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Treasury Chambers, Parliament Street, SW1P 3AG
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8 December 1980

Tim Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Tim,

NOVEMBER MONEY SUPPLY FIGURES

The provisional estimate of money supply growth based on all banks' returns for banking November is now available. £M3 grew by 2.1 per cent, bringing the annual rate of growth since mid February to 24¼ per cent before allowing for corset distortions, or about 20 per cent after such distortions are allowed for.

The counterparts to the growth in £M3 are shown in the attached table. Overwhelmingly the largest is the CGBR, which at almost £2 billion, was very high. On-lending to the rest of the public sector accounted for about £570 million of this, with a small part of this being offset by a reduction in bank lending to local authorities and public corporations. Private sector purchases of central government debt were £870 million, with sales of gilts accounting for about ¾ of this. New investment in national savings was very small ahead of the new issue of Granny Bonds on 17 November.

Bank lending in sterling to the private sector fell slightly, and if allowance is made for a fall of £160 million in the outstanding "Bill leak" the underlying reduction seems to have been appreciably larger. But there was substantial sterling lending to overseas of nearly £500 million, which appreciably outweighed the negative external adjustment; thus the net effect of external transactions was expansionary, probably reflecting the strong current account.

/The financial markets

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The financial markets may be rather disappointed by the figures, whose impact will be reinforced by the very high CGBR figure for calendar November (£2.7 billion) which will also be published tomorrow. There are nonetheless some helpful points which can be made in background briefing:-

i. The money supply figure reflects high Central Government borrowing, but this was expected and is broadly consistent with the Industry Act forecast.

ii. There are signs that the growth of bank lending to the private sector has turned down, and this should augur well for the rest of the target period. (The clearing bank figures would point to a rather larger fall in bank lending - the discrepancy results from the fact that market interest rates were somewhat lower than the banks' base rates over the November make-up day.)

iii. We have always recognised that the slow down in monetary growth depended on the movement of the public sector into surplus after the beginning of the new year and on substantial sales of the new Granny Bond issue, which would only begin to come through in banking December.

Yours

John

A J WIGGINS
Principal Private Secretary

Banking November
£m seasonally adjusted

CGBR			+ 1961
Purchase of central government debt by the non-bank private sector (increase = -)			- 869
of which:	gilts	- 665	
	Treasury bills	+ 23	
	National Savings	- 14	
	Other	- 213	
Net other public sector			- 43
Sterling bank lending to the private sector			- 10
Sterling bank lending to overseas			+ 492
DCE			+ 1531
External and foreign currency finance adjustment			- 278
Net non-deposit liabilities			+ 104
£M3			+ 1357