cause any difficulties
But X is interesting - you may
remember supporting Frank Cassell on this
before summer hls (paper not to hand)
Progress report?
Also correct by PEM below on
securitisation AA
8/9.*

- cc PS/EST
- Sir P Middleton
- Sir T Burns
- Mr Cassell o/r
- Mr Scholar
- Mr Culpin
- Mr Grice
- Mr Kelly
- Mr Richardson
- Mr Pike
- Mr Heath
- Mr Brook
- Mr Ross Goobey

Yh psu

PROVISIONAL MONEY FIGURES: BANKING AUGUST: BRIEFING

I have a request from the Bank of England for a small change to the "factual" briefing for tomorrow's money figures which has been approved by the Chancellor (your minute of earlier today).

Flagged

2. The Bank would prefer us not to draw attention in factual (iv) to the difference between seasonally adjusted and unadjusted sterling lending. The point is in any event not a very strong one. The seasonal adjustments for bank lending are pretty well established, and largely related to the debiting of interest. We were just looking for something new to say about the seemingly inexorable growth of lending.

X

3. I should like to meet the Bank on this. We are still in the middle of a somewhat difficult discussion with them about the future of seasonal adjustment of the money figures, and I do not want to sour the atmosphere unnecessarily. So I hope the Chancellor would agree that IDT should not go out of their way to draw attention to the unadjusted figure (though of course commentators could work it out for themselves). In effect this means deleting the second and third sentences of factual (iv) in the briefing.

DLCP

D L C PERETZ

SECRET & PERSONAL

*RF into advice or
next month's "first guess"*



FROM: A C S ALLAN
DATE: 8 September 1986

MR HEATH

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

PROVISIONAL MONEY FIGURES: BANKING AUGUST

The Chancellor has seen your minute of 5 September and has approved the attached press notice and draft press briefing.

2. He has noted that there has been an average increase of 0.45 per cent between the first guess and provisionals for £M3 over the last 6 months. He would like to know why we do not adjust the first guess for this known bias.

ACSA

A C S ALLAN

SECRET AND PERSONAL

*page 3 please
see prospect
minutes below
M.*

From: R B SAUNDERS

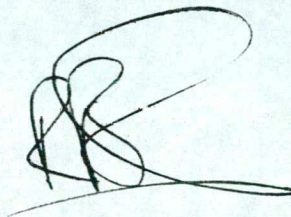
Date: 8 September 1986

MR C W KELLY

cc Chancellor
Economic Secretary
Sir T Burns
Mr Cassell
Mr Scholar
Mr Culpin
Mr Peretz
Mr Grice
Mr Richardson
Mr Pike
Mr Brook
Mr Ross Goobey
Mr Heath

PROVISIONAL MONEY FIGURES: BANKING AUGUST

Sir Peter Middleton has seen Mr Heath's minute of 5 September. He has noted that securitisation does not seem to have damped down the demand for bank loans, and wonders whether it is such a significant development as everyone appears to think.



R B SAUNDERS
Private Secretary



FROM: MRS K S MEASON
DATE: 8 September 1986

MR R M HEATH

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Mr Cassell o/r
Mr Scholar
Mr Culpin
Mr Peretz
Mr Grice
Mr Richardson
Mr Pike
Mr Brook o/a
Mr Ross Goobey

PROVISIONAL MONEY FIGURES: BANKING AUGUST

The Economic Secretary has seen your minute of 5 September. For a line to take, he suggests "The exchange rate has recently been firmer".

KS Meason

MRS K S MEASON

pwp



FROM: A C S ALLAN
DATE: 9 September 1986

MR PERETZ

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

PROVISIONAL MONEY FIGURES: BANKING AUGUST: BRIEFING

The Chancellor is content with the revision you proposed to the "factual" briefing for today's money figures.

2. He noted your comment that you are still in the middle of a somewhat difficult discussion with the Bank about the future of seasonal adjustment of the money figures. He would be grateful for a progress report on where you have got to.

ACSA

A C S ALLAN

covering SECRET
UNTIL 2.30 PM TUESDAY 9 SEPTEMBER 1986

PWP

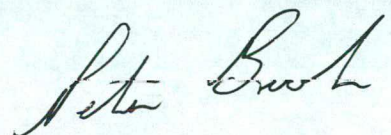
FROM: P H BROOK
DATE: 9 SEPTEMBER 1986

MR CULPIN

cc: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell o/r
Mr Scholar
Mr Peretz
Mr Kelly
Mr Grice

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

- ... I attach the press briefing for today's provisionals. The main change to the material submitted with Mr Heath's minute of 5 September is that reference to the unadjusted figure for sterling lending in Factual (iv) has been omitted as suggested by Mr Peretz in his minute of 8 September.
- ... 2. Also attached are the Bank's Press Notice and 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).



P H BROOK

MONEY SUPPLY IN BANKING AUGUST: PRESS BRIEFING

LINE TO TAKE

M0 is around the middle of its target range. Sterling M3 growth remains difficult to interpret. The exchange rate has recently been firmer. 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: About the middle of its 2-6 per cent target range.
- (iii) £M3: (see line to take above).
- (iv) Sterling lending: Seasonally adjusted figure around the average for the last six months. (In general developments and financial innovations are making it increasingly difficult to read meaning into movements of individual counterparts.)
- (v) Exchange rate: Firmer recently, partly reflecting firmer oil prices.

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 (around 2½ per cent and expected to stay low) demonstrates success of strategy.

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

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Down 2½ per cent since Budget.

(iv) Other countries

Most major countries now operate policy in very similar way.

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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 or too tight. But kept under constant review.

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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) Interest rates should be cut following falls in US?

Decisions are made on basis of range of evidence, as explained in Lombard Association Speech. Movements in overseas interest rates and financial markets are by no means the only factor to be taken into account, but they can obviously affect financial markets in the UK.

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Same as announced in Mansion House speech: "to fund the PSBR over the year as a whole no more, no less". (not a full fund every month - impracticable - so temporary over/under funding will occur).

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- (vii) 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 AUGUST 1986

Preliminary information suggests that, in the five weeks to 20 August 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 August 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	5 1/2	4 1/2	4
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2 Provisional counterparts to the change in £M3 in banking August are:

£ billion, seasonally adjusted

PSBR ⁽¹⁾	+1.5
Debt sales to nbps ⁽²⁾ and external flows to public sector ⁽³⁾	-2.1
(of which, debt sales to nbps -1.5)	
Sterling lending to private sector ⁽⁴⁾	+2.5
Other counterparts ⁽⁵⁾	<u>-0.2</u>
	<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 contractionary by about £0.6 billion. The growth in sterling lending to the private sector was about £2.5 billion, compared with an average of about £2.3 billion a month over the preceding six months. Other counterparts taken together were contractionary.

4 Full money and banking figures for August, including revised estimates of the growth rates given above, will be published on 18 September.

PRESS INFORMATION from Banking Information Service

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

NOT FOR PUBLICATION BEFORE 2.30 pm

9th September 1986

MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS

AUGUST 1986

Sterling advances to the U.K. private sector by the London and Scottish banks rose by £384 million in the five weeks to 20th August. A seasonal fall was, however, expected so that the underlying movement, after allowing also for transit items, was an increase of over £1,450 million, well up on last month's low underlying rise of £250 million, but much in line with the monthly average of the previous three months. There was probably little change in bill finance this month (acceptances granted by the C.L.S.B. banks to U.K. residents rose by less than £90 million, but holdings of eligible bills fell by £350 million).

Analysis of advances, which is not seasonally adjusted, shows that the rise of £384 million is more than accounted for by continued strong growth in personal borrowing (house purchase +£507 million, other lending +£278 million including some £90 million of credit card credit) and in lending to leasing companies (+£167 million). There were reductions in advances to retailers (-£151 million), to farmers (-£88 million) and to manufacturers (-£109 million) though the latter borrowed through bill finance.

Within the banks' other assets, there was a large reduction in lending to the inter-bank market (-£1,797 million) and to the L.D.M.A. (-£484 million), although this was more than offset by reduced borrowing in the inter-bank and CD markets, the net effect of which was a reduction in the C.L.S.B. groups' net borrowing of around £1,100 million. However, holdings of gilts rose by £268 million, Treasury bills by £77 million and cash and balances with the Bank of England by £194 million.

On the liabilities side of the balance sheet, deposits from the U.K. private sector again rose, by £1,186 million; after adjustment for transit items and seasonal factors, there was an underlying rise of around £1,400 million, well up on last

month's low increase but below the monthly average of around £1,900 million in the previous three months. Sight deposits again accounted for a large proportion of the rise, with continuing inflows into the high-interest personal accounts. Deposits from both the public sector and from overseas residents fell slightly.

Eligible liabilities rose by £173 million to £103,236 million.

QUARTERLY ANALYSIS OF ADVANCES

MAY - AUGUST 1986

The analysis of advances for the London and Scottish Banks' Groups shows a total increase of £3,668 million, with sterling advances accounting for £3,399 million. A small seasonal fall was expected, so that the underlying rise was over £3,600 million, against some £4,000 million in the previous three months. In addition, however, bill finance was expansionary in the latest period, whereas it had contracted in the earlier three months.

In contrast to last quarter, when the rise was widely spread between most categories, in the latest three months roughly two-thirds of advances were to persons: lending for house purchase rose strongly, by £1,502 million against £578 million in the previous quarter, and other personal lending by £752 million (£584 million in the previous period). There were also significant rises to "Business and Other Services" (+£677 million), to the Financial Sector (+£417 million, of which £203 million to leasing companies) and to Agriculture (+£290 million). Retailers repaid advances (-£163 million), but borrowed some £60 million through acceptances. Advances to manufacturers were flat, but they borrowed nearly £600 million through acceptances and a further £240 million in foreign currency.

For further information, please contact:

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

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

BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT 20th AUGUST, 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
LIABILITIES		
STERLING DEPOSITS :		
U.K. monetary sector	23,958	- 1,769
U.K. private sector	88,911	+ 1,186
U.K. public sector	2,942	- 36
Overseas residents	13,867	- 210
Certificates of deposit	8,209	- 895
	137,887	- 1,724
of which : Sight	56,796	+ 376
Time (inc. C.D.'s)	81,091	- 2,099
FOREIGN CURRENCY DEPOSITS :		
U.K. monetary sector	16,586	- 296
Other U.K. residents	7,227	+ 366
Overseas residents	44,558	+ 786
Certificates of deposit	5,479	+ 146
	73,851	+ 1,003
TOTAL DEPOSITS	211,737	- 721
NOTES IN CIRCULATION	922	- 30
OTHER LIABILITIES (a)	37,774	+ 396
TOTAL LIABILITIES	250,433	- 355
ASSETS		
STERLING		
Cash & balances with Bank of England:		
Cash ratio deposits	464	0
Other balances	2,290	+ 194
	2,754	+ 194
Market loans :		
Discount houses	3,838	- 484
Other U.K. monetary sector	23,535	- 1,797
U.K. monetary sector C.D.'s	4,206	+ 245
Local authorities	589	- 36
Other	3,556	- 74
	35,724	- 2,147
Bills :		
Treasury bills	242	+ 77
Other bills	2,902	- 355
	3,143	- 278
Investments :		
British Government stocks	4,016	+ 268
Other	4,567	+ 44
	8,583	+ 312
Advances :		
U.K. private sector	92,241	+ 384
U.K. public sector	333	+ 67
Overseas residents	5,772	- 7
	98,346	+ 445
Other sterling assets (a)	14,255	+ 599
FOREIGN CURRENCIES		
Market loans :		
U.K. monetary sector	16,754	- 626
Certificates of deposit	526	+ 6
Other	35,365	+ 913
	52,645	+ 293
Bills		
	578	- 124
Advances :		
U.K. private sector	6,885	+ 43
U.K. public sector	878	- 4
Overseas residents	17,542	+ 92
	25,306	+ 130
Other foreign currency assets (a)	9,099	+ 222
TOTAL ASSETS	250,433	- 355
ACCEPTANCES	5,494	+ 162
ELIGIBLE LIABILITIES	103,236	+ 173

(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
LIABILITIES								
STERLING DEPOSITS								
outstanding	137,887	5,836	32,179	24,168	24,351	40,031	8,083	3,239
change on month	- 1,724	- 53	- 398	- 336	+ 156	- 1,083	+ 50	- 61
Foreign currency deposits								
outstanding	73,851	1,040	14,907	10,390	14,659	20,920	3,461	8,474
change on month	+ 1,003	+ 8	+ 254	- 295	+ 878	+ 5	- 69	+ 222
Total deposits								
outstanding	211,737	6,877	47,086	34,558	39,010	60,951	11,544	11,712
change on month	- 721	- 45	- 144	- 631	+ 1,034	- 1,078	- 18	+ 162
STERLING ASSETS								
Cash and Balances with the Bank of England								
outstanding	2,754	315	521	282	506	618	495	17
change on month	+ 194	- 2	+ 34	+ 33	+ 9	+ 96	+ 19	+ 4
Market loans :								
U.K. monetary sector								
outstanding	27,373	566	6,065	4,729	4,081	10,268	765	900
change on month	- 2,281	- 149	- 293	- 557	- 570	- 524	- 152	- 36
Other								
outstanding	8,351	113	1,811	1,222	1,512	3,145	242	305
change on month	+ 135	+ 4	- 160	+ 79	+ 256	- 40	+ 7	- 11
Bills								
outstanding	3,143	150	955	857	411	403	315	51
change on month	- 278	+ 15	- 75	+ 105	+ 205	- 545	+ 24	- 8
British government stocks								
outstanding	4,016	259	855	642	984	868	204	203
change on month	+ 268	+ 3	+ 106	+ 7	+ 141	+ 13	- 3	0
Advances								
outstanding	98,346	5,106	24,090	16,586	17,520	25,686	6,808	2,550
change on month	+ 445	+ 106	- 9	- 4	+ 246	- 55	+ 70	+ 90
FOREIGN CURRENCY ASSETS								
Market loans and bills								
outstanding	53,223	410	11,102	8,391	8,520	16,630	2,384	5,786
change on month	+ 169	+ 25	+ 174	- 149	+ 619	- 478	- 11	- 12
Advances								
outstanding	25,306	841	3,886	3,246	6,181	6,156	1,368	3,626
change on month	+ 130	- 12	+ 146	- 66	+ 79	- 99	- 40	+ 123
ACCEPTANCES								
outstanding	5,494	250	1,258	482	1,216	1,379	447	463
change on month	+ 162	- 18	- 9	- 19	+ 18	+ 179	- 4	+ 17
ELIGIBLE LIABILITIES								
outstanding	103,236	5,180	24,508	18,170	18,902	27,278	6,966	2,231
change on month	+ 173	+ 86	+ 3	+ 181	+ 413	- 611	+ 120	- 19

COMPOSITION OF GROUPS (U.K. offices only)

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

The Barclays Group comprises Barclays Bank PLC, Barclays de Zoete Wedd 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., Northern Bank Ltd., Northern Bank Development Corporation Ltd., and Clydesdale Bank Finance Corporation Ltd.

The National Westminster Group comprises National Westminster Bank PLC, Coutts & Co., Coutts Finance Co., NatWest Investment 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 Bank Ltd.

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 20th AUGUST, 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 being 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. AGRICULTURE, FORESTRY & FISHING	5,992	+ 293
of which sterling	5,979	+ 290
2. ENERGY & WATER SUPPLY INDUSTRIES		
Oil & extraction of natural gas	763	+ 24
Other energy industries	565	- 12
Water supply	255	+ 11
Total item 2	1,582	+ 23
of which sterling	570	- 34
3. MANUFACTURING INDUSTRY		
Extraction of minerals and ores	361	+ 47
Metal manufacturing	490	- 9
Non-metallic mineral product manufacture	643	- 2
Chemical industry	696	- 46
Mechanical engineering	1,245	- 15
Electrical & electronic engineering	1,432	+ 113
Motor vehicles	413	+ 39
Other transport equipment	1,024	+ 43
Other engineering & metal goods	1,248	- 63
Food, drink & tobacco	2,260	+ 272
Textiles, leather, clothing & footwear	1,148	+ 17
Other manufacturing	2,791	- 150
Total item 3	13,754	+ 247
of which sterling	11,902	+ 7
4. CONSTRUCTION	4,193	- 48
of which sterling	4,089	- 35
5. GARAGES, DISTRIBUTION, HOTELS & CATERING		
Garages & retail motor trade	1,845	+ 22
Other retail distribution	4,521	- 163
Wholesale distribution	2,882	- 61
Hotels & catering	2,785	- 31
Total item 5	12,034	- 233
of which sterling	11,402	- 171
6. TRANSPORT		
Air transport	189	- 41
Other transport	1,774	- 6
Total item 6	1,963	- 48
of which sterling	1,564	- 3
7. POSTAL SERVICES & TELECOMMUNICATIONS		
of which sterling	74	+ 4
	67	- 3
8. FINANCIAL		
Building societies	73	- 5
Investment & unit trusts etc.	1,398	+ 40
Insurance companies, pension funds etc.	1,270	+ 47
Leasing companies	4,915	+ 201
Other financial	4,035	+ 236
Total item 8	11,691	+ 519
of which sterling	8,901	+ 417
9. BUSINESS & OTHER SERVICES		
Central & local government	480	+ 17
Property companies	4,346	+ 127
Hiring of movables	586	0
Other services	8,356	+ 508
Total item 9	13,767	+ 651
of which sterling	12,854	+ 677
10. PERSONS		
Bridging finance for house purchase	847	+ 71
Other house purchase	17,811	+ 1,431
Other advances to persons	16,628	+ 758
Total item 10	35,287	+ 2,260
of which sterling	35,246	+ 2,255
TOTAL ADVANCES TO U.K. RESIDENTS	100,337	+ 3,668
of which in sterling	92,574	+ 3,399
in foreign currencies	7,763	+ 269

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FROM: DAVID PERETZ
10 September 1986

CHANCELLOR

cc EST

Sir P Middleton
 Sir T Burns
 Mr Cassell
 Mr Scholar
 Mr Culpin
 Mr Grice
 Mr Kelly
 Mr Richardson
 Mr Pike
 Mr Heath
 Mr Brook
 Mr Ross Goobey

Ch
Pete mentioned this
@ Whitehall today.
AA

You know
(strong) VTR S. Mr.

MONEY FIGURES: SEASONAL ADJUSTMENT

You asked (Mr Allan's minute of 9 September) for a progress report on our discussions with the Bank of England.

2. Mr Cassell had a negotiation during August with Mr George, on the lines proposed in his minute to you of 31 July. They could not reach agreement. In the end it was agreed that we could buy ourselves a little more time by deciding not to publish an article on this in the September Bank of England Quarterly Bulletin, as was originally proposed. Instead, the Bank have now proposed that they should publish an article when reporting the full money figures for banking September in mid-October.

3. That has given us a little more time. The next step is a Bank/Treasury discussion scheduled to take place at Sir Peter Middleton's regular monthly meeting next week.

4. As far as I know, the Bank's preferred approach remains full seasonal adjustment, or failing that, adjustment of the monetary aggregates and bank lending, but not the other counterparts. I imagine that is what they will continue to argue for at next week's meeting.

5. We will report once we have made a little more progress. But as you will see, we have bought ourselves more time than we thought we had when Frank Cassell minuted you on 31 July.

DLP

D L C PERETZ

*psp*

FROM: A C S ALLAN
DATE: 11 SEPTEMBER 1986

MR PERETZ

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

MONEY FIGURES: SEASONAL ADJUSTMENT

The Chancellor was grateful for your minute of 10 September reporting on progress in your discussions with the Bank of England about seasonal adjustment. The Chancellor remains firmly of the view that we should try to move away from publishing monthly seasonally adjusted money figures and counterparts.

ACSA

A C S ALLAN



FROM: M G RICHARDSON

DATE: 12 September 1986

CHANCELLOR

Ch
(1) A

Thanks. This confirms that there is a clear bias in the first guess. I note X, & await results. I put comm. Memorandum on paper covered to No. 10 in the gum of cover as I have written warning.

- cc: Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Cassell
- Mr Peretz
- Mr Scholar
- Mr Culpin
- Mr Kelly
- Mr Grice
- Mr Heath
- Mr Brook
- Mr Ross Goobey

PROVISIONAL MONEY FIGURES: BANKING AUGUST

Mr Allan's minute of 8 September noted that there had been an average increase of 0.45 per cent between the £M3 first guess and provisionals over the last six months, and asked why the first guess is not adjusted accordingly.

2. The Bank are aware of the problem. Research carried out there in 1985 indicated that first guess prediction errors were then correlated with the residual counterparts, and the first guess was adapted accordingly. But earlier this year this relationship appeared to have broken down. So they cannot be confident that there really is any definite bias in the first guess now.

3. The degree of variation over the last six months has not been consistent:

£M3: monthly growth

	March	April	May	June	July	Aug
first guess	1.8	2.8	2.4	1.0	-0.3	0.6
provisionals	2.2	3.1	3.0	1.3	0.1	1.2
variation	0.4	0.3	0.6	0.3	0.4	0.6

And in three of the previous six months, the variation was downwards:

This is not consistent !!

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	Sept	Oct	Nov	Dec	Jan	Feb
first guess	1.4	0.9	1.6	0.8	0.0	1.2
provisional	1.8	0.8	2.0	0.6	0.1	1.0
variation	0.4	-0.1	0.4	-0.2	0.1	-0.2

The Bank cannot therefore be sure that the most recent six months represent a new trend rather than a relatively improbable succession of errors in the same direction (the first guess is always liable to a margin of error of up to ± 0.5 per cent). Despite undertaking some analysis they have been unable to identify any underlying causes for the apparent bias.

v true!

4. None of this offers a satisfactory answer to your query. But preparations for the change to calendar month reporting already entail an unusually heavy workload, and the Bank are reluctant to devote extra manpower to the question at present. They intend to return it, however, once the switch has been accomplished.

5. Meanwhile, there will be one more occasion of banking month reporting; it may be prudent to make mental allowance for the possibility of some underestimating in the figures on 26 September.

X

*Just like beginning of
'Reservoirs' (understand are dead' !!!
(I think I have exact quote at home).*

M G Richardson

M G RICHARDSON

CONFIDENTIAL



pwp

FROM: A C S ALLAN

DATE: 15 September 1986

MR RICHARDSON

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

PROVISIONAL MONEY FIGURES: BANKING AUGUST

The Chancellor was grateful for your minute of 12 September. In his view, the figures you presented confirm that there has been a clear bias to the first guess over the last 6 months. He notes that the Bank are reluctant to devote extra manpower to analysing the causes of this bias at present, but that they intend to return to it once the switch to calendar month reporting has been accomplished. He awaits the results of that in due course.

2 Meanwhile, he would be grateful if you could make sure that any paper circulated to No 10 about the first guess carries an explicit health warning.

A handwritten signature in cursive script that reads 'A C S Allan'.

A C S ALLAN

SECRET
UNTIL 2.30 PM ON THURSDAY 18 SEPTEMBER

PHB
FROM: P H BROOK
DATE: 16 SEPTEMBER 1986

MR CASSELL

*1. Ande
2 PWP*

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

✓ ✓

FULL MONEY FIGURES - BANKING AUGUST

- ... I attach the Bank's draft press release on the full money figures and accompanying banking statistics which will be published at 2.30 pm on Thursday 18 September.
2. The full figures are entirely consistent with the rounded figures published in the provisional press release last week. The text follows the same pattern as last month.
3. The press briefing agreed for last week's provisionals ... press notice is attached. The briefing is unchanged.
4. Could I please have comments on the Bank's draft press release by noon on Wednesday 17 September, and any comments on the revised press briefing by close that day.

PHB

P H BROOK

SECRET
UNTIL 2.30 PM ON THURSDAY 18 SEPTEMBER

MONEY SUPPLY IN BANKING AUGUST: PRESS BRIEFING

LINE TO TAKE

M0 is around the middle of its target range. Sterling M3 growth remains difficult to interpret. The exchange rate has recently been firmer. 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: About the middle of its 2-6 per cent target range.
- (iii) £M3: (see line to take above).
- (iv) Sterling lending: Seasonally adjusted figure around the average for the last six months. (In general developments and financial innovations are making it increasingly difficult to read meaning into movements of individual counterparts.)
- (v) Exchange rate: Firmer recently, partly reflecting firmer oil prices.

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 (around 2½ per cent and expected to stay low) demonstrates success of strategy.

(ii) Commitment

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

(iii) Interest rates

Down 2½ per cent since Budget.

(iv) Other countries

Most major countries 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 or too tight. But kept under constant review.

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

The twelve month growth rate has fallen since last month, but £M3 growth remains difficult to interpret. 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) Interest rates should be cut following falls in US?

Decisions are made on basis of range of evidence, as explained in Lombard Association Speech. Movements in overseas interest rates and financial markets are by no means the only factor to be taken into account, but they can obviously affect financial markets in the UK.

- (v) Funding policy

Same as announced in Mansion House speech: "to fund the PSBR over the year as a whole no more, no less". (not a full fund every month - impracticable - so temporary over/under funding will occur).

- (vi) Funding progress?

Gross gilt sales have been proceeding at a pace more than adequate to meet funding requirement over 1986-87 as a whole. Net sales are uneven owing to redemption profiles. Monthly under/over funding also affected by PSBR profile.

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

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

MONEY AND BANKING FIGURES: BANKING AUGUST 1986

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

1 During the five weeks to 20 August 1986, M0 (average of weekly levels) rose by £80 million (+0.5%) (Table B) and £M3 rose by £1,670 million (+1.2%) (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	+ 5.4	+ 4.4	+ 4.1
£M3	+10.9	+24.0	+18.5

3 Within £M3 there was a rise in banking August of £160 million in notes and coin, a rise of £250 million in non-interest-bearing sight deposits and a rise of £940 million in interest-bearing sight deposits. M1 rose by £1,350 million (+2.0%). Time deposits (including sterling certificates of deposit) of the UK private sector rose by £320 million.

4 The sterling value of private sector foreign currency deposits rose by £480 million, comprising a rise of £210 million reflecting transactions and a rise of £270 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £2,150 million (+1.3%) (Table E).

5 M2 (not seasonally adjusted) rose by £740 million (+0.5%) (Table F). PSL2 rose by £2,820 million (+1.1%) (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 contractionary by £610 million (see columns 1-7 of Table A). The central government borrowing requirement was £1,470 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 zero. There were net purchases of central government debt by the non-bank private sector of £1,510 million; within this gilt-edged stock accounted for £780 million,

8 National Savings for £560 million and CTDs for £170 million. External and foreign currency finance of the public sector was contractionary by £560 million.

8 Sterling lending to the private sector rose by £2,470 million. Foreign currency lending to the private sector rose by £280 million in transactions terms.

9 The external and foreign currency transactions of UK banks were contractionary by £310 million (see columns 9-12 of Table A). Net non-deposit sterling liabilities fell by £110 million, an expansionary influence.

10 In banking August, the amount of sterling commercial paper outstanding increased by an estimated £40 million, from £180 million to £220 million. The monetary sector reported unchanged holdings of commercial paper issued by UK companies at £10 million; changes in holdings of such paper are included in sterling lending to the private sector (Tables A and K). Monetary sector holdings of commercial paper issued by overseas companies, changes in which are included in sterling lending to the overseas sector (Table K) and within the external and foreign currency transactions of UK banks (Table A), rose by £30 million, from £10 million to £40 million.

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 September 1986

12 The provisional seasonal movements for the four weeks ended 17 September 1986 are as follows:

	£ million
Notes and coin in circulation with the public	- 180
Private sector sterling sight bank deposits	<u>+ 190</u>
M1	+ 10
Other private sector sterling bank deposits	<u>- 360</u>
EM3	<u>- 350</u>
M0 (averaged series)	<u>- 150</u>
Bank lending in sterling to the private sector	<u>- 220</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 AUGUST 1986

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 5.4	+ 4.4	+ 4.1
M1	+ 18.4	+29.8	+20.9
of which:			
Non-interest bearing M1	+ 6.3	+12.6	+ 7.5
M2 (not seasonally adjusted)*	..	..	+14.1
£M3	+ 10.9	+24.0	+18.5
M3	+ 18.0	+26.7	+19.5
PSL1	+ 11.9	+24.1	+17.8
PSL2	+ 11.8	+16.7	+14.5

*the growth of M2 over the 12 months to mid-August 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 13.5%.

Banking statistics

20 August 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 Aug. 21	+ 2,319	- 373	- 248	- 177	- 14	+ 50	+ 1,084	+ 261	- 591	- 604	- 144	+ 488	+ 2,051	
Sept. 18	+ 1,667	- 323	- 60	- 34	- 156	+ 17	+ 399	+ 421	- 78	- 104	+ 234	- 164	+ 1,819	
Oct. 16	+ 564	- 588	- 514	- 525	- 81	- 130	+ 3,536	+ 712	- 703	+ 164	+ 351	- 1,741	+ 1,045	
Nov. 20	+ 2,666	- 1,125	- 737	- 109	- 400	- 193	+ 1,384	- 388	+ 243	- 165	- 183	+ 1,533	+ 2,526	
Dec. 11	+ 1,490	+ 222	- 224	- 76	- 34	- 25	+ 980	+ 296	- 154	+ 17	- 1,131	- 490	+ 871	
1986 Jan. 15	+ 2,785	- 171	- 81	+ 504	- 290	- 2	+ 1,506	- 289	- 353	+ 357	+ 519	+ 186	- 899	
Feb. 19	+ 786	- 179	- 263	+ 100	+ 152	- 248	+ 1,279	+ 213	- 517	- 85	+ 1,346	- 367	+ 445	
Mar. 19	+ 942	- 307	+ 440	- 507	+ 236	+ 130	+ 2,358	+ 44	- 459	- 644	+ 563	+ 66	+ 2,862	
Apr. 16	+ 4,274	- 1,054	- 693	- 273	- 226	+ 322	+ 3,684	+ 547	- 911	+ 659	- 125	- 1,076	+ 5,128	
May 21	+ 1,626	- 837	+ 571	- 366	- 538	+ 55	+ 1,214	+ 60	+ 695	+ 133	+ 395	+ 470	+ 3,478	
June 18	+ 3,040	- 1,020	- 532	- 526	- 36	+ 363	+ 1,344	+ 980	+ 260	- 606	- 768	- 1,063	+ 1,436	
July 16	- 716	- 327	- 534	- 372	- 321	- 147	+ 4,656	+ 74	- 422	- 108	+ 262	- 1,324	+ 721	
Aug. 20	+ 1,877	- 133	- 781	- 595	- 555		+ 1,512	- 27	+ 197	- 170	- 357	+ 238	+ 1,206	
Month ended (seasonally adjusted)														
1985 Aug. 21	+ 2,090	- 362	- 248	- 314	- 14	+ 45	+ 1,727		- 960			+ 245	+ 2,209	
Sept. 18	+ 1,955	- 338	- 60	+ 3	- 156	+ 12	+ 964		+ 73			- 333	+ 2,120	
Oct. 16	+ 914	- 649	- 514	- 477	- 81	- 135	+ 2,237		+ 546			- 865	+ 976	
Nov. 20	+ 1,905	- 1,089	- 737	- 36	- 400	- 198	+ 2,069		- 339			+ 1,232	+ 2,407	
Dec. 11	+ 118	+ 449	- 224	- 56	- 34	- 30	+ 2,084		- 994			- 573	+ 740	
1986 Jan. 15	+ 53	- 352	- 81	+ 467	- 290	+ 48	+ 377		+ 29			- 155	+ 96	
Feb. 19	+ 684	- 239	- 263	- 225	+ 152	- 253	+ 1,494		+ 809			- 919	+ 1,240	
Mar. 19	+ 857	- 361	+ 440	- 378	+ 236	+ 126	+ 2,584		- 631			- 31	+ 2,842	
Apr. 16	+ 2,708	- 1,343	- 693	- 201	- 226	+ 319	+ 3,017		+ 589			- 67	+ 4,083	
May 21	+ 1,642	- 930	+ 571	- 375	- 538	+ 51	+ 1,683		+ 1,372			+ 356	+ 3,832	
June 18	+ 1,796	- 570	- 532	- 568	- 36	+ 359	+ 2,178		+ 32			- 812	+ 1,783	
July 16	+ 576	- 323	- 534	- 401	- 321	- 151	+ 3,061		- 328			- 1,445	+ 134	
Aug. 20	+ 1,468	- 3	- 781	- 732	- 559		+ 2,474		- 306			+ 106	+ 1,667	

[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 Aug. 21	- 248	- 56	- 273	- 384	+ 149	+ 123	+ 3	- 425	- 562
Sept. 18	- 60	+ 6	- 228	- 229	+ 190	+ 228	- 2	- 94	- 57
Oct. 16	- 514	+ 17	- 191	- 197	- 351	- 297	-	- 1,039	- 991
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	- 81	+ 89	- 122	- 19	+ 534	+ 394	+ 3	+ 423	+ 386
Feb. 19	- 263	- 30	- 138	- 74	+ 62	- 127	+ 6	- 363	- 488
Mar. 19	+ 440	- 80	- 30	+ 55	- 398	- 354	+ 1	- 67	+ 62
Apr. 16	- 693	- 22	- 65	- 46	- 189	- 136	+ 3	- 966	- 894
May 21	+ 571	+ 21	- 207	- 237	- 180	- 159	-	+ 205	+ 196
June 18	- 532	- 99	- 247	- 352	- 177	- 114	- 3	- 1,058	- 1,100
July 16	- 534	+ 147	- 313	- 390	- 206	- 158	-	- 906	- 935
Aug. 20	- 781	- 4	- 451	- 562	- 142	- 168	+ 2	- 1,376	- 1,513

[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.)

B M0, the wide monetary base

£ millions: percentages in italics

[Table 2 in the Quarterly Bulletin]

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			
1		2		3		4		5		6		7					
Amount outstanding at																	
1985	July 17	12,674	12,464	1,403	1,328	214	628	1985	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			
	July 16	12,973	12,756	1,611	1,538	76	720		July 16	14,482	14,467	134	14,616	14,601			
	Aug. 20	13,076	12,918	1,652	1,601	243	720		Aug. 20	14,669	14,513	168	14,837	14,681			
Change in month ended																	
1985	Aug. 21	- 16	+ 50	+ 65	+ 92	- 114	-	1985	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		
	July 16	+ 166	- 101	+ 144	+ 39	- 87	- 1		July 16	+ 152	+ 59	- 24	+ 128	+ 35	+0.2		
	Aug. 20	+ 103	+ 162	+ 41	+ 63	+ 167	-		Aug. 20	+ 187	+ 46	+ 34	+ 221	+ 80	+0.5		

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

£ millions

Transactions in:	Month ended	Banking Department	Issue Department		
		Commercial bills [a]	Commercial bills [a]	Shipbuilding paper [a]	Export credit paper [b]
	1985 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	-	-
	July 16	+ 15	+ 2,600	-	-
	Aug. 20	- 123	+ 553	-	+ 272
Amount outstanding at mid-August 1986		655	10,067	-	-

[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 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	63,385	119,135	118,660	19,159	138,294	137,820
Sept. 18(d)	12,536	21,253	22,248	56,037	56,080	64,972	121,009	120,800	19,524	140,533	140,330
Oct. 16	12,413	21,579	23,537	57,529	57,410	64,525	122,054	121,780	18,861	140,915	140,640
Nov. 20	12,476	21,725	24,536	58,737	58,840	65,843	124,580	124,170	19,466	144,046	143,640
Dec. 11(d)	12,909	22,437	25,265	60,611	59,800	64,838	125,449	124,890	19,577	145,026	144,470
Jan. 15	12,399	21,625	24,999	59,023	59,400	65,527	124,550	124,930	19,643	144,193	144,580
1986 Feb. 19	12,441	21,246	25,052	58,739	59,520	66,254	124,993	126,090	20,087	145,080	146,190
Mar. 19(d)	12,532	21,760	26,158	60,450	61,030	67,502	127,952	128,990	20,527	148,479	149,530
Apr. 16	12,611	22,639	27,676	62,926	62,400	70,154	133,080	133,080	20,297	153,377	153,380
May. 21	12,820	22,980	28,986	64,786	65,050	71,772	136,558	136,910	21,028	157,586	157,940
June 18	12,807	23,198	29,639	65,644	65,800	72,372	138,016	138,720	22,441	160,457	161,160
July 16	12,973	23,662	30,331	66,966	66,520	71,771	138,737	138,860	23,652	162,389	162,500
Aug. 20	13,076	23,474	31,141	67,691	67,870	72,252	139,943	140,520	24,130	164,073	164,650

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	M1(b)	£M3(b)		Transactions	Valuation changes(g)	M3(b)			
										1	2	3	4	5	6	7	8
1985 Aug. 21	- 16	- 81	+ 1.101	+ 1,004	+ 1,047	+ 2,051	+ 577	+ 373	+ 3,001			
Sept. 18	- 122	+ 87	+ 288	+ 253	+ 1,566	+ 1,819	- 249	+ 603	+ 2,173			
Oct. 16	- 123	+ 326	+ 1,289	+ 1,492	- 447	+ 1,045	+ 146	- 809	+ 382			
Nov. 20	+ 63	+ 146	+ 999	+ 1,208	+ 1,318	+ 2,526	+ 873	- 268	+ 3,131			
Dec. 11	+ 433	+ 712	+ 729	+ 1,874	- 1,003	+ 871	- 172	+ 279	+ 978			
Jan. 15	- 510	- 812	- 290	- 1,612	+ 713	- 899	+ 348	- 282	- 833			
1986 Feb. 19	+ 42	- 379	+ 53	- 284	+ 729	+ 445	+ 565	- 121	+ 889			
Mar. 19	+ 91	+ 511	+ 1,080	+ 1,682	+ 1,180	+ 2,862	+ 642	- 203	+ 3,301			
Apr. 16	+ 79	+ 879	+ 1,518	+ 2,476	+ 2,652	+ 5,128	+ 137	- 367	+ 4,898			
May 21	+ 209	+ 341	+ 1,310	+ 1,860	+ 1,618	+ 3,478	+ 877	- 146	+ 4,209			
June 18	- 13	+ 218	+ 640	+ 845	+ 591	+ 1,436	+ 1,173	+ 240	+ 2,849			
July 16	+ 166	+ 464	+ 692	+ 1,322	- 601	+ 721	+ 1,155	+ 56	+ 1,932			
Aug. 20	+ 103	- 188	+ 810	+ 775	+ 481	+ 1,206	+ 213	+ 265	+ 1,684			
Month ended (seasonally adjusted)												
1985 Aug. 21	+ 50	+ 492	+ 1,175	+ 1,717	+ 3.2	+ 492	+ 2,209	+ 1.9	+ 577	+ 373	+ 3,159	+ 2.3
Sept. 18	+ 47	- 356	+ 321	+ 12	-	+ 2,108	+ 2,120	+ 1.8	- 249	+ 603	+ 2,474	+ 1.8
Oct. 16	- 96	+ 258	+ 1,168	+ 1,330	+ 2.4	- 354	+ 976	+ 0.8	+ 146	- 809	+ 313	+ 0.2
Nov. 20	+ 62	+ 396	+ 966	+ 1,424	+ 2.5	+ 983	+ 2,407	+ 2.0	+ 873	- 268	+ 3,012	+ 2.1
Dec. 11	- 62	+ 228	+ 794	+ 960	+ 1.6	- 220	+ 740	+ 0.6	- 172	+ 279	+ 847	+ 0.6
Jan. 15	+ 108	- 74	- 452	- 418	- 0.7	+ 514	+ 96	+ 0.1	+ 348	- 282	+ 162	+ 0.1
1986 Feb. 19	+ 13	- 72	+ 176	+ 117	+ 0.2	+ 1,123	+ 1,240	+ 1.0	+ 565	- 121	+ 1,684	+ 1.2
Mar. 19	+ 21	+ 178	+ 1,277	+ 1,476	+ 2.5	+ 1,366	+ 2,842	+ 2.3	+ 642	- 203	+ 3,281	+ 2.2
Apr. 16	+ 5	+ 175	+ 1,191	+ 1,371	+ 2.2	+ 2,712	+ 4,083	+ 3.2	+ 137	- 367	+ 3,853	+ 2.6
May 21	+ 105	+ 1,066	+ 1,477	+ 2,648	+ 4.2	+ 1,184	+ 3,832	+ 2.9	+ 877	- 146	+ 4,563	+ 3.0
June 18	+ 131	- 208	+ 814	+ 737	+ 1.1	+ 1,046	+ 1,783	+ 1.3	+ 1,173	+ 240	+ 3,196	+ 2.0
July 16	- 101	+ 322	+ 502	+ 723	+ 1.1	- 589	+ 134	+ 0.1	+ 1,155	+ 56	+ 1,345	+ 0.8
Aug. 20	+ 162	+ 248	+ 937	+ 1,347	+ 2.0	+ 320	+ 1,667	+ 1.2	+ 213	+ 265	+ 2,145	+ 1.3

[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 March 1986, footnote [b] 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 Aug. 21	12,658	21,169	33,827	34,507	68,291	1,740	138,365	993	4,452
Sept. 18 [c]	12,536	21,253	33,789	34,794	69,825	1,729	140,137	885	4,475
Oct. 16	12,413	21,579	33,992	35,210	70,630	1,734	141,566	1,107	4,541
Nov. 20	12,476	21,725	34,201	36,366	71,408	1,711	143,686	1,251	4,532
Dec. 11 [c]	12,909	22,437	35,346	35,882	72,673	1,693	145,594	923	4,681
1986 Jan. 15	12,399	21,625	34,024	36,413	73,906	1,739	146,082	1,137	4,905
Feb. 19	12,441	21,246	33,687	36,466	74,464	1,714	146,331	997	4,895
Mar. 19 [c]	12,532	21,760	34,292	36,993	75,284	1,722	148,291	1,071	5,054
Apr. 16	12,611	22,639	35,250	37,856	76,102	1,718	150,926	1,218	5,294
May 21	12,820	22,980	35,800	38,755	76,776	1,742	153,063	1,167	5,336
June 18	12,807	23,198	36,005	39,540	78,222	1,728	155,495	1,124	5,435
July 16	12,973	23,662	36,635	40,255	78,770	1,692	157,352	1,143	5,549
Aug. 20	13,076	23,474	36,550	40,661	79,178	1,698	158,087	1,242	5,559
Changes in month ended [d]									
1985 Sept. 18	- 122	+ 87	- 35	+ 287	+ 1,374	- 11	+ 1,615	- 108	+ 23
Oct. 16	- 123	+ 326	+ 203	+ 416	+ 805	+ 5	+ 1,429	+ 222	+ 66
Nov. 20	+ 63	+ 146	+ 209	+ 1,156	+ 778	- 23	+ 2,120	+ 144	- 9
Dec. 11	+ 433	+ 712	+ 1,145	- 484	+ 1,265	- 18	+ 1,908	- 328	+ 149
1986 Jan. 15	- 510	- 812	- 1,322	+ 531	+ 1,233	+ 46	+ 488	+ 214	+ 224
Feb. 19	+ 42	- 379	- 337	+ 53	+ 558	- 25	+ 249	- 140	- 10
Mar. 19	+ 91	+ 511	+ 602	+ 527	+ 820	+ 8	+ 1,957	+ 74	+ 159
Apr. 16	+ 79	+ 879	+ 958	+ 863	+ 818	- 4	+ 2,635	+ 147	+ 240
May 21	+ 209	+ 341	+ 550	+ 899	+ 664	+ 24	+ 2,137	- 51	+ 42
June 18	- 13	+ 218	+ 205	+ 785	+ 1,456	- 14	+ 2,432	- 43	+ 99
July 16	+ 166	+ 464	+ 630	+ 715	+ 548	- 36	+ 1,857	+ 19	+ 114
Aug. 20	+ 103	- 188	- 85	+ 406	+ 408	+ 6	+ 735	+ 99	+ 10

[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 [f] to Table E on page 3.

G Private sector liquidity

[Summary of Table 12 in the Quarterly Bulletin]

£ millions: percentages in italics

Month ended	Money [a]															
	Seasonally adjusted	Other money-market instruments Seasonally adjusted	Savings institution deposits and securities		Certificates of tax deposit		Other sterling shares and deposits [c]	PSL1 (columns 1+2+5)	PSL2 (old definition) (columns 1+2+3+6)	PSL2 (new definition) (columns 1+2+3+6+7)	PSL1	PSL2 (old definition)	PSL2 (new definition)			
			Seasonally adjusted	of which shares and deposits with building societies [b]	Seasonally adjusted	Column 5 less building society holdings								Unadjusted	Seasonally adjusted	Seasonally adjusted
1	2	3	4	5	6	7	8	9	10	11	12	13				
1985 Aug. 21	116,846	3,095	83,727	81,481	2,929	2,530	21,474	122,870	206,198	227,672	+1,888	+1.6	+2,455	+1.2	+2,612	+1.2
Sept. 18	118,989	2,972	84,655	82,752	2,696	2,296	21,208	124,657	208,912	230,120	+1,785	+1.5	+2,712	+1.3	+2,446	+1.1
Oct. 16	119,959	2,904	86,023	84,320	2,993	2,537	20,660	125,856	211,423	232,083	+1,198	+1.0	+2,510	+1.2	+1,962	+0.9
Nov. 20	122,353	3,044	88,056	86,405	2,846	2,390	19,926	128,243	215,843	235,769	+2,397	+1.9	+4,430	+2.1	+3,696	+1.6
Dec. 11	123,015	2,936	89,092	87,746	2,894	2,406	19,587	128,845	217,449	237,036	+ 650	+0.5	+1,649	+0.8	+1,310	+0.6
1986 Jan. 15	123,019	3,030	90,762	89,824	2,500	2,251	19,178	128,549	238,240	238,240	- 246	-0.2			+1,254	+0.5
Feb. 19	124,202	2,896	92,937	91,562	2,627	2,238	18,804	129,725	241,077	241,077	+1,750	+1.0			+2,911	+1.2
Mar. 19	126,990	2,779	93,872	93,116	2,981	2,409	18,724	132,750	244,774	244,774	+3,074	+2.4			+3,684	+1.5
Apr. 16	131,094	2,728	94,626	94,464	3,117	2,472	18,473	136,939	249,393	249,393	+4,188	+3.2			+4,618	+1.9
May 21	134,882	2,286	95,438	95,698	3,276	2,431	18,251	140,444	253,288	253,288	+3,504	+2.6			+3,894	+1.6
June 18	136,679	2,458	97,358	96,606	3,390	2,491	18,017	142,527	257,003	257,003					+3,412	+1.3
July 16	136,845	2,296	98,799	97,718	3,548	2,598	17,382	142,689	257,920	257,920	+ 161	+0.1			+ 916	+0.4
Aug. 20	138,434	2,333	100,658	99,493	3,716	2,553	16,765	144,483	260,743	260,743	+1,793	+1.3			+2,822	+1.1

[a] £M3 less deposits of over 2 years original maturity.

[b] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies; excludes holdings of term shares and SAYE deposits.

[c] UK non-bank private sector's holdings of term shares and SAYE deposits with building societies and sterling bank deposits of over two years original maturity.

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

[Table 3.1 in the Quarterly Bulletin]

£ millions

	Notes outstanding	Total deposits	Sterling liabilities										CDs etc and other short-term paper issued	Items in suspense and transmission	Capital and other funds
			Sight deposits				Time deposits				Overseas	Overseas			
			UK monetary sector	UK public sector	UK private sector	Overseas	UK monetary sector	UK public sector	UK private sector	Overseas					
1986 Mar. 19 [b]	967	221,917	9,722	1,468	49,107	7,258	43,287	1,899	63,372	28,251	17,553	6,503	28,481		
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	29,755		
May 21	998	236,735	10,619	1,731	53,132	7,402	46,350	3,224	66,845	28,529	18,903	5,953	29,690		
June 18	1,006	236,889	10,447	1,770	53,918	7,376	45,526	3,416	67,215	27,880	19,341	5,832	30,300		
July 16	1,036	238,646	11,091	1,654	55,051	7,941	44,645	3,527	66,842	27,630	20,265	6,770	31,656		
Aug. 20	1,006	234,826	9,901	1,795	56,155	7,455	42,251	3,382	67,451	27,475	18,961	7,247	31,783		

	Total deposits	Other currency liabilities					CDs etc and other short-term paper issued	Items in suspense and transmission	Capital and other funds	Total liabilities/assets	of which sterling	
		Sight and time deposits			Overseas	Liabilities					Assets	
		UK monetary sector	Other United Kingdom	Overseas								
1986 Mar. 19 [b]	508,486	89,692	19,661	332,743	66,391	6,882	14,647	787,883	257,868	254,800		
Apr. 16	504,308	88,164	19,716	331,944	64,483	6,616	13,997	794,335	269,414	266,471		
May 21	506,789	87,394	20,458	330,767	68,170	6,660	13,721	800,546	273,376	270,037		
June 18	511,590	89,732	21,565	330,591	69,703	7,017	13,550	806,186	274,028	271,456		
July 16	515,024	88,527	22,574	331,539	72,385	7,448	14,027	814,606	278,107	275,273		
Aug. 20	530,382	90,598	23,659	345,976	70,150	8,019	13,986	827,249	274,862	272,387		

	Notes and coin	Sterling assets									
		Balances with Bank of England			LDMA		Other UK monetary sector	Market loans			Overseas
		Cash ratio deposits	Special deposits	Other	Secured	Unsecured		UK monetary sector CDs	Building society CDs and time deposits	UK local authorities	
1986 Mar. 19 [b]	2,200	667	—	245	6,674	34	50,944	7,170	695	3,437	10,733
Apr. 16	2,149	667	—	140	6,580	37	54,459	7,626	872	3,271	11,531
May 21	2,258	713	—	310	5,970	27	55,252	8,023	874	3,091	11,538
June 18	2,170	713	—	165	6,362	53	53,872	8,632	985	3,002	11,907
July 16	2,312	712	—	72	6,896	35	53,765	8,820	1,121	2,832	12,015
Aug. 20	2,338	712	—	261	6,328	34	49,746	8,361	1,257	2,703	11,444

Sterling assets continued

	Treasury bills	Bills			Other	Total	Advances			Banking Department lending to central government (net)
		Eligible local authority bills	Eligible bank bills	Other			UK public sector	UK private sector	Overseas	
		1986 Mar. 19 [b]	235	533			6,267	348	134,086		1,744	122,289	10,053	-2,693
Apr. 16	310	394	4,373	403	139,029	1,665	126,507	10,857	446	
May 21	442	406	4,538	385	141,096	1,457	127,302	12,336	521	
June 18	453	346	4,278	404	143,106	1,368	129,327	12,411	507	
July 16	527	335	4,182	372	144,771	1,323	131,274	12,174	485	
Aug. 20	435	348	3,768	392	146,190	1,350	132,614	12,226	599	

Sterling assets continued

	Sterling assets continued					Other currency assets							
	Investments		Miscellaneous assets			Total	Market loans and advances						
	British government stocks	Other public sector	Other	Items in suspense and collection	Assets leased		Other	of which advances	UK monetary sector	UK monetary sector CDs	UK public sector	UK private sector	Overseas
1986 Mar. 19 [b]	6,510	544	8,293	10,430	1,508	5,942	488,170	121,379	89,852	11,156	1,669	36,173	349,319
Apr. 16	6,708	535	8,983	10,506	1,519	5,932	482,404	119,264	87,370	11,121	1,653	36,143	346,118
May 21	7,238	505	9,281	10,089	1,466	6,017	484,159	119,388	86,284	11,169	1,590	36,849	348,267
June 18	7,155	481	9,672	9,673	1,457	6,067	487,493	120,589	89,138	10,756	1,621	37,706	348,251
July 16	7,261	431	9,990	10,821	1,411	6,106	491,074	121,337	85,719	12,494	1,590	38,671	352,601
Aug. 20	7,709	455	10,139	11,550	1,396	6,221	504,527	122,957	88,381	11,428	1,616	39,211	363,892

Other currency assets continued

	Bills	Investments			Miscellaneous assets		Other	Acceptances		Eligible liabilities
		Total	United Kingdom	Overseas	Items in suspense and collection	Assets leased		Sterling	Other currencies	
		1986 Mar. 19 [b]	2,468	34,146	2,588	31,558		6,740	7		1,552	17,884	3,083	-152,935
Apr. 16	2,306	34,988	2,577	32,412	6,617	7	1,542	17,492	3,126	159,551
May 21	2,553	35,709	2,790	32,919	6,780	12	1,297	18,366	3,040	162,094
June 18	2,611	36,222	2,906	33,317	6,926	11	1,467	16,620	3,056	163,375
July 16	2,586	36,342	3,045	33,297	7,579	11	1,741	18,578	3,207	165,378
Aug. 20	2,651	38,278	3,150	35,128	7,296	11	2,098	17,771	3,361	166,192

[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] 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.

I Banks: group detail^(a)

£ millions

		Notes out-standing	Liabilities																			
			Sterling deposits						Other currency deposits													
			Total	of which sight deposits	UK monetary sector	UK public sector	UK private sector	Overseas	CDs etc and other short-term paper issued	Total	UK monetary sector	Other United Kingdom	Overseas	CDs etc and other short-term paper issued								
British banks:																						
Retail banks	1986 July 16	1,036	124,653	56,771	11,884	3,381	90,436	11,167	7,784	47,377	7,784	47,377	6,624	5,196	29,590	5,967						
	Aug. 20	1,006	122,064	55,868	9,553	3,363	91,186	10,972	6,989	47,791	6,989	47,791	6,383	5,538	29,870	6,001						
Accepting houses	1986 July 16	—	13,438	3,320	2,258	291	7,779	1,295	1,816	12,248	1,816	12,248	3,018	2,234	6,533	464						
	Aug. 20	—	13,264	3,356	2,136	276	8,002	1,176	1,674	12,604	1,674	12,604	3,240	2,123	6,761	479						
Other British banks	1986 July 16	—	35,768	7,051	16,644	837	10,015	4,490	3,782	25,350	3,782	25,350	7,368	1,626	14,067	2,290						
	Aug. 20	—	35,057	7,310	16,072	721	10,235	4,449	3,581	25,786	3,581	25,786	7,321	1,641	14,493	2,331						
Overseas banks:																						
American banks	1986 July 16	—	14,169	2,997	5,228	37	3,579	3,678	1,648	79,771	1,648	79,771	8,289	5,495	46,775	19,213						
	Aug. 20	—	13,959	2,727	4,885	33	3,838	3,527	1,706	78,374	1,706	78,374	7,671	5,979	46,937	17,787						
Japanese banks	1986 July 16	—	12,831	496	7,042	212	1,798	2,168	1,611	182,524	1,611	182,524	36,141	2,708	117,220	26,454						
	Aug. 20	—	12,764	392	6,941	365	1,817	2,128	1,514	194,649	1,514	194,649	39,283	2,965	127,576	24,825						
Other overseas banks	1986 July 16	—	35,445	4,686	11,738	417	7,864	11,890	3,536	155,253	3,536	155,253	23,260	4,933	108,452	17,609						
	Aug. 20	—	35,599	5,379	11,800	411	8,085	11,905	3,399	158,487	3,399	158,487	22,889	5,035	112,268	18,295						
Consortium banks	1986 July 16	—	2,340	417	949	7	421	876	88	12,500	88	12,500	4,020	377	7,714	388						
	Aug. 20	—	2,119	274	805	8	443	764	99	12,691	99	12,691	4,044	374	7,842	431						
Total	1986 July 16	1,036	238,889	75,738	55,743	5,182	121,892	35,564	20,265	515,023	20,265	515,023	88,720	22,569	331,351	72,385						
	Aug. 20	1,006	234,826	75,306	52,162	5,177	123,606	34,921	18,962	530,382	18,962	530,382	90,831	23,655	345,747	70,149						

		Sterling and other currency liabilities Items in suspense and transmission, capital and other funds	Total liabilities/assets	Sterling assets																	
				Notes and coin	Balances with Bank of England (including cash ratio deposits)	Secured money with LDMA	Market loans														
							Other UK monetary sector [b]	UK monetary sector CDs	UK local authorities	Overseas											
British banks:																					
Retail banks	1986 July 16	32,601	205,667	2,281	449	4,275	19,782	3,659	1,546	2,145											
	Aug. 20	32,736	203,597	2,308	626	4,035	17,457	3,426	1,482	1,875											
Accepting houses	1986 July 16	4,117	29,804	3	30	424	5,057	1,250	222	848											
	Aug. 20	3,984	29,852	2	30	307	5,006	1,246	217	696											
Other British banks	1986 July 16	8,823	69,941	3	101	386	9,971	1,457	387	1,172											
	Aug. 20	9,399	70,241	4	105	288	9,334	1,486	373	1,231											
Overseas banks:																					
American banks	1986 July 16	4,754	98,695	4	59	545	3,050	614	92	1,111											
	Aug. 20	4,724	97,057	3	63	425	3,462	517	87	1,087											
Japanese banks	1986 July 16	1,068	196,423	—	35	374	4,192	42	56	2,497											
	Aug. 20	1,334	208,748	—	35	425	4,053	42	39	2,393											
Other overseas banks	1986 July 16	6,483	197,182	20	104	824	10,632	1,557	466	3,915											
	Aug. 20	6,747	200,833	20	107	821	10,369	1,466	443	3,849											
Consortium banks	1986 July 16	2,054	16,895	1	6	37	705	241	64	326											
	Aug. 20	2,111	16,921	1	6	27	511	178	61	313											
Total	1986 July 16	59,900	814,607	2,312	784	6,895	53,801	8,820	2,833	12,014											
	Aug. 20	61,035	827,249	2,338	972	6,328	49,780	8,361	2,702	11,444											

[a] Some smaller institutions report at end-quarters only; the coverage of some of the groups in these tables will therefore not be complete. The groups affected are Accepting houses, Other British, American, Other overseas and Consortium, but in no case is the coverage of total liabilities/assets less than 97.5%.

[b] Including unsecured money with LDMA.

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

J Discount market: balance sheet

£ millions

		Liabilities: borrowed funds									
		Sterling						Other currencies			
		Total	of which Call and overnight	Other	Bank of England	Other UK monetary sector	Other United Kingdom	Overseas	Total	UK monetary sector	Other United Kingdom	Overseas
1986 Mar. 19	8,327	7,770	557	192	6,610	1,512	13	216	70	84	62
Apr. 16	8,551	7,615	936	259	6,452	1,822	18	271	59	98	114
May 21	7,966	7,140	826	—	6,107	1,848	11	372	115	128	129
June 18	8,377	7,607	770	128	6,382	1,861	6	286	74	143	69
July 16	9,011	8,310	701	88	6,926	1,992	5	347	173	126	48
Aug. 20	8,038	7,515	523	183	6,324	1,527	4	317	138	130	49

		Sterling assets											
		Total	Cash ratio deposits with the Bank of England	Treasury bills	Bills			Other bills	UK monetary sector	UK monetary sector CDs	Funds lent		
					Local authority bills	Other public sector bills	Other bills				Building society CDs and time deposits	UK local authorities	Other United Kingdom	Overseas
1986 Mar. 19	8,609	7	103	44	20	3,661	212	2,660	388	132	138	156	
Apr. 16	8,876	7	236	90	20	4,523	228	2,098	317	115	255	7	
May 21	8,317	8	60	61	5	4,002	339	2,376	232	109	291	71	
June 18	8,728	8	167	225	—	4,208	214	2,570	200	102	205	10	
July 16	9,388	8	229	211	—	3,923	193	3,178	330	92	263	26	
Aug. 20	8,370	8	43	51	—	2,957	696	2,670	386	90	476	11	

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: Retail banks	1986 July	16	432	326	3,541	87	266	80,831	4,302	485	5,735	3,242
	Aug. 20		362	339	3,165	88	345	80,920	4,230	599	5,896	3,434
Accepting houses	1986 July	16	36	1	260	41	50	4,023	1,100	—	241	1,360
	Aug. 20		20	1	244	64	44	4,100	1,130	—	320	1,299
Other British banks	1986 July	16	21	—	174	74	49	21,333	1,734	—	391	1,894
	Aug. 20		21	—	112	68	53	21,768	1,715	—	509	1,838
Overseas banks: American banks	1986 July	16	1	—	29	19	69	7,479	1,268	—	327	394
	Aug. 20		1	—	29	16	70	7,615	1,246	—	409	440
Japanese banks	1986 July	16	4	—	—	—	451	2,137	835	—	74	1,746
	Aug. 20		—	—	—	—	385	2,301	920	—	66	1,787
Other overseas banks	1986 July	16	33	8	177	144	414	14,940	2,652	—	380	1,502
	Aug. 20		31	8	218	151	429	15,361	2,690	—	412	1,485
Consortium banks	1986 July	16	—	—	1	6	24	530	284	—	114	282
	Aug. 20		—	—	1	6	24	549	294	—	96	312
Total	1986 July	16	527	335	4,182	371	1,323	131,273	12,175	485	7,262	10,420
	Aug. 20		435	348	3,769	393	1,350	132,614	12,225	599	7,708	10,595

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: Retail banks	1986 July	16	50,293	15,145	11,565	309	178	4,556	33,685	622	5,108	16,261	4,449	94,734
	Aug. 20		50,665	15,127	11,322	306	178	4,634	34,226	477	5,516	16,354	4,536	94,726
Accepting houses	1986 July	16	11,400	3,870	3,333	632	21	1,167	6,247	49	1,283	2,126	3,773	6,823
	Aug. 20		11,417	3,834	3,364	432	23	1,144	6,454	56	1,421	2,231	3,498	6,729
Other British banks	1986 July	16	27,698	9,940	6,384	228	700	2,319	18,067	76	1,339	1,679	1,031	22,247
	Aug. 20		27,690	10,106	5,958	236	696	2,336	18,463	98	1,302	2,246	1,050	22,344
Overseas banks: American banks	1986 July	16	75,431	23,709	6,719	1,854	28	10,823	56,006	291	2,337	5,162	3,205	9,754
	Aug. 20		74,404	23,899	7,492	1,134	29	10,657	55,092	269	2,429	4,899	2,990	10,058
Japanese banks	1986 July	16	167,121	26,621	26,624	1,393	542	8,744	129,819	85	15,982	793	2,098	8,206
	Aug. 20		178,382	27,641	28,693	1,351	545	9,491	138,302	99	16,763	1,057	1,865	8,281
Other overseas banks	1986 July	16	146,419	36,755	29,699	7,774	117	10,807	98,023	1,265	9,236	2,464	6,990	22,269
	Aug. 20		149,171	37,078	30,233	7,615	143	10,697	100,483	1,340	9,737	2,724	6,950	22,663
Consortium banks	1986 July	16	12,712	5,297	1,395	304	3	256	10,753	199	1,057	304	239	1,345
	Aug. 20		12,797	5,271	1,318	354	3	251	10,871	314	1,110	318	243	1,393
Total	1986 July	16	491,074	121,337	85,719	12,494	1,589	38,672	352,600	2,587	36,342	28,789	21,785	165,378
	Aug. 20		504,526	122,956	88,956	11,428	1,617	39,210	363,891	2,653	38,278	29,829	21,132	166,194

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							
593	22	403	70	217	84	35	98	8,826	1986 Mar. 19
482	22	407	69	272	86	39	147	9,147	Apr. 16
288	20	414	41	374	83	95	196	8,691	June 18
365	15	398	41	286	71	86	129	9,014	June 18
357	14	497	67	346	180	59	107	9,734	July 16
439	15	460	68	317	102	57	158	8,687	Aug. 20

K UK monetary sector: transactions in liabilities and assets(a)

[Table 6 in the Quarterly Bulletin]

£ millions

Month ended	Total	Liabilities											Non-deposit liabilities (net)	
		Domestic deposits												
		Total		Public sector				Private sector				Overseas sector deposits		
		Unadjusted	Seasonally adjusted	Sterling		Other currencies	Sterling		Other currencies	Sterling	Other currencies			
Unadjusted	Seasonally adjusted			Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted						
1985 Aug. 21	+ 411	+ 2,902	+ 2,908	+ 275	+ 189	- 17	+ 2,067	+ 2,159	+ 577	+ 291	- 2,375	- 407		
Sept. 18	+ 9,867	+ 1,419	+ 1,811	- 272	- 12	- 1	+ 1,941	+ 2,073	- 249	- 6	+ 8,049	+ 405		
Oct. 16	+ 1,179	+ 1,763	+ 1,578	+ 434	+ 345	+ 15	+ 1,168	+ 1,072	+ 146	- 208	- 2,390	+ 2,014		
Nov. 20	+ 10,768	+ 3,823	+ 3,503	+ 483	+ 281	+ 4	+ 2,463	+ 2,345	+ 873	- 536	+ 8,880	- 1,399		
1986 Dec. 11	+ 2,547	- 346	+ 192	- 558	- 384	- 54	+ 438	+ 802	- 172	+ 66	+ 1,132	+ 1,695		
Jan. 15	+ 7,785	+ 431	+ 648	+ 466	+ 306	+ 6	- 389	- 12	+ 348	+ 1,337	+ 7,338	- 1,321		
Feb. 19	+ 10,010	+ 772	+ 1,622	- 160	- 134	- 36	+ 403	+ 1,227	+ 565	+ 666	+ 7,710	+ 862		
Mar. 19	+ 8,050	+ 3,437	+ 3,636	+ 22	+ 171	+ 2	+ 2,771	+ 2,821	+ 642	+ 1,351	+ 3,570	- 308		
Apr. 16	+ 13,912	+ 6,524	+ 5,667	+ 1,353	+ 1,467	- 15	+ 5,049	+ 4,078	+ 137	+ 1,013	+ 5,524	+ 851		
May 21	+ 8,472	+ 4,583	+ 4,695	+ 433	+ 87	+ 4	+ 3,269	+ 3,727	+ 877	- 686	+ 5,346	- 771		
June 18	- 983	+ 2,889	+ 3,286	+ 274	+ 468	- 7	+ 1,449	+ 1,652	+ 1,173	- 956	- 3,531	+ 615		
July 16	+ 6,145	+ 1,727	+ 1,373	+ 9	- 25	+ 8	+ 555	+ 235	+ 1,155	+ 461	+ 2,463	+ 1,494		
Aug. 20	+ 9,672	+ 1,228	+ 1,706	- 83	- 7	- 5	+ 1,103	+ 1,505	+ 213	- 747	+ 9,807	- 616		

Month ended	Total	Assets											
		Lending to public sector					Lending to private sector					Lending to overseas sector	
		Sterling					Sterling					Sterling	Other currencies
		Total	Seasonally adjusted	Central government	Other	Other currencies	Unadjusted	Seasonally adjusted	Other currencies	Other currencies			
Unadjusted	Seasonally adjusted												
1985 Aug. 21	+ 411	+ 2,915	+ 2,403	+ 3,275	- 360	- 10	+ 45	+ 688	- 1,220	- 671	- 648		
Sept. 18	+ 9,867	+ 904	+ 1,300	+ 1,395	- 491	- 18	+ 486	+ 1,051	+ 412	+ 203	+ 7,880		
Oct. 16	+ 1,179	- 1,024	- 808	- 668	- 356	+ 257	+ 3,829	+ 2,530	- 30	- 21	- 1,832		
Nov. 20	+ 10,768	+ 1,136	+ 278	+ 1,708	- 572	- 170	- 120	+ 565	+ 175	+ 44	+ 9,703		
1986 Dec. 11	+ 2,547	+ 1,133	+ 672	+ 1,479	- 346	+ 24	- 1,154	- 50	- 85	+ 1,588	+ 1,041		
Jan. 15	+ 7,785	- 3,204	- 1,312	- 3,276	+ 72	+ 221	+ 3,638	+ 2,509	+ 2,133	+ 275	+ 4,722		
Feb. 19	+ 10,010	- 2,614	- 1,279	- 2,128	- 486	+ 4	+ 3,048	+ 3,263	+ 587	- 504	+ 9,489		
Mar. 19	+ 8,050	+ 1,678	+ 1,883	+ 1,727	- 49	- 51	+ 2,227	+ 2,453	+ 1,219	- 390	+ 3,367		
Apr. 16	+ 13,912	+ 3,049	+ 1,451	+ 3,371	- 322	+ 16	+ 3,724	+ 3,057	+ 725	+ 1,843	+ 4,555		
May 21	+ 8,472	+ 8	- 324	+ 357	- 349	- 58	+ 236	+ 705	+ 1,060	+ 1,907	+ 5,319		
June 18	- 983	- 157	- 947	- 1	- 156	+ 15	+ 3,077	+ 3,911	+ 447	- 322	- 4,043		
July 16	+ 6,145	+ 26	+ 1,522	+ 291	- 265	- 32	+ 2,056	+ 461	+ 1,031	+ 5	+ 3,059		
Aug. 20	+ 9,672	+ 180	- 223	+ 454	- 274	- 7	+ 959	+ 1,921	+ 283	- 747	+ 9,004		

[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).

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.

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SECRET
UNTIL 2.30 PM ON THURSDAY 18 SEPTEMBER

plsp

FROM: P H BROOK
DATE: 18 SEPTEMBER 1986

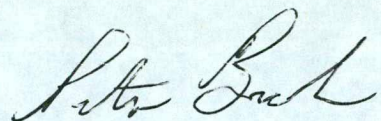
MR PICKFORD

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

FULL MONEY FIGURES - BANKING AUGUST

... I attach a final version of the brief for this afternoon's full money figures.

2. The line to take and factual (v) have been amended, and a new defensive point (vii) added to the draft brief circulated on 16 September. These changes are made to take account of the recent weakness of exchange rate reflecting softer oil prices and stronger D-mark.



P H BROOK

SECRET
UNTIL 2.30 PM ON THURSDAY 18 SEPTEMBER

MONEY SUPPLY IN BANKING AUGUST: PRESS BRIEFING

LINE TO TAKE

M0 is around the middle of its target range. 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: About the middle of its 2-6 per cent target range.
- (iii) £M3: (see line to take above).
- (iv) Sterling lending: Seasonally adjusted figure around the average for the last six months. (In general developments and financial innovations are making it increasingly difficult to read meaning into movements of individual counterparts.)
- (v) Exchange rate: Weaker recently, reflecting softer oil prices and stronger D-mark as expectations of interest rate cuts diminish.

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 (around 2½ per cent and expected to stay low) demonstrates success of strategy.

(ii) Commitment

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

(iii) Interest rates

Down 2½ per cent since Budget.

(iv) Other countries

Most major countries 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 or too tight. But kept under constant review.

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

The twelve month growth rate has fallen since last month, but £M3 growth remains difficult to interpret. 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) Interest rates should be cut following falls in US?

Decisions are made on basis of range of evidence, as explained in Lombard Association Speech. Movements in overseas interest rates and financial markets are by no means the only factor to be taken into account, but they can obviously affect financial markets in the UK.

- (v) Funding policy

Same as announced in Mansion House speech: "to fund the PSBR over the year as a whole no more, no less". (not a full fund every month - impracticable - so temporary over/under funding will occur).

- (vi) Funding progress?

Gross gilt sales have been proceeding at a pace more than adequate to meet funding requirement over 1986-87 as a whole. Net sales are uneven owing to redemption profiles. Monthly under/over funding also affected by PSBR profile.

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

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

- (viii) Weakness of sterling shows monetary conditions loose?

Recent weakness of exchange rate reflects softer oil prices and stronger D-mark as expectations of interest rate cuts diminish.

psp

SECRET

UNTIL 2.30 PM ON THURSDAY 18 SEPTEMBER

FROM: P H BROOK
DATE: 18 SEPTEMBER 1986

MR PICKFORD

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

FULL MONEY FIGURES - BANKING AUGUST

... I attach the Bank's press release for this afternoon's full money figures.



P H BROOK

SECRET

UNTIL 2.30 PM ON THURSDAY 18 SEPTEMBER

Banking statistics

20 August 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-)			
Month ended (unadjusted)		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1985 Aug.	21	+ 2,319	- 373	- 248	- 177	- 14	+ 50	+ 1,084	+ 261	- 591	- 604	- 144	+ 488	+ 2,051	
Sept.	18	+ 1,667	- 323	- 60	- 34	- 156	+ 17	+ 399	+ 421	- 78	- 104	+ 234	- 164	+ 1,819	
Oct.	16	+ 364	- 588	- 514	- 525	- 81	- 130	+ 3,536	+ 712	- 703	+ 164	+ 351	- 1,741	+ 1,045	
Nov.	20	+ 2,666	- 1,125	- 737	- 109	- 400	- 193	+ 1,384	- 388	+ 243	- 165	- 183	+ 1,533	+ 2,526	
Dec.	11	+ 1,490	+ 222	- 224	- 76	- 34	- 25	+ 980	+ 296	- 154	+ 17	- 1,131	- 490	+ 871	
1986 Jan.	15	- 2,785	- 171	- 81	+ 504	- 290	- 2	+ 1,506	- 289	- 353	+ 357	+ 519	+ 186	- 899	
Feb.	19	- 786	- 179	- 263	- 100	+ 152	- 248	+ 1,279	+ 213	- 517	- 85	+ 1,346	- 367	+ 445	
Mar.	19	+ 942	- 307	+ 440	- 507	+ 236	+ 130	+ 2,358	+ 44	- 459	- 644	+ 563	+ 66	+ 2,862	
Apr.	16	+ 4,274	- 1,054	- 693	- 273	- 226	+ 322	+ 3,684	+ 547	- 911	+ 659	- 125	- 1,076	+ 5,128	
May	21	+ 1,626	- 837	+ 571	- 366	- 538	+ 55	+ 1,214	+ 60	+ 695	+ 133	+ 395	+ 470	+ 3,478	
June	18	+ 3,040	- 1,020	- 532	- 526	- 36	+ 363	+ 1,344	+ 980	+ 260	- 606	- 768	- 1,063	+ 1,436	
July	16	- 716	- 327	- 534	- 372	- 321	- 147	+ 4,656	+ 74	- 422	- 108	+ 262	- 1,324	+ 721	
Aug.	20	+ 1,877	- 133	- 781	- 595	- 555		+ 1,512	- 27	+ 197	- 170	- 357	+ 238	+ 1,206	
Month ended (seasonally adjusted)															
1985 Aug.	21	+ 2,090	- 362	- 248	- 314	- 14	+ 45	+ 1,727		- 960			+ 245	+ 2,209	
Sept.	18	+ 1,955	- 338	- 60	+ 3	- 156	+ 12	+ 964		+ 73			- 333	+ 2,120	
Oct.	16	+ 914	- 649	- 514	- 477	- 81	- 135	+ 2,237		+ 546			- 865	+ 976	
Nov.	20	+ 1,905	- 1,089	- 737	- 36	- 400	- 198	+ 2,069		- 339			+ 1,232	+ 2,407	
Dec.	11	+ 118	+ 449	- 224	- 56	- 34	- 30	+ 2,084		- 994			- 573	+ 740	
1986 Jan.	15	+ 53	- 352	- 81	+ 467	- 290	+ 48	+ 377		+ 29			- 155	+ 96	
Feb.	19	+ 684	- 239	- 263	- 225	+ 152	- 253	+ 1,494		+ 809			- 919	+ 1,240	
Mar.	19	+ 857	- 361	+ 440	- 378	+ 236	+ 126	+ 2,584		- 631			- 31	+ 2,842	
Apr.	16	+ 2,708	- 1,343	- 693	- 201	- 226	+ 319	+ 3,017		+ 569			- 67	+ 4,083	
May	21	+ 1,642	- 930	+ 571	- 375	- 538	+ 51	+ 1,683		+ 1,372			+ 356	+ 3,832	
June	18	+ 1,796	- 570	- 532	- 568	- 36	+ 359	+ 2,178		- 32			- 812	+ 1,783	
July	16	+ 576	- 323	- 534	- 401	- 321	- 151	+ 3,061		- 328			- 1,445	+ 134	
Aug.	20	+ 1,468	- 3	- 781	- 732	- 559		+ 2,474		- 306			+ 106	+ 1,667	

[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 Aug.	21	- 248	- 56	- 273	- 384	+ 149	+ 123	+ 3	- 425	- 562
Sept.	18	- 60	+ 6	- 228	- 229	+ 190	+ 228	- 2	- 94	- 57
Oct.	16	- 514	+ 17	- 191	- 197	- 351	- 297	-	- 1,039	- 991
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	- 81	+ 89	- 122	- 19	+ 534	+ 394	+ 3	+ 423	+ 386
Feb.	19	- 263	- 30	- 138	- 74	+ 62	- 127	+ 6	- 363	- 488
Mar.	19	+ 440	- 80	- 30	+ 55	- 398	- 354	+ 1	- 67	+ 62
Apr.	16	- 693	- 22	- 65	- 46	- 189	- 136	+ 3	- 966	- 894
May	21	+ 571	+ 21	- 207	- 237	- 180	- 159	-	+ 205	+ 196
June	18	- 532	- 99	- 247	- 352	- 177	- 114	- 3	- 1,058	- 1,100
July	16	- 534	+ 147	- 313	- 390	- 206	- 158	-	- 906	- 935
Aug.	20	- 781	- 4	- 451	- 562	- 142	- 168	+ 2	- 1,376	- 1,513

[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.)

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) (columns 5 + 6)						
In circulation with public		Held by banks (till money)		Operational deposits		Cash ratio deposits		Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted				
Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted	Unadjusted	Seasonally adjusted										
				3		4		5		6		7					
Amount outstanding at								Average amount outstanding in month ended									
1985	July	17	12,674	12,464	1,403	1,328	214	628	1985	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	
	July	16	12,973	12,756	1,611	1,538	76	720		July	16	14,482	14,467	134	14,616	14,601	
	Aug.	20	13,076	12,918	1,652	1,601	243	720		Aug.	20	14,669	14,513	168	14,837	14,681	
Change in month ended								Change between average amounts outstanding									
1985	Aug.	21	- 16	+ 50	+ 65	+ 92	- 114	-	1985	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
	July	16	+ 166	- 101	+ 144	+ 39	- 87	- 1		July	16	+ 152	+ 59	- 24	+ 128	+ 35	+0.2
	Aug.	20	+ 103	+ 162	+ 41	+ 63	+ 167	-		Aug.	20	+ 187	+ 46	+ 34	+ 221	+ 80	+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	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	-	-
	July 16	+ 15	+ 2,600	-	-
	Aug. 20	- 123	+ 553	-	-
Amount outstanding at mid-August 1986	655	10,067	-	-	

[a] Included within column 8 of Table A.

[b] Included within column 11 of Table A.

D Money stock: amounts outstanding

£ 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											
July 17[e]	17,674	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	63,385	119,135	118,660	19,159	138,294	137,820
Sept. 18[d]	12,536	21,253	22,248	56,037	56,080	64,972	121,009	120,800	19,524	140,533	140,330
Oct. 16	12,413	21,579	23,537	57,529	57,410	64,525	122,054	121,780	18,861	140,915	140,640
Nov. 20	12,476	21,725	24,536	58,737	58,840	65,843	124,580	124,170	19,466	144,046	143,640
1986											
Dec. 11[d]	12,909	22,437	25,265	60,611	59,800	64,838	125,449	124,890	19,577	145,026	144,470
Jan. 15	12,399	21,625	24,999	59,023	59,400	65,527	124,550	124,930	19,643	144,193	144,580
Feb. 19	12,441	21,246	25,052	58,739	59,520	66,254	124,993	126,090	20,087	145,080	146,190
Mar. 19[d]	12,532	21,760	26,158	60,450	61,030	67,502	127,952	128,990	20,527	148,479	149,530
Apr. 16	12,611	22,639	27,676	62,926	62,400	70,154	133,080	133,080	20,297	153,377	153,380
May 21	12,820	22,980	28,986	64,786	65,050	71,772	136,558	136,910	21,028	157,586	157,940
June 18	12,807	23,198	29,639	65,644	65,800	72,372	138,016	138,720	22,441	160,457	161,160
July 16	12,973	23,662	30,331	66,966	66,520	71,771	138,737	138,860	23,652	162,389	162,500
Aug 20	13,076	23,474	31,141	67,691	67,870	72,252	139,943	140,520	24,130	164,073	164,650

E Money stock: changes [f]

£ millions: percentages in italics

Month ended	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]	
Month ended (unadjusted)									
1985									
Aug. 21	- 16	- 81	+1,101	+1,004	+1,047	+2,051	+ 577	+ 373	+3,001
Sept. 18	- 122	+ 87	+ 288	+ 253	+1,566	+1,819	- 249	+ 603	+2,173
Oct. 16	- 123	+ 326	+1,289	+1,492	- 447	+1,045	+ 146	- 809	+ 382
Nov. 20	+ 63	+ 146	+ 999	+1,208	+1,318	+2,526	+ 873	- 268	+3,131
1986									
Dec. 11	+ 433	+ 712	+ 729	+1,874	-1,003	+ 871	- 172	+ 279	+ 978
Jan. 15	- 510	- 812	- 290	-1,612	+ 713	- 899	+ 348	- 282	- 833
Feb. 19	+ 42	- 379	+ 53	- 284	+ 729	+ 445	+ 565	- 121	+ 889
Mar. 19	+ 91	+ 511	+1,080	+1,682	+1,180	+2,862	+ 642	- 203	+3,301
Apr. 16	+ 79	+ 879	+1,518	+2,476	+2,652	+5,128	+ 137	- 367	+4,898
May 21	+ 209	+ 341	+1,310	+1,860	+1,618	+3,478	+ 877	- 146	+4,209
June 18	- 13	+ 218	+ 640	+ 845	+ 591	+1,436	+1,173	+ 240	+2,849
July 16	+ 166	+ 464	+ 692	+1,322	- 601	+ 721	+1,155	+ 56	+1,932
Aug 20	+ 103	- 188	+ 810	+ 725	+ 481	+1,206	+ 213	+ 265	+1,684
Month ended (seasonally adjusted)									
1985									
Aug. 21	+ 50	+ 492	+1,175	+1,717 + 3.2	+ 492	+2,209 + 1.9	+ 577	+ 373	+3,159 + 2.3
Sept. 18	+ 47	- 356	+ 321	+ 12	+2,108	+2,120 + 1.8	- 249	+ 603	+2,474 + 1.8
Oct. 16	- 96	+ 258	+1,168	+1,330 + 2.4	- 354	+ 976 + 0.8	+ 146	- 809	+ 313 + 0.2
Nov. 20	+ 62	+ 396	+ 966	+1,424 + 2.5	+ 983	+2,407 + 2.0	+ 873	- 268	+3,012 + 2.1
1986									
Dec. 11	- 62	+ 228	+ 794	+ 960 + 1.6	- 220	+ 740 + 0.6	- 172	+ 279	+ 847 + 0.6
Jan. 15	+ 108	- 74	- 452	- 418 - 0.7	+ 514	+ 96 + 0.1	+ 348	- 282	+ 162 + 0.1
Feb. 19	+ 13	- 72	+ 176	+ 117 + 0.2	+1,123	+1,240 + 1.0	+ 565	- 121	+1,684 + 1.2
Mar. 19	+ 21	+ 178	+1,277	+1,476 + 2.5	+1,366	+2,842 + 2.3	+ 642	- 203	+3,281 + 2.2
Apr. 16	+ 5	+ 175	+1,191	+1,371 + 2.2	+2,712	+4,083 + 3.2	+ 137	- 367	+3,853 + 2.6
May 21	+ 105	+1,066	+1,477	+2,648 + 4.2	+1,184	+3,832 + 2.9	+ 877	- 146	+4,563 + 3.0
June 18	+ 131	- 208	+ 814	+ 737 + 1.1	+1,046	+1,783 + 1.3	+1,173	+ 240	+3,196 + 2.0
July 16	- 101	+ 322	+ 502	+ 723 + 1.1	- 589	+ 134 + 0.1	+1,155	+ 56	+1,345 + 0.8
Aug 20	+ 162	+ 248	+ 937	+1,347 + 2.0	+ 320	+1,667 + 1.2	+ 213	+ 265	+2,145 + 1.3

[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 March 1986, footnote [b] 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 deposits with banks
	1	2	3	4	5	6	7	8	9
Amounts outstanding									
1985 Aug. 21	12,658	21,169	33,827	34,507	68,291	1,740	138,365	993	4,452
Sept. 18[c]	12,536	21,253	33,789	34,794	69,825	1,729	140,137	885	4,475
Oct. 16	12,413	21,579	33,992	35,210	70,630	1,734	141,566	1,107	4,541
Nov. 20	12,476	21,725	34,201	36,366	71,408	1,711	143,686	1,251	4,532
Dec. 11[c]	12,909	22,437	35,346	35,882	72,673	1,693	145,594	923	4,681
1986 Jan. 15	12,399	21,625	34,024	36,413	73,906	1,739	146,082	1,137	4,905
Feb. 19	12,441	21,246	33,687	36,466	74,464	1,714	146,331	997	4,895
Mar. 19[c]	12,532	21,760	34,292	36,993	75,284	1,722	148,291	1,071	5,054
Apr. 16	12,611	22,639	35,250	37,856	76,102	1,718	150,926	1,218	5,294
May 21	12,820	22,980	35,800	38,755	76,766	1,742	153,063	1,167	5,336
June 18	12,807	23,198	36,005	39,540	78,222	1,728	155,495	1,124	5,435
July 16	12,973	23,662	36,635	40,255	78,770	1,692	157,352	1,143	5,549
Aug. 20	13,076	23,474	36,550	40,661	79,178	1,698	158,087	1,242	5,559
Changes in month ended [d]									
1985 Sept. 18	- 122	+ 87	- 35	+ 287	+ 1,374	- 11	+ 1,615	- 108	+ 23
Oct. 16	- 123	+ 326	+ 203	+ 416	+ 805	+ 5	+ 1,429	+ 222	+ 66
Nov. 20	+ 63	+ 146	+ 209	+ 1,156	+ 778	- 23	+ 2,120	+ 144	- 9
Dec. 11	+ 433	+ 712	+ 1,145	- 484	+ 1,265	- 18	+ 1,908	- 328	+ 149
1986 Jan. 15	- 510	- 812	- 1,322	+ 531	+ 1,233	+ 46	+ 488	+ 214	+ 224
Feb. 19	+ 42	- 379	- 337	+ 53	+ 558	- 25	+ 249	- 140	- 10
Mar. 19	+ 91	+ 511	+ 602	+ 527	+ 820	+ 8	+ 1,957	+ 74	+ 159
Apr. 16	+ 79	+ 879	+ 958	+ 863	+ 818	- 4	+ 2,635	+ 147	+ 240
May 21	+ 209	+ 341	+ 550	+ 899	+ 664	+ 24	+ 2,137	- 51	+ 42
June 18	- 13	+ 218	+ 205	+ 785	+ 1,456	- 14	+ 2,432	- 43	+ 99
July 16	+ 166	+ 464	+ 630	+ 715	+ 548	- 36	+ 1,857	+ 19	+ 114
Aug. 20	+ 103	- 188	- 85	+ 406	+ 408	+ 6	+ 735	+ 99	+ 10

[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 [f] to Table E on page 3.

G Private sector liquidity

[Summary of Table 12 in the Quarterly Bulletin]

£ millions: percentages in italics

Month ended	Money [a]															
	Seasonally adjusted	Other money-market instruments Seasonally adjusted	Savings institution deposits and securities		Certificates of tax deposit		Other sterling shares and deposits [c]	PSL1 (columns 1+2+5)	PSL2 (old definition) (columns 1+2+3+6)	PSL2 (new definition) (columns 1+2+3+6+7)	PSL1	PSL2 (old definition)	PSL2 (new definition)			
			Seasonally adjusted	Seasonally adjusted	Seasonally adjusted	Seasonally adjusted								Unadjusted	Seasonally adjusted	Seasonally adjusted
1	2	3	4	5	6	7	8	9	10	11	12	13				
1985 Aug. 21	116,846	3,095	83,727	81,481	2,929	2,530	21,474	122,870	206,198	227,672	+ 1,888	+ 1.6	+ 2,455	+ 1.2	+ 2,612	+ 1.2
Sept. 18	118,989	2,972	84,655	82,752	2,696	2,296	21,208	124,657	208,912	230,120	+ 1,785	+ 1.5	+ 2,712	+ 1.3	+ 2,446	+ 1.1
Oct. 16	119,959	2,904	86,023	84,320	2,993	2,537	20,660	125,856	211,423	232,083	+ 1,198	+ 1.0	+ 2,510	+ 1.2	+ 1,962	+ 0.9
Nov. 20	122,353	3,044	88,056	86,405	2,846	2,390	19,926	128,243	215,843	235,769	+ 2,397	+ 1.9	+ 4,430	+ 2.1	+ 3,696	+ 1.6
Dec. 11	123,015	2,936	89,092	87,746	2,894	2,406	19,587	128,845	217,449	237,036	+ 650	+ 0.5	+ 1,649	+ 0.8	+ 1,310	+ 0.6
1986 Jan. 15	123,019	3,030	90,762	89,824	2,500	2,251	19,178	128,549	218,549	238,240	- 246	- 0.2			+ 1,254	+ 0.5
Feb. 19	124,202	2,896	92,937	91,562	2,627	2,238	18,804	129,725	219,725	241,077	+ 1,250	+ 1.0			+ 2,911	+ 1.2
Mar. 19	126,990	2,779	93,872	93,116	2,981	2,409	18,724	132,750	219,725	244,774	+ 3,074	+ 2.4			+ 3,684	+ 1.5
Apr. 16	131,094	2,728	94,626	94,464	3,117	2,472	18,473	136,939	220,725	249,393	+ 4,188	+ 3.2			+ 4,618	+ 1.9
May 21	134,882	2,286	95,438	95,698	3,276	2,431	18,251	140,444	221,725	253,288	+ 3,504	+ 2.6			+ 3,894	+ 1.6
June 18	136,679	2,458	97,358	96,606	3,390	2,491	18,017	142,527	222,725	257,003						
July 16	136,845	2,296	98,799	97,718	3,548	2,598	17,382	142,689	223,725	257,920	+ 161	+ 0.1			+ 3,412	+ 1.3
Aug. 20	138,434	2,333	100,658	99,493	3,716	2,553	16,765	144,483	224,725	260,743	+ 1,793	+ 1.3			+ 916	+ 0.4

[a] £M3 less deposits of over 2 years original maturity.

[b] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies; excludes holdings of term shares and SAYE deposits.

[c] UK non-bank private sector's holdings of term shares and SAYE deposits with building societies and sterling bank deposits of over two years original maturity.

Banks: balance sheet of monthly reporting institutions [a]

[Table 3.1 in the Quarterly Bulletin]

£ millions

	Notes outstanding	Total deposits	Sterling liabilities								CDs etc and other short-term paper issued	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			
1986 Mar. 19 [b]	967	221,917	9,722	1,468	49,107	7,258	43,287	1,899	63,372	28,251	17,553	6,503	28,481
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	29,755
May 21	998	236,735	10,619	1,731	53,132	7,402	46,350	3,224	66,845	28,529	18,903	5,953	29,690
June 18	1,006	236,889	10,447	1,770	53,918	7,376	45,526	3,416	67,215	27,880	19,341	5,832	30,300
July 16	1,036	238,646	11,091	1,654	55,051	7,941	44,645	3,527	66,842	27,630	20,265	6,770	31,656
Aug. 20	1,006	234,826	9,901	1,795	56,155	7,455	42,251	3,382	67,451	27,475	18,961	7,247	31,783

	Total deposits	Other currency liabilities					CDs etc and other short-term paper issued	Items in suspense and transmission	Capital and other funds	Total liabilities/assets	of which sterling		
		Sight and time deposits			UK monetary sector	Other United Kingdom					Overseas	Liabilities	Assets
		UK monetary sector	Other United Kingdom	Overseas									
1986 Mar. 19 [b]	508,486	89,692	19,661	332,743	66,391	6,882	14,647	787,883	257,868	254,800			
Apr. 16	504,308	88,164	19,716	331,944	64,483	6,616	13,997	794,335	269,414	266,471			
May 21	506,789	87,394	20,458	330,767	68,170	6,660	13,721	800,546	273,376	270,037			
June 18	511,590	89,732	21,565	330,591	69,703	7,017	13,550	806,186	274,028	271,456			
July 16	515,024	88,527	22,574	331,539	72,385	7,448	14,027	814,606	278,107	275,273			
Aug. 20	530,382	90,598	23,659	345,976	70,150	8,019	13,986	827,249	274,862	272,387			

	Notes and coin	Sterling assets								UK local authorities	Overseas
		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		
Secured	Unsecured										
1986 Mar. 19 [b]	2,200	667	—	245	6,674	34	50,944	7,170	695	3,437	10,733
Apr. 16	2,149	667	—	140	6,580	37	54,459	7,626	872	3,271	11,531
May 21	2,258	713	—	310	5,970	27	55,252	8,023	874	3,091	11,538
June 18	2,170	713	—	165	6,362	53	53,872	8,632	985	3,002	11,907
July 16	2,312	712	—	72	6,896	35	53,765	8,820	1,121	2,832	12,015
Aug. 20	2,338	712	—	261	6,328	34	49,746	8,361	1,257	2,703	11,444

	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	
1986 Mar. 19 [b]	235	533	6,267	348	134,086	1,744	122,289	10,053	-2,693	
Apr. 16	310	394	4,373	403	139,029	1,665	126,507	10,857	446	
May 21	442	406	4,538	385	141,096	1,457	127,302	12,336	521	
June 18	453	346	4,278	404	143,106	1,368	129,327	12,411	507	
July 16	527	335	4,182	372	144,771	1,323	131,274	17,174	485	
Aug. 20	435	348	3,768	392	146,190	1,350	132,614	12,226	599	

	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
1986 Mar. 19 [b]	6,510	544	8,293	10,430	1,508	5,942	488,170	121,379	89,852	11,156	1,669	36,173	349,319
Apr. 16	6,708	535	8,983	10,506	1,519	5,932	482,404	119,264	87,370	11,121	1,653	36,143	346,118
May 21	7,238	505	9,281	10,089	1,466	6,017	484,159	119,888	86,284	11,169	1,590	36,849	348,267
June 18	7,155	481	9,672	9,673	1,457	6,062	487,492	120,589	89,158	10,756	1,621	37,706	348,251
July 16	7,261	431	9,990	10,821	1,411	6,106	491,074	121,337	85,719	12,494	1,590	38,671	352,601
Aug. 20	7,709	455	10,139	11,550	1,396	6,221	504,527	122,957	88,381	11,428	1,616	39,211	363,892

	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
1986 Mar. 19 [b]	2,468	34,146	2,588	31,558	6,740	7	1,552	17,884	3,083	152,935
Apr. 16	2,306	34,988	2,577	32,412	6,617	7	1,542	17,492	3,126	159,551
May 21	2,553	35,709	2,790	33,919	6,780	12	1,297	18,366	3,040	162,094
June 18	2,611	36,222	2,906	33,317	6,926	11	1,467	16,620	3,056	163,375
July 16	2,586	36,342	3,045	33,297	7,579	11	1,741	18,578	3,207	165,378
Aug. 20	2,651	38,278	3,150	35,128	7,296	11	2,098	17,771	3,361	166,193

[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] 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.

I Banks: group detail^[a]

£ millions

			Liabilities												
			Sterling deposits						Other currency deposits						
			Total	of which sight deposits	UK monetary sector	UK public sector	UK private sector	Overseas	CDs etc and other short-term paper issued	Total	UK monetary sector	Other United Kingdom	Overseas	CDs etc and other short-term paper issued	
			Notes out-standing												
British banks:															
Retail banks															
	1986	July 16	1,036	124,653	56,771	11,884	3,381	90,436	11,167	7,784	6,624	5,196	29,590	5,967	
		Aug. 20	1,006	122,064	55,868	9,553	3,363	91,186	10,972	6,989	6,383	5,538	29,870	6,001	
Accepting houses															
	1986	July 16	—	13,438	3,320	2,258	291	7,779	1,295	1,816	3,018	2,234	6,533	464	
		Aug. 20	—	13,264	3,356	2,136	276	8,002	1,176	1,674	3,240	2,123	6,761	479	
Other British banks															
	1986	July 16	—	35,768	7,051	16,644	837	10,015	4,490	3,782	7,368	1,626	14,067	2,290	
		Aug. 20	—	35,057	7,310	16,072	721	10,235	4,449	3,581	7,321	1,641	14,493	2,331	
Overseas banks:															
American banks															
	1986	July 16	—	14,169	2,997	5,228	37	3,579	3,678	1,648	8,289	5,495	46,775	19,213	
		Aug. 20	—	13,959	2,727	4,855	33	3,838	3,527	1,706	7,671	5,979	46,937	17,787	
Japanese banks															
	1986	July 16	—	12,831	496	7,042	212	1,798	2,168	1,611	36,141	2,708	117,220	26,454	
		Aug. 20	—	12,764	392	6,941	365	1,817	2,128	1,514	39,283	2,965	127,576	24,825	
Other overseas banks															
	1986	July 16	—	35,445	4,686	11,738	417	7,864	11,890	3,536	23,260	4,933	109,452	17,609	
		Aug. 20	—	35,599	5,379	11,800	411	8,085	11,905	3,399	22,889	5,035	112,268	18,295	
Consortium banks															
	1986	July 16	—	2,340	417	949	7	421	876	88	4,020	377	7,714	388	
		Aug. 20	—	2,119	274	805	8	443	764	99	4,044	374	7,842	431	
Total															
	1986	July 16	1,036	238,644	75,738	55,743	5,182	121,892	35,564	20,265	88,720	22,569	331,351	72,385	
		Aug. 20	1,006	234,826	75,306	52,162	5,177	123,606	34,921	18,962	90,831	23,655	345,747	70,149	

			Sterling assets											
			Sterling and other currency liabilities		Total liabilities/assets		Market loans							
			Items in suspense and transmission, capital and other funds	Notes and coin	Balances with Bank of England (including cash ratio deposits)	Secured money with LDMA	Other UK monetary sector [b]	UK monetary sector CDs	UK local authorities	Overseas				
British banks:														
Retail banks														
	1986	July 16	32,601	205,667	2,281	449	4,275	19,782	3,659	1,546	2,145			
		Aug. 20	32,736	203,597	2,308	626	4,035	17,457	3,426	1,482	1,875			
Accepting houses														
	1986	July 16	4,117	29,804	3	30	424	5,057	1,250	222	848			
		Aug. 20	3,984	29,852	2	30	307	5,006	1,246	217	696			
Other British banks														
	1986	July 16	8,823	69,941	3	101	386	9,971	1,457	387	1,172			
		Aug. 20	9,399	70,241	4	105	288	9,334	1,486	373	1,231			
Overseas banks:														
American banks														
	1986	July 16	4,754	98,695	4	59	545	3,462	614	92	1,111			
		Aug. 20	4,724	97,057	3	63	425	3,050	517	87	1,087			
Japanese banks														
	1986	July 16	1,068	196,423	—	35	374	4,192	42	56	2,497			
		Aug. 20	1,334	208,748	—	35	425	4,053	42	39	2,393			
Other overseas banks														
	1986	July 16	6,483	197,182	20	104	854	10,632	1,557	466	3,915			
		Aug. 20	6,747	200,833	20	107	821	10,369	1,466	443	3,849			
Consortium banks														
	1986	July 16	2,054	16,895	1	6	37	705	241	64	326			
		Aug. 20	2,111	16,921	1	6	27	511	178	61	313			
Total														
	1986	July 16	59,900	814,607	2,312	784	6,895	53,801	8,820	2,833	12,014			
		Aug. 20	61,035	827,249	2,338	972	6,328	49,780	8,361	2,702	11,444			

[a] Some smaller institutions report at end-quarters only; the coverage of some of the groups in these tables will therefore not be complete. The groups affected are Accepting houses, Other British, American, Other overseas and Consortium, but in no case is the coverage of total liabilities/assets less than 97.5%.

[b] Including unsecured money with LDMA.

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

J Discount market: balance sheet

£ millions

			Liabilities: borrowed funds							Sterling assets														
			Sterling				Other currencies			Sterling assets														
			Total	of which		Bank of England	Other UK monetary sector	Other United Kingdom	Overseas	Total	UK monetary sector	Other United Kingdom	Overseas	Total	Cash ratio deposits with the Bank of England	Treasury bills	Bills		Funds lent					
				Call and overnight	Other												Local authority bills	Other public sector bills	Other bills	UK monetary sector	UK monetary sector CDs	Building society CDs and time deposits	UK local authorities	Other United Kingdom	Overseas
1986	Mar. 19	8,327	7,770	557	192	6,610	1,512	13	216	70	84	62	8,609	7	103	44	20	3,661	212	2,660	388	132	138	156
	Apr. 16	8,551	7,615	936	259	6,452	1,822	18	271	59	98	114	8,876	7	236	90	20	4,523	228	2,098	317	115	255	7
	May 21	7,966	7,140	826	—	6,107	1,848	11	372	115	128	129	8,317	8	60	61	5	4,002	339	2,376	232	109	291	71
	June 18	8,377	7,607	770	128	6,382	1,861	6	286	74	143	69	8,728	8	167	225	—	4,208	214	2,570	200	102	205	10
	July 16	9,011	8,310	701	88	6,926	1,992	5	347	173	126	48	9,388	8	229	211	—	3,923	193	3,178	330	92	263	26
	Aug. 20	8,038	7,515	523	183	6,324	1,527	4	317	138	130	49	8,370	8	43	51	—	2,957	696	2,670	386	90	476	11

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:													
Retail banks	1986	July	16	432	326	3,541	87	266	80,831	4,302	485	5,735	3,242
		Aug.	20	362	339	3,165	88	345	80,920	4,230	599	5,896	3,434
Accepting houses	1986	July	16	36	1	260	41	50	4,023	1,100	—	241	1,360
		Aug.	20	20	1	244	64	44	4,100	1,130	—	320	1,299
Other British banks	1986	July	16	21	—	174	74	49	21,333	1,734	—	391	1,894
		Aug.	20	21	—	112	68	53	21,768	1,715	—	509	1,838
Overseas banks:													
American banks	1986	July	16	1	—	29	19	69	7,479	1,268	—	327	394
		Aug.	20	1	—	29	16	70	7,615	1,246	—	409	440
Japanese banks	1986	July	16	4	—	—	—	451	2,137	835	—	74	1,746
		Aug.	20	—	—	—	—	385	2,301	920	—	66	1,787
Other overseas banks	1986	July	16	33	8	177	144	414	14,940	2,652	—	380	1,502
		Aug.	20	31	8	218	151	429	15,361	2,690	—	412	1,485
Consortium banks	1986	July	16	—	—	1	6	24	530	284	—	114	282
		Aug.	20	—	—	1	6	24	549	294	—	96	312
Total	1986	July	16	527	335	4,182	371	1,323	131,273	12,175	485	7,262	10,420
		Aug.	20	435	348	3,769	393	1,350	132,614	12,225	599	7,708	10,595

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:															
Retail banks	1986	July	16	50,293	15,145	11,565	309	178	4,556	33,685	622	5,108	16,261	4,449	94,734
		Aug.	20	50,665	15,127	11,322	306	178	4,634	34,226	477	5,516	16,354	4,536	94,726
Accepting houses	1986	July	16	11,400	3,870	3,333	632	21	1,167	6,247	49	1,283	2,126	3,773	6,823
		Aug.	20	11,417	3,834	3,364	432	23	1,144	6,454	56	1,421	2,231	3,498	6,729
Other British banks	1986	July	16	27,698	9,940	6,384	228	700	2,319	18,067	76	1,339	1,679	1,031	22,247
		Aug.	20	27,690	10,106	5,958	236	696	2,336	18,463	98	1,302	2,246	1,050	22,344
Overseas banks:															
American banks	1986	July	16	75,431	23,709	6,719	1,854	28	10,823	56,006	291	2,337	5,162	3,205	9,754
		Aug.	20	74,404	23,899	7,492	1,134	29	10,657	55,092	269	2,429	4,899	2,990	10,058
Japanese banks	1986	July	16	167,121	26,621	26,624	1,393	542	8,744	129,819	85	15,982	793	2,098	8,206
		Aug.	20	178,382	27,641	28,693	1,351	545	9,491	138,302	99	16,763	1,057	1,865	8,281
Other overseas banks	1986	July	16	146,419	36,755	29,699	7,774	117	10,807	98,023	1,265	9,236	2,464	6,990	22,269
		Aug.	20	149,171	37,078	30,233	7,615	143	10,697	100,483	1,340	9,737	2,724	6,950	22,663
Consortium banks	1986	July	16	12,712	5,297	1,395	304	3	256	10,753	199	1,057	304	239	1,345
		Aug.	20	12,797	5,271	1,318	354	3	251	10,871	314	1,110	318	243	1,393
Total	1986	July	16	491,074	121,337	85,719	12,494	1,589	38,672	352,600	2,587	36,342	28,789	21,785	165,378
		Aug.	20	504,526	122,956	88,380	11,428	1,617	39,210	363,891	2,653	38,278	29,829	21,132	166,194

[Table 4 in the Quarterly Bulletin]

Sterling assets continued

British government stocks	Investments			Other sterling assets	Other currency assets				Total assets/liabilities	1986	
	Local authorities	Other			Total	Certificates of deposit	Bills	Other			
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	June	18
365	15	398		41	286	71	86	129	9,014	June	18
357	14	497		67	346	180	59	107	9,734	July	16
439	15	460		68	317	102	57	158	8,687	Aug.	20

K UK monetary sector: transactions in liabilities and assets^[a]

[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	
		Unadjusted	Seasonally adjusted	Sterling		Other currencies	Sterling		Other currencies					
Unadjusted	Seasonally adjusted			Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted						
1985 Aug. 21	+ 411	+ 2,902	+ 2,908	+ 275	+ 189	- 17	+ 2,067	+ 2,159	+ 577	+ 291	- 2,375	- 407		
Sept. 18	+ 9,867	+ 1,419	+ 1,811	- 272	- 12	- 1	+ 1,941	+ 2,073	- 249	- 6	+ 8,049	+ 405		
Oct. 16	+ 1,179	+ 1,763	+ 1,578	+ 434	+ 345	+ 15	+ 1,168	+ 1,072	+ 146	- 208	- 2,390	+ 2,014		
Nov. 20	+ 10,768	+ 3,823	+ 3,503	+ 483	+ 281	+ 4	+ 2,463	+ 2,345	+ 873	- 536	+ 8,880	- 1,399		
1986 Dec. 11	+ 2,547	- 346	+ 192	- 558	- 384	- 54	+ 438	+ 802	- 172	+ 66	+ 1,132	+ 1,695		
Jan. 15	+ 7,785	+ 431	+ 648	+ 466	+ 306	+ 6	- 389	- 12	+ 348	+ 1,337	+ 7,338	- 1,321		
Feb. 19	+ 10,010	+ 772	+ 1,622	- 160	- 134	- 36	+ 403	+ 1,227	+ 565	+ 666	+ 7,710	+ 862		
Mar. 19	+ 8,050	+ 3,437	+ 3,636	+ 22	+ 171	+ 2	+ 2,771	+ 2,821	+ 642	+ 1,351	+ 3,570	- 308		
Apr. 16	+ 13,912	+ 6,524	+ 5,667	+ 1,353	+ 1,467	- 15	+ 5,049	+ 4,078	+ 137	+ 1,013	+ 5,524	+ 851		
May 21	+ 8,472	+ 4,583	+ 4,695	+ 433	+ 87	+ 4	+ 3,269	+ 3,727	+ 877	- 686	+ 5,346	- 771		
June 18	- 983	+ 2,889	+ 3,286	+ 274	+ 468	- 7	+ 1,449	+ 1,652	+ 1,173	- 956	- 3,531	+ 615		
July 16	+ 6,145	+ 1,727	+ 1,373	+ 9	- 25	+ 8	+ 555	+ 235	+ 1,155	+ 461	+ 2,463	+ 1,494		
Aug. 20	+ 9,672	+ 1,228	+ 1,706	- 83	- 7	- 5	+ 1,103	+ 1,505	+ 213	- 747	+ 9,807	- 616		

Month ended	Assets												
	Total	Lending to public sector						Lending to private sector				Lending to overseas sector	
		Total		Sterling		Other currencies	Sterling		Other currencies	Sterling	Other currencies		
		Unadjusted	Seasonally adjusted	Central government	Other		Unadjusted	Seasonally adjusted					
Unadjusted	Seasonally adjusted												
1985 Aug. 21	+ 411	+ 2,915	+ 2,403	+ 3,275	- 360	- 10	+ 45	+ 688	- 1,220	- 671	- 648		
Sept. 18	+ 9,867	+ 904	+ 1,300	+ 1,395	- 491	- 18	+ 486	+ 1,051	+ 412	+ 203	+ 7,880		
Oct. 16	+ 1,179	- 1,024	- 808	- 668	- 356	+ 257	+ 3,829	+ 2,530	- 30	- 21	- 1,832		
Nov. 20	+ 10,768	+ 1,136	+ 278	+ 1,708	- 572	- 170	- 120	+ 565	+ 175	+ 44	+ 9,703		
1986 Dec. 11	+ 2,547	+ 1,133	+ 672	+ 1,479	- 346	+ 24	- 1,154	- 50	- 85	+ 1,588	+ 1,041		
Jan. 15	+ 7,785	- 3,204	- 1,312	- 3,276	+ 72	+ 221	+ 3,638	+ 2,509	+ 2,133	+ 275	+ 4,722		
Feb. 19	+ 10,010	- 2,614	- 1,279	- 2,128	- 486	+ 4	+ 3,048	+ 3,263	+ 587	- 504	+ 9,489		
Mar. 19	+ 8,050	+ 1,678	+ 1,883	+ 1,727	- 49	- 51	+ 2,227	+ 2,453	+ 1,219	- 390	+ 3,367		
Apr. 16	+ 13,912	+ 3,049	+ 1,451	+ 3,371	- 322	+ 16	+ 3,724	+ 3,057	+ 725	+ 1,843	+ 4,555		
May 21	+ 8,472	+ 8	- 324	+ 357	- 349	- 58	+ 236	+ 705	+ 1,060	+ 1,907	+ 5,319		
June 18	- 983	- 157	- 947	- 1	- 156	+ 15	+ 3,077	+ 3,911	+ 447	- 322	- 4,043		
July 16	+ 6,145	+ 26	+ 1,522	+ 291	- 265	- 32	+ 2,056	+ 461	+ 1,031	+ 5	+ 3,059		
Aug. 20	+ 9,672	+ 180	- 223	+ 454	- 274	- 7	+ 959	+ 1,921	+ 283	- 747	+ 9,004		

[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).

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.

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MONEY AND BANKING FIGURES: BANKING AUGUST 1986

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

1 During the five weeks to 20 August 1986, M0 (average of weekly levels) rose by £80 million (+0.5%) (Table B) and £M3 rose by £1,670 million (+1.2%) (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	+ 5.4	+ 4.4	+ 4.1
£M3	+10.9	+24.0	+18.5

3 Within £M3 there was a rise in banking August of £160 million in notes and coin, a rise of £250 million in non-interest-bearing sight deposits and a rise of £940 million in interest-bearing sight deposits. M1 rose by £1,350 million (+2.0%). Time deposits (including sterling certificates of deposit) of the UK private sector rose by £320 million.

4 The sterling value of private sector foreign currency deposits rose by £480 million, comprising a rise of £210 million reflecting transactions and a rise of £270 million reflecting the estimated change in the sterling value of the existing stock. Thus, total M3 rose by £2,150 million (+1.3%) (Table E).

5 M2 (not seasonally adjusted) rose by £740 million (+0.5%) (Table F). PSL2 rose by £2,820 million (+1.1%) (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 contractionary by £610 million (see columns 1-7 of Table A). The central government borrowing requirement was £1,470 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 zero. There were net purchases of central government debt by the non-bank private sector of £1,510 million; within this gilt-edged stock accounted for £780 million,

National Savings for £560 million and CTDs for £170 million. External and foreign currency finance of the public sector was contractionary by £560 million.

8 Sterling lending to the private sector rose by £2,470 million. Foreign currency lending to the private sector rose by £280 million in transactions terms.

9 The external and foreign currency transactions of UK banks were contractionary by £310 million (see columns 9-12 of Table A). Net non-deposit sterling liabilities fell by £110 million, an expansionary influence.

10 In banking August, the amount of sterling commercial paper outstanding increased by an estimated £100 million, from £180 million to an estimated £280 million. The monetary sector reported unchanged holdings of commercial paper issued by UK companies at £10 million; changes in holdings of such paper are included in sterling lending to the private sector (Tables A and K). Monetary sector holdings of commercial paper issued by overseas companies, changes in which are included in sterling lending to the overseas sector (Table K) and within the external and foreign currency transactions of UK banks (Table A), rose by £30 million, from £10 million to £40 million.

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 September 1986

12 The provisional seasonal movements for the four weeks ended 17 September 1986 are as follows:

	£ million
Notes and coin in circulation with the public	- 180
Private sector sterling sight bank deposits	+ 190
M1	+ 10
Other private sector sterling bank deposits	- 360
£M3	<u>- 350</u>
M0 (averaged series)	<u>- 150</u>
Bank lending in sterling to the private sector	<u>- 220</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 AUGUST 1986

Rates of growth, annualised %: seasonally adjusted

	Latest 3 months	Latest 6 months	Latest 12 months
M0	+ 5.4	+ 4.4	+ 4.1
M1	+ 18.4	+29.8	+20.9
of which:			
Non-interest-bearing M1	+ 6.3	+12.6	+ 7.5
M2 (not seasonally adjusted)*	..	..	+14.1
£M3	+ 10.9	+24.0	+18.5
M3	+ 18.0	+26.7	+19.5
PSL1	+ 11.9	+24.1	+17.8
PSL2	+ 11.8	+16.7	+14.5

*the growth of M2 over the 12 months to mid-August 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 13.5%.

0337a

STERLING CERTIFICATES OF DEPOSIT ISSUED BY MONETARY SECTOR INSTITUTIONS
£ million

Transactions in the London Discount Market Association secondary market

	Opening balances	Purchases		Sales	Maturities	Closing balances
		from issuing banks	from others			
Banking August (17 July 1986 - 20 August 1986)						
Period to maturity*						
Less than one month	1,178	290	237	1,345	921	1,050
Over 1 month but less than 3 months	1,228	1,113	190	391	-	795
Over 3 months but less than 6 months	255	357	160	217	-	462
Over 6 months but less than 1 year	502	51	347	401	-	342
Over 1 month but less than 2 years	8	18	9	6	-	14
Over 2 years but less than 3 years	6	-	-	-	-	5
3 years and over	-	-	-	-	-	-
TOTAL	3,177	1,829	943	2,360	921	2,668

STERLING CERTIFICATES OF DEPOSIT ISSUED BY BUILDING SOCIETIES
£ millions

Transactions in the London Discount Market Association secondary market

	Opening balance	Purchases		Sales	Maturities	Closing balances
		from issuers	from others			
Banking August (17 July 1986 - 20 August 1986)						
Period to maturity*						
Less than one month	77	-	14	10	75	69
Over 1 month but less than 3 months	135	51	13	88	-	141
Over 3 months but less than 6 months	74	108	16	35	-	135
Over 6 months but less than 1 year	43	62	9	12	-	37
TOTAL	329	221	52	145	75	382

* Certificates are classified not according to date of issue, but according to their tenor at the date of the transaction, or, for balances outstanding, at the reporting date.

Bank of England
18 September 1986

SECRET AND PERSONAL

Even if the £M3 figure is revised up somewhat as more figures become available, it would probably be slightly better than market expectations, which are now for a v. high figure indeed.

FROM: P H BROOK
DATE: 26 SEPTEMBER 1986

1. ~~MR KELLY~~ MR PERETZ
2. CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Kelly

Got ✓
DLP 26/9

MONEY SUPPLY IN BANKING SEPTEMBER: "FIRST GUESS"

I attach the Bank's monthly note setting out their "first guess" at the money supply figures for banking September, which ended on 17 September.

Summary

2. **£M3** is estimated to have risen by 1.6 per cent, compared with a forecast increase of 3.0 per cent. This suggests a final outturn in the range of 1.4 per cent to 2.2 per cent (although the Bank have this month adjusted their method of predicting £M3 outturn, it should be noted that the First guess has consistently underestimated £M3 over the last 6 months). On this basis the annual growth rate of £M3 to banking September would be in the range of 18 per cent to 19 per cent, remaining, as forecast, well above its 11-15 per cent target range. **M0** rose by 0.8 per cent (forecast: 0.5). Annual growth is around the middle of its target range, at 4.5 per cent. Table 1 below gives the implied growth rates in the target aggregates.

Table 1: Monetary Aggregates - First guess : banking September

Monthly percentage change	per cent	
	<u>M0</u>	<u>£M3</u>
First guess	0.8	1.6
Likely outturn	0.8	1.4 - 2.2
3 month annualised rate	6.5	11½ - 13½
6 month annualised rate	5.1	22 - 23½
Annual rate	4.5	18 - 19

SECRET AND PERSONAL

M0

3. The annual growth rate for M0 at 4.5 per cent compares with 4.1 per cent last month, and is around the middle of its 2-6 per cent target range. This is marginally above the forecast.

£M3 components

4. In banking September £M3 is thought to have risen by £2210 million, or 1.6 per cent, compared with our latest forecast increase of 3.0 per cent, (which superseded the forecast reported in the Bank's note). Among the components, notes and coin increased by £80 million, following last month's increase of £162 million. Non-interest bearing sight deposits rose very strongly. In September they increased by £970 million giving a cumulative increase of over £2½ billion since March, an annual rate of 24.7 per cent. Interest bearing sight deposits rose less strongly this month. In September they increased by £150 million, a cumulative increase of £5 billion in the last six months (42 per cent on annual rate). M1 as a result has risen 28 per cent at an annual rate since March and by 23 per cent in the last year. Time deposits increased strongly, by £1 billion.

5. The only factor of which we are aware that may be distorting the components is a possible build up of current accounts in advance of the TSB ^{sale} which may account for part of the increase in non-interest bear sight deposits.

£M3 counterparts

6. Table 2 (attached) compares £M3 counterparts in the first guess with those in the forecast. Bank lending was not as expansionary as predicted and external and NNDLs were far more contractionary; while external financing of the private sector was highly expansionary.

7. The seasonally adjusted "PSBR" is estimated at £2730 million, about £115 million above forecast. This is accounted for by a combination of the OPS contribution ^{being} £190 million less expansionary than forecast and the CGBR contribution being around £300 million higher than predicted.

SECRET AND PERSONAL

8. Central Government net debt sales, to the nbps, at £75 million were well below forecast. National savings at £200 million were somewhat lower than recent months. Gilt sales although disappointing at £170 million were £70 million more than forecast. External finance of the public sector was highly expansionary at £590 million, some £650 million more than forecast. This is accounted for by the timing of the taking in of dollars in advance of the FRN proceeds (explained more fully in Mr Kelly's minute of 22 September) and will be unwound within the next two weeks. In total there was underfunding of the PSBR of £3240 million giving a cumulative underfund since mid-March of £2913 million.

which
shd not
have
affected
£M3

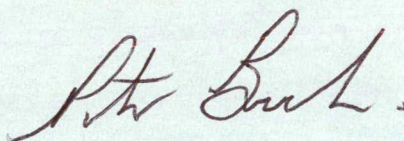
9. Sterling lending is estimated at £400 million, about £1600 million less than forecast and well below recent months. This is puzzling although it should be noted that there has been a tendency for bank lending figures to be increased by up to £1 billion between first guess and the provisionals.

10. At this stage, the division between NNDLs and private 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 were around £1000 million more contractionary than forecast. Part of the larger than forecast externals figure is an offset to the increase in external finance of the public sector (also explained more fully in Mr Kelly's minute of 22 September).

Timetable

11. We will receive provisional September figures on Friday 3 October, and they will be published on Tuesday 7 October. Full money and banking figures will appear on Thursday 16 October.

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



P H BROOK

SECRET AND PERSONAL

TABLE 2 : BANKING SEPTEMBER 1986

"First guess" compared to forecast

		£ millions, seasonally adjusted	
		FIRST GUESS	FORECAST*
CGBR (ex bank deposits)		+2,910	+2,608
CG debt:			
	Gilts	-170	-100
	Treasury Bills	-10	-
	National Savings	-200	-114
	CTD's	+290	+324
		-----	-----
		-80	+110
Other public sector:	LA	-130	+65
	PC	-40	-58
		----	----
		-180	+7
External and fc. finance of the public sector		+590	-60
Sterling lending to UK private sector (inc. Issue Dept. commercial bills)		+400	+2,015
Net private externals**		-920	-220
Residual (includes NNDLs** and reporting differences)		-530	-220
		-----	-----
£M3		+2,210	+4,240
		-----	-----
(Monthly percentage change)		(+1.6%)	(+3.0%)
Wide over(-)/underfunding(+)		+3,240	+2,665

* As circulated in Mr Grice's "Monetary Prospects" submission of 17 September 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.

26.9.86

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 P A BULL

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 KELLY (HMT)
 MR BROOK (HMT)

FROM: C R Mann / R L Sheath

BANKING SEPTEMBER 1986 - A FIRST ESTIMATE

£ millions, seasonally adjusted

The provisional estimates of the monetary aggregates for banking September will be published at 2.30 pm on Tuesday 7 October and the full money and banking figures will be published at 2.30 pm on Thursday 16 October. Even after 16 October, 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 2210 in banking September. An estimate of the monetary sector as a whole, based on these returns, would suggest a final outturn in the range of +1.4% to +2.2% (compared with a forecast increase of 2.5%) and a 12-month growth rate in the range of +18.0% to +19.0%, well outside the target range of 11-15%. A re-examination of the rule of thumb used to calculate these ranges has recently been conducted; see the attached appendix. Possible effects of the TSB share sale are discussed in the final paragraph.

2 Among the components of £M3, notes and coin are estimated to have increased by 80, and private sector non-interest-bearing sight deposits to have increased by 970. Private sector interest-bearing sight deposits are estimated to have risen by 150. Private sector time deposits (including CDs) are estimated to have increased by 1010: within this, time deposits rose by 800 and CDs increased by 200.

3 Our latest estimate for M0 for banking September is +0.8%, or +4.5% over the last twelve months, within the target range of 2-6%. 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 18 September. The estimated CGBR is +2910, ie 180 above forecast: within this, the CG own account was +2670; on-lending to LAs was +190 and on-lending to PCs was +40. Net purchases (-) of central government debt by the non-bank private sector are estimated to have been -80, compared to a forecast of net purchases of -490. Gilts contributed -170, ie an increase of nbps holdings, compared to the forecast increase of -600. There were net purchases of National Savings of -200, and net purchases of Treasury Bills of -10. There were net surrenders by the NBPS of CTDs of 290.

5 The direct contribution of the rest of the public sector is estimated to have been contractionary by -180, (190 more contractionary than forecast). Local authorities were -130 (200 more contractionary than forecast), and PCs were -40 (20 less contractionary 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 an underfund of +2650. External and foreign currency finance of the public sector (EFCFPS) was +590. This is almost entirely due to a substantial increase in the reserves in the final week, arising from swap transactions in anticipation of receipt of the proceeds of the FRN issue; in other words, proceeds of the FRN issue have been received after the end of banking September, but part of the

Corresponding increase in the reserves has been brought forward (by market transactions) into banking September. This has the effect of reducing EFCFPS in banking September, which leads to a larger underfund (on the wide definition) than would otherwise be the case. There will be an offsetting effect when the FRN proceeds are received; wide overfunding for the financial year as a whole will not be affected. Within banking September, the offsetting transactions are most likely to have occurred within the external and foreign currency transactions of UK banks; £M3 and bank lending in sterling to UK residents are probably not affected. "Wide overfunding" (ie the sum of narrow overfunding and EFCFPS) was +3240, ie an underfund, compared with a forecast underfund of +1890.

7 Bank lending in sterling to the private sector is estimated to have increased by 400, compared with a forecast rise of 2020. The weekly banks have underestimated the full monthly outturn by about 25% on average over the past three years; in recent months the bias has been even more pronounced.

8 Other identified external and foreign currency transactions (ie excluding EFCFPS) were -920, compared to a forecast of -220; this may be a poor guide to the final outturn for the externals.

9 The residual (including NNDLs) was contractionary by -530, compared with a forecast contraction of -220.

10 The TSB share sale and banking September figures

The TSB share price was announced on Friday 12th September, but prospectuses were not available until Tuesday 16th; applications were

due in by 10am on Wednesday 24th September. The banking September make-up day was Wednesday 17th September, and it is unlikely that many applications had been made by that date. Nevertheless, many investors would have been making preparations by the 17th, building up bank deposits (eg by running down building society deposits, or by allowing bank borrowing to remain outstanding); indeed some investors may have made such preparations much earlier in banking September. The only potential evidence of such activity in the weekly banks' figures is a build-up in NIB sight deposits over the whole month of 1050 (seasonally adjusted). This build-up took the form of a strong end-month surge at end-August, followed by a weak unwinding in subsequent weeks. The whole month's build-up cannot therefore be attributed unequivocally to the TSB share sale; a similar large rise of 1070 in May had no apparent explanation. Retail interest-bearing deposits increased by 340 (seasonally adjusted), a very modest increase in comparison with the last six months. Bank borrowing shows little sign of being inflated. In particular, there is no evidence of building societies having borrowed substantially from banks by 17th September; societies are known to have suffered a retail outflow of some £1/2 billion in the week to 20th September, but this either took place after the 17th, or took the form of cheques made out to the TSB share offer which have not yet been presented.

Financial Statistics Division

Money & Banking Aggregates Group BB-1

26 September 1986

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APPENDIX

Predicting the outturn for £M3 from the "first estimate"

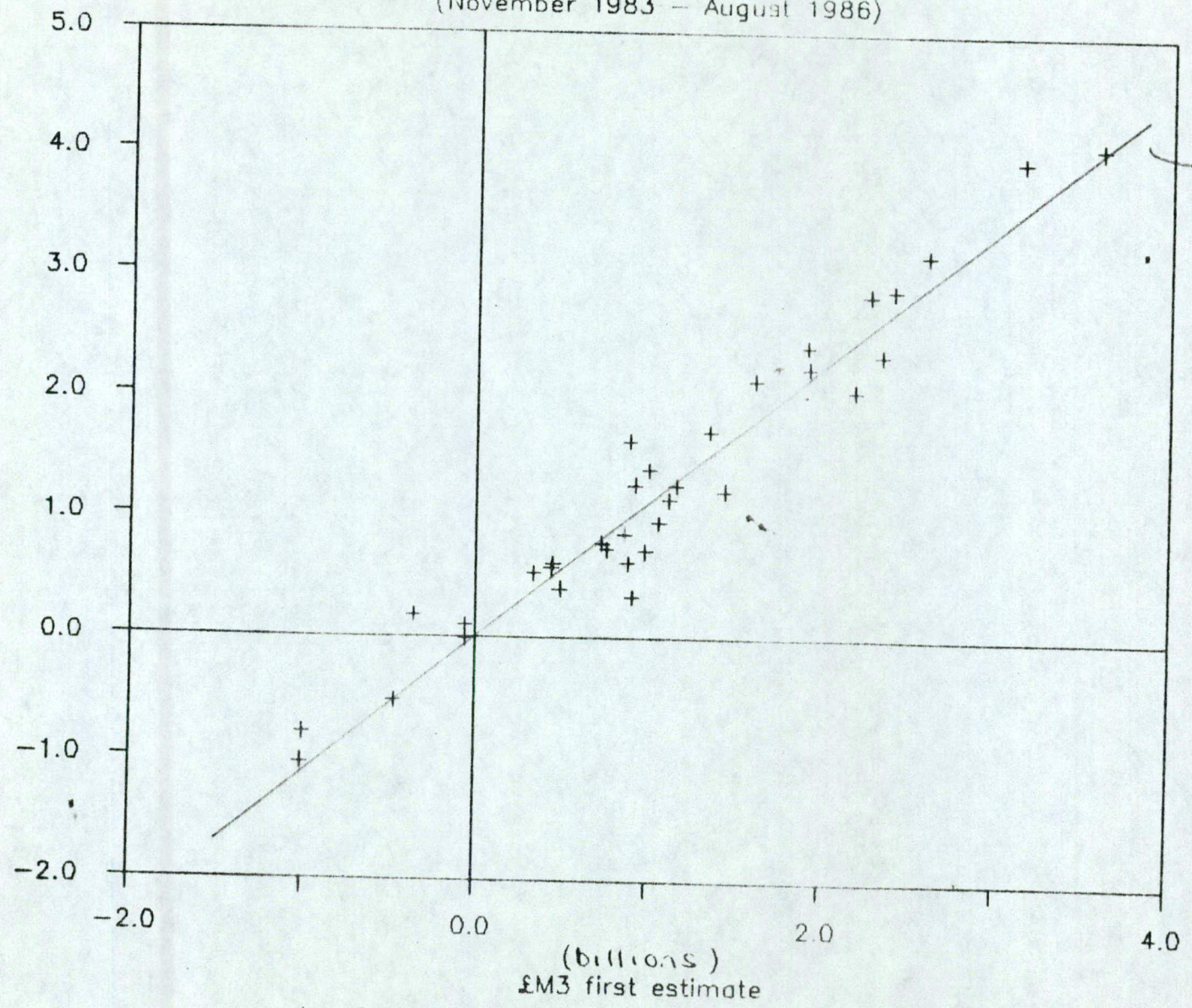
1 A study conducted in 1985 indicated that the first estimate of the £M3 outturn each month, based on the weekly reporting banks, underpredicted the £M3 outturn by about 8%. The study also indicated a weak negative correlation between the prediction errors and the residual counterparts. These facts were used to provide a rule of thumb to convert the raw first estimate figure into a prediction of the £M3 outturn.

2 A brief re-examination of the rule of thumb has been conducted. It shows that there is still a simple linear relationship between the first estimate and the outturn (see the attached chart). It is now estimated that, on average, the first estimate underpredicts by about 14% (ie the slope of the "best" line fitting the points in the chart is 1.14). The correlation between the prediction errors and residual counterparts is no longer present. The best rule of thumb is therefore simply to increase the raw first estimate by 14%. The standard error of prediction errors is large (295), as is evident from the scatter of points in the chart. In about 19 months out of 20, the outturn will lie in a range of ± 590 ($\pm 0.4\%$ of the present stock of £M3) about the central estimate produced by the rule of thumb.

SECRET £M3 outturn vs. first estimate

(November 1983 - August 1986)

£M3 outturn
(billions)



line of best fit
(slope 1.14,
intercept 0).

+ £M3 outturn

S E C R E T

FIRST ESTIMATE COMPARED TO FORECAST
BANKING SEPTEMBER 1986

£ millions, seasonally adjusted

	FIRST ESTIMATE	FORECAST *
CGBR (surplus -)	2910	2730
Other public sector	-180	10
Of which: LAs	-130	65
PCs	-40	-60
"Modified PSBR"	2730	2740
Debt sales (-) to NBPS	-80	-490
Of which: Gilts	-170	-600
Treasury bills	-10	0
National savings	-200	-190
CTDs etc	290	300
"Over-funding(narrow)" (-)	2650	2250
Ext & FC Finance of public sector	590	-360
"Over-funding(wide)" (-)	3240	1890
Bank lending to UK private sector (incl issue commercial bills)	400	2020
Other Externals	-920	-220
Residual (including NNDLs)	-530	-220
£M3	2210	3460
1 month % growth rate	1.6 %	2.5 %
M0		
Notes and coin	121	
Bankers' operational deposits	-6	
M0	115	
1 month % growth rate	0.8 %	

RATES OF GROWTH, ANNUALISED %

	Latest 3 months	Latest 6 months	Latest 12 months
£M3	12.1	22.4	18.2
M0	6.5	5.1	4.5

*As circulated in the Financial Report dated 18.9.86