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

14 November 1980

T.P. Lankester, Esq.,
Private Secretary,
10, Downing Street

Dear Tim,

PAPERS FOR MONETARY SEMINAR

You may like to have a note of the various papers relevant to the seminar on Tuesday, 18 November.

You already have the Treasury paper on "Smoothing the PSBR" and the monthly note on the CGBR and PSBR. The others are:

(a) Two papers which the Bank will be sending you on

(i) Debt Sales

(ii) "Increasing the flexibility of official operations in the money market".

(b) Treasury notes on "Monetary Control: Main points for discussion" and "Monetary Control: the November Statement" (attached).

(c) My letter to you about the restricted indexed gilts (RIG) of today.

(d) My letter to you about national savings of today.

The Chancellor has minuted the Prime Minister separately about the rollover of the monetary target.

The Chancellor hopes that discussion at the seminar will concentrate on (a) and (b). Decisions on these are needed for the statement in the week beginning 24 November.

I am sending copies of this letter to Tim Allen and David Wright.

Yours
John

A.J. WIGGINS

CONFIDENTIAL

MONETARY CONTROL: MAIN POINTS FOR DISCUSSION

A. Money Market Operations

It is agreed:

(i) That a more flexible system of official operations be introduced. This would involve the operational suppression of MLR and some change in the operation of discount window facilities. Interest rates would be kept within a band by open market operations.

(ii) That the Reserve Asset Ratio be phased out and abolished as soon as alternative prudential arrangements can be established.

It remains for decision:

How would the guidelines, and interest rate banks, be set?

B. Debt Management

It is agreed:

that a RIG is technically feasible, and that the pursuit of further flexibility in debt management techniques more generally, and especially at the short end, be further explored by officials.

It remains for decision:

Whether a RIG should be announced for immediate issue in the forthcoming statement, **and what should be said about debt management more generally.**

C. Monetary Control and Monetary Base

It is agreed:

(i) That £M3 is extremely difficult to control not only in the short run, but even over longer time periods. The above measures may provide some help, but are not themselves likely to transform the picture.

(ii) A major cause of this difficulty is that interest rate movements do not have a quick or reliable effect on bank lending or £M3.

(iii) That a move to either version of monetary base control would require a transitional period of several years.

No

(iv) That a mandatory monetary base system would probably work better if related to a narrow monetary aggregate. Consequently, we will arrange for the collection of appropriate data for retail deposits, an M2 series.

(v) That, in order to provide more information on how a non-mandatory base system would work, it would be necessary to abolish any required cash ratio. The difficulty about this is that it would remove the basis of the Bank's main source of income.

It remains for decision:

(i) Whether it is possible to reconcile maintenance of a sufficient and sure source of income to the Bank with the abolition of the required cash ratio.

(ii) How far it would be desirable to express an intention now to move on towards a monetary base system; or more modestly to claim that the above changes were desirable in their own right and consistent, should further experience point that way, with moving on to a monetary base system.

For further discussion but not immediate decision.

(iii) Whether any measures can be introduced that will encourage companies to obtain funds other than through bank lending, ie through the capital markets.

(iv) Whether there are any means of inducing banks to fund such bank lending more through non-monetary liabilities.

MONETARY CONTROL: THE NOVEMBER STATEMENT

1. The consultations on monetary control following the publication of the Green Paper in March are now complete. An account of the Government's conclusions is planned as part of a wider statement about economic policy on [24] November. There are also some more immediate practical questions to be resolved. A series of meetings has been held between the Treasury and the Bank to prepare the ground for the Prime Minister's seminar on 18 November. There is a wide measure of agreement as to the steps which could be announced straight away. We are all very uncertain as to the merits of the case for monetary base control in the longer term and on this there is a continuing difference of view, or at least of emphasis, between Bank and Treasury officials.

2. The Treasury think that these issues need to be considered explicity now, whereas the Bank feel that the development of experience with the evolution of the changing system and the pressure of events, eg possible entry into EMS, makes it unwise to take an explicit position now on long distant changes, especially those that would involve major structural changes.

Control of £M3

3. The Green Paper argued that control of the target aggregate on a month-to-month basis was not necessary to the effect of monetary policy in reducing inflation, although it also recognised that even short-term deviations from the target path could influence market expectations. It is now generally accepted that precise short-run control of a broad aggregate like £M3 is not in practice possible and also that control of such an aggregate, even over a period of six to twelve months, could sometimes involve costs in terms of other objectives that are unacceptable. A major change in the definition of the target aggregate to one that might be more easily controllable, however, has not been considered as a "live" option at the present time. Whilst the Government may not be committed to the precise definition of £M3, the concept of the financial strategy would be changed significantly if there were no commitment to a broad monetary aggregate at all.

4. Discretionary changes in short-term interest rates, which in the short run are the main instrument at the authorities' disposal, do not, however, provide by themselves a satisfactory means of controlling £M3, largely because the relationship between the level of interest rates and the target variable which does not seem to be stable or well-understood. A wide aggregate like £M3 is probably influenced more in the short run by the relative yields expected on different assets than by the overall level of the interest rate structure. Certainly, this relationship between changes in MLR and their consequences is not well understood; some commentators are even convinced that it works under current circumstances in the wrong direction, at least in the short run.

5. A move to monetary base control would not provide a satisfactory method of controlling £M3.

(i) A mandatory system related to £M3 (or to any definition including the bulk of wholesale bank deposits) would result in disintermediation of the kind associated with the corset.

(ii) A non-mandatory system would control £M3 only if there were to be a stable and predictable relationship between that aggregate and the banks' demand for base money. There is no means of telling whether such a relationship would emerge.

6. We do not see any efficient means of exercising direct control over bank lending. It may be possible, however, to make it more responsive to market conditions. If banks were less confident that they had access to an unlimited supply of liquid assets at a known price, they would have more of an incentive to keep their lending rates in line with the market and they might adopt a different attitude to the provision of overdraft facilities. Even so, we expect that the relationship between bank lending and the level of short-term rates will remain too uncertain or too slow-acting to provide an adequate method of monetary control in the short run at least.

7. This means that, once the £M3 target has been announced and the main budgetary decisions taken, much of the burden of reconciling the two must fall on debt sales. Non-marketable debt is playing an increasing part in the finance of the PSBR, but there must remain a very important role for operations in the gilts market, where the authorities have greater flexibility.

8. The extent of that flexibility is one subject on which views differ between Treasury and Bank officials.

The Treasury believe that a greater readiness to see the yields on gilts respond to market pressure would give greater assurance that a programme of sales could be achieved within a period of, say, three to six months.

The Bank believe that the greater volatility of yields would not necessarily secure the sales outside the banking system. The structure of the market would be damaged and the prospects for selling debt in the longer term diminished.

Some forms of auction for short-term central government debt would not be open to all these objections. There is general agreement that the possibility of broadening the market at the short end should be examined as a means of providing greater flexibility to the government funding programme. If it were decided to introduce an indexed stock, restricted to institutional holders (the RIG), it could also be auctioned; it would then provide an alternative to conventional gilts to which the savings institutions might turn when the prospect for inflation was particularly uncertain.

Multiple Targets and Monetary Base Control

9. The advocates of monetary base control do not see it as a method of controlling £M3 or any broad aggregate - except very indirectly. They see it as controlling either a narrow monetary aggregate (a mandatory system) or simply the base itself (a non-mandatory system). If this were to be combined with the existing commitment to £M3, the Government would be committed to multiple targets. The narrow aggregate would be the short-run objective with the wider aggregate as the guide to medium-term policy. Again, there is a difference of view between the Treasury and the Bank on the possibility of operating such a system.

The Treasury see control of the base or a narrow aggregate as an appropriate basis for a market determination of short-term interest rates. They see fiscal policy and debt sales as the appropriate instruments for meeting the medium-term target for the wider aggregate. The possibility of conflict between

The Bank see a necessary role for short-term rates in controlling £M3, both as means of influencing bank lending (in the longer run) and of securing gilt sales (in the shorter run). Dual targets would often have conflicting implications for movements in short rates. So long as a £M3 the two targets would be much reduced if a new approach were adopted to the marketing of gilts.

target is maintained, therefore, they see a need for discretionary choices about the appropriate level of short rates.

10. There is considerable uncertainty over the workability of a mandatory monetary base system. A system based on retail deposits alone would create less of an incentive to offshore disintermediation, but it is not clear that an adequate definition could be found for control purposes. There is a danger that other distortions would be introduced, especially affecting competition between banks and building societies. We do not, however, need to close this option as a long-term possibility. It would, in any case, be valuable to introduce a statistical series for retail deposits to replace the old M2 series discontinued in 1972 (although it would be costly for the banks). We might then be able at a later date to asses its controlability and its economic significance.

Initial Steps

(a) Money Market Operations

11. During the debate following the Green Paper, there has been persistent criticism of the way that "lender of last resort" or discount window facilities are operated. It would be possible to exercise control of interest rates in a more flexible (and less visible) way by adopting rather different techniques in the conduct of open market operations. The instructions for these operations could eventually be framed in terms of either quantities or prices (or a combination of the two). Initially, the emphasis would have to be on the control of interest rates, but it would be possible, if we wished, to move gradually towards control of the monetary base.

12. The interest rate objectives could, from the start, be expressed as a band within which market rates could fluctuate. The choice of the limits to that band would remain, in a sense, a political act, but it is hoped that it might be somewhat "de-politicised". These limits would not be announced (in order to keep the banks uncertain of the terms on which they could certainly obtain funds), but if actual rates were to reach either intervention point, the market would be well aware of the fact. A decision would then have to be taken whether to move the band or whether to stabilise it at that level. Minimum Lending Rates, as such,

would be abolished, and discount window facilities would be provided less freely and probably only at penal rates. The new method of operating could be indicated in general terms in the November statement. It would brought into use over the next few months.

(b) The Cash Ratio

13. The existing cash ratio is not operated as the base for a system of monetary control. The Green Paper speaks of it as the "fulcrum" for open market operations, but it would be possible, nevertheless, to determine interest rates without any required cash ratio since the banks are unable to overdraw their accounts with the Bank of England. An associated effect of the present cash ratio requirement is to provide the Bank of England with the main source of its own income.

14. In its present form, the ratio could not be used in a mandatory system of monetary base control: it is too small a percentage and related to the wrong total of deposits. Whilst it remains, it conceals the size and variability of the banks' true demand for cash; it therefore prevents us from discovering any information relevant to the operation of a non-mandatory base control system. This points to the replacement of the cash ratio by some alternative means of financing the Bank of England. We shall be discussing further what possibilities exist. At a minimum, some reference to a review of the cash ratio would be made in the end-November statement.

15. We could also announce our intention of reviewing the case for monetary base control in due course.

It could then benefit from:

(i) experience of more flexible market operations, with their implications for interest rate volatility and bank behaviour;

(ii) some knowledge of the banks' true demand for cash (relevant to a non-mandatory system); and

(iii) some data on retail deposits (relevant to a mandatory system).

(c) The Reserve Asset Ratio

16. It is agreed policy, announced in the Green Paper, to abandon the reserve asset ratio as soon as a successor system for the prudential control of bank liquidity could be put in its place. Discussion of

new prudential arrangements between the Bank and the banks has gone as far as it can in ignorance of how the Bank's market operations and discount window facilities are to be structured in the future. Once that has been settled, it will be a matter of months - not earlier, say, than March - before permanent new arrangements can be agreed, and somewhat longer before they can be fully operational. But it should be possible almost immediately to make an interim adjustment to the reserve asset obligation, consistent with the Bank's objectives for the new liquidity regime, which will go a long way towards removing the problems of market management which have recently been experienced; though it might not wholly eliminate them. The nature and timing of this adjustment would form part of the November statement.

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DOMESTIC FINANCIAL FORECAST

I. Introduction

This report considers the domestic monetary outlook embodied in the recently completed short term macroeconomic forecast. It should be read in conjunction with the summary report on that exercise circulated by Messrs Britton and Neuburger on 10 June. The focus is on the two financial years 1980-81 and 1981-82. The existence of both "lower output" and "higher output" forecasts, with the difference accounted for by a different judgement as to the effect of U.K. competitiveness on net trade performance, implies two domestic financial projections of equal status.

II. Recent Developments

2. It was announced in the Budget speech that the new target range for the annual growth rate of £M3 is 7-11% for the period from February 1980 to April 1981. The implicit "base drift" from the centre of the previous target range from June 1979 was 1½% and was justified in part by the need to make some allowance for the reintermediation into £M3 expected to occur as a result of the abolition of the SSD scheme, also confirmed in the Budget.

3. The actual growth in £M3 in the 11 months to banking May has been at an annual rate of 11.6%, and the annual rate over the last three months has been 12.1%: just above the top end of the target range in both periods. Banking May alone registered growth of 2.1%, largely attributable in counterpart terms to a very high CGBR. This marked a reversal of the pattern in the previous four banking months, when a number of special factors - particularly sales of forward oil and the unwinding of the effects of the P.O. strike - acted to produce very low CGBRs (an average of only £80m per month, compared with £880m average in the previous year) and low £M3 growth (£300m compared with £520m). Bank lending has continued to grow rapidly. The external adjustments to monetary growth have in general been moderately negative in recent months, attributable to the current account deficit and private sector capital outflows.

3. Short term interest rates have drifted down from the peaks recorded in the early spring, although MLR has not changed. Three month interbank rate, 18.4% in early April, is now about 17.0%. Over the same period U.S. short term rates have plummeted, from almost 20% to just over 9%: however, with domestic rates responsive mainly to domestic monetary conditions, the main effect of this has been on the exchange rate. 20 year gilt rate has also drifted down, from a peak of 14.8% to about 13.7%.

III. Main Assumptions

4. It is assumed that £M3 grows smoothly at the centre of the target ranges set out in the Medium Term Financial Strategy. This implies growth at an annual rate of 9% in the 14 months to April 1981, and 8% growth in 1981-82. Given the fiscal policy and other assumptions underlying the two forecast cases, interest rates vary so that the target is met. The changes in £M3 and its counterparts are summarised in Table 1.

5. The abolition of the SSD scheme (corset) is forecast to lead to reintermediation of some £1.3 billion of "leaked" bills - bank acceptances held by the non-bank private sector - thereby raising recorded bank lending. In addition, it is assumed that there is a combined impact of about £0.5 billion as a result of the unwinding of corset-induced switches into Eurosterling and within the parallel money market. The total effect, which is assumed to be accommodated within the monetary target, is equivalent to about 3% of £M3. About one third of the impact is felt in 1980 Q2, with the bulk of the remainder occurring in Q3. It should be emphasised that the size and timing of reintermediation is highly uncertain (see para 25 below), and that in this context the assumption of smooth growth in aggregate £M3 in 1980-81 must be seen only as a convenient simplication.

6. The forecast assumes that the institutional structure of the domestic monetary system is broadly unchanged. There is no move to monetary base control. The building society and banking cartels retain current rate-setting and general competitive practices, although there is a limited movement by banks towards greater lending for house purchase. The forecast reveals a

TABLE 1: £M3 AND THE COUNTERPARTS

	1979-80	Lower Output 1980-81	Lower Output 1981-82	Higher Output 1980-81	Higher Output 1981-82
PSBR	9.8	8.2	11.4	7.2	8.1
Less sales of public sector debt to non-bank private sector					
a) Gilts	-8.3	-5.6	- 7.3	-5.4	-7.9
b) Other Debt	-0.8	-1.7	- 1.5	-1.8	-1.6
Change in £ bank lending to					
a) Private sector	9.3	7.8	6.4	7.7	8.6
b) Overseas	0.5	0.4	-0.2	0.6	0.1
Domestic Credit Expansion	10.5	9.0	8.8	8.2	7.3
External adjustments	-2.6	1.9	-2.3	-1.1	-0.8
Change in non-deposit liabilities (including residual items)	-1.4	-1.7	-1.4	-1.7	-1.4
Change in £M3	6.4	5.4	5.1	5.4	5.1
(as % of level)	(12.4)	(9.2)	(8.0)	(9.2)	(8.0)

chronic reserve asset/primary liquidity shortage on the part of the banks (see para 39 below): this is assumed not to constrain their lending behaviour of result in, for example, very high short-term interest rates. However, the method of resolution of this severe problem is not specified.

7. It is assumed that there is no net intervention in the foreign exchange market - the exchange rate is freely floating.

IV. The Rest of the Forecast

8. Recipients are referred to the paper circulated by Messrs Britton and Neuburger for a report on the whole forecast. External developments as they affect the monetary sector in both forecast cases are summarised in Tables 40 attached. The central features are:

(i) In the lower output case (LO), real GDP falls by 4½% in financial year 1980-81 and by a further 3½% in 1981-82. In the higher output case (HO), the decline is "only" 3% in 1980-81 and 1% in 1981-82. Unemployment by the end of the period is 2.7 million in LO, and 2.3 million in HO.

(ii) The increase in the RPI on a year earlier in 1981 Q1 is 19% in LO (identical to the 1980 Q1 figure): inflation falls to 15% in 1982 Q1. In HO a higher exchange rate contributes to the reduction to 18½% in 1981 Q1 and to 13% in the next year.

(iii) The PSBR in LO is £8.2 billion in 1980-81 and £11.4 billion in 1981-82. The higher activity in HI results in figures of £7.2 billion and £8.1 billion respectively. The LO figure for 1980-81 as a proportion of GDP is just below that projected in the Medium-Term Financial Strategy: in 1981-82, the HO figure is broadly in line with the MTFS.

(iv) The current account deficit in LO is £2¼ billion in 1980-81 and £1¼ billion in 1981-82: in HO, balance in 1980-81 gives way to a £2 billion surplus in 1981-82.

(v) The company sector deficit in 1980-81 in LO is enormous, at £7 billion: it diminishes to £2¼ billion in 1981-82. The deficit in HO is £1 billion smaller than that in LO in 1980-81 but marginally larger in 1981-82.

9. The way in which the rest of the forecast interacts with the achievement of a strict monetary target is by now a depressingly familiar one. Adherence to monetary control to some extent restricts the growth of nominal incomes - particularly via a high exchange rate - but in the short term a large proportion of this restraint is on real income rather than the price level. Nevertheless, nominal income growth considerably exceeds that of £M3 in both cases (by more in the higher output case) and hence the velocity of circulation rises.

10. A parallel feature is the extent to which increases in private sector net and gross financial worth exceed those in £M3. On either income or wealth criteria, the message is clear: the monetary position tightens over the forecast period, limiting the scope for reductions in interest rates. The financial side of the forecasts are summarised in tables , for the high output case, and tables for the low output case. Matrices of sectoral financial flows in 1980-81 are also appended for both cases.

V. Interest Rates

11. As usual, a good deal of uncertainty is attached to the particular path of the interest rate forecasts. The quarterly paths projected in the lower output case appear in Table 2A and for the higher case in Table 2B. In the lower output case, market rates decline marginally, if at all, during the remainder of 1980. In 1981, as inflation improves, output continues to fall, and companies' defensive action on costs, investment and stocks reduces their need to borrow, rates come down. Short rate is forecast to fall from 15% in 1981 Q1 to 12½% in 1982 Q1, and long rate comes down from 13½% to 12%. Mortgage rate rises to 15¾% in 1980 Q4 and remains there until mid-1981. This reflects the increase in the building societies' composite tax rate, and the fact that both share and mortgage rates are currently perhaps 1½% below the levels which would be expected on the basis of market rates (i.e. they implicitly discount a fall in market rates which does not occur in 1980). Building society prospects are discussed in more detail in section XII below.

TABLE 2: INTEREST RATES

A. Lower Output Case

		3 month interbank	20 year gilt	Mortgage	3 month Eurodollar
1979	Q1	12.7	13.4	11.75	11.0
	Q2	12.2	12.1	11.75	10.7
	Q3	14.1	12.4	11.75	11.7
	Q4	15.7	14.1	12.80	14.7
1980	Q1	17.7	14.5	15.00	11.8
	Q2	16.9	14.2	15.00	11.8
	Q3	17.0	14.0	15.00	11.5
	Q4	16.5	14.0	15.75	11.0
1981	Q1	15.0	13.5	15.75	11.0
	Q2	14.5	13.1	15.75	11.0
	Q3	13.8	12.7	15.05	11.5
	Q4	13.1	12.3	14.41	12.0
1982	Q1	12.5	12.0	13.90	12.5

B. Higher Output Case

		3 month interbank	20 year gilt	Mortgage	3 month Eurodollar
1980	Q1	17.7	14.5	15.0	17.0
	Q2	16.9	14.2	15.0	11.8
	Q3	16.1	13.6	15.0	11.5
	Q4	15.5	13.5	15.0	11.0
1981	Q1	13.4	12.7	15.0	11.0
	Q2	12.4	12.0	14.4	11.0
	Q3	11.3	11.5	13.2	11.5
	Q4	10.1	10.8	12.1	12.0
1982	Q1	8.9	10.2	11.2	12.5

12. Interest rates are expected to fall more sharply in the higher output case. Although there is more activity-induced demand for bank lending, this is partially offset by the reduced size of the financial deficit which the company sector must cope with. The PSBR is far lower. Importantly, the improved current account position is matched (under a floating exchange rate regime) by a capital account outflow, most of which comes from the non-bank private sector. Short rates are down to under 13½% in 1981 Q1, and under 9% in 1982 Q1. 20 year gilt rate declines to 12½% and then to 10%, re-establishing the conventional slope of the yield curve. Mortgage rate is unlikely to go above its current level, and is falling from early 1981.

13. Two identifiable areas of uncertainty qualify views about the immediate outlook for interest rates in both cases. The first is the problem posed by very rapid and large scale reintermediation within £M3 as the corset is removed. Any attempt to impose smooth month-by-month control of the money supply in these circumstances could entail large swings in rates (and could still fail). The second problem is that of the banks' chronic liquidity shortage. As noted above, the forecasters have assumed that this does not affect bank behaviour or interest rates: but it is easy to imagine circumstances in which a "scramble for liquidity" drove money market rates up.

VI. Gilt Sales to the Non-Bank Private Sector

14. The forecast for sales of gilts in 1980-81 has, to some extent, already been overtaken by events: the unexpected sale of 13½% Exchequer 1994 is estimated to have secured receipts from non-banks of £3.1 billion in 1980-81 to date. This compares with our forecast of £5.6 billion in the lower output case (£5.3 billion in the higher output case) for the whole of 1980-81 and £4.3 billion (£4.0 billion) respectively in the first half. This does suggest that we may have under-forecast sales to the non-bank private sector this year but the broad picture that we expect to emerge is not changed: we expect limited sales of gilts at the end of this financial year as the need to sell gilts to keep within the monetary target diminishes.

15. A crucial element in the gilts forecast is the treatment of expectations. Although we are aided by an equation for expected capital gains on gilts, a substantial degree of judgement is exercised by the forecasters in this area. On balance, we have projected mildly favourable expectations in tbe remainder of 1980-81 with the current market view that the government's policies will inevitably lead to a fall in long rates continuing, albeit sobered by the high observed rate of inflation. Thereafter, a powerful bull market is expected to develop as the steep decline in earnings growth reduces inflation quickly. The consequent increase in the demand for gilts can either be taken on extra gilt sales or a reduction in long term interest rates. The result depends on the need to maintain monetary growth on target. Our assessment is that some combination of these two will be possible with a somewhat greater decline in the high output case as the lower PSBR leads to less pressure on the target.

16. Tables 40B summarise the gilts forecast in terms of the private sector's total portfolio. In 1980-81 and 1981-82 holdings of gilts are forecast in both cases to increase at broadly the same rate as gross and net financial worth of the private sector before taking account of revaluations of existing gilt holdings due to changes in long rates. The decline in interest rates means, however, that the share of gilts in total portfolios rises, from just over 40% in 1980 Q1 to 45% in the lower case, and to almost 48% in the higher case, in 1982 Q1. This would require a fairly major switch towards gilts by investors similar to that which took place in 1976-77.

17. Allowance has been made in the gilts sales projection for the effect of two special factors. First the abolition of exchange controls on portfolio investment overseas by the institutions is thought to have increased the degree to which domestic holdings of gilts are a substitute for overseas assets. To capture this effect we have assumed that some 11% of outward portfolio investment permanently reduces the demand for gilts by the private sector at given interest rates, wealth etc. Columns 1 and 2 of table 3 below quantify the effects in the two cases. The reductions shown are in addition to those which operate via the inclusion of net overseas liabilities in gross worth of the private sector.

TABLE 3 : SPECIAL FACTORS IN THE FORECAST OF GILT SALES

	Flow effect on demand for gilts		Memo item Outward portfolio investment		Equity Market Effect on Flow demand for gilts (both cases)	Memo item Long Rate (%)	
	1 High	2 Low	3 High	4 Low	5	6 High	7 Low
1979 Q2	-		-	-		12.1	12.1
Q3	-125	-125	-1150	-1150		12.4	12.4
Q4	-100	-100	- 850	- 850		14.1	14.1
1980 Q1	-150	-150	-1300	-1300		14.5	14.5
YEAR 1979-80	-350	-350	-3300	-3300		13.3	13.3
1980 Q2	-125	-150	-1200	-1400		14.2	14.2
Q3	-100	-100	- 950	- 800	250	13.6	14.0
Q4	-100	- 75	- 950	- 750	250	13.5	14.0
1981 Q1	-100	- 75	- 850	- 600	250	12.7	13.5
YEAR 1980-81	-450	-400	-3950	-3550	750	13.5	13.9
1981 Q2	-100	-150	- 850	- 550	-	12.0	13.1
Q3	- 50	- 25	- 550	- 250	-	11.5	12.7
Q4	- 75	- 50	- 750	- 400	-150	10.8	12.3
1982 Q1	-100	- 75	- 850	- 600	-150	10.2	12.0
YEAR 1981-82	-350	-200	-3000	-1800	-300	11.1	12.5

Note: (1) Total may not sum exactly due to rounding

(2) No estimates have been made for the equity market effect for the period up to 1980 Q2.

18. Secondly, the combination of recession and high interest rates is expected to depress the new issues market in 1980-81 in both cases. This is likely to increase the institutional demand for gilts for given interest rates etc and we have made a special allowance for this. When interest rates begin to fall and inflationary prospects improve in 1981-82 new issues may increase, reversing the early effects on demand for gilts. Clearly the improvement is likely to be greater in the high output case where long term rates fall faster and output is much less depressed but because the numbers involved are small we did not allow for different effects in the two cases.

VII. Other Public Sector Debt

(i) National Savings

19. The forecast of net purchases of National Savings instruments reflects the outlook for the personal sector financial balance. It is assumed that the instruments remain broadly competitive. In the low output case persons' NAFA rises marginally in nominal terms from £14.6 billion in 1979-80 to £15.8 billion in 1980-81, and net take-up is projected to recover from an unusually low £0.8 billion to £1.5 billion (11½% of the stock). There is a small decline in NAFA in 1981-82 and take-up is only £1.4 billion (10%). In the higher output case, marginally higher NAFAs imply take-ups £0.1 billion higher in each financial year - 12% and 11% of the stock respectively.

(ii) Certificates of Tax Deposit

20. The dramatic run-off of CTD holdings in 1979-80, particularly in 1980 Q1, is not expected to be reversed in the near future. In the absence of a marked improvement in competitiveness (largely dependent on the re-establishment of a normal yield curve), sales are constrained by the corporate sector's low profitability and hence low net tax accruals. In both cases, net purchases of CTDs are forecast at only £150 million in 1980-81 and £500 million in 1981-82, taking the 1982 Q1 stock to £1.2 billion (compared with £1.5 billion in 1979 Q1).

(iii) Treasury Bills and L.A. Temporary Debt

21. Non-bank private sector holdings of LA temporary debt have

been somewhat inflated by the corset. The constraint on banks' IBELs have led them to reduce their net CD issue and their holdings of LA debt (the directly parallel money market asset): the non-bank private sector has in consequence substituted LA debt for CDs. However, Treasury bill holdings are at historically very low levels, reflecting the shortage of reserve assets in the financial system.

22. Reserve asset pressure is projected to continue (see section X), and the dominant influence during the forecast period is the unwinding of corset distortions. The combined total of non-bank private sector holdings of Treasury bills and LA temporary debt falls from £3.5 billion in 1980 Q1 to £3.2 billion in 1982 Q1 in both forecast cases.

(iv) <u>Notes and Coin</u>

23. The growth in holdings of cash remains relatively rapid in the forecast period, leargely induced by continued rapid inflation but also, to some extent, by falling interest rates. In the lower output case, the increases are £1.4 billion (13½%) and £1.8 billion (15½%). In the higher output case, greater output and lower interest rates are offset by slower inflation, and the figures are almost identical.

VIII. <u>Bank Lending</u>

24. As usual the outlook for the bank lending is one of the key elements of the forecast. It is, unfortunately, highly uncertain. The forecast is disaggregated into lending to companies, persons and OFIs (behaviourally this may be rather tenuous, as the personal sector includes unincorporated businesses, while much of lending to OFIs is indirect lending to persons via HP companies and the like). The overall view is shown in table 4 below.

TABLE 4: BANK LENDING

£bn change:	Actual	Forecast: Lower Output		Forecast: Higher Output	
	1979-80	1980-81	1981-82	1980-81	1981-82
lending to					
ICCs	5.1	5.9	3.2	5.5	4.4
Persons	3.4	1.9	2.7	2.1	3.5
OFIs	1.1	0.1	0.5	0.2	0.7
Private Sector	9.6	7.9	6.4	7.8	8.6
(%)	(24½)	(16)	(11½)	(16)	(15)

Despite reintermediation, the growth of recorded lending slows in 1980-81 - this is, of course, one aspect of meeting the tight £M3 target. What is marked, particularly in the lower output case, is the switch in emphasis of lending from persons and OFIs towards companies who bear the brunt of the early stages of recession. Falling interest rates reverse this switch in 1981-82, and generate (along with higher activity) the markedly greater growth in the high output case.

(i) Lending to Companies

25. The forecast of lending to ICCs involves critical judgements on the extent and speed of reintermediation into the recorded total of the bill leak (commercial bills issued by ICCs, endorsed by banks but held by the non-bank sector - probably mainly by other companies). In 1980 Q1 the bill leak totalled £1.8 billion on a quarterly basis and £2.2 billion on a banking month (corset penalty) basis: the £400m gap provides a minimum estimate of likely reintermediation. Of the remainder, some £600m represents a "normal" pre-corset ratio of bills outside the banks to £M3, while the forecasters have assumed that a further £300m will remain after the corset ends. Thus total reintermediation is forecast at £1.3 billion: one third occurs in 1980 Q2 and the remainder in 1980 Q3, as most of the bills concerned are very short-dated.

26. The other critical factor is the extent to which ICCs faced with an extremely difficult financial position, seek and receive bank finance. The forecast assumption is that pressure on corporate cash flow are partially offset by inflows from abroad [see the accompanying report on external flows], but in 1980-81 add about £400 million to lending in the lower output case and about £100 million in the higher case. In 1981-82 a less stringent cash flow position and an improved equity market allows a reversal of £200 million in the lower case and of £150 million in the higher case.

27. An additional special factor is the continued addition to lending resulting from capital outflows in the wake of the abolition of exchange controls. In the lower case, this adds £350 million in 1980-81 and a further £200 million in 1981-82: in the higher case, the higher exchange rate encourages further outflows, and the totals are £400 million and £300 million respectively.

28. The underlying lending to companies forecast is generated by an equation which postulates that lending responds proportionately to prices, with an elasticity of 0.75 with respect to real activity and a small response to the interest rate and inflationary expectations.

TABLE 5: BANK LENDING TO COMPANIES

£bn change:	Lower Output 1980-81	Lower Output 1981-82	Higher Output 1980-81	Higher Output 1981-82
Basic Equation Projection	3.5	3.2	3.4	4.2
Exchange control	0.4	0.2	0.4	0.3
Reintermediation	1.6	-	1.6	-
NAFA	0.4	-0.2	0.1	-0.1
Total	5.9	3.2	5.5	4.4
(%)	(20½)	(9)	(19)	(12½)

(ii) Lending to Persons

29. The recent rapid growth of lending to persons (29½% in 1979-80) is forecast to slow markedly in 1980-81 as the recession takes hold. The projection in both forecasts implicitly allows for a real income elasticity of 1.5 (i.e. bank borrowing is a "luxury" for persons) and for a response of 3% to a one point change in nominal interest rates. One area of some uncertainty is bank lending for house purchase, in the context of continued rationing of mortgage advances by building societies and some banks' already-expressed interest in expanding this profitable market. Both cases assume additional lending of £100 million in each of the quarters 1980 Q4 - 82 Q1 on this account (i.e. £200m in 1980-81 and £400m in 1981-82).

30. In the lower output case, the growth in total lending is 12½% in 1980-81 and 16½% in 1981-82. The figures are higher, at 14% and 20½% respectively in the higher output case.

(iii) Lending to OFIs

31. Recent research suggests that bank lending to OFIs is relatively sensitive to the level of activity and to the interest rate. In both forecast cases this contributes to a great deceleration in projected lending growth in 1980-81, from the 1979-80 figure of 31½%. In the lower output case, growth is 2½% and then 10½% in the successive financial years. The 1980-81 figure is 4½% in the higher case, and that for 1981-82 is 14½%.

IX. External Factors

32. The assumption of a floating exchange rate makes analysis of the external and foreign currency finance counterpart to the money supply rather complicated. Under such a regime the externals depend only on the composition of the balance of payments and it is hard to disentangle autonomous influences from those which are induced by the need to clear the foreign exchange market.

33. Ex post, the externals equal the sum of the current account, public and bank lending in sterling overseas and the non-bank private sector capital account (including, for these purposes, their net foreign currency position with U.K. banks). Ignoring the public sector element in the current account and public and bank lending in sterling overseas (which are included in the externals merely to offset their effect on DCE) this means that the externals are simply the non-bank private sector's net balance of payments position. Under a fixed exchange rate we can employ the simple rule that such flows have implications for the externals whereas all other flows (i.e. flows to public or banking sectors) do not.

34. In a floating rate world, however, ex ante inflows to the banking or public sectors induce matching outflows and may therefore have indirect effects on the external. Since some part of the induced outflow will in general be from the private sector, such an inflowswould lead to a contractionary external ex post. Ex ante inflows to the non-bank private sector must also generate offsetting outflow if the exchange rate is floating but only part of this will, in general, be from the non-bank private sector so that they will lead to expansionary externals, as would be the case with a fixed rate though their effect will be lessened. This means that a positive external ex post can be associated with either an ex ante outflow from the public/banking sectors or an inflow to the non-bank private sector.

35. Table 6 provides a breakdown of the externals projection. It shows the large contractionary external in 1979-80, associated with the current account deficit and capital outflows from the non-bank private sector thought to be partly the result of the abolition of exchange controls and partly induced by the demand for sterling by non-residents. In both the high and low output cases substantial negative externals are forecast. These result from continued outflows from the private sector following the abolition of exchange controls and induced by OPEC. In the low output case a further contractionary influence is the current account deficit. The externals would be even more negative but for a judgemental allowance for inflows to the non-bank private sector of £2 billion in 1980-81 and £1.0 billion in 1981-82 in response to liquidity pressures on companies.

36. The composition of the externals is quite different between the two cases. The HO case involves an exogenous improvement relative to LO. To clear the balance of payments an offsetting capital outflow must be induced, a large part of which stems from the non-bank private sector. Thus the non-bank capital account is in substantial deficit in the HO case particularly in 1981-82 when the current account is in surplus. However not all the outflows are from the non-banks so the contractionary extent of the externals is reduced in HO relative to LO, even when account is taken of movements in £ bank lending overseas.

37. The effect of balance of payments transactions on the demand for money for given prices, incomes and interest rates is generally overstated by the external adjustments because there tend to be offsets on bank lending and debt sales (or the PSBR). Nonetheless, external factors are forecast to exert a considerable contractionary influence on £M3 (or, given the target, on interest rates) in both cases.

X. Reserve Assets and Banks' Balance Sheets

38. The banking system has experienced severe reserve asset pressure in recent months, and the authorities have provided large scale assistance to the money market. At mid-April (the

TABLE 6 : EXTERNAL ADJUSTMENTS TO £M3

	Current Balance		Non-Bank Capital Account		Public and Bank £ lending overseas		Total external factors (= 1 + 2 + 3)		Memo item Official OPEC £ holdings (increase +)	
	High	Low	High	Low	High	Low	High	Low	High	Low
1979-80	-1.3	-1.3	-1.8	-1.8	-	-	-2.9*	-2.9*	1.3	1.3
1980-81	-	-2.2	-1.0	0.3	-0.2	-	-1.1	-1.9	1.3	1.3
1981-82	1.9	-1.7	-2.4	-0.6	-0.3	-	-0.8	-2.3	0.8	0.8

*In 1979-80 external factors do not sum to the components because, inter alia, of differences in the statistical coverage between the balance of payments and the money figures.

end of banking 1979-80), assistance in place took the form of sale-and-repurchase arrangements for £1 billion of gilts and £0.5 billion of commercial bills. This pressure is one natural concomitant of the tight monetary target, and is forecast to become more intense. The target limits the growth of bank's liabilities (deposits) while the demand for bank assets (loans) from the private sector remains high. Arithmetically, banks' assets and liabilities are equated by a reduction in lending to the public sector: however, this constitutes the main source of reserve assets/primary liquidity. An alternative way of viewing the issue is that the authorities "over fund" a given PSBR - massive sales of public debt to the non-bank private sector leave no room for bank acquisition of reserve assets.

39. Tables 7 and 7A demonstrate the consequences in 1980-81 in the two forecast cases. The forecasters conclude that in the course of the year, the banking system will require additional assistance of perhaps £1.8 billion in the lower output case, and £2.1 billion in the higher output case. In 1981-82 still further assistance would probably be required in both cases, particularly in the higher output case which features a much lower PSBR.

XI. Other Monetary Aggregates

40. The projected growth in narrower and wider monetary aggregates in both forecast cases is conditioned by the assumption that the £M3 targets are met. The forecasts are highly uncertain. M1 is largely demand-determined, and projected continued high inflation but declines in nominal interest rates (which lower the opportunity cost of holding cash, and more importantly sight deposits) suggest a reversal of the recent pattern, in which M1 has been growing far less rapidly than £M3. The converse is true of the wider aggregate, PSL1: reintermediation of the bill leak in 1980-81 and low net take-up of CTDs both imply slow growth relative to £M3. The rate of growth of the widest aggregate, PSL2, remains at the recent level and is greater than that in £M3 or PSL1 over the forecast period: building society deposits grow rapidly.

TABLE 7: BANKS' BALANCE SHEETS 1980-81

£m increase in banking Year:	Lower Output	Higher Output
£M3	5,730	5,730
Less notes and coin	-1,350	-1,300
Overseas £ deposits	1,650	1,040
Net D.C. deposits	-1,510	-1,480
Non-deposit liabilities	1,680	1,680
Total liabilities	6,190	5,660
Lending to:		
Private sector, and overseas	8,160	8,280
Discount market	-	-
Local authorities	700	410
Public corporations	-420	-420
Central government	-2,250	-2,610
Total assets	6,190	5,660

TABLE 7A: BANKS' RESERVE ASSETS 1980-81

	Lower Output	Higher Output
CGBR	8,320	7,330
External finance (-)	-1,720	-1,220
CG debt sales (-) to non-banks (including notes and coin)	-8,840	-8,720
("Overfunding")	(-2,240)	(-2,610)
Gilt sales to/SSD calls on banks (-)	770	770
Unspecified assistance	1,830	2,120
CG reserve assets	350	280
Discount market switch	350	350
Commercial bills	100	100
Reserve assets	800	730

TABLE 8: DIFFERENT MONETARY AGGREGATES

% growth	Actual	Forecast			
		Lower Output		Higher Output	
	1979-80	1980-81	1981-82	1980-81	1981-82
M1	7	17	18½	18½	23
£M3	13	9	8	9	8
PSL1	12	7½	7½	7½	7½
PSL2	11	11½	12	11½	12

XII. The Company Sector

41. The financial prospects for the industrial and commercial company sector are bleak even in the higher output case. The problem is not so much the size of the deficit to be financed in any one year, as the succession of substantial deficits for 1979, 1980 and 1981. For these years, the deficits cumulate to £15 billion, compared to about £5 billion in 1973 to 1974. The same point can be made by looking at the disposable income of the company sector (equal to its saving plus dividends) which is expected to fall in 1980 in nominal terms, and only to recover rather weakly in 1981.

42. The financing of these deficits is not likely to be helped by new issues of either debentures or equities unless inflation falls sooner than is now forecast or interest rates at the long end ease sharply. This leaves companies dangerously dependent on bank finance and the money supply targets for that reason are clearly at risk. The changes that have been made to the forecast of earnings and the exchange rate since the pre-Budget up-date of the forecast are enough to make the company sector problem look rather a lot worse. This judgement illustrates the great uncertainty that must surround any assessment of the position of the company sector at the present time.

43. In the lower output case, companies must come under even greater financial pressure (although a lower exchange rate compensates in part for the worse trade performance). With interest rates remaining high and with the very poor outlook for profits, widespread bankruptcies would seem inevitable - a much worse

TABLE 9 COMPANY SECTOR : FINANCIAL INDICATORS

	Disposable Income as % of Total Domestic Income		NAFA as % of Total Domestic Income		Gross Liquid Assets Ratio	
1973	4.3		-1.9		10.4	
1974	1.8		-5.1		10.1	
1975	3.2		1.3		10.2	
1976	5.0		1.5		9.8	
1977	5.1		-		10.4	
1978	5.8		1.2		9.6	
1979	3.2		-2.2		8.3	
	High	Low	High	Low	High	Low
1980	1.1	0.4	-2.5	-3.0	7.5	7.4
1981	2.2	1.2	-1.3	-1.7	7.1	6.9

Notes:- Disposable Income is defined as savings + ordinary dividends

Disposable Income and NAFA refer to Industrial and Commercial companies excluding N.Sea,

Gross liquid assets of all Industrial and Commercial companies, financial years trade performance). With interest rates remaining high and with the very poor outlook for profits, widespread bankruptcies would seem inevitable - a much worse prospect indeed than companies themselves seem to anticipate at the present time. It is very difficult to guess what would be the financial implications of such a deep recession - and the extent to which those implications would delay the recovery.

XIII. Financial Institutions

(i) Building Societies

44. Throughout 1979-80 building societies' share rates have remained uncompetitive with general short-term interest rates. We have assumed that societies are willing to accept a slow return to competitiveness brought about as short rates decline - they would regain their average competitive level in the first half of 1981. In the higher output case we have also assumed that they delay widening their margins (made necessary by the considerably increased composite tax rate in prospect) until the share rate is reduced. But in the lower output case we consider that the downward trend in competitive rates will not be sufficiently strongly established by the autumn of 1980 (when the composite rate is fixed) to prevent societies raising the mortgage rate - by ¼ percentage point - to maintain their reserves. However, there is a clear danger that they will raise both share and mortgage rates simultaneously, in which case the mortgage rate would rise still higher. Even if the share rate is not increased, inflows are forecast to recover strongly in the next two years as the savings ratio remains high and societies' competitive position improves. We forecast shares and deposits outstanding to grow by over 18% a year in both 1980-81 and 1981-82. As a result mortgage advances are expected to rise considerably faster than house prices, compensating for the sharp falls in real lending over the last two years.

(ii) Life Assurance Pension Funds

45. Net accruals to life assurance and pension funds are forecast to grow in line with wages and salaries, yielding £11.1 billion in 1981-82. Institutional purchases of company securities in 1980-81 are expected to remain limited by a relatively low volume of new issues and sales by the personal sector, so the share of

equities in their total portfolio is forecast to decline further. Investment in property is anticipated to remain at a normal level, but because of revaluations due to price increases property will account for a rising proportion of total portfolios. Net investment overseas is expected to grow strongly over the next year following the abolition of exchange controls and, partly as a result, net purchases of gilts are forecast to fall substantially in 1980-81 from the very high levels of 1979-80. Purchases of £3¼ billion, compared with £5.1 billion in 1979-80, nevertheless imply a rise from 25% to nearly 27% in the share of gilts in the institutions' portfolios because of revaluations of existing stocks as long rates fall. As a result of the relatively low gilts sales net short term assets, which were run down sharply in 1979-80, are forecast to rise back sharply in 1980-81, re-establishing a more normal relationship with their total flows of funds.

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Table HIGHER OUTPUT SU23

Date 6 JUNE 80

Forecast for 1980-81

£ million unadjusted

		C.G.	L.A.s	P.C.s	Overseas	Persons	I. & C. Cos.	Banks	O.F.I.s	Unallocated	
Capital account (Receipts +, payments -)											
Saving	1										1
Capital transfers (net)	2										2
Fixed investment	3										3
Stock building	4										4
Financial surplus/deficit	5	-2077	-1309	-1741	-13	16282	-5908	1327	-2471	-4050	5
Financial transactions (Receipts -, payments +)											
Accruals adjustments etc	6	1457	-87	-65		-115	-1190				6
Government lending	7	3809	-1316	-2573	240	-64	-96				7
P.C. lending (excl. hse. purchase)	8			168	-160		-8				8
P.C. trade credit (net)	9			-100			100				9
Loans for house purchase: building Societies	10					-7015			7015		10
Other (excl. banks)	11		480	-23		-557			100		11
Credit extended by retailers	12					-200	200				12
Other identified O.F.I. loans	13					-400	-700		1100		13
Life Ass. and Pen. Fds.	14	-210				11176			-10966		14
Unit Trust Units	15					300			-300		15
Capital Issues	16						-1000	-400	-50		16
								a. 50			
								b. 500			
Other company and overseas securities*	17	155		235	-500	-2000	1000		2010		17
UK priv. investment overseas	18				-7379	200	5779		1600		18
Overseas inv. in UK priv. sector	19				6065		-5300		-265		19
Other overseas transactions	20										20
Deposits with: Building Societies	21					9012	-100		-8912		21
NSB Inv. Acc./TSB New Dept.	22					900			-900		22
Other deposits with O.F.I.s	23					100			-100		23
Banks' net non-res. f.c. claims/deps.	24				-2134			2134			24
Bank lending: In f.c. for inv. overseas	25						-650	250	400		25
Other f.c. loans to priv. sector	26										26
In sterling	27				-262	-2067	-5458	7983	-196		27
Bank deposits: Domestic f.c. deps.	28					100	750	-1100	250		28
UK residents' £ sight deps.	29										29
Other £ deps.	30				1041	2330	545	-5467	1556		30
SUB-TOTAL	31	5211	-923	-2355	-3309	11700	-6660	3950	[illegible]		31
Unidentified	32	44	-86	143	1404	1300	280		[illegible]	-4050	32
Public Sector Borrowing Req.	33	-7332	-300	424	1392	3282	450	-2623	4407		33
External finance: Market TreasuryBills	34	26			-26						34
British Govt. Securities	35	-1213			1213						35
Direct borrowing (net)	36	599			-599						36
Reserves, etc (= currency flow)	37	-629			629						37
L.A. and P.C.	38		-175		175						38
TOTAL	39	-1217	-175		1392						39
Notes and coin	40	-1300				[illegible]	850				40
National Savings	41	-1517				1517					41
Treasury Bills	42	-160							160		42
Gilts - variable rate	43										43
Gilts - other	44	-5591				1150	-200		4641		44
Other CG debt	45	-15[illegible]				15	100		39		45
CG transactions in L.A. debt and c. Bills.	46										46
Payment of ECS claims	47										47
L.A. temporary debt	48		233				-100		-133		48
Other L.A. debt	49		50			-50					49
P.C. debt	50										50
TOTAL NON-BANKS	51	-8822	235			13282	450		4707		51
Bank lending to pub. sector in f.c.	52										52
Bank lending to pub. sector in £	53	1604	-428	424				-2623			53

PSBR (borrowing -) = (CG 33) + (LA 33) + (PC 33) = 7208

DCE = (Banks 1/5 + 27 + 33 + 54) + (Overseas [illegible]) + (Persons + I.C.C.s 40) =

Δ Sterling M3 = (Persons + I.C.C.s 40) - (Banks 29 + 30) - (Overseas 30) = 5726

Change (increase -) in bank's non-deposit liabilities = (bank cols. [illegible] + 6 + [illegible] [illegible]) = -1677

Liquid Assets = cols. 21 + 22 + 23 + 28 + 29 + 30 + 40 + 41 + 42 + 45 + 48:

Persons = ICCs = 1665

Banks a. = mainly bank take-up of shares of own subsidiaries

b. = bank take-up of shares of non-banks

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Table SU23 LOW OUTPUT

Date 9th JUNE.

Forecast for 1980-81.

£ million unadjusted

	No.	C.G.	L.A.s	P.C.s	Overseas	Persons	I. & C. Cos.	Banks	O.F.I.s	Unallocated
Capital account (Receipts +, payments -)										
Saving	1									
Capital transfers (net)	2									
Fixed investment	3									
Stock building	4									
Financial surplus/deficit	5	-3005	-1336	-1873	2206	15762	-6896	1327	-2091	-4094
Financial transactions (Receipts -, payments +)										
Accruals adjustments etc	6	1320	-75	-56		-106	-1082			
Government lending	7	4005	-1368	-2717	240	-64	-96			
P.C. lending (excl. hse. purchase)	8			168	-160	-8				
P.C. trade credit (net)	9			-100			100			
Loans for house purchase: building Societies	10					-6373			6373	
Other (excl. banks)	11		480	-23		-557			100	
Credit extended by retailers	12					-200	200			
Other identified O.F.I. loans	13					-350	-650		1000	
Life Ass. and Pen. Fds.	14	-210				11640			-10[illegible]0	
Unit Trust Units	15					250			-250	
Capital Issues	16						-875	-400	-50	
								a. 50 b. 500		
Other company and overseas securities*	17	155		335	-500	-2000	1000		1885	
UK priv. investment overseas	18				-5157	300	5357		1600	
Overseas inv. in UK priv. sector	19				6259		-6000		-259	
Other overseas transactions	20									
Deposits with: Building Societies	21					3255	-100		-3155	
NSB Inv. Acc./TSB New Dept.	22					300			-300	
Other deposits with O.F.I.s	23					35			-35	
Banks' net non-res. f.c. claims/deps.	24				-2160			2160		
Bank lending: In f.c. for inv. overseas	25									
Other f.c. loans to priv. sector	26						-650	250	400	
In sterling	27				-35	-1356	-5550	7362	-109	
Bank deposits: Domestic f.c. deps.	28					100	750	-1100	250	
UK residents' £ sight deps.	29									
Other £ deps.	30				1650	2293	147	-6[illegible]4	1330	
SUB-TOTAL	31	5270	-963	-2443	-1865	11583	-4389	3346	-2090	
Unidentified	32	44	-24	1026	2535	460	392		[illegible]	-4094
Public Sector Borrowing Req.	33	-8319	-300	424	1490	3319	451	-1969	4899	
External finance: Market Treasury Bills	34	-77			77					
British Govt. Securities	35	-1355			1355					
Direct borrowing (net)	36	635			-635					
Reserves, etc (= currency flow)	37	-1024			1024					
L.A. and P.C.	38		225		-225					
TOTAL	39	-1721	225		1496					
Notes and coin	40	-1351				[illegible]	676			
National Savings	41	-1463				1463				
Treasury Bills	42	-168							168	
Gilts - variable rate	43									
Gilts - other	44	-5700				1200	-200		4700	
Other CG debt	45	-152				25	75		52	
CG transactions in L.A. debt and c. bills.	46									
Payment of ECS claims	47									
L.A. temporary debt	48		71				-100		29	
Other L.A. debt	49		100			-50			-50	
P.C. debt	50									
TOTAL NON-BANKS	51	-5839	171			3319	451		4899	
Bank lending to pub. sector in f.c.	52									
Bank lending to pub. sector in £	53	2247	-596	424				-1969		

PSBR (borrowing -) = (CG 33) + (LA 33) + (PC 33) = -8195

DCE = (Banks 17b + 27 + 53 + 54) + (Overseas 39) + (Persons + I.C.C.s 40) =

Δ Sterling M3 = (Persons + I.C.C.s 40) - (Banks 29 + 30) - (Overseas 30) = 5726

Change (increase -) in bank's non-deposit liabilities = (Banks col. 32-5 + 6 + 1 + 17a) = -1677

Liquid Assets = cols. 21 + 22 + 23 + 28 + 29 + 30 + 40 + 41 + 42 + 45 + 48;

Persons = , ICCs = 1048

*Banks a. = mainly bank take-up of shares of own subsidiaries.

b. = bank take-up of shares of non-banks.

HIGHER

TABLE B SUMMARY

	1 GDP AT CONSTANT PRICES 1975=100	2 RPI% CHANGE OVER PREV. YEAR	3 EARNINGS % CHANGE OVER PREVIOUS YEAR	4 PSBR(1)	5 CURRENT BALANCE	6 PSBR/GDPM* (1)	7 ICC'S NAFA	8 EXCHANGE RATES: EFFECTIVE EXCH.RATE	9 EXCHANGE RATES: DOLLAR/£ RATE	10 INTEREST RATES: INFLATION EXPECTATIONS (FINANCIAL)	11 INTEREST RATES: 3-MONTH INTER BANK	12 INTEREST RATES: 20-YEAR GILTS
1978	107.6	8.3	14.1	8401	927	5.18	595	63.00	1.920	9.7	9.23	12.49
1979	109.4	13.4	16.9	12496	-2437	6.63	-4655	67.80	2.122	15.0	13.66	12.99
1980	107.3	20.2	21.6	5965	-877	2.59	-6459	73.41	2.294	16.9	16.53	13.92
1981	105.1	10.3	16.9	7625	1812	2.95	-3634	73.01	2.369	11.9	11.78	11.74
1978/79	108.1	8.3	14.8	9282	-17	5.58	-1097	62.65	1.942	10.2	10.74	12.95
1979/80	109.7	15.8	18.7	9779	-1707	5.07	-4880	69.80	2.182	16.7	14.91	13.27
1980/81	106.4	20.0	20.4	7208	13	3.12	-5950	73.90	2.321	15.9	15.46	13.47
1981/82	105.1	15.0	15.7	8115	1809	3.07	-2426	72.16	2.369	10.7	10.66	11.12
1978 QTR 1	105.9	9.5	12.4	1639	-271	4.30	187	65.40	1.928	9.0	6.63	11.52
QTR 2	107.7	7.6	15.2	2008	411	5.04	382	61.50	1.836	9.0	9.05	12.60
QTR 3	108.3	7.8	14.6	2129	255	5.16	109	62.40	1.932	10.0	9.67	12.63
QTR 4	108.6	8.1	14.1	2625	532	6.22	-143	62.70	1.985	11.0	11.59	13.14
1979 QTR 1	107.7	9.6	15.1	2520	-1215	5.88	-1506	64.00	2.015	11.0	12.67	13.35
QTR 2	111.1	10.6	14.7	3266	-310	7.02	-472	67.40	2.081	14.0	12.22	12.13
QTR 3	109.0	10.9	17.7	3570	-238	7.37	-1237	71.00	2.233	17.0	14.08	12.38
QTR 4	109.8	17.3	19.9	3140	-674	6.26	-1439	68.80	2.159	18.0	15.69	14.10
1980 QTR 1	108.8	19.1	21.9	-197	-485	-0.38	-1730	72.00	2.254	18.0	17.66	14.40
QTR 2	108.1	22.4	22.1	2110	-389	3.79	-1785	73.50	2.290	18.2	16.88	14.16
QTR 3	106.5	19.1	21.8	2192	-180	3.80	-1601	73.85	2.309	16.4	16.09	13.55
QTR 4	105.6	20.2	20.7	1870	183	3.16	-1342	74.30	2.334	14.9	15.49	13.50
1981 QTR 1	105.5	10.6	17.3	1046	405	1.72	-1221	73.93	2.360	14.0	13.36	12.68
QTR 2	105.0	10.9	18.1	2353	203	3.70	-1110	74.25	2.374	12.6	12.36	12.03
QTR 3	104.9	15.6	16.7	2170	426	3.32	-804	72.10	2.350	10.9	11.34	11.47
QTR 4	105.1	14.4	15.6	2056	688	3.05	-498	71.75	2.371	9.9	10.06	10.76
1982 QTR 1	105.6	15.2	12.6	1536	482	2.22	-13	70.54	2.361	9.2	8.87	10.18

(1) FINANCIAL YEAR SEASONALLY ADJUSTED

LOWER

TABLE B SUMMARY

	1 GDP AT CONSTANT PRICES 1975=100	2 RPI% CHANGE OVER PREV. YEAR	3 EARNINGS % CHANGE OVER PREVIOUS YEAR	4 PSBR(1)	5 CURRENT BALANCE	6 PSBR/ GDPM* (1)	7 ICC'S NAFA	8 EXCHANGE RATES: EFFECTIVE EXCH.RATE	9 EXCHANGE RATES: DOLLAR/£ RATE	10 INTEREST RATES: INFLATION EXPECTATIONS (FINANCIAL)	11 INTEREST RATES: 3-MONTH INTER BANK	12 INTEREST RATES: 20-YEAR GILTS
1978	107.6	8.3	14.1	8401	927	5.18	595	63.00	1.920	9.7	9.23	12.10
1979	109.4	13.4	16.9	12406	-2437	6.63	-4655	67.80	2.122	15.0	13.66	12.99
1980	106.1	20.3	21.5	6438	-2204	2.84	-7332	71.88	2.246	17.0	17.01	14.16
1981	101.4	17.5	15.7	10323	-1782	4.12	-3747	67.97	2.205	13.1	14.10	12.90
1978/79	108.1	8.3	14.8	9282	-17	5.58	-1097	62.65	1.942	10.2	10.74	12.95
1979/80	109.6	15.8	18.7	9779	-1741	5.07	-4908	69.80	2.132	16.7	14.91	13.27
1980/81	104.6	20.3	19.9	8200	-2206	3.59	-6935	71.20	2.236	16.3	16.34	13.91
1981/82	100.8	10.4	14.6	11375	-1701	4.44	-2189	67.04	2.201	12.9	13.47	12.52
1978 QTR 1	105.9	9.5	12.4	1639	-271	4.30	187	65.40	1.928	9.9	6.63	11.52
QTR 2	107.7	7.6	15.2	2008	411	5.04	382	61.50	1.936	9.0	9.05	12.68
QTR 3	108.3	7.8	14.6	2129	255	5.16	169	62.40	1.932	10.0	9.67	12.63
QTR 4	108.6	8.1	14.1	2625	532	6.22	-143	62.70	1.985	11.0	11.59	13.14
1979 QTR 1	107.7	9.6	15.1	2520	-1215	5.80	-1506	64.00	2.015	11.9	12.67	13.35
QTR 2	111.1	10.6	14.7	3266	-310	7.02	-472	67.40	2.091	14.0	12.22	12.13
QTR 3	109.0	16.0	17.7	3570	-238	7.37	-1237	71.00	2.233	17.0	14.08	12.38
QTR 4	109.5	17.3	19.9	3140	-674	6.26	-1439	68.80	2.159	18.0	15.69	14.10
1980 QTR 1	108.8	19.1	21.9	-107	-519	-0.38	-1758	72.00	2.254	18.0	17.66	14.40
QTR 2	107.3	22.4	22.1	2104	-675	3.60	-2055	73.50	2.290	18.2	16.88	14.16
QTR 3	104.8	19.1	21.8	2342	-615	4.14	-1885	71.66	2.241	16.6	17.00	14.00
QTR 4	103.4	20.7	20.1	2189	-485	3.78	-1632	70.38	2.211	15.4	16.50	14.00
1981 QTR 1	102.3	19.1	16.3	1565	-431	2.64	-1361	69.27	2.211	14.8	15.00	13.50
QTR 2	101.4	10.1	16.8	2031	-586	4.75	-1166	69.19	2.231	13.8	14.50	13.10
QTR 3	100.7	17.1	15.3	2877	-502	4.55	-789	66.93	2.192	12.2	13.80	12.70
QTR 4	100.5	15.8	14.6	2950	-263	4.52	-429	66.48	2.197	11.4	13.10	12.30
1982 QTR 1	100.6	14.8	12.0	2617	-350	3.93	195	65.55	2.194	10.9	12.50	12.00

(1) FINANCIAL YEAR SEASONALLY ADJUSTED

TABLE C SUMMARY (PART II)

PERCENTAGE CHANGES ON PREVIOUS YEAR (EXCEPT COL. 12)

	1 TFE DEFLATOR	2 REAL TFE	3 REAL GDP	4 NOMINAL GDPM	5 PRIVATE SECTOR FINANCIAL WEALTH EXCLUDING REVALUATIONS NET	6 PRIVATE SECTOR FINANCIAL WEALTH EXCLUDING REVALUATIONS GROSS	7 PRIVATE SECTOR FINANCIAL WEALTH INCLUDING REVALUATIONS NET	8 PRIVATE SECTOR FINANCIAL WEALTH INCLUDING REVALUATIONS GROSS	9 BANK LENDING TO PRIVATE SECTOR	10 PRIVATE SECTOR HOLDINGS OF GILTS EXCL. REVALS.	11 PRIVATE SECTOR HOLDINGS OF GILTS INCL. REVALS.	12 PRIVATE SECTOR HOLDINGS OF GILTS AS A % OF GROSS WEALTH	13 £M3	14 REAL MONEY SUPPLY	15 M1
1978 QTR 1	9.29	3.23	1.71	14.32	11.21	16.02	13.39	17.46	11.88	16.05	19.58	41.52	14.51	4.77	23.05
QTR 2	8.84	2.55	3.20	14.87	14.07	14.38	14.49	14.58	13.46	16.81	17.33	40.44	14.64	5.33	20.18
QTR 3	8.27	3.96	3.47	14.26	14.38	12.73	6.01	7.23	14.39	11.91	-0.53	40.84	15.20	6.40	18.02
QTR 4	9.18	3.11	2.44	14.10	15.75	11.82	7.67	6.59	15.21	10.32	-1.65	40.27	15.20	5.51	16.67
1979 QTR 1	9.53	1.38	1.73	12.35	15.79	13.37	17.51	14.47	19.98	14.33	16.96	42.43	11.60	1.89	13.16
QTR 2	10.99	6.28	3.13	16.77	13.71	15.53	14.94	16.32	21.13	16.99	18.94	41.35	12.73	1.57	12.73
QTR 3	14.21	1.96	0.64	17.44	12.46	16.58	14.71	16.04	22.86	18.52	22.11	42.25	13.11	-0.96	11.01
QTR 4	16.05	2.50	1.06	18.88	12.62	17.42	7.77	14.24	23.77	20.70	12.82	39.77	13.35	-2.32	10.10
1980 QTR 1	18.34	2.34	1.06	20.77	12.84	13.73	2.50	6.97	24.59	17.70	1.77	40.36	12.92	-4.57	6.82
QTR 2	20.50	-2.49	-2.70	19.74	13.02	13.38	10.26	11.07	25.92	17.09	11.51	41.52	11.77	-7.25	7.15
QTR 3	18.68	-1.28	-2.28	18.35	13.24	12.78	10.62	11.13	23.75	15.68	11.76	42.49	10.91	-6.70	8.04
QTR 4	18.77	-2.39	-3.75	17.07	13.28	11.42	18.30	14.51	21.53	14.74	22.59	42.55	8.01	-8.38	3.95
1981 QTR 1	17.19	-2.34	-3.05	17.36	12.45	11.34	21.34	16.91	16.03	11.24	25.04	43.17	9.19	-6.83	10.28
QTR 2	15.00	-2.43	-2.86	14.08	12.46	9.81	21.11	15.22	12.34	10.96	23.92	44.68	8.18	-5.93	9.58
QTR 3	14.23	-1.47	-1.54	13.87	12.58	9.58	21.47	15.18	12.15	10.26	23.43	45.53	8.15	-5.34	12.33
QTR 4	13.68	-0.46	-0.53	14.09	12.58	10.05	24.67	17.76	13.63	11.31	29.43	46.76	8.13	-4.88	15.29
1982 QTR 1	13.19	0.35	0.04	13.84	12.95	10.91	24.95	18.71	15.21	13.23	31.30	47.75	8.00	-4.59	14.51

LOWER

TABLE C SUMMARY (PART II)

PERCENTAGE CHANGES ON PREVIOUS YEAR (EXCEPT COL. 12)

	1 TFE DEFLATOR	2 REAL TFE	3 REAL GDP	4 NOMINAL GDPM	5 PRIVATE SECTOR FINANCIAL WEALTH EXCLUDING REVALUATIONS	6	7 PRIVATE SECTOR FINANCIAL WEALTH INCLUDING REVALUATIONS	8	9 BANK LENDING TO PRIVATE SECTOR	10 PRIVATE SECTOR HOLDINGS OF GILTS	11	12	13 £M3	14 REAL MONEY SUPPLY	15 M1
					NET	GROSS	NET	GROSS		EXCL. REVALS.	INCL. REVALS.	AS A % OF GROSS WEALTH			
1978 QTR 1	9.29	3.23	1.71	14.32	11.21	16.02	13.39	17.46	11.88	16.05	19.58	41.52	14.51	4.77	23.05
QTR 2	8.84	2.55	3.20	14.87	14.07	14.38	14.40	14.58	13.46	16.81	17.33	40.44	14.64	5.33	20.18
QTR 3	8.27	3.96	3.47	14.26	14.38	12.73	6.91	7.23	14.39	11.91	-0.57	40.54	15.20	6.40	19.09
QTR 4	9.18	3.11	2.44	14.10	15.75	11.82	7.67	6.59	15.21	10.32	-1.65	40.27	15.20	5.51	16.67
1979 QTR 1	9.53	1.38	1.73	12.35	15.79	13.37	17.51	14.47	19.98	14.33	16.06	42.43	11.60	1.89	13.16
QTR 2	10.99	6.28	3.13	16.77	13.71	15.53	14.04	16.32	21.13	16.99	18.04	41.35	12.73	1.57	12.73
QTR 3	14.21	1.06	0.64	17.44	12.46	16.59	14.71	18.04	22.86	18.52	22.11	42.25	13.11	-0.96	11.01
QTR 4	16.05	2.50	1.06	18.88	12.62	17.42	7.77	14.24	23.77	20.70	12.82	39.77	13.35	-2.32	10.10
1980 QTR 1	18.34	2.27	0.98	20.69	12.80	13.73	2.46	6.97	24.59	17.70	1.77	40.36	12.92	-4.59	6.82
QTR 2	20.52	-2.86	-3.43	19.00	13.47	13.38	9.81	11.07	25.92	17.09	11.51	41.52	11.77	-7.26	7.09
QTR 3	19.20	-2.45	-3.80	16.59	12.47	12.98	8.15	10.25	24.41	16.17	9.71	42.05	10.91	-6.95	4.59
QTR 4	19.48	-3.96	-5.76	15.59	12.07	11.62	15.12	13.51	22.18	15.36	20.02	42.07	8.81	-8.93	1.83
1981 QTR 1	18.26	-4.38	-5.52	14.56	10.93	11.40	16.41	14.92	16.24	11.79	20.20	42.25	9.19	-7.67	6.66
QTR 2	16.49	-4.95	-5.44	11.49	11.13	9.83	15.23	12.38	11.97	11.27	17.42	43.33	8.19	-7.13	9.56
QTR 3	15.73	-3.83	-3.92	11.89	11.62	9.34	16.78	12.54	10.39	9.96	17.57	43.93	8.13	-6.57	13.05
QTR 4	15.04	-2.93	-2.40	12.47	12.05	9.65	18.89	13.93	10.71	10.67	20.83	44.62	8.13	-6.01	17.73
1982 QTR 1	14.36	-2.23	-2.12	12.39	13.32	10.63	19.59	14.61	11.42	12.90	22.31	45.09	8.00	-5.57	10.44

HIGHER

TABLE D DCE AND MONEY SUPPLY SUMMARY TABLE

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
		SALES OF PUB. SECTOR DEBT TO NON BANKS			BANK LENDING				EXT. & FOREIGN CURR. FINANCE	NON-DEP LIABS.		INCR. IN £M3	-----VELOCITY OF £M3-----			
	PSBR	GILTS	NATSAV	OTHER	PRIV. SECTOR	OVER-SEAS	RES.	DCE			RES.		GDP BASED	GNP BASED	% CHG GDP BASED	% CHG GNP BASED
1978	8348	4302	1525	164	4693	1062	-32	8080	-425	887	-28	6740	3.31	3.39	-0.45	-0.97
1979	12613	8485	1105	1365	8799	-14	155	10598	-2044	804	-30	6820	3.42	3.37	3.31	-0.45
1980	6351	6816	1560	-284	9754	952	-552	8413	-1443	1797	-73	5100	3.67	3.65	7.29	8.22
1981	7322	6405	1598	-158	7506	256	-41	7198	-619	1459	1	5121	3.88	3.86	5.00	5.84
1978/79	9254	5721	1618	1154	6354	336	-34	7417	-1082	915	0	5420	3.31	3.36	-0.21	-1.64
1979/80	9998	8264	1020	-511	9570	495	-174	11116	-2876	1384	-116	6740	3.47	3.43	4.84	2.09
1980/81	7207	5341	1520	218	7771	645	-372	8172	-1087	1677	2	5410	3.73	3.72	7.44	8.57
1981/82	8115	7856	1546	54	8555	106	-1	7317	-806	1366	-1	5144	3.93	3.92	5.42	5.22
1978 QTR 1	1557	439	422	299	758	646	150	1951	373	-32	-16	2390	3.26	3.30	-0.16	2.60
QTR 2	1913	1569	348	-439	1641	294	12	2382	-667	341	-14	1360	3.31	3.37	0.21	-0.15
QTR 3	2320	1167	470	155	1106	47	-19	1662	-175	315	-2	1170	3.35	3.41	-0.92	-0.20
QTR 4	2558	1127	285	149	1188	75	-175	2085	44	313	4	1820	3.30	3.3[illegible]	-0.06	-1.90
1979 QTR 1	2463	1856	515	1289	2419	-80	148	1288	-284	-54	12	1070	3.28	3.27	0.68	-3.71
QTR 2	3031	2484	190	84	2370	-18	-1	2624	-221	351	8	2060	3.43	3.40	3.59	0.68
QTR 3	3719	2044	140	109	2180	99	-35	3670	-1546	576	-38	1510	3.48	3.43	3.02	0.59
QTR 4	3400	2099	260	-117	1830	-15	43	3016	-893	-69	-12	2180	3.46	3.40	4.80	0.65
1980 QTR 1	-152	1637	430	-587	3190	429	-181	1806	-216	526	-74	990	3.51	3.49	6.05	6.59
QTR 2	2251	2160	200	380	3520	370	-351	3050	-850	500	0	1700	3.68	3.66	7.14	9.31
QTR 3	2267	1671	508	89	1608	98	-18	1715	-126	378	-1	1210	3.71	3.70	6.70	7.91
QTR 4	1965	1146	422	-157	1236	54	0	1842	-250	391	-1	1200	3.76	3.74	8.42	10.10
1981 QTR 1	704	162	390	-85	1206	121	1	1565	140	405	0	1300	3.78	3.76	7.09	9.10
QTR 2	2306	2497	415	-61	2167	126	-12	1795	-205	341	0	1249	3.88	3.86	5.45	4.93
QTR 3	2183	1870	403	39	1930	29	-12	1826	-202	351	0	1273	3.91	3.89	5.31	5.20
QTR 4	2069	1676	390	-42	2201	-23	-12	2010	-351	361	0	1298	3.96	3.94	5.52	5.37
1982 QTR 1	1497	1615	338	127	2256	-28	39	1684	-47	313	0	1323	3.98	3.97	5.41	5.47

COL 1 CALENDAR YEAR SEASONALLY ADJUSTED
COL 2 COMPRISES GILTS, LONG TERM LA DEBT AND PC DEBT
COL 4 COMPRISES TREASURY BILLS, LA TEMPORARY DEBT AND OTHER CG DEBT
COL 8 = COL1-(COL2+COL3+COL4)+COL5+COL6+COL7
COL12 = COL8+COL9-COL10
GDP-BASED £M3 IS THE RATIO OF GDP AT CURRENT MARKET PRICES EXPRESSED AT AN ANNUAL RATE TO £M3
GNP-BASED £M3 IS THE RATIO OF GNP AT CURRENT MARKET PRICES EXPRESSED AT AN ANNUAL RATE TO THE CENTRED QUARTERLY AVERAGE OF £M3
COLS 15 AND 16 ARE % CHANGES OVER PREVIOUS YEAR

LOWER

TABLE D DCE AND MONEY SUPPLY SUMMARY TABLE

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
		SALES OF PUB. SECTOR DEBT TO NON BANKS			BANK LENDING				EXT. & FOREIGN CURR. FINANCE	NON-DEP LIABS.		INCR. IN £M3	------VELOCITY OF £M3------			
	PSBR	GILTS	NATSAV	OTHER	PRIV. SECTOR	OVER-SEAS	RES.	DCE			RES.		GDP BASED	GNP BASED	% CHG GDP BASED	% CHG GNP BASED
1978	8348	4302	1525	164	4693	1062	-32	8080	-425	887	-28	6740	3.31	3.39	-0.45	-0.97
1979	12613	8485	1165	1365	8799	-14	155	10598	-2044	804	-30	6820	3.42	3.37	3.31	+0.45
1980	6824	7101	1542	-311	10049	863	-546	8855	-1688	1797	-73	5100	3.63	3.61	6.13	7.07
1981	10029	5925	1447	-172	5930	-14	-42	8694	-2114	1459	0	5121	3.77	3.75	3.85	3.74
1978/79	9254	5721	1618	1154	6354	336	-34	7417	-1082	915	0	5420	3.31	3.36	-0.21	-1.64
1979/80	9998	8264	1020	-511	9570	405	-174	11110	-2876	1384	-116	6740	3.47	3.43	4.82	2.07
1980/81	8199	5603	1470	177	7875	494	-366	8952	-1866	1677	1	5410	3.67	3.66	5.66	6.70
1981/82	11375	7375	1397	56	6437	-165	-3	8816	-2305	1366	-1	5144	3.80	3.79	3.66	3.45
1978 QTR 1	1557	439	422	299	758	646	150	1951	373	-82	-16	2390	3.26	3.39	-0.16	2.69
QTR 2	1913	1569	348	-439	1641	294	12	2382	-667	341	-14	1360	3.31	3.37	0.21	-0.15
QTR 3	2320	1167	470	155	1106	47	-19	1662	-175	315	-2	1170	3.35	3.41	-0.22	-0.99
QTR 4	2558	1127	285	149	1188	75	-175	2085	44	313	4	1820	3.30	3.38	-0.96	-1.80
1979 QTR 1	2463	1858	515	1289	2419	-80	148	1288	-284	-54	12	1070	3.28	3.27	0.63	-3.71
QTR 2	3031	2484	190	84	2370	-18	-1	2624	-221	351	8	2060	3.43	3.40	3.59	0.68
QTR 3	3719	2044	140	109	2180	99	-35	3670	-1546	576	-38	1510	3.48	3.43	3.82	0.59
QTR 4	3400	2099	260	-117	1830	-15	43	3016	-893	-69	-12	2180	3.46	3.40	4.88	0.65
1980 QTR 1	-152	1637	430	-587	3190	429	-181	1896	-216	526	-74	990	3.51	3.48	6.67	6.52
QTR 2	2245	2160	260	380	3520	370	-345	3050	-850	500	0	1700	3.65	3.66	6.47	7.63
QTR 3	2447	2115	566	65	2092	61	-19	1894	-305	378	-1	1210	3.66	3.64	5.11	6.21
QTR 4	2284	1189	406	-169	1247	3	0	2198	-516	391	-1	1200	3.68	3.67	6.23	7.91
1981 QTR 1	1223	139	358	-90	1015	59	0	1899	-193	405	-1	1300	3.68	3.67	4.02	5.44
QTR 2	2944	2396	374	-66	1869	60	-12	2156	-506	341	0	1249	3.76	3.75	3.06	2.45
QTR 3	2890	1687	362	38	1489	-39	-12	2240	-615	351	0	1273	3.78	3.77	3.42	3.36
QTR 4	2963	1703	353	-45	1553	-94	-13	2397	-737	361	0	1298	3.83	3.81	4.01	3.91
1982 QTR 1	2578	1589	308	129	1522	-91	39	2022	-385	313	0	1323	3.83	3.82	4.07	4.20

COL 1 CALENDAR YEAR SEASONALLY ADJUSTED
COL 2 COMPRISES GILTS, LONG TERM LA DEBT AND PC DEPT
COL 4 COMPRISES TREASURY BILLS, LA TEMPORARY DEBT AND OTHER CG DEBT
COL 8 = COL1-(COL2+COL3+COL4)+COL5+COL6+COL7
COL13 = COL8+COL9-COL10
GDP-BASED £M3 IS THE RATIO OF GDP AT CURRENT MARKET PRICES EXPRESSED AT AN ANNUAL RATE TO £M3
GNP-BASED £M3 IS THE RATIO OF GNP AT CURRENT MARKET PRICES EXPRESSED AT AN ANNUAL RATE TO THE CENTRED QUARTERLY AVERAGE OF £M3
COLS 15 AND 16 ARE % CHANGES OVER PREVIOUS YEAR

TABLE E BANK LENDING

PERCENTAGE CHANGE IN AMOUNTS OUTSTANDING OVER PREVIOUS YEAR

	1	2	3	4	5	6	7	8	9
	£ TO PERSONS	£ TO I+C COMPANIES TOTAL	£ TO OFI'S	TOTAL £ PRIVATE SECTOR	FOREIGN CURRENCY TO PRIVATE SECTOR	TOTAL ADVANCES TO PRIVATE SECTOR	£ TO OVERSEAS	PUBLIC SECTOR	
								£	FOREIGN CURRENCY
1978 QTR 1	15.51	10.24	12.51	11.88	4.83	10.44	30.24	6.27	-100.00
QTR 2	19.57	9.90	20.66	13.46	9.04	12.54	31.72	35.88	-100.00
QTR 3	21.58	10.32	21.38	14.39	7.49	13.02	27.30	-9.33	-100.00
QTR 4	21.43	11.35	23.21	15.21	8.09	13.84	20.12	10.09	-100.00
1979 QTR 1	24.74	17.75	20.60	19.99	4.74	17.02	2.58	20.64	-100.00
QTR 2	24.44	19.74	20.22	21.13	-0.25	16.84	-3.40	13.67	-100.00
QTR 3	27.32	20.57	23.97	22.86	0.78	18.69	-2.36	62.35	-100.00
QTR 4	28.60	20.05	32.87	23.77	3.07	19.98	-0.57	73.04	-100.00
1980 QTR 1	29.65	21.15	31.50	24.59	6.07	21.36	5.50	-9.98	-100.00
QTR 2	25.42	26.11	26.20	25.92	-1.59	21.20	5.41	-25.04	-100.00
QTR 3	19.04	27.20	16.86	23.75	0.88	20.08	5.62	-15.22	-100.00
QTR 4	15.99	26.78	7.32	21.53	-0.77	18.02	7.14	-27.23	-100.00
1981 QTR 1	13.97	18.97	4.22	16.03	-3.15	13.11	4.95	11.99	-100.00
QTR 2	16.70	11.30	5.41	12.34	5.47	11.39	7.62	11.87	-100.00
QTR 3	18.89	9.61	7.87	12.15	1.35	10.70	6.19	11.97	-100.00
QTR 4	20.58	10.73	10.96	13.64	1.67	12.05	4.70	12.06	-100.00
1982 QTR 1	20.40	12.71	14.71	15.21	2.00	13.49	1.91	11.92	-100.00

TABLE E BANK LENDING

PERCENTAGE CHANGE IN AMOUNTS OUTSTANDING OVER PREVIOUS YEAR

		1	2	3	4	5	6	7	8	9
		£ TO PERSONS	£ TO I+C COMPANIES TOTAL	£ TO OFI'S	TOTAL £ PRIVATE SECTOR	FOREIGN CURRENCY TO PRIVATE SECTOR	TOTAL ADVANCES TO PRIVATE SECTOR	£ TO OVER-SEAS	PUBLIC SECTOR £	PUBLIC SECTOR FOREIGN CURRENCY
1978	QTR 1	15.51	10.24	12.51	11.88	4.83	10.44	30.24	6.27	-100.00
	QTR 2	19.57	9.90	20.66	13.46	9.04	12.54	31.72	35.88	-100.00
	QTR 3	21.58	10.32	21.38	14.39	7.49	13.02	27.30	-9.33	-100.00
	QTR 4	21.43	11.35	23.21	15.21	8.09	13.64	20.12	10.09	-100.00
1979	QTR 1	24.74	17.75	20.60	19.99	4.74	17.02	2.58	20.64	-100.00
	QTR 2	24.44	19.74	20.22	21.13	-0.25	16.84	-3.40	13.67	-100.00
	QTR 3	27.32	20.57	23.97	22.86	0.78	18.69	-2.36	62.35	-100.00
	QTR 4	28.60	20.05	32.87	23.77	3.07	19.98	-0.57	73.04	-100.00
1980	QTR 1	29.65	21.15	31.50	24.59	6.07	21.36	5.50	-9.98	-100.00
	QTR 2	25.42	26.11	26.20	25.92	-1.59	21.20	3.94	-25.04	-100.00
	QTR 3	18.78	28.46	16.52	24.41	0.88	20.63	3.42	-15.22	-100.00
	QTR 4	15.50	28.32	6.19	22.18	-0.77	18.57	3.91	-27.23	-100.00
1981	QTR 1	12.60	20.28	2.34	16.24	-3.15	13.29	0.70	11.99	-100.00
	QTR 2	14.49	12.14	2.69	11.97	5.47	11.06	3.54	11.87	-100.00
	QTR 3	15.90	8.67	4.36	10.39	1.35	9.18	1.60	11.97	-100.00
	QTR 4	16.70	8.37	7.19	10.71	1.67	9.52	-0.27	12.06	-100.00
1982	QTR 1	16.42	9.14	10.59	11.42	2.00	10.19	-3.10	11.02	-100.00

TABLE F FINANCING THE PUBLIC SECTOR BORROWING REQUIREMENT

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
		FINANCED BY													
	PSBR	OVERSEAS				NON-BANK PRIVATE SECTOR						BANKS			TOTAL
		CHANGE IN RESERVES	DIRECT OFFICIAL F.C FINANCE	OTHER	TOTAL	NOTES AND COIN	TREAS + LA BILLS	NAT SAVINGS	GILTS ETC	OTHER	TOTAL	£	F.C	TOTAL	
1978	8348	3026	0	755	3781	1178	-517	1525	4302	673	7161	-2594	0	-2594	8348
1979	12014	-2440	0	1703	-737	1001	39	841	8485	1105	11471	1880	0	1880	12614
1980	6170	-174	0	1905	1731	1421	-33	1557	6816	-190	9571	-5132	0	-5132	6170
1981	7283	559	0	1157	1716	1683	149	1597	6405	-307	9527	-3960	0	-3960	7283
1978/79	9253	2464	0	-327	2137	1101	-588	1618	5721	1735	9587	-2471	0	-2471	9253
1979/80	9828	-2739	0	2049	-690	863	-82	755	8264	-282	9519	999	0	999	9828
1980/81	7207	804	0	1363	2167	1300	160	1517	5341	121	8439	-3399	0	-3399	7207
1981/82	8115	232	0	1228	1460	1804	107	1545	7858	-52	11262	-4607	0	-4607	8115
1978 QTR 1	1548	-195	0	1498	1303	628	22	422	439	-94	1417	-1172	0	-1172	1548
QTR 2	1936	2019	0	-259	1760	126	-402	348	1569	-5	1636	-1460	0	-1460	1936
QTR 3	2273	526	0	-636	-110	337	-220	470	1167	541	2295	88	0	88	2273
QTR 4	2591	676	0	152	828	87	83	285	1127	231	1813	-50	0	-50	2591
1979 QTR 1	2453	-757	0	416	-341	551	-49	515	1858	968	3843	-1049	0	-1049	2453
QTR 2	3034	-1717	0	2051	334	37	18	184	2484	48	2771	-71	0	-71	3034
QTR 3	3695	-142	0	-831	-973	302	-9	153	2044	282	2772	1896	0	1896	3695
QTR 4	3432	176	0	67	243	111	79	-11	2099	-193	2085	1104	0	1104	3432
1980 QTR 1	-333	-1050	0	762	-288	413	-170	430	1637	-419	1891	-1936	0	-1936	-333
QTR 2	2251	461	0	527	988	470	-6	197	2160	449	3270	-2007	0	-2007	2251
QTR 3	2287	-121	0	288	167	254	166	508	1871	-86	2713	-593	0	-593	2287
QTR 4	1965	542	0	328	870	284	-23	422	1148	-134	1697	-602	0	-602	1965
1981 QTR 1	704	-78	0	220	142	292	23	390	162	-108	759	-197	0	-197	704
QTR 2	2353	424	0	289	713	512	26	414	2497	-87	3362	-1722	0	-1722	2353
QTR 3	2170	-142	0	306	164	453	94	404	1870	-63	2758	-752	0	-752	2170
QTR 4	2056	355	0	342	697	426	6	389	1876	-49	2648	-1289	0	-1289	2056
1982 QTR 1	1536	-405	0	291	-114	413	-19	338	1615	147	2494	-844	0	-844	1536

COL 5 = COLS 2+3+4 COL 11 = COLS 6+7+8+9+10
COL 14 = COLS 12+13 COL 15 = COLS 5+11+14
BALANCE FOR OFFICIAL FINANCING = COLS 2+3+13

LOWER

TABLE F FINANCING THE PUBLIC SECTOR BORROWING REQUIREMENT

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
		FINANCED BY													
		OVERSEAS				NON-BANK PRIVATE SECTOR						BANKS			TOTAL
	PSBR	CHANGE IN RESERVES	DIRECT OFFICIAL F.C FINANCE	OTHER	TOTAL	NOTES AND COIN	TREAS + LA BILLS	NAT SAVINGS	GILTS ETC	OTHER	TOTAL	£	F.C	TOTAL	
1978	8346	3020	0	755	3781	1178	-517	1525	4302	673	7161	-2594	0	-2594	8347
1979	12614	-2440	0	1703	-737	1001	39	841	8485	1105	11471	1880	0	1880	12614
1980	6643	-602	0	2006	1404	1460	-32	1539	7101	-218	9850	-4611	0	-4611	6643
1981	9951	1010	0	1503	2513	1682	185	1448	5925	-356	8884	-1416	0	-1416	9981
1978/79	9253	2464	0	-327	2137	1101	-588	1618	5721	1735	9587	-2471	0	-2471	9253
1979/80	9828	-2726	0	2037	-689	863	-82	756	8264	-282	9519	998	0	998	9828
1980/81	8199	382	0	1556	1938	1351	168	1468	5603	71	8661	-2400	0	-2400	8199
1981/82	11375	810	0	1578	2388	1765	144	1397	7375	-86	10595	-1608	0	-1608	11375
1978 QTR 1	1545	-195	0	1498	1303	628	22	422	439	-94	1417	-1172	0	-1172	1548
QTR 2	1936	2019	0	-259	1760	126	-402	348	1569	-5	1636	-1460	0	-1460	1936
QTR 3	2273	520	0	-636	-110	337	-220	473	1167	541	2298	83	0	88	2273
QTR 4	2591	670	0	152	828	87	83	265	1127	231	1793	-50	0	-50	2591
1979 QTR 1	2453	-757	0	416	-341	551	-49	515	1858	968	3843	-1049	0	-1049	2453
QTR 2	3034	-1717	0	2051	334	37	18	184	2484	48	2771	-71	0	-71	3034
QTR 3	3695	-142	0	-831	-973	302	-9	153	2044	282	2772	1896	0	1896	3695
QTR 4	3432	170	0	67	243	111	79	-11	2009	-193	1995	1194	0	1194	3432
1980 QTR 1	-333	-1043	0	750	-293	413	-170	430	1637	-419	1891	-1931	0	-1931	-333
QTR 2	2245	365	0	558	923	470	-6	197	2160	449	3270	-1948	0	-1948	2245
QTR 3	2447	-349	0	316	-33	280	162	506	2115	-97	2960	-486	0	-486	2447
QTR 4	2284	425	0	382	807	297	-18	406	1189	-151	1723	-246	0	-246	2284
1981 QTR 1	1223	-59	0	300	241	304	30	359	139	-130	702	280	0	280	1223
QTR 2	2931	549	0	374	923	521	34	374	2396	-99	3226	-1219	0	-1218	2931
QTR 3	2877	7	0	393	400	440	104	362	1687	-65	2528	-51	0	-51	2877
QTR 4	2950	513	0	436	949	417	17	353	1703	-62	2428	-427	0	-427	2950
1982 QTR 1	2617	-259	0	375	116	387	-11	308	1589	140	2413	88	0	88	2617

COL 5 = COLS 2+3+4 COL 11 = COLS 6+7+8+9+10
COL 14 = COLS 12+13 COL 15 = COLS 5+11+14
BALANCE FOR OFFICIAL FINANCING = COLS 2+3+13

TABLE G NON-BANK PRIVATE SECTOR FLOW OF FUNDS

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1 NOTES AND COIN	2 TREAS + LA BILLS	3 GILTS ETC	4 NAT SAV	5 TAX CERTS ETC	6 £ RETAIL DEPS	7 £ CD'S	8 LA DEPS	9 CHANGE IN ASSETS	10 £ BANK LOANS	11 NET F.C LIABS	12 NET MISC LIABS	13 TOTAL IN LIABS	14 NET SURPLUS/ DEFICIT
1978	1176	-517	4362	1525	280	5356	-23	393	12494	4832	-15	-2060	2757	9737
1979	1001	39	8485	841	144	6561	-464	961	17568	8700	-158	626	9168	8402
1980	1421	-33	6816	1557	-483	2919	703	293	13193	9753	-82	-6007	3664	9529
1981	1683	149	6405	1597	237	2945	412	-544	12884	7505	-499	-4796	2210	10674
1978/79	1101	-588	5721	1619	1034	4624	-312	701	13849	6482	211	-2466	4227	9672
1979/80	863	-82	8264	756	-958	6217	-328	676	15408	9569	295	-3696	6168	9241
1980/81	1300	160	5341	1517	154	3059	991	-33	12489	7771	-861	-3606	3304	9185
1981/82	1894	107	7858	1545	454	3098	161	-506	14521	8556	-489	-5141	2926	11595
1978 QTR 1	628	22	439	422	-269	1606	183	175	3206	669	-25	953	1597	1609
QTR 2	126	-402	1569	348	-27	1291	-82	22	2845	1661	26	-1604	83	2762
QTR 3	337	-229	1167	470	412	1052	-76	129	3271	1296	-10	-746	540	2731
QTR 4	87	83	1127	285	164	1407	-48	67	3172	1206	-6	-663	537	2635
1979 QTR 1	551	-49	1858	515	485	874	-106	483	4611	2319	201	547	3067	1544
QTR 2	37	18	2484	184	0	2159	-45	49	4885	2384	-116	1088	3356	1529
QTR 3	302	-9	2044	153	-62	1221	-23	344	3970	2183	95	-653	1625	2345
QTR 4	111	79	2069	-11	-279	2307	-290	86	4102	1814	-338	-356	1120	2984
1980 QTR 1	413	-170	1637	430	-617	530	30	198	2451	3188	654	-3775	67	2383
QTR 2	470	-6	2160	197	69	1210	0	380	4480	3520	-441	-741	2338	2142
QTR 3	254	166	1671	508	68	613	343	-154	3669	1808	-160	-285	1363	2306
QTR 4	284	-23	1148	422	-3	566	330	-131	2593	1237	-135	-1296	-194	2698
1981 QTR 1	292	23	162	390	20	670	318	-128	1747	1206	-125	-1374	-293	2039
QTR 2	512	26	2497	414	47	762	-44	-134	4080	2168	276	-1044	1400	2681
QTR 3	453	94	1370	404	78	758	42	-141	3558	1930	-525	-749	656	2901
QTR 4	426	6	1876	389	92	755	96	-141	3499	2201	-125	-1629	447	3053
1982 QTR 1	413	-19	1615	338	237	823	67	-90	3384	2257	-115	-1719	423	2960

COL 9 = COLS 1+2+3+4+5+6+7+8 COL 13 = COLS 10+11+12
COL 14 = COLS 9-13

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TABLE G NON-BANK PRIVATE SECTOR FLOW OF FUNDS

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1 NOTES AND COIN	2 TREAS + LA BILLS	3 GILTS ETC	4 NAT SAV	5 TAX CERTS ETC	6 £ RETAIL DEPS	7 £ CD'S	8 LA DEPS	9 CHANGE IN ASSETS	10 £ BANK LOANS	11 NET F.C LIABS	12 NET MISC LIABS	13 TOTAL IN LIABS	14 NET SURPLUS/ DEFICIT
1978	1176	-517	4302	1525	280	5356	-23	393	12494	4832	-15	-2060	2757	9737
1979	1091	39	8485	841	144	6561	-464	961	17568	8700	-158	626	9168	8402
1980	1460	-32	7101	1539	-480	2827	756	262	13433	10047	-82	-5190	4775	8658
1981	1662	185	5925	1449	259	2863	495	-615	12242	5929	-499	-3143	2287	9955
1978/79	1101	-588	5721	1619	1034	4624	-312	701	13899	6482	211	-2456	4227	9672
1979/80	863	-82	8264	756	-958	6217	-328	676	15408	9569	295	-3655	6109	9210
1980/81	1351	168	5603	1469	152	2941	1059	-81	12661	7875	-861	-2415	4599	8063
1981/82	1765	144	7375	1397	491	3029	268	-577	13892	6436	-489	-3492	2455	11437
1978 QTR 1	628	22	439	422	-269	1666	183	175	3206	669	-25	863	1507	1699
QTR 2	126	-402	1569	348	-27	1291	-82	22	2845	1661	26	-1604	83	2762
QTR 3	337	-220	1167	470	412	1052	-76	129	3271	1296	-10	-746	540	2731
QTR 4	87	83	1127	285	164	1407	-48	67	3172	1206	-6	-663	537	2635
1979 QTR 1	551	-49	1858	515	485	874	-106	483	4011	2319	201	547	3067	1544
QTR 2	37	18	2484	184	0	2159	-45	48	4885	2384	-116	1088	3356	1529
QTR 3	392	-9	2044	153	-62	1221	-23	344	3970	2183	95	-653	1625	2345
QTR 4	111	7[illegible]	2099	-11	-279	2367	-290	85	4102	1814	-339	-356	1120	2984
1980 QTR 1	413	-170	1637	436	-617	530	30	198	2451	3188	654	-3744	98	2353
QTR 2	476	-6	2160	197	69	1210	0	389	4480	3520	-441	-454	2625	1855
QTR 3	280	162	2115	506	76	538	393	-173	3897	2092	-160	-92	1840	2056
QTR 4	297	-18	1189	406	-8	549	333	-143	2605	1247	-135	-900	212	2395
1981 QTR 1	304	30	139	359	15	644	333	-145	1679	1016	-125	-969	-78	1757
QTR 2	521	34	2396	374	52	732	-24	-151	3934	1869	276	-652	1493	2441
QTR 3	440	104	1697	362	94	749	64	-159	3341	1490	-525	-348	617	2723
QTR 4	417	17	1703	353	98	738	122	-160	3288	1554	-125	-1174	255	3034
1982 QTR 1	387	-11	1589	308	247	810	106	-107	3329	1523	-115	-1318	90	3239

COL 9 = COLS 1+2+3+4+5+6+7+8 COL 13 = COLS 10+11+12
COL 14 = COLS 9-13

[illegible] PRINT