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Prime ~~Minister~~. Econ Pol

Gloomy, notwithstanding the qualifications in the penultimate paragraph.

Tim

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

9th June 1980

T. Lankester, Esq.,
Private Secretary to the Prime Minister,
No.10, Downing Street

Dear Tim,

BANKING FIGURES

The banking figures for banking May are due to be published tomorrow, and they will show a substantial rise in banks' eligible liabilities (1.7 per cent). Although the Chancellor is away, I am writing to give you a Treasury assessment.

The indications are that the increase in sterling M3 was also high in banking May - about 2 per cent - and the Bank will release this figure to the markets. The details of the counterparts to the increase in the money supply, which will be published next Tuesday, are shown in the attached table. (The money supply figure itself tends to be fairly reliable at this stage, but the counterparts are less so.) Allowing for the May figure, the cumulative growth in sterling M3 since June last year is now 11½ per cent at an annual rate, and the corresponding figure for growth in the 3 months since the beginning of the current target period (February) is 12¼ per cent.

The central government borrowing requirement was substantial in banking May (nearly £1.5 billion) and in particular was considerably greater than the level of gilt sales. The high level of central government borrowing is in contrast to the exceptionally low borrowing of recent months, and indeed, as we expected, is somewhat higher than the normal level forecast for this financial year. The bank lending

/figure

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figure is mildly encouraging, although less so than appears at first sight. There is estimated to have been a substantial leakage of acceptances to the non-bank private sector (about £300 million) which means that recorded growth of bank lending will have understated the underlying increase. External factors, in contrast to recent months were expansionary.

It would be wrong to look at the May money supply figure in isolation, just as it was wrong to put too much weight on the very low figures in February, March and April. It is important to focus on a run of recent figures, and those for the last six months probably give a better indication of the underlying trend. Nevertheless the May figure confirms that it is right at present to be cautious on interest rates.

I am copying this letter to John Beverly (Bank of England).

Yrs ever,

MH

M.A. HALL

ANNEX

STERLING M3 AND ITS COUNTERPARTS

	£ billion, seasonally adjusted		
	Banking March	Banking April	Banking May
CGBR (minus=surplus)	+0.57	-0.58	+1.46
Less sales of central government debt to non-bank private sector	-0.25	-0.78	-0.51
(of which, gilts)	(-0.17)	(-0.80)	(-0.41)
Net other public sector	-0.14	+0.27	-0.26
Sterling bank lending to:			
Private sector	+0.43	+1.53	+0.38
Overseas	+0.10	+0.24	-0.20
DCE	+0.71	+0.68	+1.09
External and foreign currency finance	-0.23	-0.31	+0.29
Net non-deposit liabilities, etc	-0.23	-0.20	-0.17
Change in £M3	+0.25	+0.17	+1.22
(percentage)	(0.4)	(0.3)	(2.1)

CHANGE IN £M3 IN RECENT MONTHS

	% seasonally adjusted
Increase at annual rate mid-June to mid-May (11 months)	11.6
Increase at annual rate mid-February to mid-May (3 months)	12.2
Increase at annual rate mid-November to mid-May (6 months)	9.0