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Financial Report: November 1979

The Monetary Review Committee will meet on Thursday, 8th November at 2.15 pm in the First Floor Committee Room. Please note change of venue. Mr.Fforde will chair the meeting.

On the Agenda will be:

(a) The Financial Report (attached).

(b) The Overseas Department's note "Monetary Conditions Abroad" (circulated separately).

Economic Intelligence Department,
7th November 1979.

M.D.K.W.Foot (4315)

£ millions

1. Monetary aggregates (seasonally adjusted)

(a) Recent developments

In banking October, M1 rose very sharply, by 936 (3.4%) (Chart A, Tables 1a and 1b). Within the total, interest-bearing deposits recorded their largest ever monthly increase (+568) following falls in the previous two months. Comparatively ltle is known about this highly volatile element of M1 but a signficant proportion is thought to be made up of funds awaiting long-term investment, rising in months like October when few official sales of gilts are made. Among the other elements of M1, notes and coin rose by 200, perhaps reflecting tax rebates paid to weekly wage earners, and the rest of non-interest-bearing M1 by 170 (making +1.5% of nib M1 in total). In the six months since mid-April, M1 and its nib component have both risen at annual rates of around 11 1/2%, while notes and coin have increased by 13% at an annual rate.

£M3 rose by 1,080 (2.0%) making 4.5% in the current target period, an annualised rate of 14.2%. Over the twelve months since October 1978, £M3 rose by 13 1/2%, against the 8-12% target originally set for that period.

UK residents' foreign currency deposits rose by 396 and with a negligible valuation effect M3 rose by 1,476 (2.5%) making 12.8% at an annual rate since June. With the abolition of Exchange Controls, it seems likely that, while both £M3 and total M3 have their defects as indications of monetary conditions, a little more interest then hitherto in the course of M3 may be appropriate (1) (Table 2).

In contrast to the small forecast surplus, the central government borrowing requirement was again substantial at 937. The error was concentrated on own-account; on lending was very high at 873, but only a little more than expected. Some of the error was probably attributable to higher than expected expenditure, though this was still low this month; over half was due to lower than expected revenue, a little less than half of which was on account of delayed receipts of VAT as Inland Revenue and other receipts were also significantly lower than forecast. On-lending to public corporations of 788 included some 200 to the Post Office (strike-related) and 460 to the Electricity Council which more than covered the 275 for the October redemption of its Government guaranteed stock. This high on-lending was offset, as had been forecast, in the "other public sector" item which, in aggregate, exerted a strong negative influence on DCE (-617).

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(1) See the note by M.D.K.W.Foot on 3. 7.79 entitled "M3, £M3 and any further relaxation of Exchange Control" which discussed these defects and concluded that abolition of controls "might provide a further argument for paying relatively less weight to either £M3 or total M3 than to other aggregates".

For the first time in three years, and with the Bank reluctant to bring stock on to the market given the forecast of a fall in £M3, the non-bank private sector's net transactions in central government debt were an expansionary influence on DCE (71). This was entirely attributable to gilts. Total official gross sales of almost 700 were offset by redemptions of 180, substantial buying-in of two stocks which mature in banking November, and other official purchases. With further significant overseas interest in gilts (estimated at +166) and net purchases of some 100 by the banking sector, the non-bank private sector sold 282. This was only partly offset by other forms of central government debt, with non-bank purchases of Treasury bills (81), National Savings (58) and CTDs (74).

Sterling lending to the UK private sector rose by a record 1,237 following last month's very modest increase (tables 3 and 4). LCB advances rose by 606, including an estimated 200 of quarterly interest charges (allowed for in the seasonal adjustment). After rough apportionment of this effect, the LCB monthly analysis shows that the rise was most evident in lending to engineering (+100), distribution (+80), construction (+50) and persons (other than for house purchase +40). Advances by other bank groups also rose strongly (+497) including LCB subsidiaries +91. Acceptances outstanding increased by 314, in line with the recent trend, and, with roughly half being held by the banking sector, the non-bank private sector take-up was 174 (making 800 in the four months since June). Thus the total demand for credit was some 1,400.

As usual, it is possible to think of special factors that may have tended to distort the record figures for the demand for credit this month. The PSBR was low (+320 net of non-bank private sector purchases of other public sector debt) and central government 'own account' borrowing was even lower (+60). In part this reflects payments of VAT at the higher rate by manufacturers (the largest group of VAT payers); even though such payments fell short of expectations, they will have added to the cash flow pressures on companies. In addition, but not reflected in the CGBR until November or December, companies were financing income tax rebates to weekly and some monthly paid staff; the prospect of rebates may also have encouraged retailers to borrow more to finance higher stocks. The aftermath of the engineering dispute may have been another factor leading to increased stockbuilding. The figures may have been further affected by an erratic timing distortion between the end of banking September (which appeared to be artificially low) and banking October. Finally exchange control relaxations from the summer, which appear still to be producing external outflows, may also still be affecting bank lending. Nevertheless, the figures mark a severe blow to the hopes that the trend of bank lending had fallen significantly. Furthermore, there are disturbing implications in this month's exceptional rise of £2 billion in facilities granted, the largest monthly increase this year.

Bank lending in sterling to overseas residents fell by 33, making only +38 in the first half of the financial year compared to some 430 forecast in June. Only advances have shown any significant growth in the six months (+74) but bill finance has contracted by 50.

Hence DCE amounted to 1,595, making 5,890 in the latest six months. About one-quarter of the growth in domestic credit during banking October was offset within £M3 by external and foreign currency finance (-429), the third large monthly 'minus' running. The reserves, net of official borrowing, rose by 140, but there were further substantial inflows into public sector debt (221) and bank deposits (163). In addition, the banks switched 118 into sterling.

Non-deposit liabilities rose by 85.

(b) The outlook

The latest HMT/Bank three-month projection was completed on 6th November. It assumes that MLR is raised in line with market rates; there are corset 'off' and 'on' variants.

Underlying the PSBR forecasts is the hope that all the VAT shortfall in October appears by the end of calendar December. Partly as a result, the Government's own-account is projected to be slightly in surplus in November, despite 500 tax rebates, only 460 in deficit in December despite a further 500 tax rebates and 140 in deficit in January. On-lending (mostly to public corporations) is put almost as high again in November as in October, but then falls away, with net repayments by the other public sector in January. Consequently, the total CGBR is put at 585 in November, 660 in December and 90 in January[(1)], making 7,100 in the first nine months of 1979/1980.

The figures for the other public sector largely mirror the on-lending pattern in the CGBR, with a substantial contractionary influence in November (-430), a modest expansion in December (+50) and a rather larger one, of 245, in January as they actually repay debt to the central government.

Taken overall, the implied PSBR figures for the first nine months of 1979/1980, even on the most optimistic assumption about the missing VAT receipts and given what HMT think about the rest of the financial year, do not appear consistent with a PSBR of £8 1/2 billion or less and it is understood that the latest figuring is in the £9-£9 1/2 billion range.

The details of the gilts forecast are shown in table A below and are, of course, critically dependent upon the interest rate and corset assumptions made. The text in this paragraph assumes that the corset remains in place; if it did not, non-banks would run down their current holdings of commercial bills and perhaps buy more public sector debt. The figures assumed in the no-corset variant are shown in brackets in Table A. A further stock remains to be redeemed in November: 3 1/2% British Electricity 1976/79. Buying in of the March 1980 next maturity is assumed to continue at a modest pace initially, picking up in January. No further gross sales are shown for November, with modest amounts included for both December and January. The external forecast has overseas residents selling gilts in November.

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(1) These figures include asset sales of 120 in November and are also reduced by 100 in November and 50 in January as the TSB takes over some export credit finance (see later in this section).

Table A

	November	December	January
Transactions to 5.11.79	+125		
Redemptions	-196	-	-
Buying in of next maturities to come	- 30	- 30	-100
Further sales assumed	-	+250	+250
Total net sales	-100	+225	+150
Overseas (purchases -)	+ 50	-	-
Banks (purchases -)	+ 40	+ 25	+ 25
Net sales to non-bank private sector	- 10	+250 (+265)	+175 (+200)

Moderate inflows to National Savings of 50 a month are projected over the period, boosted a little in November by the effect of the tax rebates. (A new National Savings certificate if announced now could not be expected to affect inflows within the forecast period.) Following the recent increase in the rate, it is assumed that CTDs will be kept competitive but not so attractive that arbitrage/round-tripping problems arise. Having said that, the path of net sales over the forecast period is heavily influenced by the incidence of PRT and ACT (substantial surrenders have already been made in November) and of mainstream corporation tax, giving net redemptions of 250 in November and 150 in January and net purchases of 175 in December. Without the corset, the forecasters think the December and January figures together might be, say, 75 better.

An added complication to the forecasting of public sector debt sales concerns the changing status of the TSB ordinary departments; after 20th November these will be amalgamated with the new departments, and their deposits will no longer be part of National Savings and thus automatically invested in Central Government debt via the Fund for Banks for Savings (FBS) operated by the NDO. The TSBs will therefore be wholly within the private sector, and have an outstanding claim on the FBS (which remains within CG); repayments from this Fund will therefore be a positive element in CG debt sales to the non-bank private sector. The forecast includes estimated repayments of 200 in November and 50 in December. Most of these freed resources are being used to take up refinanced export credits reducing the CGBR; much of the remainder is assumed to be reinvested in Treasury bills or LA debt. The net effect on £M3 is therefore assumed to be very small.

Following the unexpectedly large rise in bank lending in October, the forecasters have revised their views on the underlying domestic demand for bank lending, suggesting a figure of around 800 a month for the period ahead (see Table B below) against perhaps 875 in October. Further large increases in the bill leak are projected if the corset remains, so that on this account alone, the recorded figures would be lower. Budget liquidity effects are also expected to help depress recorded bank lending, with the personal sector running down lending this month, and companies reducing their lending in December (when they should have the benefit of reduced payments to

Inland Revenue without the offsetting effect of paying out rebates). The increased size of the exchange control effect assumed reflects an allowance for the removal of the remaining controls at the beginning of this banking month. The end result is therefore a projected modest rise in November's recorded lending, increasing in size in both December and January.

Table B

(a) corset on	October	November	December	January
1. Underlying	+ 875	+800	+800	+800
2. Bill leak	- 174	-250	-150	-150
3. Budget liquidity effects	+ 200	-125	-200	-
4. Exchange control	+ 75	+120	+150	+150
5. Other	+ 260	- 75	-	-
Sum of 1-5	+1,236	+470	+600	+800
(b) corset off				
6. 1 + 3 + 4 + 5	+1,410	+720	+ 750	+ 950
7. Bill leak	- 174	-250	-	-
8. Reintermediation	-	-	+ 300	+ 450
Sum of 6 + 7 + 8	+1,236	+470	+1,050	+1,400

DCE is thus forecast to rise strongly throughout the forecast period, averaging 1,000 a month (corset on), and even faster (+1,285 in December, +1,620 in January) if the corset is removed, as the bill leak starts to come back into the recorded figures.

The background to the externals forecast is a modest current account deficit, and, following the abolition of the remaining exchange controls, private capital outflows of the order of 1,400 over the three-month period; confidence in sterling is assumed to deteriorate and the exchange rate to move downwards, the fall smoothed by intervention The reserves net of official borrowing are forecast to fall by 840 in November and by 350 in both December and January. The fall in the exchange rate is, however, assumed to generate some offsetting inflows, particularly later in the period, some of which go to the private sector, so reducing the contractionary effect on money (-385 and-390 in December and January after -480 in November). These figures are assumed to be only marginally different in the corset-off variant.

Sterling M3 is thus forecast (corset on) to increase steadily over the forecast period by 0.8% in November, 0.7% in December and 1.1% in January. This produces annualised rates of growth since June of 13.3%, 12.6% and 12.8% respectively. Corset off, the figures become 0.8%, 1.5% and 2.1% for the monthly changes, giving annualised rates of growth of 13.3%, 14.3% and 16.1%.

2. Banking Institutions (unadjusted)

(a) Recent developments

Eligible liabilities rose by 1,223 (2.4%) in banking October, with an increase of 583 (1.8%) in the interest-bearing component. This very sharp rise in eligible liabilities outweighed the increase in reserve assets (+105) and the combined reserve ratio fell 0.1 to 13.2%. The CGBR (849) was the only major expansionary influence. The remaining market influences combined to depress reserve assets by 378 and discount market transactions were also contractionary by some 100. There was a further large negative influence on reserve assets from payments by the electricity industry for the redemption of its government guaranteed stocks (Table 5).

Interest-bearing eligible liabilities (after adjustment for interest-smoothing and other corset concessions) rose by 585 (LCB +240) leaving all banks 17.0% (LCB 15.7%) over base in mid-October. On the three-month average, all banks stand 15.4% (LCB 14.7%) over base compared with the penalty-free limit of 16%. Provisionally, eight banks are liable to pay a total of 3.49 SSDs with three banks in the third-penalty tranche.

The discount market's sterling borrowed funds rose again, by 114, in banking October. Funds from the rest of the banking sector fell by 164; but against the background of the large rise in interest-bearing sight deposits throughout the banking sector (see page 1), funds placed by non-bank private sector residents rose by an exceptional 268, bringing the total to 571 compared with the previous peak of 505 in December 1978. The rise on the assets side of the balance sheet went largely into gilts (+109), particularly the recently issued 11 1/4% Exchequer 1984 and the Variable Rate stocks. The undefined assets multiple fell by 0.6 to 18.9, essentially because the market's holdings of 12% Treasury 1984 became defined assets as the stock moved under 5 years. The total assets multiple rose by 0.6 to 28.3, even closer to its '30 times' limit.

(b) The outlook

The reserve asset position is shown as remaining relatively easy until January when an acute shortage is predicted, corresponding to the main tax gathering period; this shortage contributes to a steadily worsening corset position for the banks over the period.

In November, a reserve ratio of 13.2% is only achieved after running off some ineligible lending to the discount market, the major influences then being a small unadjusted borrowing requirement and the very large outflows from the reserves. In December, a large borrowing requirement is sufficient to offset the continuing reserve outflows, a large seasonal rise in the note circulation and moderate debt sales; in addition, banks benefit from the fact that a new stock acquires reserve asset status. So, ineligible lending is shown as increasing again with the reserve ratio staying at 13.2%. The large unadjusted surplus plus reserve outflows mean that in January a 1 1/2% Special Deposit release as well as the running off of all ineligible lending is required to produce a reserve ratio of 13.1%.

The corset calculations suggest that the banks will be right up against the penalty ceiling by the time the present arrangements come to a close, with IBELs growth in the three months to November reaching 16.7% over base (as against a ceiling of 17%), and in December

18.0% (ceiling 18%). On the assumption that the corset is extended at 1% a month the forecast suggests that the situation would remain very tight, with IBELs 19.4% over base in the three months to January.

3. Domestic Markets

In calendar October, conditions in the UK money market remained moderately tight, and, except during a brief period of surplus in the middle of the month, the Bank provided assistance by buying bills on most days. In addition, the Bank lent overnight to the market at MLR on eight occasions.

In the first half of the month the seven-day interbank rate fell sharply and rates for three-month and less in the parallel money markets also moved lower. Thereafter, rates turned round and by the end of the month, under three-month rates were generally back to their starting levels, while longer rates were 1/2-3/4% higher; ie. the yield curve for under one-year rates had flattened (Chart C).

At the beginning of banking October, gilt prices strengthened slightly and the short-dated tap, 11 1/4% Exchequer 1984 was exhausted. Sentiment deteriorated thereafter, partly under the influence of rising US interest rates, and over the month as a whole, yields on most maturities rose by about 1/4% although there was little change on very short-dated stocks (Chart D). During the month there were net official purchases of 18. This included proceeds of 539 from the sale of 11 1/4% Exchequer, but there were payments of 177 for the redemption of British Electricity 4 1/4% 1974/1979 and 3% Treasury 1979 and buying in of 341 of next maturities.

Since the end of banking October, yields have continued to rise, with increases of about 7/8% on shorts and 5/8% on the longer-dated maturities. Net official sales so far (settlement to 5th November) have amounted to 140. This includes 259 from the final instalment of 12% Exchequer 1999-2002A.

The equity market moved sharply upwards during the first half of banking October, but over the month as a whole, the FT Actuaries' 500-share index rose only 9 points to 277. Since then, it has drifted down to 249 (6th November).

The queue of prospective borrowers currently stands at nine companies seeking to raise 337. (This figure includes private placings, which are excluded from the figures of new issues as they do not represent "new" money.)

In banking October net sales of certificates of tax deposit amounted to 67 (issues 84, surrenders 17). The bulk of the new purchases were by oil companies in anticipation of petroleum revenue tax payments due 1st November (when there were, in fact, surrenders for PRT of 265). In the first two weeks of banking November there have been further surrenders of about 65 in respect of advance corporation tax, thus giving a total for the current month so far of net surrenders of about 330. With effect from 5th November, interest rates on CTDs were changed (for the first time since 6th August) from 14% to 15% when surrendered for tax, and from 11% to 12% when encashed.

Net inflows into building societies in October are estimated to have risen by 100 to about 470, probably mainly as a result of the tax rebates. Although liquidity may have increased from 17.4% to around 17.6%, new commitments also rose by almost 100 to about 800 (Table 7).

Societies may receive a further temporary boost from the tax rebates in November but their underlying competitive position has weakened. The adverse differential between societies' share rate and the three-month local authority rates has now widened to over 2 percentage points (as at 5.11.79) against 1 3/4% a month earlier (Table 6). With a gap of this size, inflows and liquidity would both, on past experience, be expected to fall quickly, though the extent of the fall may be lessened in part by attracting funds into term shares.

Assuming that the planned rise in the mortgage rate to 12 1/2% from 1st January goes through, and no larger increase is made, it would leave no room for any increase in the share rate greater than about 1/4% without eroding reserves already depleted in the last six months.

According to the Bank's agent, St.Quintin, there is a continuing shortage of 'prime' property investments - 'prime' yields remain at 4 3/4% for offices, 4 1/4% for shops and 6 1/2% for industrial/warehouse property; this is reflected in the latest CSO institutional investment figures which show that institutions invested only about 6% of their inflows in property in both the first and second quarters of this year (£233 and £316 millions respectively) - compared with 8 3/4% in 1978 as a whole. Contrary to claims in the press, there appears to be no significant evidence of institutions turning to secondary investments, although there may be an element of agents redefining 'prime' to encompass properties which may have been considered to be at the top end of the secondary market a year or two ago. Similarly, it appears that institutions are reluctant to invest in forward funding of developments unless they are pre-let with a high-quality covenant.

4. External Markets

Sterling was on the sidelines at first in October as attention focussed on the US dollar. It came under pressure, however, following the virtual abolition of exchange controls on the 23rd.

Sterling opened the month at $2.1895 (with the effective rate at 68.6), but it fell back to $2.1445 after the US package announced on 7th October. It then traded at around $2.16 until the announcement of the abolition of exchange controls on the 23rd.

Heavy and persistent selling then followed, with substantial intervention in an attempt to restore order; nevertheless, the rate fell to $2.0955 the following morning. Although a reaction followed, selling pressure in the last days of the month drove sterling down to close at $2.0808, with the effective rate index at 66.9. The reserves fell by $253 million after new borrowings under the exchange cover scheme of $95 million and repayments of $55 million; and a net increase in the value of the UK reserves of $207 million due to a valuation difference on the renewal of the gold deposit with the European Monetary Co-operation Fund.

In banking October, the reserves rose by £161 million, including a net £95 million arising from the renewal of the gold swap with the EMCF.

Further commercial prime interest rate increases followed the 1% increase in the Federal Reserve discount rate to a record 12% announced in the US package, and eurodollar rates rose above domestic sterling rates. On the 9th, 3 month forward sterling went to a premium for the first time since early 1978 and traded for the rest of the month at 1/2% either side of a 3/4% premium. The three-month covered differential, although negligible at first, widened to around 3/8% against sterling following the US package. It was largely unaffected by the abolition of exchange controls (Chart E).

5. Review and Assessment

Given the fluidity of the present situation and the briefing already provided through other channels, no review and assessment is offered this month.

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TABLE 1a

SEASONALLY ADJUSTED

£ millions

RATES OF CHANGE IN MONEY STOCK

	Non-interest bearing M1				M1			
Banking months	Change during month (£mn.)	Change during month (%)	Change during latest three months (%)	Change since mid-June 1979 (%)	Change during month (£mn.)	Change during month (%)	Change during latest three months (%)	Change since mid-June 1979 (%)
1979 January	+ 52	+ 0.2	+ 2.3		+ 213	+ 0.8	+ 3.4	
February	+ 143	+ 0.6	+ 2.5		+ 195	+ 0.8	+ 4.0	
March	+ 260	+ 1.2	+ 2.1		+ 35	+ 0.1	+ 1.7	
April	+ 481	+ 2.1	+ 4.0		+ 785	+ 3.0	+ 3.9	
May	- 26	- 0.1	+ 3.2		+ 39	+ 0.1	+ 3.3	
June	- 74	- 0.3	+ 1.7		- 213	- 0.8	+ 2.4	
July	+ 605	+ 2.6	+ 2.2	+ 2.6	+ 642	+ 2.4	+ 1.7	+ 2.4
August	+ 118	+ 0.5	+ 2.8	+ 3.2	- 5	-	+ 1.6	+ 2.4
September	+ 280	+ 1.2	+ 4.4	+ 4.4	+ 118	+ 0.4	+ 2.8	+ 2.8
October	+ 368	+ 1.5	+ 3.3	+ 6.0	+ 936	+ 3.4	+ 3.9	+ 6.4
Level at mid-October	24,180				28,220			

Sterling M3

Banking months	Change during month (£ mn.)	Change during month (%)	Change during latest three months (%)	Change since mid-June 1979 (%)
1979 January	+ 996	+ 2.0	+ 4.1	
February	+ 507	+ 1.0	+ 4.5	
March	- 443	- 0.9	+ 2.1	
April	+ 721	+ 1.4	+ 1.6	
May	+ 729	+ 1.4	+ 2.0	
June	+ 601	+ 1.2	+ 4.1	
July	+ 427	+ 0.8	+ 3.4	+ 0.8
August	+ 549	+ 1.0	+ 3.0	+ 1.9
September	+ 334	+ 0.6	+ 2.5	+ 2.5
October	+1,080	+ 2.0	+ 3.7	+ 4.5
November	+ 425	+ 0.8	+ 3.4	+ 5.3
December	+ 400	+ 0.7	+ 3.5	+ 6.1
January	+ 610	+ 1.1	+ 2.6	+ 7.3
Level at mid-October	55,010			

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Table 1b

£ millions
seasonally adjusted

MONTHLY CHANGES IN MONEY STOCK (M1)

	Level at mid-June 1979	May	June	July	Aug.	Sept.	Oct.	% change since mid-June
Notes and coin	8,826	+ 74	- 79	+ 194	+ 41	+ 125	+ 202	6.4
UK private sector £ sight deposits								
(i) non-interest-bearing (adjusted for transit items)	14,026	- 100	+ 5	+ 411	+ 77	+ 155	+ 166	5.8
Non-interest-bearing M1	22,852	- 26	- 74	+ 605	+ 118	+ 280	+ 368	6.0
(ii) interest-bearing	3,718	+ 65	- 139	+ 37	- 123	- 162	+ 568	8.6
M1	26,570	+ 39	- 213	+ 642	- 5	+ 118	+ 936	6.4
Seasonal factor	+ 22	+ 225	+ 191	- 130	+ 8	+ 84	- 183	
M1 (unadjusted)	26,548	- 186	- 404	+ 772	- 13	+ 34	+1,119	7.2

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TABLE 2
SEASONALLY ADJUSTED
(figures in brackets are unadjusted)

DCE AND MONEY STOCK (M3)

	Actual								Projection		
	April	May	June	July	Aug.	Sept	Oct.		Nov.	Dec.	Jan.
1. Central Government Borrowing Requirement:											
own account	+1,265	+ 416	+ 979	+ 336	+ 481	+1,288	+ 64	(- 28)	- 125	+ 460	+ 140
on lending to:											
local authorities	+ 71	+ 283	+ 152	+ 146	- 83	- 4	+ 85	(+ 59)	+ 80	+ 20	+ 60
public corporations (inc.PDC)	+ 128	+ 154	+ 119	+ 304	- 117	+ 363	+ 788	(+ 818)	+ 630	+ 180	- 110
Total (surplus -)	+1,464	+ 853	+1,250	+ 786	+ 281	+1,647	+ 937	(+ 849)	+ 585	+ 660	+ 90
2. Net purchases (-) of Central Government debt by the general public:											
gilts	- 990	- 578	-1,118	- 887	- 434	- 952	+ 282	(+ 282)	+ 10	- 250	- 175
Treasury bills	- 113	+ 5	- 175	+ 178	+ 145	- 10	- 81	(- 81)	- 40	- 20	+ 20
National Savings	- 103	- 49	- 49	- 104	- 57	- 27	- 58	(- 43)	- 60	- 50	- 50
TSB claims on FBS	-	-	-	-	-	-	- 2	(- 2)	+ 200	+ 50	-
CTDs etc.	- 133	+ 101	- 109	- 28	+ 108	+ 6	- 70	(- 70)	+ 250	- 175	+ 150
	-1,339	- 521	-1,451	- 841	- 238	- 983	+ 71	(+ 86)	+ 360	- 445	- 55
3. Other public sector											
(i) local authorities	+ 216	- 27	- 33	- 7	+ 25	+ 83	- 324	(- 236)	- 20	+ 60	+ 110
(ii) public corporations	- 82	- 188	+ 166	+ 126	+ 177	+ 35	- 293	(- 206)	- 410	- 10	+ 135
	+ 134	- 215	+ 133	+ 119	+ 202	+ 118	- 617	(- 442)	- 430	+ 50	+ 245
4. Issue Department purchases (+) of commercial bills	- 94	+ 441	- 286	+ 34	- 196	- 3	+ 1	(+ 1)	+ 470	+ 600	+ 800
Bank lending in sterling: to private sector	+ 629	+ 378	+1,312	+ 347	+ 894	+ 163	+1,236	(+1,364)			
to overseas	+ 29	+ 61	- 73	- 6	+ 109	- 20	- 33	(- 33)	+ 20	+ 20	+ 20
	+ 564	+ 880	+ 953	+ 375	+ 807	+ 140	+1,204	(+1,332)	+ 490	+ 620	+ 820
DOMESTIC CREDIT EXPANSION	+ 823	+ 997	+ 885	+ 439	+ 1,052	+ 922	+1,595	(+1,825)	+1,005	+ 885	+1,100
5. External and foreign currency finance (increase -)											
Change in reserves (increase +)	(+ 376)	(- 615)	(+ 385)	(+ 373)	(+ 27)	(- 411)	(+ 69)	(+ 69)	- 875	- 505	- 515
Public sector official borrowing	(+ 110)	(+ 541)	(- 27)	(+ 172)	(+ 31)	(+ 118)	(+ 71)	(+ 71)	+ 35	+ 155	+ 165
Overseas BGS, TBs and LA sterling debt	(- 25)	(- 37)	(- 102)	(- 305)	(- 152)	(- 182)	(- 221)	(- 221)	+ 150	- 25	- 20
Overseas sterling deposits	(- 353)	(- 115)	(- 151)	(- 207)	(- 275)	(- 70)	(- 163)	(- 163)	+ 160	- 80	- 50
Banks' foreign currency deposits (net)	(- 147)	(+ 134)	(- 71)	(- 170)	(- 142)	(+ 78)	(- 118)	(- 118)	+ 50	+ 30	+ 50
Seasonal adjustment	- 56	- 40	- 40	+ 124	+ 152	- 44	- 67		-	+ 40	- 20
	- 95	- 132	- 6	- 13	- 359	- 511	- 429	(- 362)	- 480	- 385	- 390
6. Net non-deposit liabilities	- 112	- 67	- 329	- 39	- 145	- 108	- 92	(- 243)	- 100	- 100	- 100
Residual	+ 105	- 69	+ 51	+ 40	+ 1	+ 31	+ 6	(+ 6)	-	-	-
	- 7	- 136	- 278	+ 1	- 144	- 77	- 86	(- 237)	- 100	- 100	- 100
CHANGE IN STERLING M3	+ 721	+ 729	+ 601	+ 427	+ 549	+ 334	+1,080	(+1,226)	+ 425	+ 400	+ 610
7. UK residents' foreign currency deposits:											
transactions	+ 79	+ 261	+ 385	- 96	- 161	- 133	+ 398	(+ 398)			
valuation	- 104	+ 26	- 159	- 315	+ 92	+ 190	- 2	(- 2)			
CHANGE IN TOTAL M3	+ 696	+1,016	+ 827	+ 16	+ 480	+ 391	+1,476	(+1,622)			

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TABLE 3

£ millions

Sterling lending to UK Private Sector adjusted for non-bank holdings of bank bills

	1978				1979									
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.
Bank Bills														
(i) Issue and Banking Dept.	-138	+ 2	+ 15	- 31	+ 38	+259	- 87	-216	+490	- 195	+ 47	- 324	+ 42	+ 63
(ii) Banks and Discount Market	+ 92	+ 4	+ 37	+115	- 40	+129	+ 83	+121	-314	- 51	+ 309	+ 369	+ 68	+ 77
(iii) Non-bank	+165	+107	- 40	+ 59	- 7	-148	+ 60	+142	- 79	+ 345	+ 134	+ 314	+168	+174
Total Acceptances	+119	+113	+ 12	+143	- 9	+240	+ 56	+ 47	+ 97	+ 99	+ 490	+ 359	+278	+314
Advances (net of transits)	+154	+456	+213	-108	+1,379	+590	+448	+606	+389	+1,213	+ 851	+ 140	- 56	+1,171
Other (inc. non-bank bills)	- 97	- 47	+ 4	+ 29	- 161	+147	- 18	+ 32	+ 53	+ 129	- 79	- 42	+ 54	+ 54
	+176	+522	+229	+ 64	+1,209	+977	+486	+685	+539	+1,441	+1,262	+ 457	+276	+1,539
Seasonal adjustment	+ 5	- 18	+174	+469	- 733	+ 4	+303	- 8	+201	- 70	- 747	+ 555	+ 52	-128
TOTAL	+181	+504	+403	+533	+ 476	+981	+789	+677	+740	+1,371	+ 515	+1,012	+328	+1,411

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TABLE 4
not seasonally adjusted
(seasonally adjusted figures
in brackets)

£ millions

1. LENDING TO PRIVATE SECTOR IN STERLING

	Total	Advances: Directly Reported	Advances: Transit Items	Bills: Issue Dept.	Bills: Banking Sector	Market Loans: Jobbers and Money Brokers	Market Loans: Other	Investments
1979 Jan.	+1,216(+ 483)	+1,324	+ 55	- 2	+ 37	- 11	- 89	- 98
Feb.	+1,125(+1,129)	+ 383	+207	+299	+129	+ 43	+ 64	-
Mar.	+ 426(+ 729)	+ 485	- 37	-209	+256	- 10	- 16	- 43
April	+ 543(+ 535)	+ 528	+ 78	- 94	+ 27	- 2	- 16	+ 22
May	+ 618(+ 819)	+ 499	-110	+441	-267	- 32	+100	- 13
June	+1,096(+1,026)	+1,104	+109	-286	+ 73	+ 9	+ 86	+ 1
July	+1,128(+ 381)	+ 945	- 94	+ 34	+294	- 23	- 13	- 15
August	+ 143(+ 698)	+ 237	- 97	-196	+234	+ 44	- 86	+ 7
Sept.	+ 108(+ 160)	- 86	+ 30	- 3	+109	- 12	+ 60	+ 10
Oct.	+1,365(+1,237)	+1,103	+ 68	+ 1	+153	+ 7	+ 28	+ 5
Amounts outstanding at mid-Oct.	43,092	37,164	868	8	3,269	233	737	813

2. ANALYSIS OF LCBs' STERLING ADVANCES TO PRIVATE SECTOR

	Total	Manufacturing	Construction	Financial: Property companies	Financial: Other	Distribution	Personal (excl. house purchase)	Other
1979 January	+1,066	+436	+ 46	+ 19	+ 17	+ 52	+106	+390
February	+279	+196	+ 51	- 23	- 17	+ 31	- 3	+ 44
March	+ 91	+ 56	+ 7	- 6	- 3	+ 50	+ 9	- 22
April	+315	- 27	- 22	- 22	+ 68	+ 61	+ 84	+173
May	+454	+ 70	+ 49	+ 9	- 22	+ 87	+100	+161
June	+569	+238	+ 25	+ 15	- 40	- 46	+211	+166
July	+823	+246	+ 46	+ 6	+ 27	+164	+ 61	+273
August	+ 62	+ 70	+ 11	+ 1	- 42	- 59	+ 14	+ 67
Sept.	-275	-324	- 6	+ 5	- 17	- 12	+ 65	+ 14
Oct.	+606	+269	+ 59	+ 2	- 6	+102	+ 52	+128
Change from mid-Apr. to mid-Oct.	+2,239	+569	+184	+ 38	-100	+236	+503	+809
Amounts outstanding at mid-Oct.	20,510	5,567	1,258	766	797	2,421	3,400	6,301

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TABLE 5

NOT SEASONALLY ADJUSTED

£ millions

INFLUENCES ON BANKS' RESERVE ASSETS

	Actual			Projection		
Market Influences	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Central Government Borrowing Requirement	+ 571	+1,456	+ 849	+ 320	+1,500	-1,210
EEA (reserves increase +) and other miscellaneous external items (a)	+ 63	- 355	+ 69	- 875	- 505	- 515
Note circulation (increase -)	+ 169	+ 81	- 205	- 105	- 550	+ 390
National Savings (increase -)	- 43	- 38	- 43	- 45	+ 5	- 70
CTDs (increase -)	+ 96	- 10	- 67	+ 250	- 175	+ 150
Deposits with Banking Department (increase -)	- 80	- 37	+ 6	-	-	-
Holdings of TBs (increase -):-						
Overseas	- 36	- 19	- 57	+ 100	- 25	- 20
Non-bank private sector	+ 145	- 10	- 81	- 40	- 20	+ 20
Public Corporations	+ 36	+ 4	-	-	-	-
Official Operations						
Official sales (-) of:						
gilt-edged	- 618	- 925	+ 18	+ 100	- 225	- 150
LA deposits and LA bonds	+ 65	+ 83	+ 22	-	-	-
commercial bills (Issue Department)	- 196	- 3	+ 1	-	-	-
Banking Department lending (+) other than to Central Government or advances to Discount Market	- 163	+ 103	+ 31	-	-	-
Special deposits (increase -)	- 428	- 252	- 7	- 25	- 10	+ 775(c)
Discount Market						
Assets other than Treasury bills/LA bills (increase +)	+ 394	+ 85	+ 155	-	-	-
Funds borrowed from outside banking sector (increase -)	+ 60	+ 152	- 275	+ 100	+ 25	+ 25
Funds borrowed from banks "not at call" (increase -)	- 34	- 116	+ 21	+ 375(d)	- 300(d)	+ 550(d)
Banks' holdings; (increase +)						
0-1 year BGS	- 23	- 188	- 15	- 25	+ 200	+ 100
Money at call with listed brokers	+ 44	- 12	+ 7	-	-	-
Commercial bills	+ 29	+ 16	+ 26	+ 10	+ 10	+ 10
Other (e)	+ 16	+ 21	- 350	- 50	+ 50	-
CHANGE IN BANKS' RESERVE ASSETS	+ 67	+ 36	+ 105	+ 90	- 20	+ 55
Amount outstanding at end period						
Eligible liabilities	49,864	50,068	51,291	51,700	51,692	52,612
Reserve assets	6,609	6,645	6,750	6,840	6,820	6,875
COMBINED RESERVE RATIO (%)	13.3	13.3	13.2	13.2	13.2	13.1
[Special deposits outstanding: (%)]	1.5	2.0	2.0	2.0	2.0	0.5
[Effective rate (%)] (b)	1.0	1.5	1.5	1.5	1.5	-

(a) Excluding Treasury bills and gilt-edged securities.

(b) This takes account of the repayment of special deposits to the clearers in respect of ECGD arrangements.

(c) This would involve the repurchase of gilts from the LCB and SCB.

(d) This represents measures taken by the banks in response to reserve asset pressure.

(e) Including redemption of BGGS and TSB claims on FBS.

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TABLE 6

INTEREST RATES*

	3 month		BUILDING SOCIETY RATE		
	MLR	Treasury bill yield	£ CD yield	Gross share rate	Differential against 3 month LA rate+
1979 21st May	12.00	11.74	11.84	11.94	-0.06
18th June	14.00	13.73	13.25	11.43	-2.51
23rd July	14.00	13.77	14.00	11.43	-2.57
20th August	14.00	13.74	14.00	12.50	-1.59
3rd September	14.00	13.77	14.16	12.50	-1.81
10th September	14.00	13.80	14.09	12.50	-1.56
17th September	14.00	13.80	14.06	12.50	-1.69
24th September	14.00	13.84	14.13	12.50	-1.75
1st October	14.00	13.77	14.13	12.50	-1.78
8th October	14.00	13.77	14.00	12.50	-1.69
15th October	14.00	13.80	13.94	12.50	-1.53
22nd October	14.00	13.78	14.00	12.50	-1.59
29th October	14.00	13.87	14.56	12.50	-2.19
5th November	14.00	13.97	14.75	12.50	-2.28

*Monday figures unless otherwise stated.
+Building society grossed up share rate less three month local authority deposit rate.

TABLE 7

BUILDING SOCIETIES' LIQUIDITY

SEASONALLY ADJUSTED
£ millions

Monthly average	Net receipts≠	Net advances	Liquidity ratio (%) (end period)
1977	508	342	21.0
1978 Q1	470	457	21.2
Q2	321	441	18.9
Q3	400	401	18.1
Q4	442	407	18.0
1979 Q1	452	423	17.9
Q2	424	422	17.4
Calendar months			
1979 January	521	420	18.1
February	379	429	18.0
March	456	421	17.9
April	385	422	17.7
May	469	414	17.6
June	419	431	17.4
July	460	422	17.2
August	540	406	17.2
September	577	410	17.4
October	650*		17.6*
November	600*		

*Estimate.
≠net receipts = net inflows + interest credited to accounts

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Chart A

Percentage growth in monetary aggregates since mid-June 1979

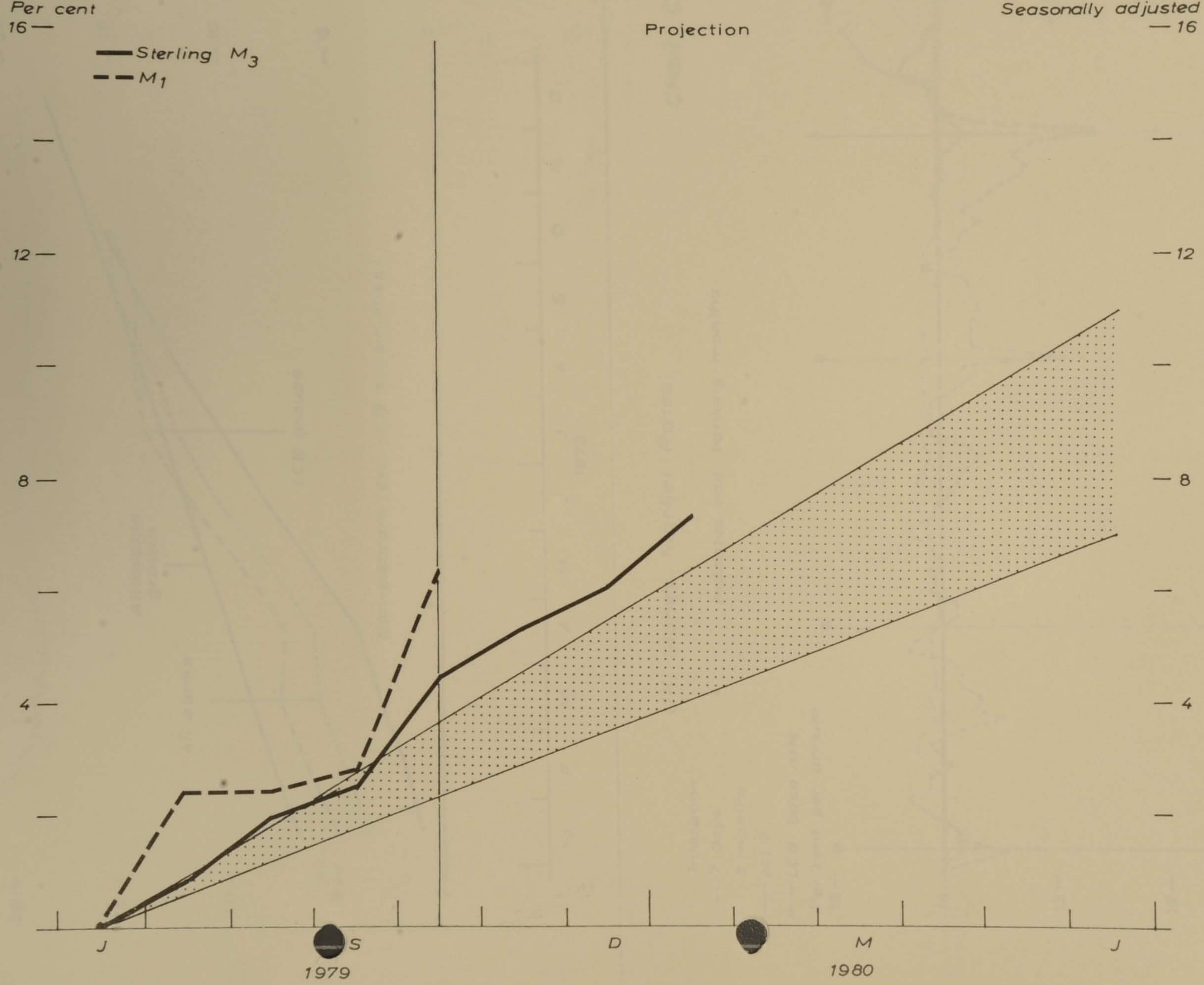


Chart B

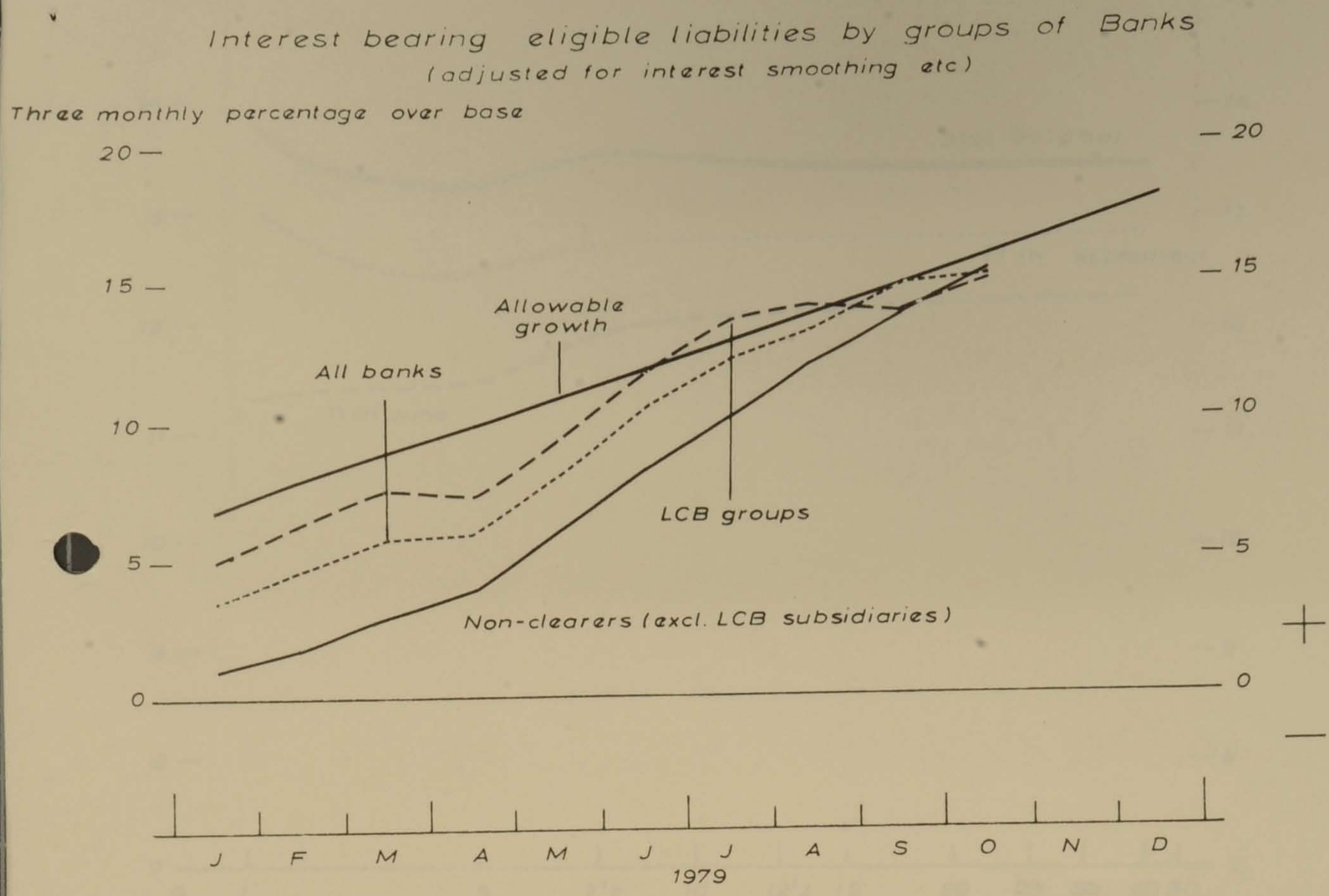
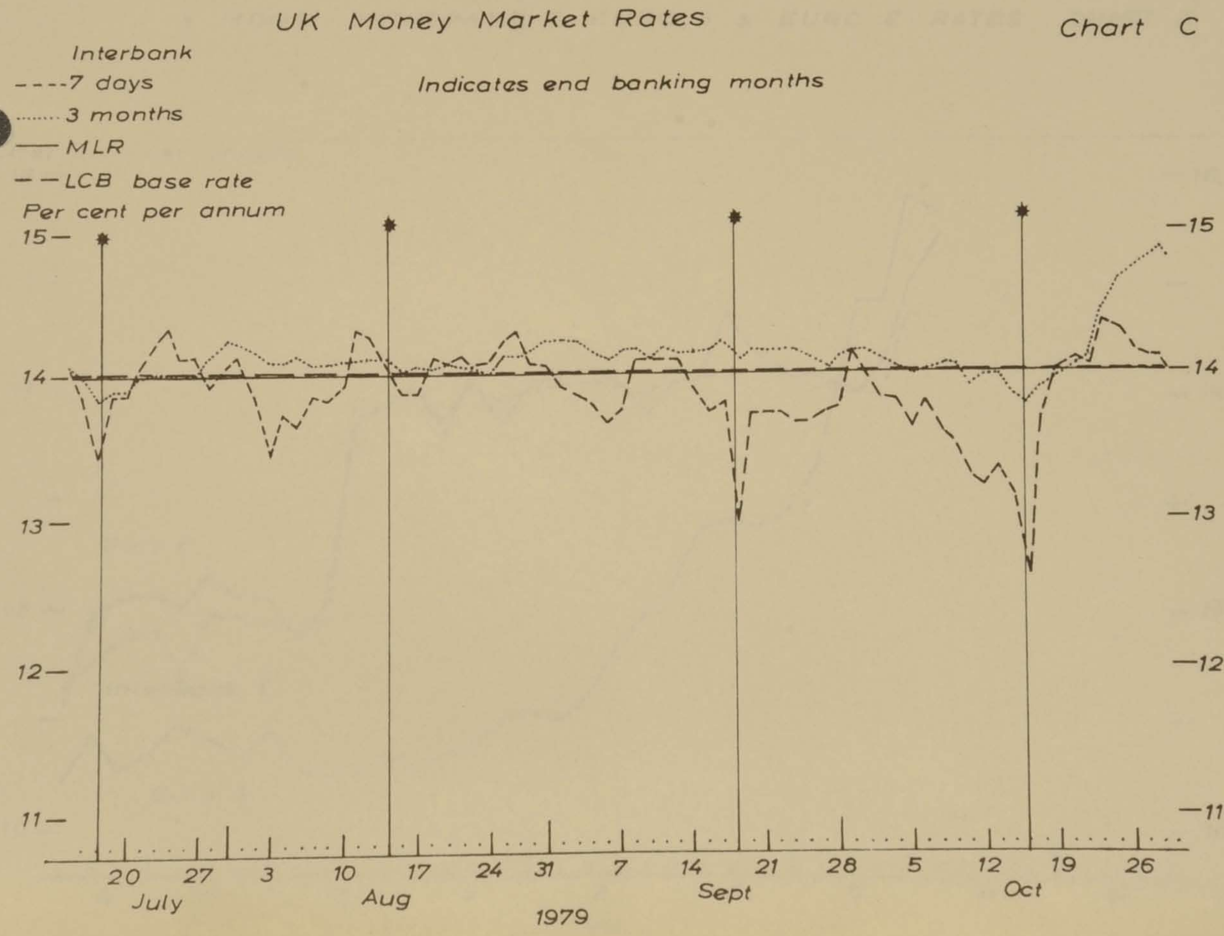
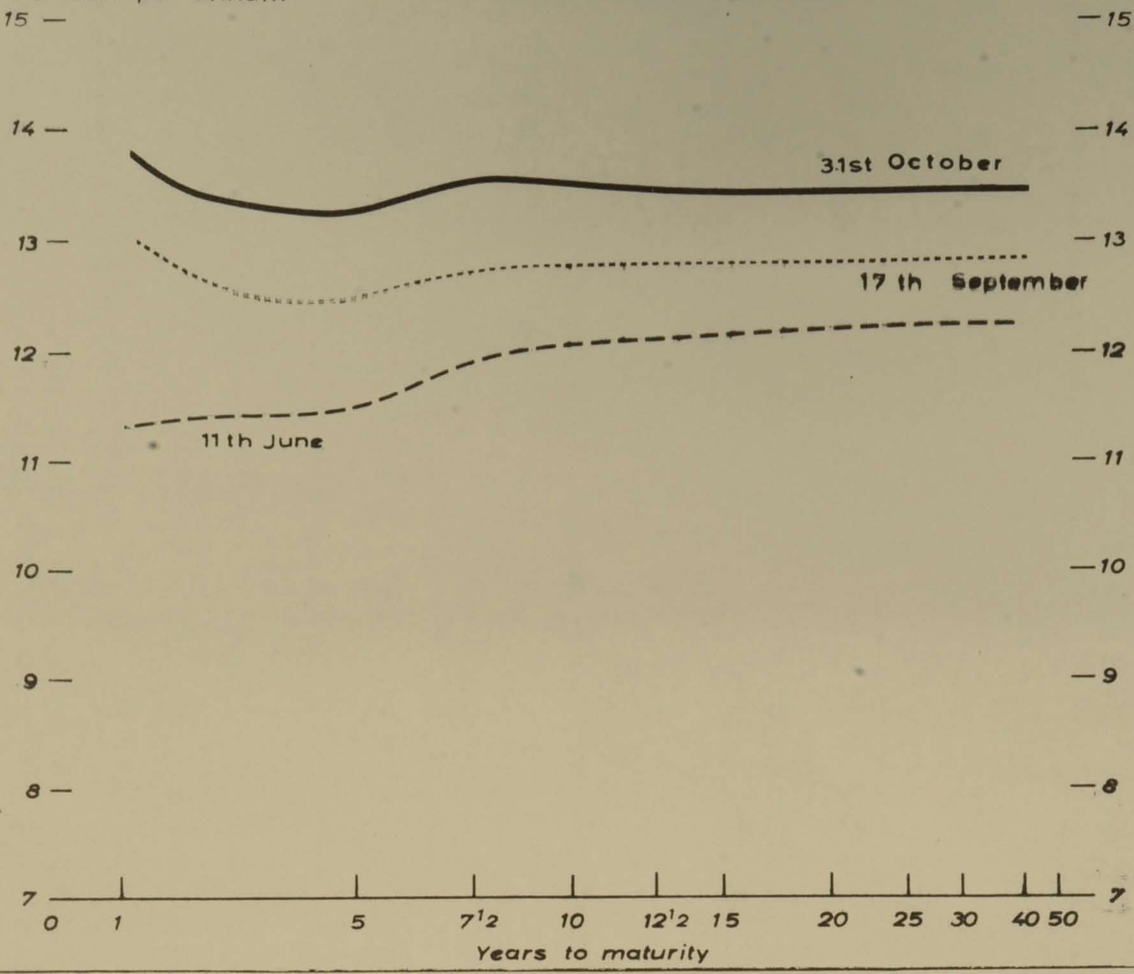


Chart C



Time yield curves for gilts

Chart D



3 MONTH INTERBANK £ EURO $ & EURO £ RATES CHART E