

Sir Douglas Wass

cc Chancellor of the Exchequer
 Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Mr Burns
 Sir Kenneth Couzens
 Mr Rylie
 Mr Britton
 Mr Monck
 Mr Unwin
 Mr Ridley

BUDGET SPEECH: SECTION G6 ON MLR

As I mentioned to you the Bank said yesterday that they did not like the version of Section G6 attached to my minute of 3 March. They thought it difficult to refer to the PSL figures, partly because they had not been referred to before and partly because though PSL1 was growing slower than £M3, PSL2 is growing quicker. Moreover they are a little apprehensive at referring to £M3 when there has been a further increase this month in resident sterling deposits, producing a rather large figure for M3.

2. I do not think these are overwhelming objections but I have had a further go at producing a draft which I think might be acceptable to them. This I attach. For the sake of completeness I also attach the two earlier versions.



P E MIDDLETON
 5 March 1981

Encs

VERSION III

1. Decisions about short term interest rates will continue to take account of the whole range of monetary indicators referred to earlier and other factors which affect the significance of these numbers, especially the progress of inflation. Modest reductions in interest rates were made in the second half of last year. Progress in reducing inflation, strongly positive real interest rates, a noticeable slackening in the growth of £M3 in recent months, and a marked fall off in bank lending point towards a further reduction in rates. The increases in taxation which I have just outlined will make it possible to have an immediate reduction.

2. The Bank of England is therefore, with my approval, reducing its Minimum Lending Rate by (2) percentage points.

3. The Bank of England is therefore, with my approval, reducing its Minimum Lending Rate by (1) percentage points.

VERSION II

1. Decisions about short term interest rates will continue to take account of the whole range of monetary indicators referred to earlier and other factors which affect the significance of these numbers, especially the progress of inflation. Modest reductions in interest rates were made in the second half of last year. The increases in taxation which I have just outlined, will make it possible to make an immediate further reduction.
2. Recent monetary statistics, slackening bank lending, further progress in reducing inflation, and sharply rising real interest rates point in the same direction. The growth of ~~£M3~~ has been coming down quickly when measured over 12 month, 6 month and 3 month periods. The provisional figures for banking February suggest it has grown ^{at an annual rate of} by around 9% over the last three months, and this is confirmed by the even better performance of private sector liquidity which has been relatively unaffected by the corset.
3. The Bank of England is therefore, with my approval, reducing its Minimum Lending Rate by (2) percentage points.

VERSION I

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Mr. Fforda 8/15 2/3Last Paragraph of SECTION H

Decisions about short term interest rates will continue to take account of the whole range of monetary indicators referred to earlier and other factors which affect the significance of these numbers, especially the progress of inflation. Modest reductions in interest rates were made in the second half of last year. Since then there has been further progress on inflation, and the real rate of interest has sharply risen. This together with the measures I am taking to reduce the PSBR in the coming year, make it possible to allow a further reduction. The Bank of England, with my approval, today reduced its Minimum Lending Rate by [2] percentage points.

Copies of this page circulated only to:

Chancellor
Chief Secretary
Financial Secretary
Sir D Wass
Sir K Couzens
Mr Burns
Mr Ryrie
Mr Middleton
Mr Monck
Mr Folger



J B UINWIN
27 February 1981

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3