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PRIME MINISTER

MONETARY SITUATION

You ought to know that the monetary figures for November are likely to show some improvement on the October figure.

2. The eligible liabilities figures, which will be published tomorrow, Tuesday 11th, show an increase of 1.9 per cent. However, this considerably overstates the likely growth of the money supply, which preliminary indications suggest was about 0.6 per cent. With appropriate briefing by the Bank, commentators will be able to deduce this. Domestic Credit Expansion remained high, however, probably at around £1.2 billion. Details of the components are given in the Annex, and while these may change before publication on 20th December, the change in the sterling M3 figure is unlikely to be great.

3. The rise in MLR on November 15th, and the other measures announced in my statement to the House, have had a substantially beneficial effect on confidence. We have since then secured substantial gilt sales, and the November monetary figures have been helped considerably as a result. Gilt sales outside the banking system in November were nearly £1 billion, and with resulting part payments and additional sales since then the December figure could be even higher.

4. The increase in MLR will have had little or no

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effect on bank lending in November, and indeed the full impact will probably take some time to come through. Nevertheless the November figure, while still substantial at about £ $\frac{3}{4}$ billion, was considerably less than the record October figure of £1.2 billion, and there was virtually no further leakage of acceptances outside the banking system. Although we hope for some slowing down in the next few months, the trend is still worryingly high.

5. Although the overall money supply figure is mildly encouraging, the components are less so. With bank lending remaining buoyant, DCE was still high and it was only a substantially negative external adjustment - £0.8 billion - which brought the money supply figure down to a reasonably satisfactory level. We cannot rely on external adjustments of this size in the coming months, and it is important that DCE falls further.

6. I am reasonably confident that DCE will fall sufficiently, and the gilt sales already achieved have helped the prospect for December considerably. But bank lending remains the worrying aspect of the present monetary situation, and it will be necessary to see some falling off in this, in addition to sustained gilt sales and a satisfactory development of Central Government borrowing, before thinking in terms of a reduction in interest rates.

7. I am copying this minute to the Governor.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

10 December, 1979

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	Average of 3 months <u>July-September</u>	£ billion <u>Banking Months</u>	
		<u>Banking October</u>	<u>Banking November</u>
CGBR	0.90	+0.94	+0.73
<u>less</u> sales of CG debt outside the banking system			
Gilts	-0.77	+0.25	-0.96
Other	+0.07	-0.21	+0.50
Bank and overseas lending to the rest of the public sector	+0.15	-0.62	+0.06
Bank lending to:			
Private sector	+0.41	+1.24	+0.75
Overseas	+0.03	-0.03	+0.10
DCE	+0.79	+1.57	+1.19
External Adjustment	-0.29	-0.40	-0.83
Other	-0.07	-0.09	-
Change in £M3	+0.43 (0.8%)	+1.08 (2.0%)	+0.35 (0.6%)

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