E.R.

File

PRIME MINISTER (1)

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MONETARY CONDITIONS

John Redwood's note argues that UK financial conditions are too lax:

i) the PSBR has not been brought down significantly over the past 4 years, particularly if adjustments are made for asset sales, many of which are more like financing transactions than negative expenditure, and the capital uplift on indexed gilts;

ii) broad money has been growing at or above the top of the target range and considerably faster than inflation - see the figures at Flag A.

The Greenwell's bulletin - Flag B puts a different point of view on the monetary position. They argue that attention should be focused on the narrow aggregates and an increase in the broad aggregates in excess of the rate of inflation is not necessarily a cause for concern. The return on financial assets is now positive in real terms and this will produce a switch from real to financial assets, some of which will be held as interest bearing bank deposits. The accusation against fiscal policy seems to me to be better founded.

AT

ANDREW TURNBULL
22 February 1985

E.R.

21 February 1985

PRIME MINISTER

THE US AND UK ECONOMIES

It is now conventional wisdom that the US has a sloppy fiscal policy and a tight money policy, whereas we have the reverse. So, our critics say, why don't we copy the States?

How true is the popular view?

US money supply growth is far from slow. Over the last year, M_2 has risen 8.2% (target 6-9%) and M_3 10.2% (target 6-9%). Given that inflation is now under 3% and seems to be falling, this represents a very high level of real money growth. Only the short range aggregate, M_1, is under any kind of control.

There is no doubt that the US fiscal position is lax. A projected budget deficit of $220 billion in 1985, $230 billion in 1986, and $246 billion in 1987, is on the cards unless the cuts and savings proposed in this year's budget are implemented. The total take from the economy for US budget programmes is on a rising trend: 20.2% in 1970, 22.9% in 1980 and 25% forecast for 1985. The States is both lax in its deficit and in its monetary policy. (All figures from Panmure Gordon.)

E.R.

relevant table attached at A.

The UK's monetary policy has become too lax, as our recent brief on the EMS indicated. But we should not be relaxed about our public sector borrowing stance either. We are confronted with a dilemma. We wish to convey the picture of tight control over borrowing in order to reassure markets and to prevent interest rates rising further. Yet our critics are saying that our fiscal policy is far too tough (PSBR planned at only 2.5% of GNP) compared with the US percentage of some 5%.

Wood Mackenzie have recently produced an adjusted figure for the PSBR, taking into account the privatisation sales, the council house sales, the lower rates of interest paid on index-linked gilts (where in the end the real capital has to be repaid in full) and other one-offs, eg the VAT on imports. The table below shows how the adjusted PSBR runs compared with the recorded PSBR, both in £billion and as a percentage of GDP:

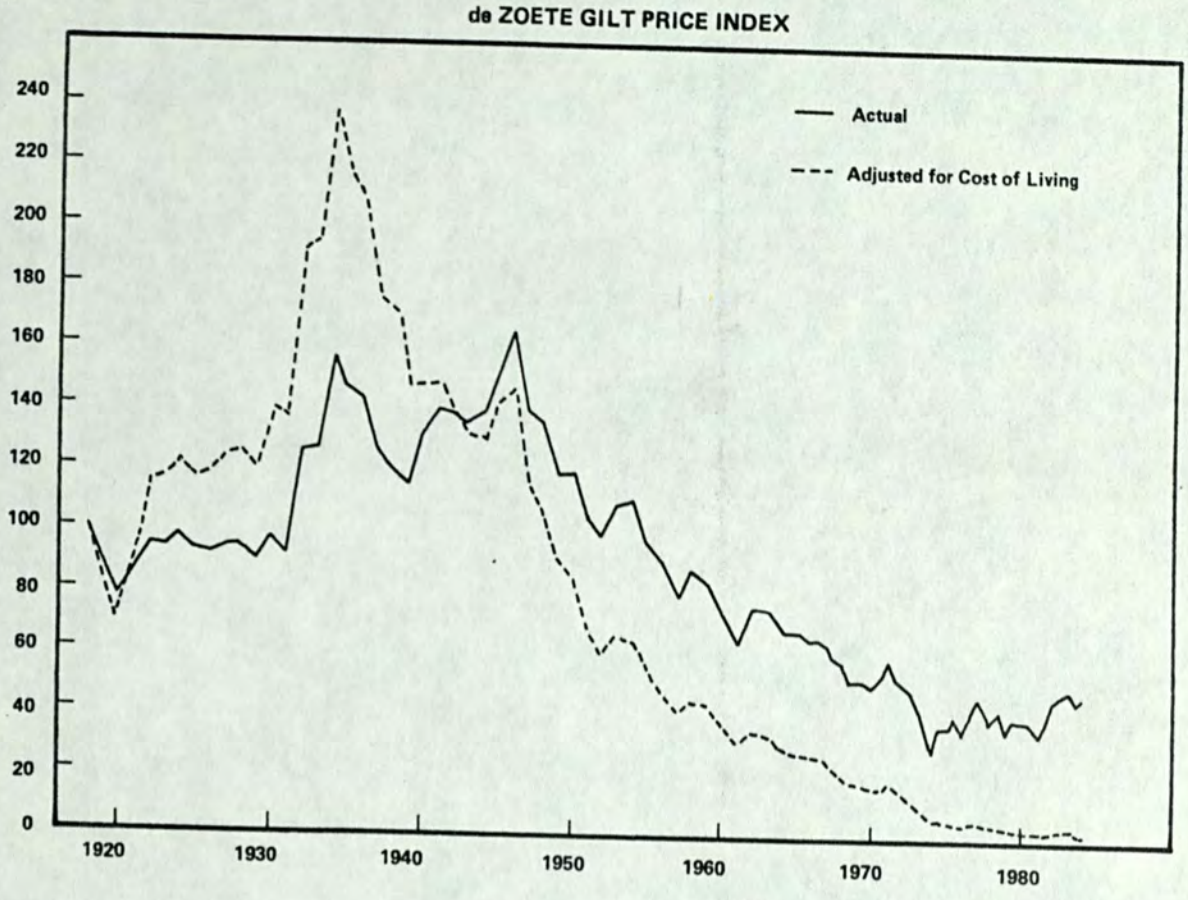
	Reported/	Adjusted for Sales of Assets	Reported	Adjusted
PSBR	£bn	£bn	% GDP	% GDP
1978/79	9.3	9.5	5.4	5.5
1979/80	10.0	11.2	4.8	5.4
1980/81	12.7	13.7	5.4	5.8
1981/82	8.6	10.4	3.3	4.0
1982/83	8.9	10.9	3.1	3.8
1983/4	9.7	12.6	3.2	4.1
1984/85	9.5	14.2	2.9	4.3

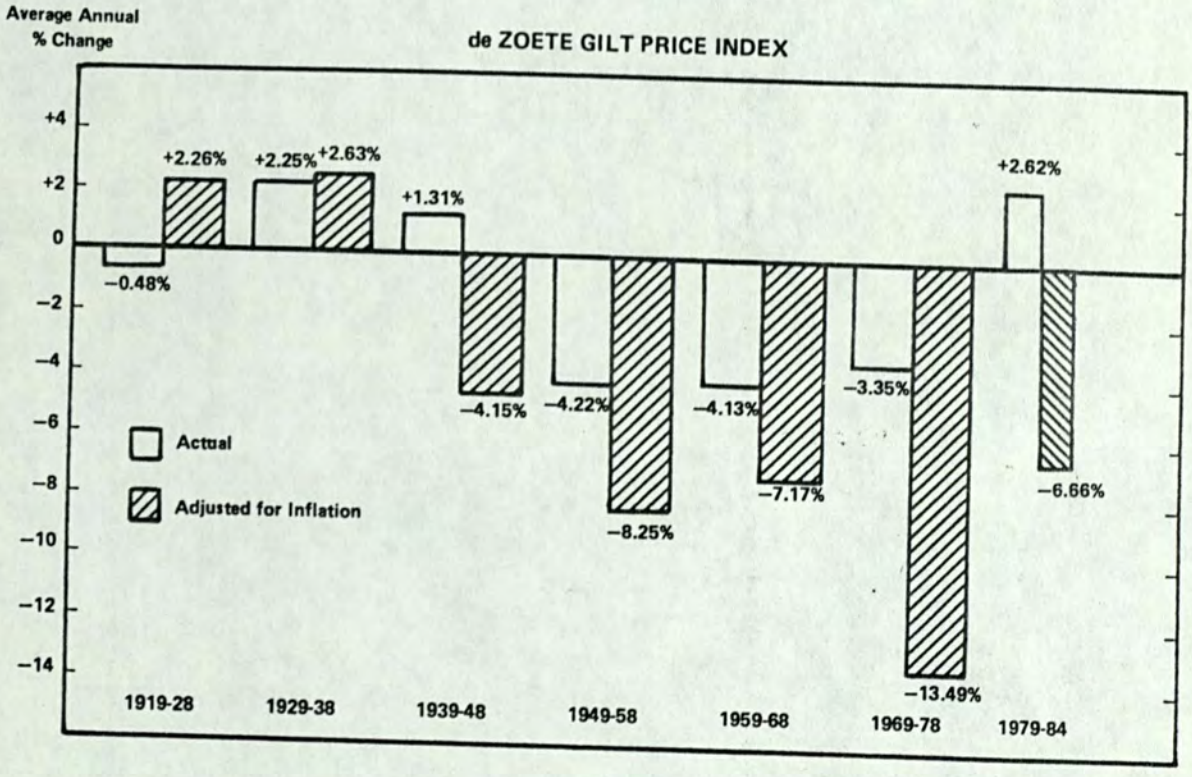
E.R.

So the US fiscal position is not that much looser than the UK's if we view asset sales as an alternative means of financing a deficit, as they are; whilst the money position in both countries is a little loose, particularly in the UK.

The moral of both stories is that a high level of public deficit makes money control that much more difficult, and in the US it has a more benign influence because the supply side factors work so much better. The attached graphs show just what has happened to investors in UK bonds since the 1930s recession. There is still no blip in the graph of the real value of gilts, reflecting the high levels of interest rates and the large amount of gilts still being sold to pay for the Government's excess spending.

JOHN REDWOOD


de ZOETE GILT PRICE INDEX
240
220
200
180
160
140
120
100
80
60
40
20
0
1920
1930
1940
1950
1960
1970
1980
Actual
Adjusted for Cost of Living


Average Annual % Change
de ZOETE GILT PRICE INDEX
+4
+2
0
−2
−4
−6
−8
−10
−12
−14
+2.26%
+2.25%
+2.63%
+1.31%
+2.62%
−0.48%
−4.15%
−4.22%
−4.13%
−3.35%
−8.25%
−7.17%
−13.49%
−6.66%
Actual
Adjusted for Inflation
1919-28
1929-38
1939-48
1949-58
1959-68
1969-78
1979-84

A

Has it fallen because money policy has been lax?

Sources: International Financial Statistics & Simon & Coates

	% changes in real money growth				
	Real M_1	Real £M_3	Real PSL_2	End	$/£
1979/80	-13.9	-5.8	-7.9	1980	2.4
1980/81	-6.4	2.7	-1.2	1981	1.9
1981/82	0.5	8.2	3.8	1982	1.6
1982/83	8.0	7.0	5.0	1983	1.4
1983/84	9.1	5.1	7.5		
1984/85 (Tsy.est.)	10.1	5.3	8.1		

Change in trend of sterling from rise to fall reflects change from tight to loose money.

ie: When the rapid growth in real pound notes and bank deposits started, the value of the pound fell. The velocity of circulation of money did not fall enough to offset the effect.

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Monetary Bulletin

No. 168 February 1985

Many commentators have attributed part of sterling's recent weakness to excessive monetary growth in the U.K. We disagree. A thorough reassessment of the monetary aggregates leads us to reaffirm our conclusion that sterling's weakness has other causes.

Given the existing mix of fiscal and monetary policies in the U.S. and the U.K., the Chancellor faces some exceptionally difficult options in the run up to the Budget. In our view he should definitely not tighten fiscal policy. Nor should he provide a major fiscal boost. Instead, he should aim for the middle of the target ranges for the money supply, particularly for Mo, and hold to his original intention to make modest tax cuts.

The UK - a Mirror Image of the US?

Many press and City commentators have attributed some of sterling's weakness to excessive monetary growth. If they are correct, the rise in base rates will bring the money supply back on track and will, in due course, help to strengthen sterling. An important extension of this argument is that the economic recovery will not peter out, because monetary growth, although lower, will not become inadequate.

Our Bulletins have disagreed with the view that monetary growth was a cause for concern prior to the rise in interest rates. If we are correct, the reduction in the money supply which will follow the rise in rates may well result in inadequate monetary growth. If interest rates remain at their current level for long, another leg of the recession is on the way.

Given the importance of the issue, a reassessment of the behaviour of the money supply is in order, particularly as the distortions caused by the British Telecom issue have now unwound. A full analysis is contained in the second part of this Bulletin. We have modified the view which we expressed last month only very slightly.

If excessive growth of the money supply is not an important explanation for sterling's persistent weakness, are there any other monetary forces at work? Last month we again discussed the theory that the mix of monetary and fiscal policies in different countries was having an important impact on exchange rates. In this respect, the UK is the mirror image of the US. In the US, the domestic demand for credit exceeds the domestic supply of credit, as argued by Dr Henry Kaufman. Funds are flowing to the US from abroad to bridge the gap.

R.H. Lawson, G.T. Pepper, The Lord Annaly, J.A. Rickards, L. Gooderham, T. Quinn, M.T. Higgins, D.G. Thomson, H.N. Seely, T.G. Wakeley, J.F.R. Hammond, J. Wigglesworth, E.J. Fenton, A.J. Bonner, N.S. King, G.P.P. Stewart, K.P. Joseph, A.G.P. Lawdson, P.D. Jones, R.L. Thomas, K.C. Brown, J.C. Finch, S.J.D. Posford, R.W. Walker, W.E.A. Bain, R.M. Harvey, R.B. Pomphrett, M.R.F. Wonfor, A.L. Buckner, M.S. Jesse, P.B. [illegible], A.J.E. O'Sullivan, G.R. Addison, K.M. Fears, P.H. Beaufrere, K.A.J. Crawford, J.B. Lake, L. Maddy, R.J.M.L. Ottley, S.H. Wamsley, I.S. White

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Our Bulletins have repeatedly argued that the domestic supply and demand for credit in the UK are roughly in balance, in complete contrast to the situation in the US. What is happening is that funds are flowing from a country with an adequate supply of credit to one with a substantial deficiency. There is no doubt that the imbalance in the US is the dominant factor, but those countries with an adequate domestic supply of credit are particularly exposed to a loss of funds to the US and, hence, to a weak currency.

If the UK is the mirror image of the US, there is a possibility that sterling will persistently remain rather weak, just as the dollar has remained persistently strong. In these circumstances, the Chancellor faces some exceptionally difficult choices.

One choice, already made, is to try to defend sterling by raising interest rates. The drawback, as we have already argued, is that this may well lead to inadequate monetary growth and another leg of the recession. The effect on sterling is not only the direct and immediate impact of the rise in interest rates. In due course, the inadequate domestic supply of money will tend to attract an inflow from abroad. The combined effect, however, may or may not be sufficient to offset the outflow of funds because of the credit forces just described.

A second choice is to ignore the fall in sterling. When the money supply is under control, we would normally argue that the best exchange rate policy is one of benign neglect. When a financial system is badly out of equilibrium, however, as is the case currently in the US, speculation can become destabilising. Speculative transactions in the same direction as the underlying financial flows acquire a track record of profitability and the herd instinct becomes dominant.

At present, the financial disequilibrium is in the US, not the UK. If it were in the UK, we would be arguing for remedial action. As it is in the US, remedial action is beyond the Chancellor's power.

Even in these exceptional circumstances, we would still argue that the best exchange rate policy is one of benign neglect as long as sterling is not obviously undervalued and its fall is not leading to a significant rise in price inflation. This was clearly the case until early January. It is not so clearly the case now.

In the US, the combination of control of the money supply and a strong dollar has resulted in rapid economic growth. The money supply has governed the growth of nominal GNP whilst the strong dollar has reduced inflation, thereby leaving room for substantial real growth. In the UK, a combination of control of the money supply and persistent weakness in sterling could result in a very sluggish real economy. The money supply will again tend to govern nominal GDP but persistently weak sterling would lead to a rise in inflation. This would leave little room for real growth.

This analysis will again seem "counter intuitive" to many people. A falling exchange rate has normally been seen to be expansionary. This is not necessarily so under a strict monetary regime. Summarising, both the choices analysed so far, i.e. raising interest rates and pursuing a policy of benign neglect, could result in a slowdown of the real economy.

Judging from various statements, the Chancellor is considering a third choice, the traditional one in sterling crises of tightening fiscal policy, in part to restore confidence. We strongly disagree with this course of action in the present peculiar circumstances. Such a policy would take us even further away from the policy mix of the US and might encourage an even greater flow of funds out of sterling into the dollar.

Finally, the Chancellor has the audacious, counter-intuitive option of seeking to defend sterling by relaxing his fiscal policy. Some commentators, eager perhaps for fiscal expansion

B

on other grounds, have used this argument to justify a major fiscal boost. In our view this is over-egging the pudding. The core of the counter-intuitive analysis is the assumption that investors have confidence in the resolve and ability of the authorities to control the money supply. If this confidence is undermined, the exchange rate will weaken. In our view, any clear reversal of the Government's policy of bringing down the PSBR as a percentage of GDP will undermine confidence and will put downwards pressure on sterling. We, therefore, argue that the Chancellor should state that he is aiming at the mid-points of his target ranges for the money supply, particularly for M0, and hold to his original intention to make modest cuts in taxation in the Budget.

Has monetary growth been excessive?

It cannot be repeated too often that the best way of assessing the stance of monetary policy is to monitor all the monetary aggregates, including M0, the monetary base. If any of them is behaving in a peculiar way, the explanation should be ascertained. The cause should be identified. Relative interest rates will often be responsible and unwinding transactions may have occurred. After full analysis, it is normally possible to make a sensible judgement about the current underlying trend of monetary growth.

We will go through this process in a moment, but first we wish to attack the misguided commentators who are comparing the current rate of growth of PSL2, the broadest aggregate, with that of M3 in the Heath/Barber era in the early 1970s.

More generally, there is unfortunately quite a widespread fixation in the UK on the behaviour of the broad monetary aggregates in general and sterling M3 in particular. Hard line Swiss and North American monetarists just do not understand why UK attention is focused in this way.

In the early 1970s, when many commentators learnt about monetarism, inflationary expectations were rising, real assets were perceived to be growing in attractiveness compared with nominal assets, and the real rate of interest was negative. Further, the demand for credit was exceeding its supply, and banks were providing the difference. The supply of money was, accordingly, exceeding its demand, the additional holdings of money were unintended and the increase in M3 was most certainly inflationary.

Currently, the situation is very different. Real assets are losing their premium status and nominal assets have come into their own. The real return on bank and building society deposits is extremely high. Such deposits are a most desirable home for genuine savings and their growth is not obviously inflationary.

A very good example of the mistake of looking at the broad aggregates in circumstances when attention should be paid to narrow ones occurred in the Autumn of 1980. In its Annual Monetary Review, December 1980, the Centre for Banking and International Finance at the City University forecast that its estimate of the underlying rate of growth of broad money would cause a rate of inflation in 1982 of 16%. In the event, inflation fell to 5%. The Centre failed to recognise the significance of the narrow aggregates. The buoyancy of the broad aggregates was a reflection of a rise in the personal savings ratio to a record 15½%. The rates of growth of the monetary base, currency, retail M1 and M1 were 7%, 7%, Nil and 1%, respectively. They correctly reflected the fact that inflationary pressures were falling.

Returning to the present, following the recent increase in base rates to 14%, the real rate of interest on bank deposits is at an all time record for periods when inflation has been positive. It will be no surprise if the broad monetary aggregates continue to be buoyant because of demand from genuine savers. Such buoyancy will not be a sign of inflationary pressure.

The latest position

The seasonally adjusted data for the five weeks to 16th January are given below. It should be noted that the rise in base rates to 12% occurred on 14th January and so there was very little time for the data to be affected by the recent rise in rates. Further, the unwinding of the distortions caused by the British Telecom issue has, as expected, led to a fall in Mo, retail M1 and M1.

Table I
Changes in the Month to Mid-January

	£m	pa
Mo	-125	-10%
Currency	-6	-1%
Retail M1	-625	-22%
M1	-1,033	-25%
Sterling M3	781	9%
PSL1	853	9%
PSL2	2,684	17%
Bank lending in sterling to private sector	2,038	21%

According to the published data, the position over the longer term is now as follows:-

Table II
Published Growth Rates

		3 months	6 months	11 months*	1 year
Narrow money:	Mo	5	6	6	5
	Currency	2	5	6	5
	Retail M1	5	6	7	7
	M1	8	13	16	15
	M2	n.a.	n.a.	n.a.	11
Broad money:	Sterling M3	12	11	10	9
	PSL1	11	11	11	10
	PSL2	15	15	15	15

* Target period so far

To a greater or lesser extent, every aggregate has been influenced by special factors. The following table shows the published rate of growth over the last six months together with our estimate of the underlying trend for each aggregate.

Table III
Underlying Trends

		Published % p.a.	Trend % p.a.	Target Range % p.a.	Notes
Narrow money:	Mo	5.9	6	4-8	
	Currency	4.7	5½		1
	Retail M1	6.2	8-9		2
	M1	13.3	10-11		3
	M2	11.2	10½		4
Broad money:	Sterling M3	10.9	10	6-10	5
	PSL1	11.3	10½		5
	PSL2	14.7	12½		6

Notes:

1. Revised upwards due to an erratically low figure for January.
2. Revised upwards because of a switch from current accounts to high interest cheque accounts.
3. Revised downwards because of the newly available high interest cheque accounts and for the greater use of overnight deposits by Other Financial Institutions.
4. The published rate is for the last year rather than the last six months, because the series is too new for seasonal adjustments to be calculated. The downward adjustment is for a reclassification of certain building society deposits as estimated by the Bank.
5. The downward adjustment is to allow for bill arbitraging.
6. The downward adjustment is for changes in term shares of building societies.

Assessment

Mo and currency are running right in the middle of the former's target range. Preliminary data for the month to mid-February suggest that this trend has continued.

There is a slight worry about the buoyancy of M1. The adjustments to both retail M1 and M1 are only approximate because the situation is confused by changes in banking habits. The situation warrants close attention in the coming months.

M2, sterling M3 and PSL1 are running at or slightly above the top of the target range for sterling M3. The earlier remarks about the significance of buoyant growth of the broad aggregates should be noted and there was an argument for running some degree of risk given the current height and trend of unemployment. A modest rise in base rates from the 9½% prevailing on 11th January was probably justified. But the rise to 14% was excessive.

The 12½% growth of PSL2 catches the eye of anyone wanting to find evidence of excessive monetary growth. The case in the current circumstances for disregarding this, the broadest of all the aggregates, has already been stated.

Bank Lending

Table IV
Bank Lending in Sterling to the Private Sector

	£m	Published	Bills Outside	Leasing Adj	Adj Total	3 Month Av
1984	June	1,571	186		1,757	1,406
	July	348	-268	+250	330	1,019
	Aug	743	-15	+450	1,178	1,088
	Sep	1,460	153		1,613	1,040
	Oct	2,155	111		2,266	1,686
	Nov	1,705	62		1,767	1,882
	Dec	1,484	-49		1,435	1,822
1985	Jan	2,038	-154		1,884	1,695

Table IV shows that bank lending, even after adjustment for changes in bills held outside the monetary sector and the Bank, rose by some £1,850m in the month to mid-January, which was similar to the average growth in the previous three months.

Various special factors may have inflated lending in banking-January. Bill arbitraging probably increased it by up to £500m and the unwinding of the BT distortions (involving suspense accounts) may have boosted it by a further £200m. After these adjustments our

central estimate of lending in banking-January is just over £1,250m but the average during the most recent three months is still £1,600m.

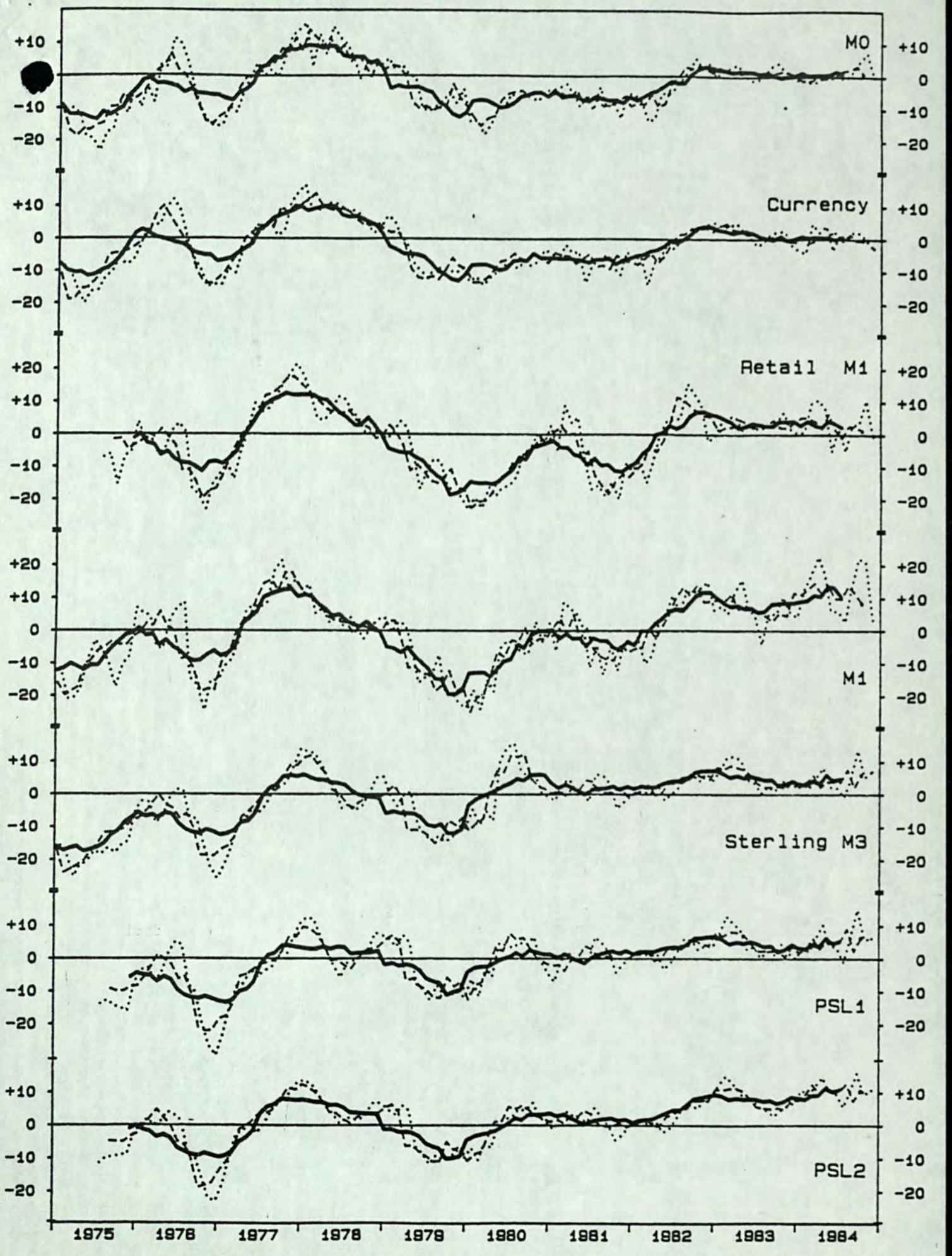
One final point, the data for bank lending during the last three months include the acquisition of £1,000m commercial bills by the Bank. This acquisition is financed by sales of gilt-edged stock. If companies had issued corporate bonds instead of commercial bills and if savers had bought these bonds rather than gilt-edged stock, this item would have been excluded from the data for bank lending.

GTP
RLT
RR

MONETARY GROWTH
In Nominal Terms

Percentage Annual rates		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
Changes in year to:									
1984	Feb.	6	5	8	11	10	9	9	12
	Mar.	6	5	8	13	10	10	9	12
	Apr.	5	6	9	14	10	8	7	11
	May	5	5	9	14	10	8	8	12
	June	5	5	9	14	11	9	9	13
	July	6	5	7	14	11	8	8	12
	Aug.	5	6	9	14	12	8	8	12
	Sep.	5	6	8	16	12	9	9	13
	Oct.	5	6	7	16	13	8	9	13
	Nov.	6	5	9	19	13	11	11	15
	Dec.	7	5	8	18	12	9	9	14
1985	Jan.	5	5	7	15	11	9	10	15
Changes in 6 months to:									
1984	Aug.	4	7	11	19		9	10	15
	Sep.	5	7	6	15		9	10	14
	Oct.	7	5	4	15		9	10	15
	Nov.	7	7	8	19		13	14	17
	Dec.	8	5	8	16		7	7	12
1985	Jan.	6	5	6	13		11	11	15
Changes in 3 months to:									
1984	Nov.	10	7	8	27		19	20	20
	Dec.	12	5	16	26		10	11	14
1985	Jan.	5	2	5	8		12	11	15
				In Real Terms					
Changes in year to:									
1984	Feb.	1	0	3	6	5	4	4	7
	Mar.	0	0	3	8	5	5	4	7
	Apr.	0	1	4	8	5	3	2	6
	May	0	0	4	9	5	3	3	7
	June	0	0	4	9	6	4	4	8
	July	1	1	3	9	7	3	3	8
	Aug.	0	1	4	9	7	3	3	7
	Sep.	1	1	3	11	8	4	4	8
	Oct.	0	1	2	11	8	3	4	8
	Nov.	1	1	4	14	9	6	6	11
	Dec.	2	0	4	13	7	4	5	9
1985	Jan.	1	1	2	10	7	5	5	10
Changes in 6 months to:									
1984	Aug.	-1	2	6	14		4	5	10
	Sep.	0	2	1	10		4	5	9
	Oct.	2	0	-1	10		4	5	10
	Nov.	2	2	3	14		8	9	12
	Dec.	3	0	3	11		2	2	7
1985	Jan.	1	0	1	8		6	6	10
Changes in 3 months to:									
1984	Nov.	5	2	3	22		14	15	15
	Dec.	7	0	11	21		5	6	9
1985	Jan.	0	-3	0	3		7	6	10

Chart 2 - Monetary Growth in REAL Terms (% p.a.)



W. GREENWELL & Co—Monetary Bulletin

STATISTICS

reprinted from Bank of England *Banking Statistics*

Money stock: amounts outstanding

[Table 11.1 in the *Quarterly Bulletin*]

£ millions

		Notes and coin in circulation with public	UK private sector sterling sight deposits		Money Stock M1 [b]		UK private sector sterling time deposits[c]	Money stock £M3[b][d]		UK private sector deposits in other currencies [c]	Money stock M3[b][d]	
			Non-interest-bearing[a]	Interest-bearing	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
		1	*2*	*3*	*4*		*5*	*6*		*7*	*8*	
Month ended												
1984	Dec. 14 [e]	12,119	19,990	11,466	43,575	42,680	56,233	99,808	99,090	15,839	115,647	114,930
	Jan. 18	11,467	19,320	11,915	42,702	42,980	56,613	99,315	99,730	16,041	115,356	115,770
	Feb. 15	11,531	19,018	11,951	42,500	43,140	56,099	98,599	99,790	16,758	115,357	116,540
	Mar. 21 [e]	11,641	19,467	12,637	43,745	44,440	55,701	99,446	101,190	17,013	116,459	118,200
	Apr. 18	12,044	20,572	13,038	45,654	45,220	55,394	101,048	101,500	17,314	118,362	118,810
	May 16	11,834	20,593	13,485	45,912	45,910	55,698	101,610	102,330	15,458	117,068	117,790
	June 20 [e]	11,941	20,648	13,964	46,553	46,770	57,268	103,821	104,420	15,489	119,310	119,910
	July 18	12,213	20,694	14,094	47,001	46,460	56,779	103,780	103,410	16,741	120,521	120,150
	Aug. 15	12,156	20,981	14,035	47,172	47,140	57,147	104,319	104,170	16,270	120,589	120,440
	Sept. 19 [e]	12,102	20,850	14,774	47,726	47,650	57,672	105,398	105,580	17,723	123,121	123,290
	Oct. 17	12,115	21,022	15,483	48,620	48,460	57,385	106,005	105,900	17,817	123,822	123,710
	Nov. 21	12,186	21,251	16,474	49,911	50,060	58,850	108,761	108,720	18,407	127,168	127,130
	Dec. 12 [e]	12,641	22,272	16,617	51,530	50,590	58,041	109,571	108,650	19,274	128,845	127,930
1985	Jan. 16	12,113	20,895	16,268	49,276	49,560	60,156	109,432	109,430	20,843	130,275	130,270

Money stock: changes(f)

[Table 11.2 in the *Quarterly Bulletin*]

£ millions; *percentages in italics*

		Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock		UK private sector sterling time deposits [c]	Money stock		UK private sector deposits in other currencies [c]		Money stock	
			Non-interest-bearing [a]	Interest-bearing	M1[b]			£M3[b][d]		Transactions	Valuation changes [g]	M3[b][d]	
		1	*2*	*3*	*4*		*5*	*6*		*7*		*8*	
Month ended (unadjusted)													
1984	Jan. 18	− 652	− 670	+ 449	− 873		+ 380	− 493		+ 104	+ 98	− 291	
	Feb. 15	+ 64	− 302	+ 36	− 202		− 514	− 716		+ 1,000	− 283	+ 1	
	Mar. 21	+ 110	+ 444	+ 671	+ 1,225		− 438	+ 787		+ 152	+ 73	+ 1,012	
	Apr. 18	+ 403	+ 1,105	+ 401	+ 1,909		− 307	+ 1,602		+ 152	+ 149	+ 1,903	
	May 16	− 210	+ 21	+ 447	+ 258		+ 304	+ 562		− 2,128	+ 272	− 1,294	
	June 20	+ 107	+ 55	+ 469	+ 631		+ 1,555	+ 2,186		− 249	+ 255	+ 2,192	
	July 18	+ 272	+ 46	+ 130	+ 448		− 489	− 41		+ 666	+ 586	+ 1,211	
	Aug. 15	− 57	+ 287	− 59	+ 171		+ 368	+ 539		− 395	− 76	+ 68	
	Sept. 19	− 54	− 131	+ 739	+ 554		+ 520	+ 1,074		+ 433	+ 1,015	+ 2,522	
	Oct. 17	+ 13	+ 172	+ 709	+ 894		− 287	+ 607		− 404	+ 498	+ 701	
	Nov. 21	+ 71	+ 229	+ 991	+ 1,291		+ 1,465	+ 2,756		− 854	− 264	+ 3,346	
	Dec. 12	+ 455	+ 919	+ 133	+ 1,507		− 1,163	+ 344		+ 455	+ 352	+ 1,151	
1985	Jan. 16	− 528	− 1,377	− 349	− 2,254		+ 2,115	− 139		+ 304	+ 1,265	+ 1,430	
Month ended (seasonally adjusted)													
1984	Jan. 18	− 59	− 32	+ 390	+ 299	*+ 0.7*	+ 350	+ 649	*+ 0.7*	+ 104	+ 98	+ 851	*+ 0.7*
	Feb. 15	+ 16	+ 40	+ 102	+ 158	*+ 0.4*	− 71	+ 87	*+ 0.1*	+ 1,000	− 283	+ 804	*+ 0.7*
	Mar. 21	+ 58	+ 416	+ 811	+ 1,285	*+ 3.0*	+ 100	+ 1,385	*+ 1.4*	+ 152	+ 73	+ 1,610	*+ 1.4*
	Apr. 18	+ 206	+ 375	+ 197	+ 778	*+ 1.8*	− 426	+ 352	*+ 0.3*	+ 152	+ 149	+ 653	*+ 0.6*
	May 16	− 54	+ 194	+ 547	+ 687	*+ 1.5*	+ 168	+ 855	*+ 0.8*	− 2,128	+ 272	− 1,001	*− 0.8*
	June 20	+ 118	+ 163	+ 576	+ 857	*+ 1.9*	+ 1,205	+ 2,062	*+ 2.0*	− 249	+ 255	+ 2,068	*+ 1.8*
	July 18	− 7	− 394	+ 83	− 318	*− 0.7*	− 712	− 1,030	*− 1.0*	+ 666	+ 586	− 222	*+ 0.2*
	Aug. 15	+ 64	+ 604	+ 17	+ 685	*+ 1.5*	+ 49	+ 734	*+ 0.7*	− 395	− 76	+ 263	*+ 0.2*
	Sept. 19	+ 82	− 349	+ 774	+ 507	*+ 1.1*	+ 873	+ 1,380	*+ 1.3*	+ 433	+ 1,015	+ 2,828	*+ 2.3*
	Oct. 17	+ 63	+ 158	+ 590	+ 811	*+ 1.7*	− 487	+ 324	*+ 0.3*	− 404	+ 498	+ 418	*+ 0.3*
	Nov. 21	+ 58	+ 662	+ 878	+ 1,598	*+ 3.3*	+ 1,226	+ 2,824	*+ 2.7*	+ 854	− 264	+ 3,414	*+ 2.8*
	Dec. 12	+ 14	+ 257	+ 151	+ 422	*+ 0.8*	− 958	− 536	*− 0.5*	+ 455	+ 352	+ 271	*+ 0.2*
1985	Jan. 16	− 6	− 619	− 408	− 1,033	*− 2.0*	+ 1,814	+ 781	*− 0.7*	+ 304	+ 1,265	+ 2,350	*+ 1.8*

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the *Quarterly Bulletin*).

[b] M1 equals colums 1 + 2 + 3. £M3 equals M1 + column 5. M3 equals £M3 + column 7.

[c] Including certificates of deposit.

[d] Excluding public sector deposits.

[e] Changes in the monthly-reporting population occured in these months. See also the aditional notes to Table 3 in the *Quarterly Bulletin*, and, for December 1983, footnote [c] to Table H on page 5.

[f] Changes in the money stock may differ from those which can be calculated by reference to amounts outstanding. (See additional notes to Table 11 of the *Quarterly Bulletin*.)

[g] See additional notes to Tables 6 and 11 of the *Quarterly Bulletin*.

Transactions balances and components of M2

[Tables 11.1 and 11.2 in the *Quarterly Bulletin*]

£ millions: not seasonally adjusted

	Notes and coin in circulation with public	UK private sector sterling non-interest-bearing sight* deposits with banks[a]	Non-interest-bearing M1[b]	Other UK private sector sterling retail deposits with banks	UK private sector retail shares and deposits with building societies	National Savings Bank ordinary account	M2[b]	Public sector retail deposits with banks	Overseas retail deposits with banks
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
Amounts outstanding									
1984 Jan. 18	11,467	19,320	30,787	30,340	58,114	1,765	121,006	1,072	3,125
Feb. 15	11,531	19,018	30,549	30,057	58,855	1,777	121,238	962	3,083
Mar. 21[c]	11,641	19,467	31,108	29,953	60,046	1,778	122,385	1,124	3,106
Apr. 18	12,044	20,572	32,616	29,896	60,902	1,788	125,202	995	3,116
May 16	11,834	20,593	32,427	29,879	61,775	1,776	125,857	1,073	3,187
June 20[c]	11,941	20,648	32,589	30,455	63,230	1,743	128,017	1,079	3,193
July 18	12,213	20,694	32,907	30,736	64,055	1,750	129,448	886	3,308
Aug. 15	12,156	20,981	33,137	30,613	64,340	1,736	129,826	945	3,185
Sept. 19[c]	12,102	20,850	32,952	30,677	64,944	1,741	130,314	972	3,357
Oct. 17	12,115	21,022	33,137	30,863	65,696	1,749	131,445	1,089	3,289
Nov. 21	12,186	21,251	33,437	31,283	66,097	1,761	132,578	1,177	3,391
Dec. 12	12,641	22,272	34,913	31,043	66,906	1,731	134,593	890	3,399
1985 Jan. 16	12,113	20,895	33,008	31,511	68,649	1,784	134,952	1,087	3,539
Changes in month ended [d]									
1984 Jan. 18	- 652	- 670	-1,322	+ 122	+2,410	+ 15	+1,225	+ 173	+ 116
Feb. 15	+ 64	- 302	- 238	- 283	+ 572	+ 12	+ 63	- 110	- 42
Mar. 21	+ 110	+ 444	+ 554	- 104	+1,144	+ 1	+1,595	+ 162	+ 23
Apr. 18	+ 403	+1,105	+1,508	- 57	+ 856	+ 10	+2,317	- 129	+ 10
May 16	- 210	+ 21	- 189	- 17	+ 833	- 12	+ 615	+ 78	+ 71
June 20	+ 107	+ 55	+ 162	+ 576	+1,405	- 33	+2,110	+ 6	+ 6
July 18	+ 272	+ 46	+ 318	+ 281	+ 825	+ 7	+1,431	- 193	- 115
Aug. 15	- 57	+ 287	+ 230	- 123	+ 285	- 14	+ 378	+ 59	- 123
Sept. 19	- 54	- 131	- 185	+ 64	+ 604	+ 5	+ 488	+ 27	+ 172
Oct. 17	+ 13	+ 172	+ 185	+ 186	+ 752	+ 8	+1,131	+ 117	- 68
Nov. 21	+ 71	+ 229	+ 300	+ 420	+ 401	+ 12	+1,133	+ 88	+ 102
Dec. 12	+ 455	+ 919	+1,374	- 240	+ 809	- 30	+1,913	- 287	+ 8
1985 Jan. 16	- 528	-1,377	-1,905	+ 468	+1,743	+ 53	+ 359	+ 197	+ 140

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the *Quarterly Bulletin*).
[b] Non-interest-bearing M1 equals columns 1+2. M2 equals non-interest-bearing M1+columns 4+5+6.
[c] See footnote [e] to Table D on page 3.
[d] See footnote [f] to Table E on page 3.

Private sector liquidity, and other deposits

[Summary of Table 12 in the *Quarterly Bulletin*]

£ millions

	'Money'	Other money-market instruments	Savings institution deposits and securities		Certificates of tax deposit		PSL1 (columns 1+2+5)	PSL2 (columns 1+2+3+6)	PSL1		PSL2		Other shares and deposits with building societies	
	Seasonally adjusted	Seasonally adjusted	Seasonally adjusted		Seasonally adjusted		Seasonally adjusted	Seasonally adjusted	Seasonally adjusted change in month [b] [c]		Seasonally adjusted change in month [b] [c]		Unadjusted	
			Total (net)	*of which shares and deposits with building societies* [a]	Issues net of surrenders	Column 5 less building society holdings							Amount outstanding	Change in month
Month ended	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*		*10*		*11*	*12*
1984 Jan. 18	98,165	2,951	64,067	*60,958*	2,077	1,955	103,193	167,138	+ 450	*+0.4*	+1,392	*+1.1*	18,649	+166
Feb. 15	98,229	2,888	65,317	*62,317*	1,869	1,726	102,986	168,160	- 173	*-0.2*	+1,056	*+0.6*	18,768	+119
Mar. 21	99,650	2,950	66,543	*63,520*	2,077	1,391	104,677	171,034	+1,682	*+1.6*	+2,875	*+1.7*	18,922	+154
Apr. 18	99,955	2,914	67,823	*64,520*	2,105	1,917	104,974	172,609	- 351	*-0.3*	+1,630	*+1.0*	18,961	+ 39
May 16	100,846	3,023	69,083	*65,450*	1,982	1,794	105,851	174,746	- 907	*-0.9*	+2,167	*+1.3*	18,985	+ 24
June 20	102,893	3,368	70,416	*66,631*	2,209	2,006	108,470	178,683	+2,602	*+2.5*	+3,920	*+2.2*	18,979	- 6
July 18	101,869	3,296	71,727	*67,780*	2,147	1,941	107,312	178,833	-1,166	*-1.1*	+ 142	*+0.1*	18,896	- 83
Aug. 15	102,573	3,479	72,719	*68,654*	2,004	1,777	108,056	180,548	+ 730	*+0.7*	+1,701	*+1.0*	18,775	-121
Sept. 19	103,983	3,735	73,685	*69,811*	1,823	1,575	109,541	182,978	+1,473	*+1.4*	+2,418	*+1.3*	18,660	-115
Oct. 17	104,289	3,679	74,997	*71,394*	2,263	2,000	110,231	184,965	+ 691	*+0.6*	+1,988	*+1.1*	18,540	-120
Nov. 21	107,144	3,438	76,365	*72,872*	2,538	2,109	113,120	189,056	+2,890	*+2.6*	+4,092	*+2.2*	18,309	-231
Dec. 12	107,062	3,299	76,957	*73,642*	2,502	2,072	112,863	189,390	- 741	*-0.7*	- 150	*-0.1*	18,159	-150
1985 Jan. 16	107,861	3,157	78,625	*75,670*	2,698	2,431	113,716	192,074	+ 853	*+0.8*	+2,684	*+1.4*	17,979	-180

[a] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies.
[b] Percentage changes are shown in italics.
[c] In December 1984, the changes are stated after exclusion of the bank deposits and certain other liquid assets of British Telecom PLC.