

NOTE FOR RECORD

Copies to The Deputy Governor
Mr Dow
Mr Blunden
Mr Page
Mr Loehnis
Sir Jasper Hollom
Mr Coleby
Mr George
Mr Holland
Mr Gill
Mr Gough
Mr Quinn

The Governor called on the Chancellor.

The Governor will call on the Chancellor during the afternoon of Monday 4 August. The time has not yet been firmly agreed but the Chancellor's Office are thinking in terms of 6.00 pm.*

** now agreed for 5.30 p.m.*

Governor's Office H0-P
1 August 1980

J S Beverly (4121)

MP's
copy



Copied - filed
in MP's doss.

NOTE OF A MEETING HELD AT 11 DOWNING STREET ON MONDAY 4 AUGUST 1980
AT 5.30 P.M.

Copies to
Mr. G. ...
Mr. ...
Mr. ...
Mr. ...
Mr. ...
Mr. ...
Mr. ...

Present:

Chancellor of the Exchequer
Financial Secretary
Mr. W. Ryrie
Mr. J.M. Bridgeman

Governor of the Bank of
England
Deputy Governor
Mr. E. George

MONETARY AFFAIRS

The meeting considered first the draft statement about the provisional money supply figures to be released to the News Agencies for banking July at the same time as the eligible liability figures were published the following day. The following were among the main points made:-

(i) it was suggested that, for clarity, an explicit figure should be given for the re-intermediation through the bill leak following the ending of the corset. The Governor observed that the authorities had been steadily forced down the path of giving more information in commenting on the monetary figures and that this carried certain disadvantages. The Bank wanted to keep its role to one of guidance. It was agreed that the present qualitative character of the release should be retained.

(ii) The Financial Secretary noted that the present draft indicated that no policy response was envisaged by the authorities. He thought it most likely that commentators would ask whether there had been a change in the trend of monetary growth and how the authorities proposed to respond

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to this. It might therefore be worth responding to this point in the Release. The Governor thought there was advantage in responding to a question, rather than volunteering a statement, about the authorities' policy stance. It was agreed that the draft should remain unchanged in this respect.

(iii) There was discussion about whether to refer to any change in the underlying rate of monetary growth. Tactically, it was noted that including such a point would prompt the question of whether the authorities were satisfied with the underlying rate. On substance, the authorities were waiting to see what the underlying trend was for both the PSBR and lending. Both these consideration argued against a reference to the underlying rate.

2. The Chancellor said that the Release should be revised in the light of these points and a number of detailed drafting comments made during the discussion.

3. The meeting then considered the Bank's draft briefing for their press officer. The following were the main points:

(i) A number of changes to page 2 were agreed. A figure should be placed on the size of the bill leak; it should be made clear that the overseas element of the increase in eligible liabilities amounted to some £½ billion out of a total of about £2½ billion; and the paragraph considering the role played by Euro-currencies in the figures should be deleted.

(ii) There was some discussion of the suggestion in the brief that the growth of the money supply had accelerated since April. The Financial Secretary thought the rate of monetary growth too high but saw



no reason to believe that a sudden upturn was at hand. Mr. Bridgeman noted that over the last six months there had been three low figures and three high figures, the latter being associated with a high PSBR figure. The Treasury was confident that the PSBR would turn down, although not necessarily to the level of the Budget forecast. The July figure should not therefore be taken as indicating that monetary growth was accelerating. The Governor thought that while bank lending was not showing signs of a sudden upturn, re-intermediation accounted for only about one third of the high July figure and it was difficult to explain away the rest of the upturn. He was not confident about the situation. Whilst growth in M1 had been more modest, M3 had grown grotesquely and the broader monetary aggregates were growing uncomfortably fast, at between 17 and 20 per cent. Whilst there was some prospect of a fall in the size of the bill leak, the Bank did not fully understand the banks' increased claims on the public sector and did not know whether their claims on local authorities represented borrowing which was additional to or in the place of local authority borrowing from non-banks.

(iii) The Financial Secretary noted that the section on the PSBR on page 3 identified the Treasury whilst elsewhere the draft referred to the Authorities; this might suggest some difference between the Treasury and the Bank. The Governor said that the Bank did have anxieties about the PSBR, but, of course, had no wish to suggest any difference of view in public. It was agreed that a solution would be to set current developments in the context of the profile for the PSBR.



(iv) Consideration was given to what should be said about the prospects for monetary growth as the recession bit deeper. The Governor noted that except in the last month a moving three-month average showed that monetary growth had been climbing since January. It was agreed that it would be appropriate to say that lending and monetary growth might grow more slowly as the effects of the recession worked through.

(v) The Financial Secretary noted that there was a policy question about whether we wanted to accommodate full re-intermediation. It was agreed that not to accommodate was not a feasible option. The draft press notice left this option more open than was sensible. The way in which to accommodate re-intermediation had still, of course, to be settled.

The Chancellor said that the press notice should be revised in the light of the discussion.

4. The Governor said that two early decisions about giving further relief to the system through the sale and repurchase agreement were needed about the arrangements which would come up for renewal on the 11 and 18 August. He said that a decision on the first relief could be left until the morning of Thursday, 7 August, in order to distance the relief from the announcement of the July banking figures. At this stage, he envisaged a relief of about £500 million which would be equal to about 1 per cent of the latest eligible liability figures. They could go as high as £620 million, but were inclined to operate on the lower side. It was noted that the announcement of the relief in advance of the normal time for an MLR decision might effectively pre-empt that decision. It was agreed that officials should consider this further.



5. The Governor said that he was concerned about the prospect for monetary growth. On the present figures, the corporate sector could not be adjusting to the desired extent, though this might be involuntary. Lending to persons was very low: at £130 million during the last month it had been less than interest liabilities. Monetary growth, working through the exchange rate and interest rates, was as fierce as it could be. The problem was how to improve its incidence, particularly on the personal sector. Against this background, it was urgent to do all that could be done to tap personal savings. Mr. Bridgeman said that officials were already examining ways in which to increase national savings, including granny bonds. They were looking at both the mechanics and monetary effects, with a view to possible measures in September. It was recognised that really vigorous action to increase National Savings would have implications for deposits with building societies. The Governor thought that no area should be inviolate in attempts to tap the personal sector. The Deputy Governor thought that the incremental yield from granny bonds would probably be only small and wondered whether something more substantial could not be done.

6. The Governor said that, given the latest figures, the monetary position was very worrying on all measures, except perhaps £M1. Mr. McMahon, noting that other countries made greater use of the narrower definition of money, wondered whether it might be worth examining the case for giving rather more attention to £M1.

MCM

PI (R.I. TOLKIEN)
7 August 1980

Distribution
Those present
Chief Secretary
Sir Douglas Wass
Mr. Middleton or

Mrs. Gilmore
Mr. Riley
Mr. Ward

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