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Linn P...
Prime Minister

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

PRIME MINISTER

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MONETARY DEVELOPMENTS

I thought that you might like to know the outcome of the discussions which I have just had with the Governor, to take stock of the monetary position following the Budget.

The Market Reaction to the Budget

2. The gilt-edged market reacted to the Budget very quietly. There was some selling on Thursday by loose holders, but the institutional investors appear to have adopted an attitude of wait and see. The market had begun to come back today, before the announcement of the findings of the Committee of Inquiry into the steel dispute. Since then it has strengthened slightly further. This recovery in the gilt-edged market has taken place, notwithstanding the rise in American interest rates, and some slight upward movement in our own domestic money market rates.

3. This means that there is a tolerable prospect that we may be able to resume gilt sales fairly soon. However, the present inflow into the Exchequer, partly because of the forward oil sales, means that we have a reasonable chance of achieving an acceptable April money supply figure, even if we do not achieve any gilt sales. We can afford to wait until some piece of good news cheers the market.

4. It is possible that this may happen on Thursday week, 10 April, when the eligible liability figures are published, along with the

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clearing bank figures. We have only a very preliminary estimate of the money supply in banking March: on the basis of this, it is fairly certain that the growth of the money supply was less than 1 per cent in the month, and that bank lending was below the recent trend level, possibly significantly so. If the later figures confirm these first impressions, then that should help to reassure the market.

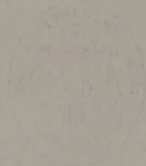
Money Markets

5. The Exchequer surplus to which I have just referred has also had the effect of causing very tight conditions in the money markets, and upward pressure on short term interest rates. The Governor and I have agreed that in these circumstances we must postpone the recall of special deposits which was due to be made on 8 April: this will be announced in a low key manner when the markets open on Tuesday 1 April. We may also need to renew the purchase and resale of gilts, which would otherwise expire on 14 April, especially if we make significant gilt sales before then. But we can delay a decision on that until after the eligible liability figures have been published, and we know whether we have achieved gilt sales or not.

(G.H.)

31st(?) March 1980

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