

MR MIDDLETON

*Prin. Minister*

cc Chancellor  
 Financial Secretary  
 Sir Douglas Wass  
 Mr Burns  
 Mr Ryrie  
 Mr Kemp  
 Mr Monck  
 Mr Britton  
 Mr Turnbull  
 Mr Shields  
 Mr H Davies  
 Mr Lankester - No 10

*Confirmation but**M3 grew by**2.2% in**banking July.**MS*

## JULY MONEY SUPPLY FIGURES

*12. 3/7*

1. attach the provisional money supply figures for banking July and the Bank's draft press announcement.

2. Sterling M3 is estimated to have increased by 2.2 per cent, in line with the 'first guess' and our forecast. The Bank's press notice makes two points:

- (i) that the figure was again distorted by the strike, with the CGBR being increased rather more than in previous months;
- (ii) nevertheless, underlying growth in £M3 still appears to be within the target range.

*T. Lennon*

T LENNON

31 July 1981

## PROVISIONAL MONETARY AGGREGATES FOR JULY

£ millions, seasonally adjusted

As usual at this stage all figures are subject to revision, particularly those affected by overseas holdings of gilts and others shown in brackets in the attached table.

1 Sterling M3 is provisionally estimated to have risen by 1,580 (2.2%), in line with both the first estimate based on weekly banks' figures and the forecast. The cumulative growth in the first five months of the target period is 17.6% at an annual rate. This figure has been distorted by the Civil Servants' dispute which is estimated to have inflated the CGBR by approximately 1,600 in July and by about 5½ billion cumulatively to date; for growth to have been within the 6-10% target range it would be necessary for between 2 and 3 billion of this to have increased bank deposits (ie between 37% and 57%).

2 The wide monetary base showed virtually no change in July continuing a run of very low figures. It has grown at an annual rate of under 2% since February and at only 6½% over the past year. M1, which may be liable to large (and unpredictable) strike distortions, increased very sharply by 3.2% in July after falling by ½% in June. Some 390 of 1,000 increase was in interest bearing sight deposits so NIBM1 growth of 2.3% was somewhat smaller. Since mid-February NIBM1 has grown at 17.9% pa. The wider sterling liquidity aggregates also rose sharply, PSL1 by 2.2% and PSL2 by 1.6%. Growth in PSL2 over the past five months has been 16.0% pa.

3 Foreign currency deposits of UK residents, on a transactions basis showed a slight fall (-10) - the first this year. The 550 rise in the outstanding level of these deposits was due entirely to valuation. Total M3 rose by 2.6% and has risen at 26.4% pa since February.

4 The counterparts to the rise in sterling M3 are broadly similar to the pattern indicated by the weekly figures. The CGBR was 2,290, about 70% of it due to strike distortions. The direct contribution of the rest of the public sector, at -490, was heavily and surprisingly negative (almost 600 less than forecast after allowing for differences in forecast on-lending by central government). This indicates that, allowing for the strike, the underlying PSBR was low in July; although an accurate figure cannot be calculated it is hard to see how it could have been more than 4-500. Net purchases of central government debt were also relatively low at 630, but nevertheless the underlying PSBR was overfunded by some 4 or 500.

5 Sterling lending to the private sector increased by 400 nearly 200 more than forecast (no details yet available). External and foreign currency items indicate a modest inflow of 140 - lending in sterling to overseas was large (570) but largely matched by higher overseas sterling deposits (440). (Allowing for a net repayment of 60 foreign currency lending to the private sector the balance on current and capital account may have been a surplus of some 200).

#### Conclusion

The large increase in sterling M3 this month appears to be due mainly to:

- (a) an above average strike distortion to the CGBR (some 1.6 billion compared to an average 1.2 billion in the previous 3 months);
- (b) a low level of gilt-edged purchases by the non-bank private sector - only 150 compared with a monthly average of 780

over the previous eleven months (even though the underlying PSBR was substantially overfunded in July);

- (c) a slight up-turn in bank lending. This may reflect a changing pattern of strike distortions - as overdrafts are paid off less of the strike effect will reduce lending and more will tend to increase deposits - but it is equally consistent with an increase in the underlying trend; there is no way of knowing which explanation is correct.

In addition, there was no movement into foreign currency deposits this month - over the previous six months they have increased by an average of 400 a month (transactions basis).

Financial Statistics and Economics Divisions (HO-4)  
30 July 1981

D J Reid (4764)/W A Allen (4315)

£ millions  
seasonally adjusted

PROVISIONAL DCE, STERLING M3 ETC IN BANKING JULY 1981

	<u>Preliminary<sup>φ</sup></u>	<u>Forecast*</u>	
CGBR: own account	+2,091	+2,218	
on-lending to LAs	- 101	- 118	
on-lending to PCs	+ 302	+ 120	
	<u>+2,292</u>	<u>+2,220</u>	+2,220
Net purchases of CG debt by non-bank private sector: (inc. -)			
Gilts	- 153	- 415	
Treasury bills	- 22	- 25	
National Savings	- 249	- 150	
TSB claim on FBS	- 1	-	
Certificates of tax deposit etc.	- 207	- 190	
	<u>- 632</u>	<u>- 780</u>	- 780
Other public sector: Local authorities	- 194	+ 140	
Public corporations	- 298	+ 160	
	<u>- 492</u>	<u>+ 300</u>	+ 300
Sterling lending to the private sector:			
Bank lending to private sector	+ 586		
Issue Department commercial bills	- 183	+ 215	
	<u>+ 403</u>	<u>+ 215</u>	+ 215
Sterling lending to the overseas sector:			
Bank lending to overseas sector	+ 575	+ 250	
	<u>+ 575</u>	<u>+ 250</u>	+ 250
External and foreign currency finance:			
Increase in reserves (inc. +)	- 521	- 367	
Official borrowing (inc. -)	+ 259	+ 267	
Overseas purchases (-) of: gilts	(- 97)	)- 80	
treasury bills	(- 51)	)- 40	
LA debt	(+ 1)	)- 10	
Overseas sterling deposits (inc -)	- 438	- 310	
Banks' net currency deposits (inc -)	+ 283	- 100	
Seasonal adjustment	+ 125	+ 125	
	<u>- 439</u>	<u>- 515</u>	- 515
Non-deposit liabilities (inc. -)	<u>- 131</u>	<u>- 125</u>	- 125
Sterling M3	<u>+1,576</u>	<u>+1,565</u>	+1,565
	<u>+ 2.2%</u>	<u>+ 2.2%</u>	+ 2.2%
DCE	<u>+2,146</u>	<u>+2,205</u>	+2,205

<sup>φ</sup> Figures in brackets are more uncertain than other figures.

\*As circulated in the Monetary Review of 15 July 1981.

SECRET

MR TORRELL - We discussed this. If you have any further comments I would be grateful for them by lunchtime on Monday.

DRAFT PRESS ANNOUNCEMENT

Dsh.  
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PROVISIONAL MONEY SUPPLY AND ELIGIBLE LIABILITIES: 15 JULY 1981

Preliminary information suggests that, during the four weeks to 15 July, sterling M3 may have grown by about 2½ per cent, after seasonal adjustment. This figure was again distorted by the Civil Servants' dispute (now ended) which is thought to have increased the CGBR by rather more in July than in previous months - probably by more than £1½ billion. It is increasingly difficult to estimate how much of this added to bank deposits but during the current target period the underlying growth of sterling M3 is not thought to have been outside the 6 per cent to 10 per cent range. The preliminary figure may of course need to be revised in the light of subsequent information.

Eligible liabilities of banks in the UK rose during the month by £2,290 million (3.2%) to stand at £74,549 million. Reserve assets fell by £55 million to £8,231 million and the reserve ratio fell from 11.5 per cent to 11.0 per cent.

Bank of England  
4 August 1981