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26 April 1985

MR TURNBULL

FUNDING MEETING

I attended the Funding Meeting on Wednesday.

Last year, National Savings raised £3.1 billion (£3 billion target) and the present year has begun satisfactorily. The last rate changes were taken well by the press; no further rate changes were discussed at the meeting.

Between March 1984 and March 1985, £16.1 billion of gilts were sold, against redemptions of £4.9 billion. Despite this, sterling M_3 has grown at 9.3% pa, reflecting the growth of public spending; whilst PSL2 has been growing at more than 14%. Lending to the private sector remains high - growing at 17% pa, because companies have been investing heavily and have probably also been borrowing to "round trip", earning a higher return in money market deposits.

The first 3 months of 1985/86 are expected to produce poor money figures, as government borrowing is again heavily slanted to the first part of the financial year and there is a large gilt maturity in June. If only £1.25 billion of stock is sold each month, £M_3 will near 14% growth on a 3-month basis by end June. (Target range 5-9%.)

In view of this, it was agreed that we have to fund to the maximum extent possible. It was decided not to trigger a rise in short rates, but noted that the bad money figures could cause problems in due course. This is also being transmitted to currency markets, along with renewed fears about oil prices. Analysts are also beginning to calculate the UK oil revenue losses from a strong pound. The short-term monetary prospect implies difficulties for the pound against the basket of currencies.

JOHN REDWOOD