

Summary Assessment

Evidence of looser monetary conditions is accumulating. Narrow money growth continues to accelerate. Output looks to be more buoyant than the Autumn Statement allowed for.

- The world background. Third quarter figures for the G5 countries show both reduced real output growth and reduced inflation. Interest rates have edged higher over the last month. Exchange rates are generally little changed though the French franc has been under pressure (para 1)
- in the UK, activity has been more buoyant than expected (paras 4-5). Inflation rose a little in November in line with expectations (paras 7-8)
- the PSBR remains well below the Budget profile. The fiscal stance may be tighter than expected at Budget time (paras 9 and 11)
- M0 provisionally grew by 5.2 per cent in the year to December, compared to 5.3 per cent up to November. Further acceleration towards the top of the target range is projected in January and February (paras 12-13)
- £M3 rose by 18½ per cent in the twelve months to November, the same figure as in October. The growth rate is expected to remain at about 18½ per cent in December, despite favourable special factors (mainly associated with British Gas). PSL2 grew by 15½ per cent in the year to November, again the same annual increase as in October (paras 14, 18 and 19)
- money market rates have edged lower (para 30)



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- the exchange rate has been firmer, especially against the continental currencies. This has allowed further recouping of reserves. Much, if not all, of the strengthening is attributable to firmer oil prices (paras 32-35).

MG2 Division  
2 January 1987



## A. External Developments

1. Main developments in the G5 countries are set out in tables 1-3. In particular:

- Interest rates have edged higher, especially in France.
- Nominal GNP growth in the G5 is estimated to have slowed to an annual rate of 5½ per cent in the third quarter of 1986. Both real output growth and the rate of growth of the GNP deflator were lower. Industrial production has picked up in France and the UK, and to a lesser extent in the US, but remains weak in Japan and Germany. Consumer price inflation in the G5 is now only 1 per cent.
- After the franc fell sharply against the D-mark on the morning of 8 December, the Banque de France raised its interest rate for seven day repurchase arrangements by one percentage point. Further pressure on the franc on 30 December resulted in interest rates rising by another half a point, to 8.25 per cent.
- With only December's figure to be released it seems that German Central Bank Money (CBM) will grow at about 8 per cent in 1986; well above the Bundesbank's 3½ - 5½ per cent target range. This will be the first occasion since 1978 that CBM has overshot its target. On the 18 December the Bundesbank announced a 3-6 per cent target range for 1987.

## B. Activity and Inflation

2. Table 4 summarises recent indicators of activity and inflation. RPI inflation rose much as expected in November, reflecting the rise in mortgage interest rates. The latest information includes a surge in construction output and a further sharp rise in retail sales. Nevertheless third quarter figures for the average estimate of real GDP, published on 19 December, were below the Autumn Statement forecast, reflecting weakness in the expenditure and income measures, which are thought to be less reliable than the strong output measure.



Projections of Money GDP

The Autumn Statement forecast showed a 5½ per cent increase of **money GDP** in 1986-87 on the previous year, compared with the Budget forecast of 6¼ per cent. In 1987-88, the annual increase was put at 7 per cent, against 6½ per cent estimated at Budget time. The National Accounts figures published on 19 December show growth in money GDP to 1986 Q3 of 5¼ per cent, slightly above the Autumn Statement forecast, with a higher than forecast GDP deflator more than offsetting the weakness in the average estimate of real GDP. Based on the more reliable output measure of GDP, growth in money GDP would be over a point above the Autumn Statement forecast.

Recent Indicators of Activity

4. The **manufacturing output** figure for October, showing a further small rise, confirms the recent evidence of renewed growth in this sector of the economy. The first published estimate for **construction output** in the third quarter shows a very large rise, to a level almost 6 per cent up on a year ago: as a consequence the CSO have revised up their preliminary estimate of **whole economy output** in the third quarter, to a level well above the Autumn Statement forecast and also above the FSBR forecast.

5. The provisional **retail sales** figures published for November show a large (2½ per cent) leap from October to a level over 7 per cent up on a year earlier. Although there may be problems with the seasonal adjustment (November as defined for the purpose of the index is nearer to Christmas than usual), it seems most likely that consumers' spending is running above the level forecast in the Autumn Statement. The new DTI **investment intentions** survey suggests that for the categories of investment covered, growth in 1987 would be appreciably higher than previously forecast, after a lower than forecast level in 1986. Distribution shows particular strength, while manufacturing investment is weaker than previously expected.



6. The November figures for **unemployment** and **vacancies** contained no surprises: the favourable trends of recent months were maintained.

#### Inflation

7. There were no real surprises in the **price inflation** figures published this month; although the November RPI figures taken with the latest projection for December raise the possibility that fourth quarter inflation will round to 3½ per cent rather than the 3¼ per cent figure published in the Autumn Statement. Responses to the last two CBI surveys have shown an upward movement in the balance of firms expecting to raise prices. Some further but still very limited information on **private sector pay settlements** in the current round suggests about a one point fall in settlements in manufacturing compared with the previous pay round, but a marginal edging up of settlements in non-manufacturing. On the evidence so far earnings growth is not likely to fall as much as forecast in the Autumn Statement.

8. The annual rate of **house price inflation** (measured by the Halifax index) was 13.1 per cent in December, compared to 13.6 per cent both in October and November, giving no acceleration since July. The DoE **housebuilding land price index** rose by 30 per cent in the year to 1986H1, with growth over the most recent half year about 40 per cent measured at an annual rate. This follows growth of around 20 per cent per annum during late 1984 and 1985.

#### C. The Fiscal Position

9. Table 5 gives the main indicators of the fiscal stance. The **PSBR** in the first eight months of 1986-87 was £5.7 billion. This is £1.4 billion lower than the Budget time profile, which was consistent with a PSBR for the year of £7.1 billion. Borrowing is below profile for all three sectors, but the differences on local authorities' and public corporations' borrowing, at £0.6 billion and £0.5 billion respectively, are rather larger than that on central government own account borrowing (£0.3 billion lower). Nevertheless, there are some substantial differences



in the composition of CG own account borrowing, as Table 6 shows. Broadly, non-oil taxes have been higher than expected, reducing borrowing, but this has been partly offset by lower oil revenues and higher supply expenditure.

10. The PSFD was £7.7 billion for the first half of 1986-87, £2 billion higher than a year earlier. Estimates of the PSFD have been particularly uncertain of late; there is still an unidentified balancing item of over £1 billion in the 1985-86 accounts for public corporations, which probably means that the PSFD for that year is understated. The latest quarterly figures for the PSFD, PSBR and PSBR excluding privatisation proceeds are in Table 5.

11. The current undershooting of the PSBR compared to the Budget profile now seems likely to carry over at least in part to 1986-87 as a whole. Current estimates suggest an outturn significantly below £7 billion (the Budget and AS forecast), even with additional expenditure of up to £650 million on Rover. All other things being equal this indicates a tighter **fiscal stance** than expected, and slightly lower money GDP growth than might otherwise have occurred. The changed composition of the PSBR towards higher non-oil revenues and lower oil revenues also, if anything, might be expected to work in the same direction. Moreover, to the extent that real GDP growth is lower than expected at Budget time, we would have expected a higher PSBR for any given setting of fiscal instruments, although the weakness of real GDP is far less apparent in the more reliable output measure than in the average measure.

#### D. Domestic Monetary and Financial Market Developments

(see Tables 7 to 20)

##### Narrow Money

12. MO (seasonally adjusted) provisionally grew by 1.3 per cent in the month to December and by 5.2 per cent in the last twelve months, compared to 5.3 per cent in November and 2.8 per cent in April. The provisional December MO outturn is affected by one week's exceptionally high banks' deposits figure, which



increased the twelve month growth rate in December by about 0.4 percentage points. But notes and coin continue to grow strongly, rising by 0.8 per cent in November and another 0.7 per cent in December, to a level 5.0 per cent higher than in December 1985.

13. Chart VI shows the outturn for M0 growth in each month of 1986-87 in comparison with a profile based on the 1986 Budget forecast. The chart shows that in December, M0 growth is about  $3\frac{1}{2}$  per cent above its profile, which was based on significantly higher interest rates than were seen in the first half of the year. The latest M0 forecast shows the gap narrowing somewhat in January and February, to about 3 per cent, although the forecast growth rate continues to rise - from 5.6 per cent in January to 5.9 per cent in February.

#### Broad Money

14. **£M3** (unadjusted) rose by £2.1 billion in November and by 18.6 per cent in the last twelve months, the same twelve month rate as in October. This compares to an average rate of 18.2 per cent in the previous seven months of 1986-87. Chart VII shows the outturn growth rate of **£M3** each month (adjusted to allow for the estimated effect of special factors, such as the TSB flotation) against the Budget profile. The chart shows that, on average, **£M3** growth has exceeded its profile rate by about  $4\frac{1}{4}$  percentage points per month.

15. It is estimated that the British Gas privatisation boosted **£M3** by between  $\frac{1}{2}$  billion and £1 billion in November, which suggests an underlying twelve month growth rate of about  $17\frac{1}{4}$  to  $18\frac{1}{4}$  per cent, compared to the actual growth rate of 18.6 per cent. Looking at the counterparts to **£M3** in November shows that the **PSBR** was negligible and was **overfunded** by £0.9 billion (**debt sales to the nbps** and the **public externals** were contractionary by £0.6 billion) and £0.3 billion, respectively); **bank lending** rose by £3.3 billion: **NNDL's** were contractionary by £0.4 billion; and the **banking externals** were negligible.



16. Within the components of £M3, in November both the increase in **notes and coin** of £0.3 billion and **NIB sight deposits** at .6 billion, which will have been inflated by the British Gas issue, are higher than the average over the previous twelve months. **IB sight deposits** rose by £1.2 billion and **time deposits** were virtually unchanged, following exceptional increases in the two previous months.

17. In December, the £M3 figures will be depressed by about £2½ billion due to the British Gas privatisation. The £M3 flow in January may be depressed by about £¼ billion due to the completion of the unwinding of BGC, but we do not expect there to be any advance build-up of deposits on account of the British Airways privatisation, which is expected to depress £M3 by up to £½ billion in February.

18. The twelve month growth rate of £M3 is expected to remain at about 18½ per cent in December, but is projected to accelerate thereafter, perhaps rising to 20½ per cent in February. This is mainly due to sluggish £M3 growth in January and February 1986. There are also gilt redemptions of £850 million and £1290 million expected in January and February respectively, and we are forecasting net redemptions of gilts by the nbps throughout the forecast period. Excluding privatisation proceeds, the PSBR would be higher than normal throughout the three month forecast period, but particularly in February, and funding has been relatively light in December. Hence the underlying increase in £M3 is relatively high in these months. The following table summarises the forecast:-



Projections for £M3

Not seasonally adjusted

	<u>Forecast</u>	<u>Stylised Projections</u>	
	<u>December</u>	January	February
(i) Underlying Increase (£m; seasonally adjusted figures shown in brackets)*	2990 (2973)	0 (2814)	3657 (4158)
% Change on Previous Year	20.1	20.7	22.6
% Change on Previous Year Expected at Budget Time	12.5	12.6	13.1
Special Factors (£m):			
BGC	-2350	-200	0
BA	0	0	-500
Other bank lending	300	300	-100
(ii) Total	-2050	100	-600
(iii) Projected Increase (£m)	940	100	3057
% Change on Previous Year	18.5	19.1	20.6

[Line (iii) = Line (i) plus Line (ii)]

\* Based on the following assumptions:

- (a) underlying bank lending continues at the average underlying rate of the last six months, about £2.2 billion per month.
- (b) PSBR is overfunded by £1420 million and £2780 million in December and January, respectively and is underfunded by £1170 million in February.

19. PSL2 grew by 15.3 per cent in the twelve months to November, compared to 15.2 per cent in October and an average rate of 14.5 per cent in the previous seven months of 1986-87. The annual growth rate is forecast to fall back slightly in December and January, to about 14¼ per cent in February. The forecast of a slight fall in PSL2 growth, in contrast to rising £M3 growth, is mainly due to expected lower building society retail inflows compared to the same period a year ago, reflecting a loss of competitiveness of the societies against the banks over the past year.



Bank lending, debt and equities

20. **Bank lending** grew by £3.3 billion in November and by 20.8 per cent in the last twelve months, compared to 19.3 per cent in October and an average rate of 18.1 per cent between April and October. The surge in bank lending in November was even greater after seasonal adjustment, the seasonally adjusted increase being £3.9 billion - the highest figure for any calendar month for which data are available.

21. Advances were very strong at £2.3 billion, compared to under £1 billion in October. Of this, £2.0 billion was accounted for by non-retail banks and only £0.3 billion by retail banks. Lending by non-retail banks was inflated by between £¾ billion and £1 billion in November due to a take-over transaction. Most of the proceeds of this lending are believed to have been held on deposit at the end of November, thereby adding a similar amount to £M3. We do not expect this to be unwound within bank lending in the near future.

22. We have also identified £300 million lending arising from the transfer of a loan from a non-bank parent company to its bank subsidiary, which is offset within £M3 by higher NNDL's. The low lending figure for the retail banks suggests that the high retail sales were not a major factor behind the large total lending figure in November. There is no new evidence of bank lending to the gilt-edged market makers this month.

23. Other factors responsible for the high lending figure may have been:

(i) Companies may have switched out of US commercial paper into issues of domestic bills. Whilst we have little direct evidence of this, the externals show a rundown in overseas sterling deposits, which would be consistent with redemptions of US paper after a window had opened up for this type of borrowing about six months ago and has since closed up again.



(ii) There may have been some reaction of bank lending to the low PSBR.

Projections for Bank Lending

Not seasonally adjusted

	<u>Forecast</u> December	<u>Stylised Projections</u>	
		January	February
(i) Underlying Increase (£m, seasonally adjusted figures shown in brackets)	3048 (2200)	1864 (2200)	1926 (2200)
% Change on Previous Year	21.1	22.1	21.3
% Change on Previous Year Expected at Budget Time	15.6	16.3	14.9
Special Factors (£m):			
BGC	100	-100	
B.Soc's	100	100	100
Mergers	100		
Consumer Boom	100	-100	
PSBR Offset		200	-200
Bill Leak		100	
(ii) Total	400	200	-100
(iii) Projected Increase (£m)	3448	2064	1826
% Change on Previous Year	21.4	22.5	21.2

[Line (iii) = Line (i) plus Line (ii)]

24. Net domestic capital issues fell slightly to £0.8 billion in November, from £0.9 billion in October. There were no eurosterling issues announced in November. The stock of commercial paper outstanding rose by £160 million in the month, to £690 million at the end of November. Monetary sector holdings of domestic commercial paper rose by £60 million, to £190 million at the end of November. Sterling commercial paper issues do not appear to have responded yet to the Financial Services Act passed in early November, which removed restrictions on on-shore issues, and the increase this month is explained more by the continuing development of the market.



Funding

25. The PSBR was overfunded by £0.9 billion in November, giving a cumulative overfund of £0.1 billion this financial year (both figures unadjusted). **Gilt sales** to the nbps were £0.6 billion in November, giving a cumulative total of £3.5 billion in 1986-87. **National Savings** were weaker than expected, with a total inflow of £260 million, giving a cumulative inflow of £2.1 billion in the first eight months of the financial year. **External and foreign currency finance** of the PSBR, net of overseas purchases of gilts, was contractionary by £40 million in November.

26. The stock of **money market assistance** was £11.3 billion at the end of November, up to £1.0 billion on the previous month mainly due to the low CGBR. At the end of December money market assistance had risen further to £13.0 billion and is forecast to rise to about £14½ billion at the end of January but falling back to about £13½ billion at the end of February.

Building societies

27. The underlying **liquidity** of societies seems to have improved since October; the re-structuring of rates following the base rate rise improved both margins and competitiveness and, reflecting the fall in commitments since July, **mortgage lending** has also fallen off. But there is a net loss of funds to come as a result of the BGC privatisation and societies are expected to continue to require wholesale funding over the next three months - though at much lower levels compared to Q3.

28. The abolition of Mortgage Lending Guidance and the advent of new lending powers from January 1 is not expected to have any significant impact within the next three months.



Interest rates and security prices

29. **Equity prices** (measured by the FT-30 index) have risen by about 3 per cent since the time of the last Monetary Prospects report (circulated on 2 December). The **Government Securities** index has similarly recovered by 3 per cent since the last report, on expectations of firmer oil prices and a firmer exchange rate following the recent OPEC meetings. The twenty year par yield is currently 10.3 per cent, compared to 11.0 per cent at the beginning of December.

30. **Money market rates** have also edged down since early December and the three month interbank rate is currently  $11\frac{9}{32}$ . **Real rates** appear to have edged lower in line with money rates, as there does not seem to have been any recent changes in the markets' inflation expectations.

E. Exchange Rates and External Accounts

31. Tables 23 and 24 summarise developments in the exchange rate and the current account.

32. The **sterling index** has strengthened since the beginning of December to about 69, having been relatively steady at around 68 during the second half of November. Sterling has strengthened against all the other major currencies, typically by about one per cent, since early December while appreciation against the French Franc has been  $2\frac{1}{4}$  per cent.

33. **UK interest rates** and the world basket of rates have risen slightly over the past month, but there has been no change in the interest rate differential. The major factor behind the stronger pound seems to have been the firming of **oil prices** associated with OPEC's agreement to production cuts consistent with its stated price objective of \$18 a barrel. The Brent spot price rose from just over \$14 $\frac{1}{2}$  a barrel in early December to \$17 $\frac{1}{2}$  at the end of December. The rise in the sterling index has not been sufficient to offset the inflation implications of the oil price increase: the **oil adjusted reference ratio** has fallen by  $1\frac{1}{4}$  per cent since early December.



34. The November trade figures showed a widening of the visible trade deficit to £1032 million, some £200 million larger than that recorded in October. Sharp rises were recorded in both non-oil exports and imports in November, up 5½ per cent and 10 per cent respectively on the previous month. Given a revised projected visible balance of £800 million a month for the fourth quarter of 1986, the current account is estimated to have been in deficit by £232 million in November.

35. In December, market purchases were \$596 million and off-market purchases were minus \$296 million (of which plus \$235 million was attributable to British Gas), giving total net purchases of \$300 million in the month. In November, there were net purchases of \$128 million, of which \$419 million were on the market and minus \$291 million were off-market.

MG2 Division  
January 1987



## SECRET

## Monetary developments since last month's report

Latest outturns available at time of :

	June 1986	Nov report	Dec report
Monetary aggregates (12 month % growth)	(Cal June)	(Cal Oct)	(Cal Nov)
M0(s/a)	3.2	4.9	5.3 <sup>§</sup> (5.2)
£M3	18.6	18.6	18.6
PSL2	14.8	15.2	15.3
Bank lending	17.	19.4	20.8
Bank & building society lending (est)	18.0	19.4	20.2

Interest rates (%)	12 June	1 Dec	30 Dec
3 month interbank	9.8	11.4	11.3
20 year gilt-edged	9.3	11.0	10.3
Yield gap	0.5	0.4	0.9
3 month overseas basket	6.7	6.3	6.3
3 month interbank/eurodollar differential	2.8	5.3	5.0
Real 3 month interbank	6.2	7.3	7.2
Equity dividend yield (all-share)	4.0	4.1	4.1
IG yields (1996) assuming 5% inflation	3.5	4.2	4.1

## Exchange rate

ERI	76.1	67.9	69.0
Oil adjusted reference index*	68.6	70.3	72.4
ERI/reference rate ratio	110.9	96.6	95.3

## Asset prices

FT-30 Index (% pa)	33.0	15.8	17.5
FT-30 Level (April peak : 1426)	1304	1273	1309
Halifax house price index (% pa)**	12.1	13.6	13.1

§ Provisional December out-turn in brackets.

\* indicates what ERI would be if exchange rate simply responded to oil prices in the ratio 1:4. In determining the reference rate the base taken is the Jan '83 - Nov '85 average for the ERI and oil price.

\*\* figures are for June, November and December.



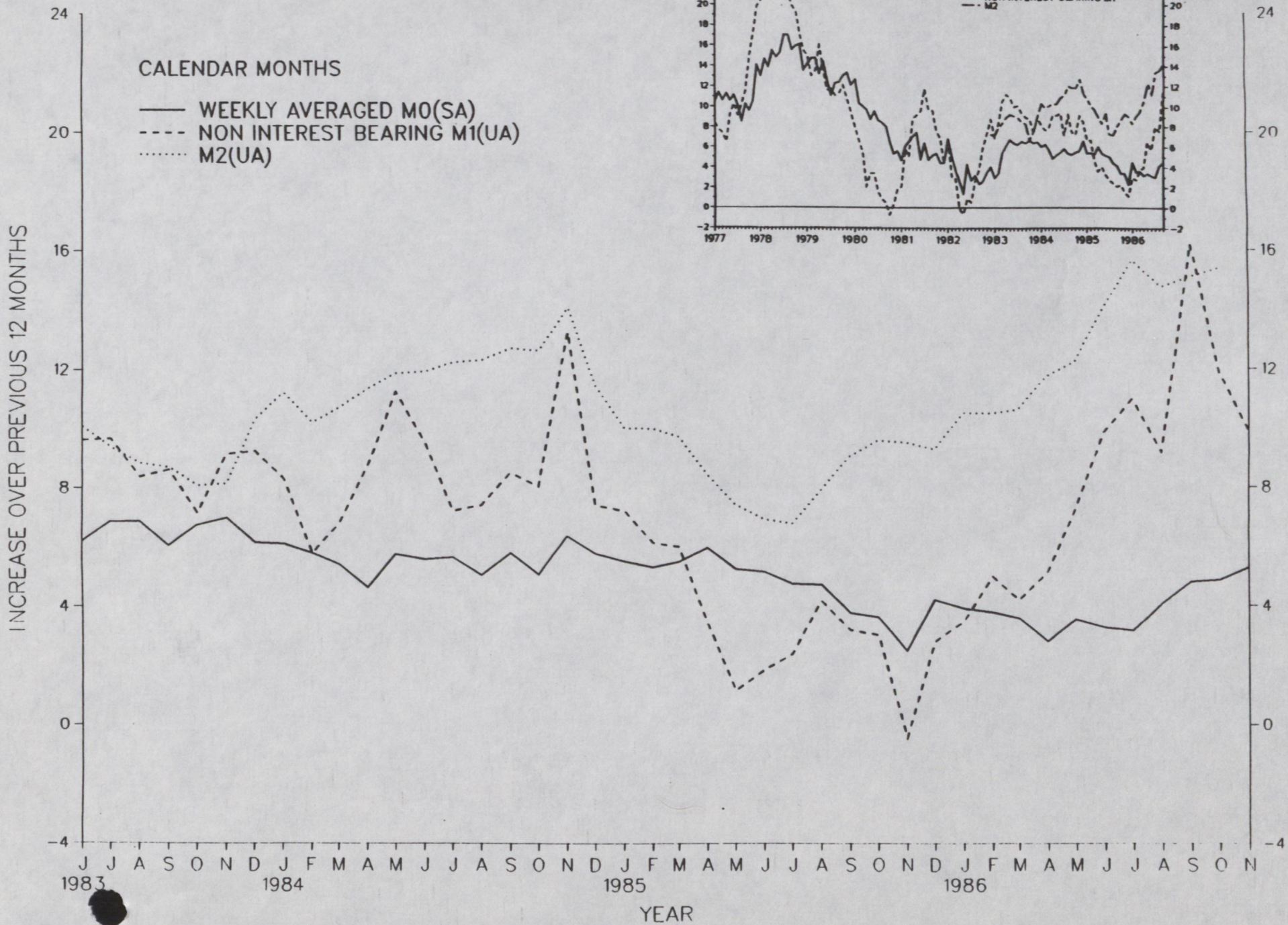
## MONTHLY MONETARY REPORT : CHARTS

- I Narrow money growth
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CHART 1

# NARROW MONEY





# BROAD MONEY

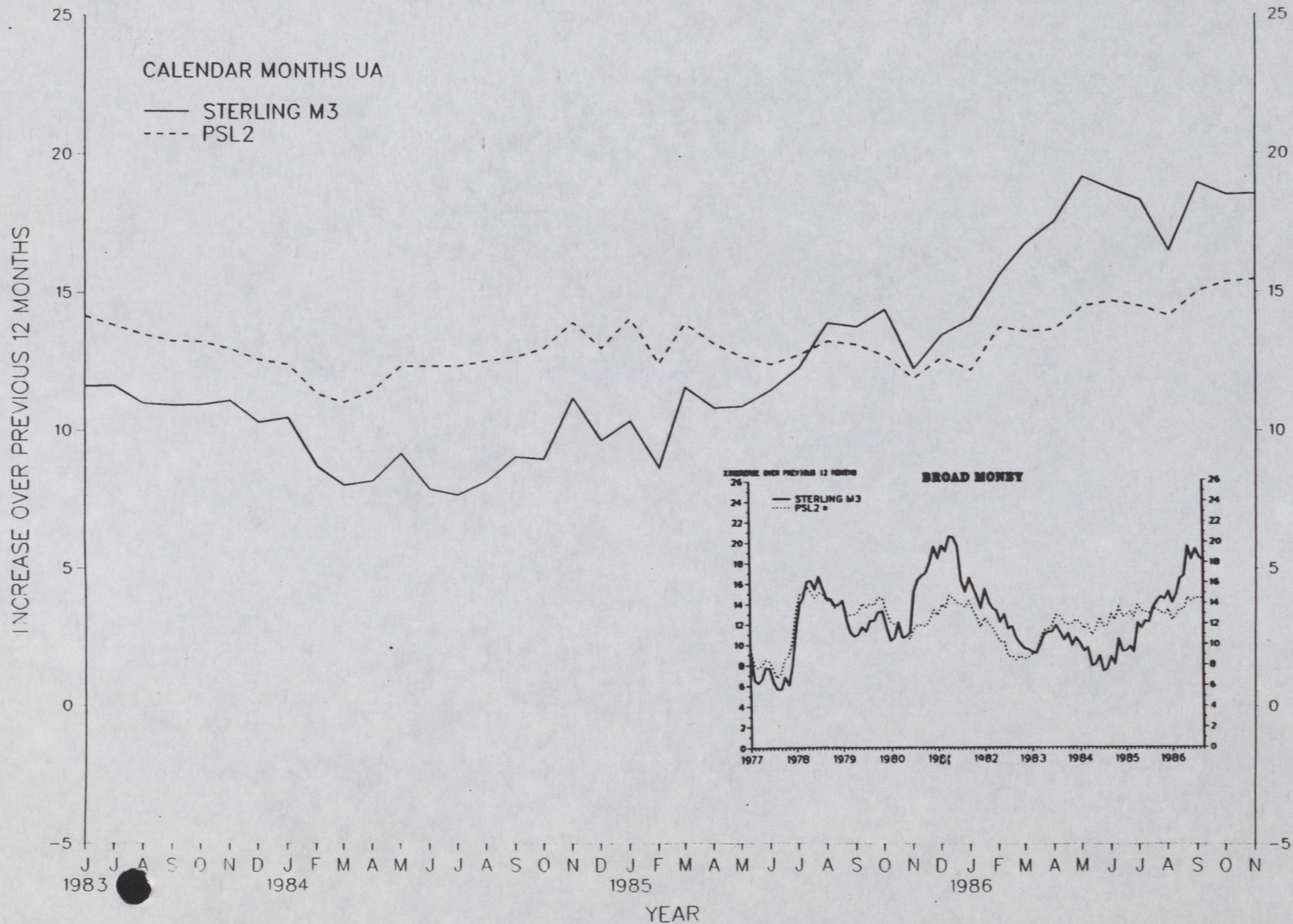
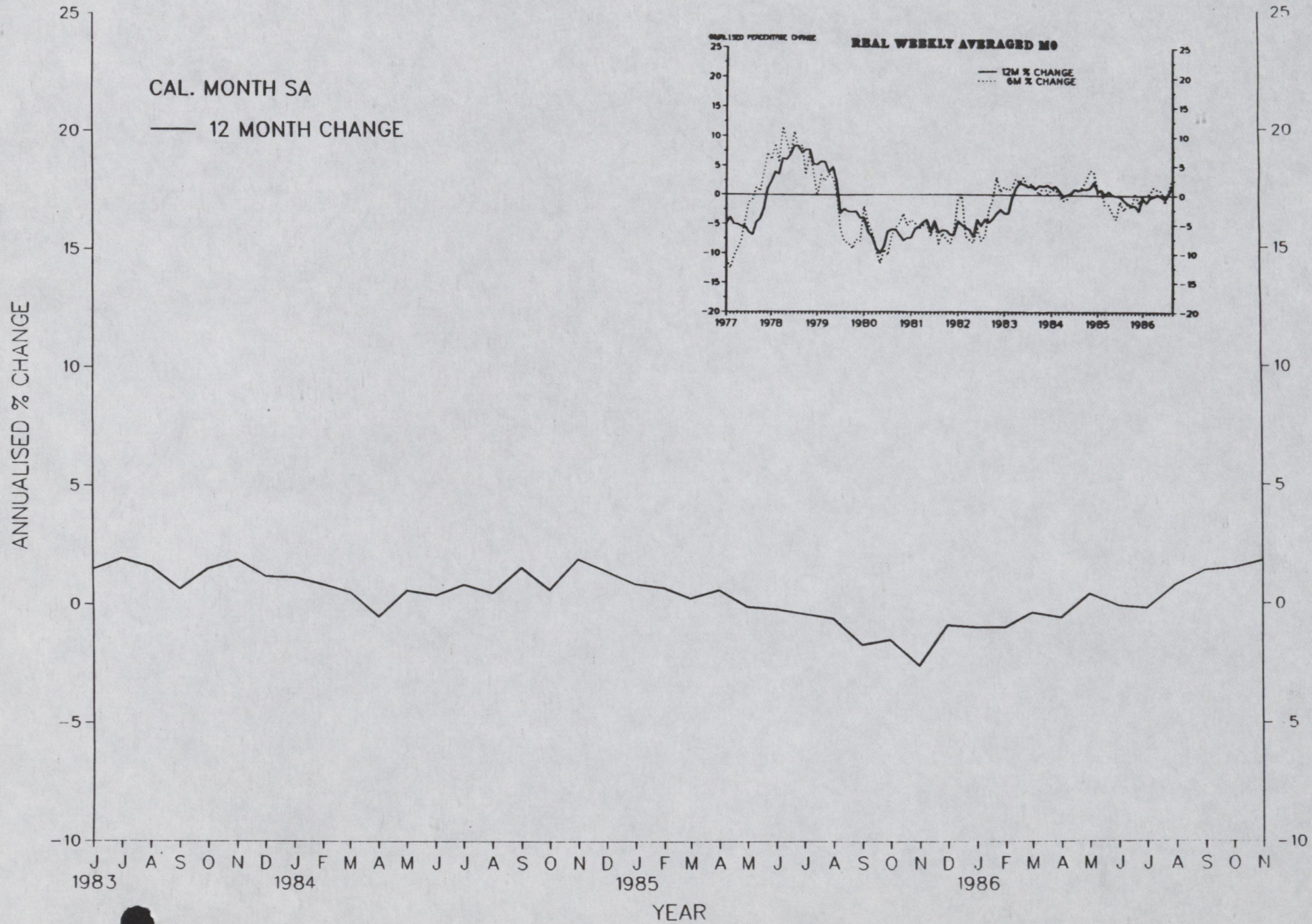




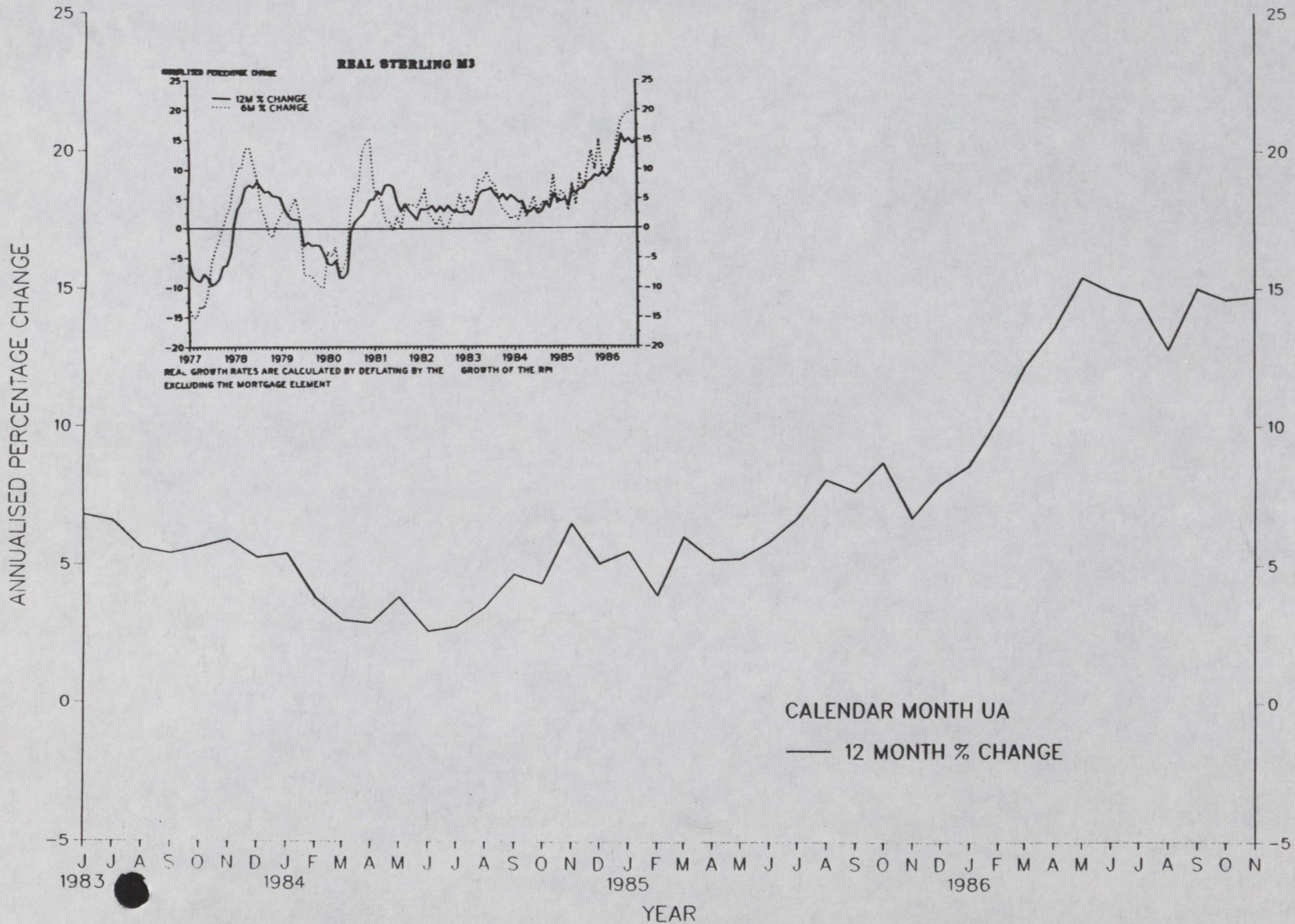
CHART 111

# REAL WEEKLY AVERAGED MO





# REAL STERLING M3



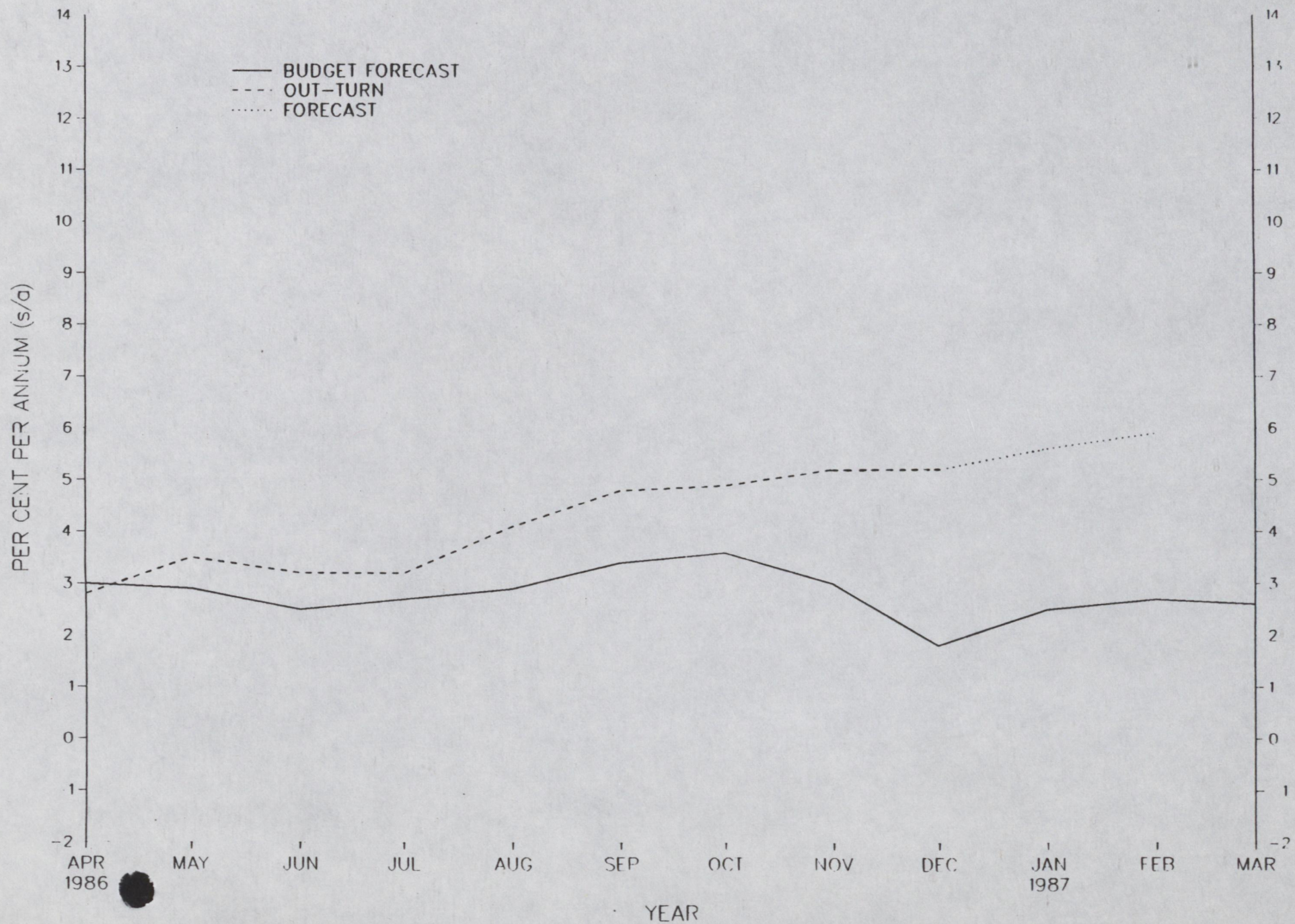






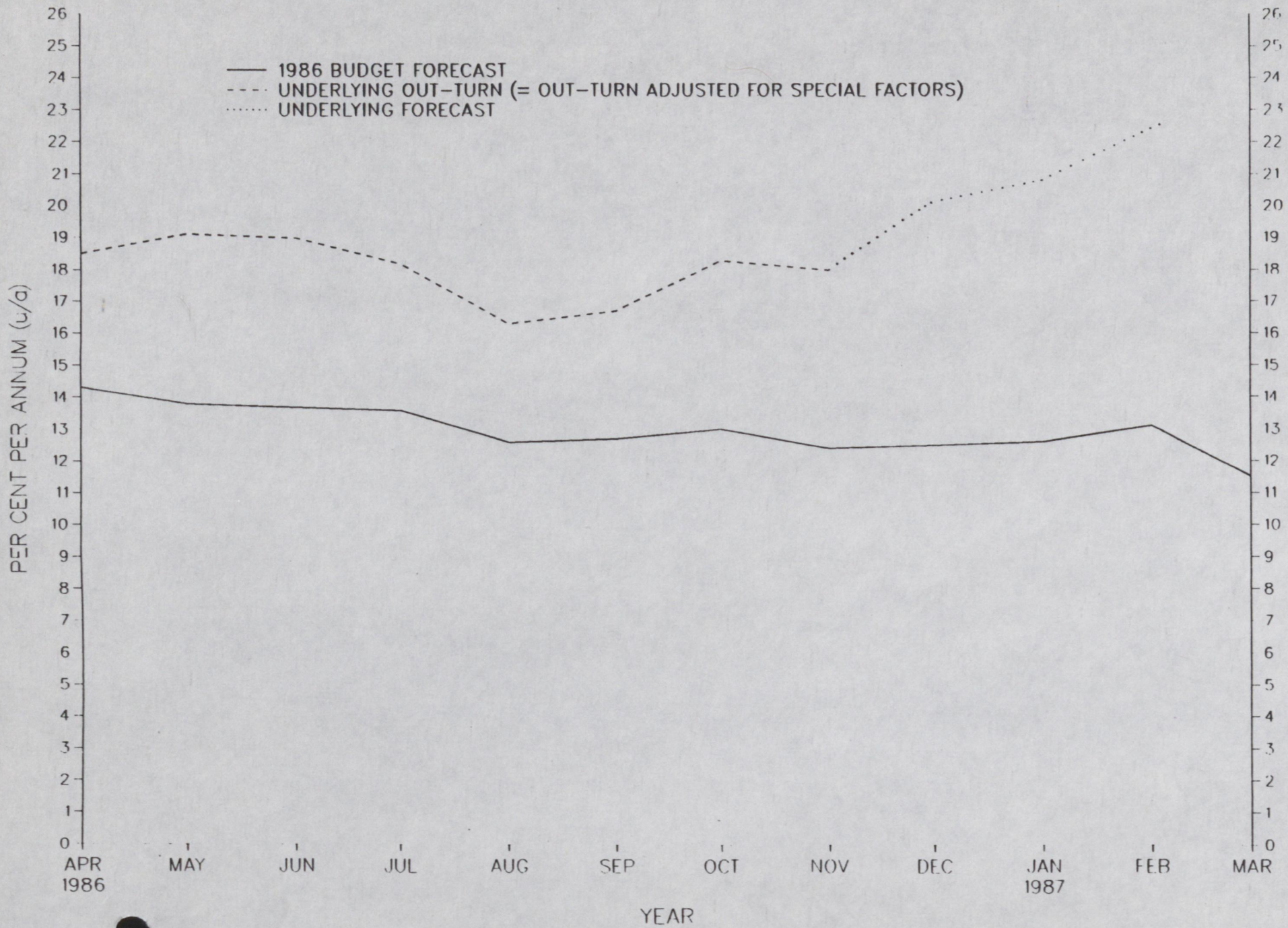
-CHART VI

# COMPARISON OF 1986 BUDGET FORECAST WITH OUT-TURN FOR MO



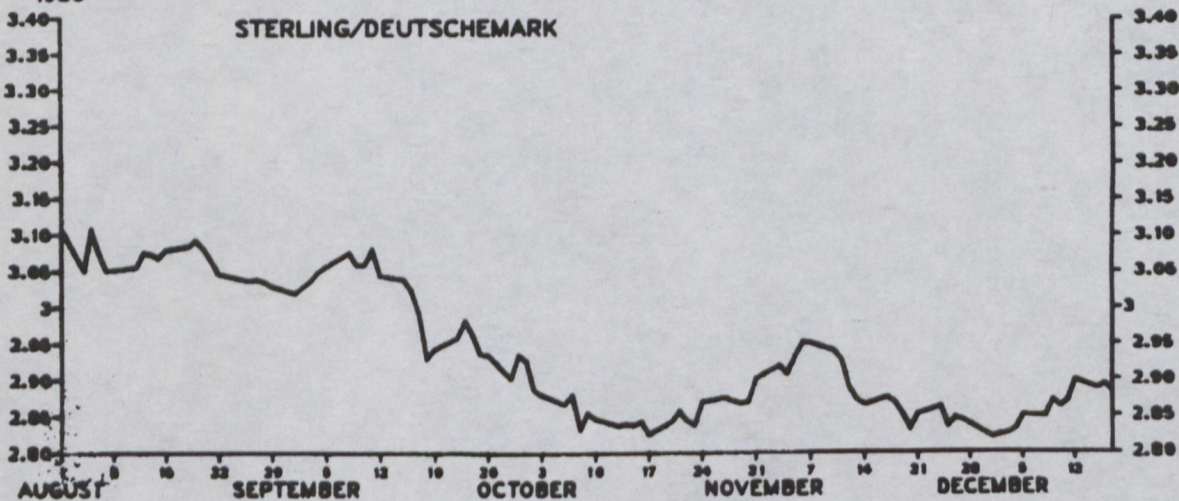
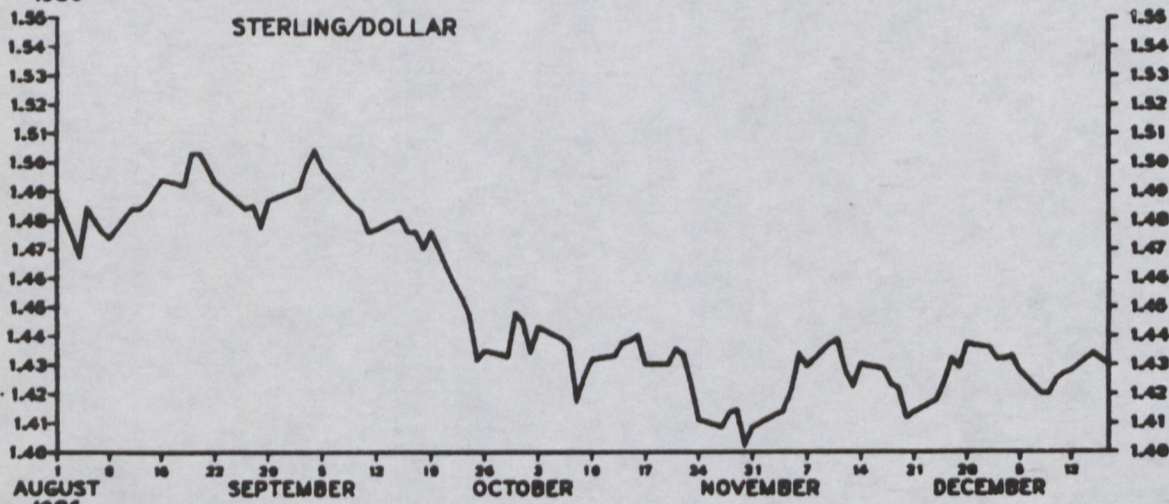
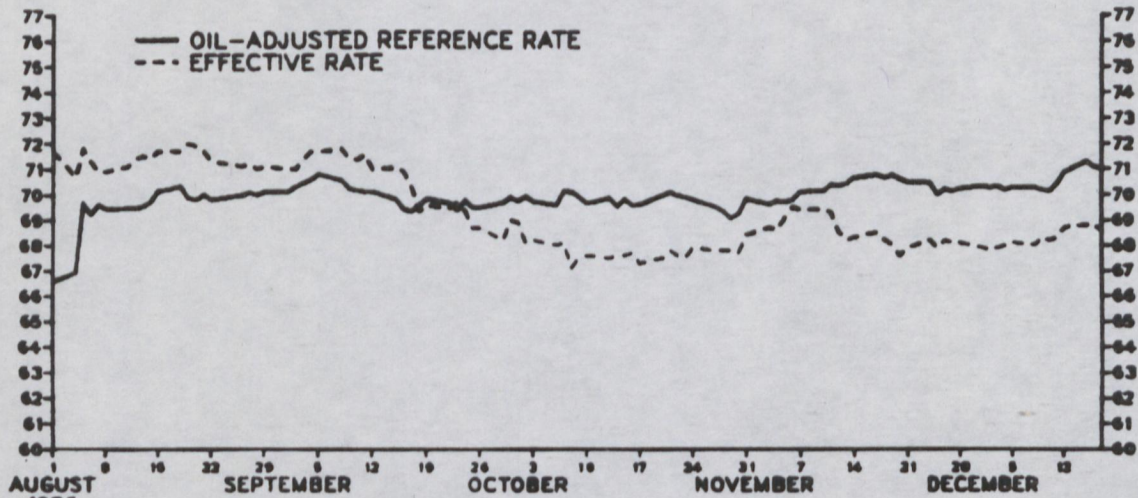


# COMPARISON OF 1986 BUDGET FORECAST WITH OUT-TURN FOR £M3





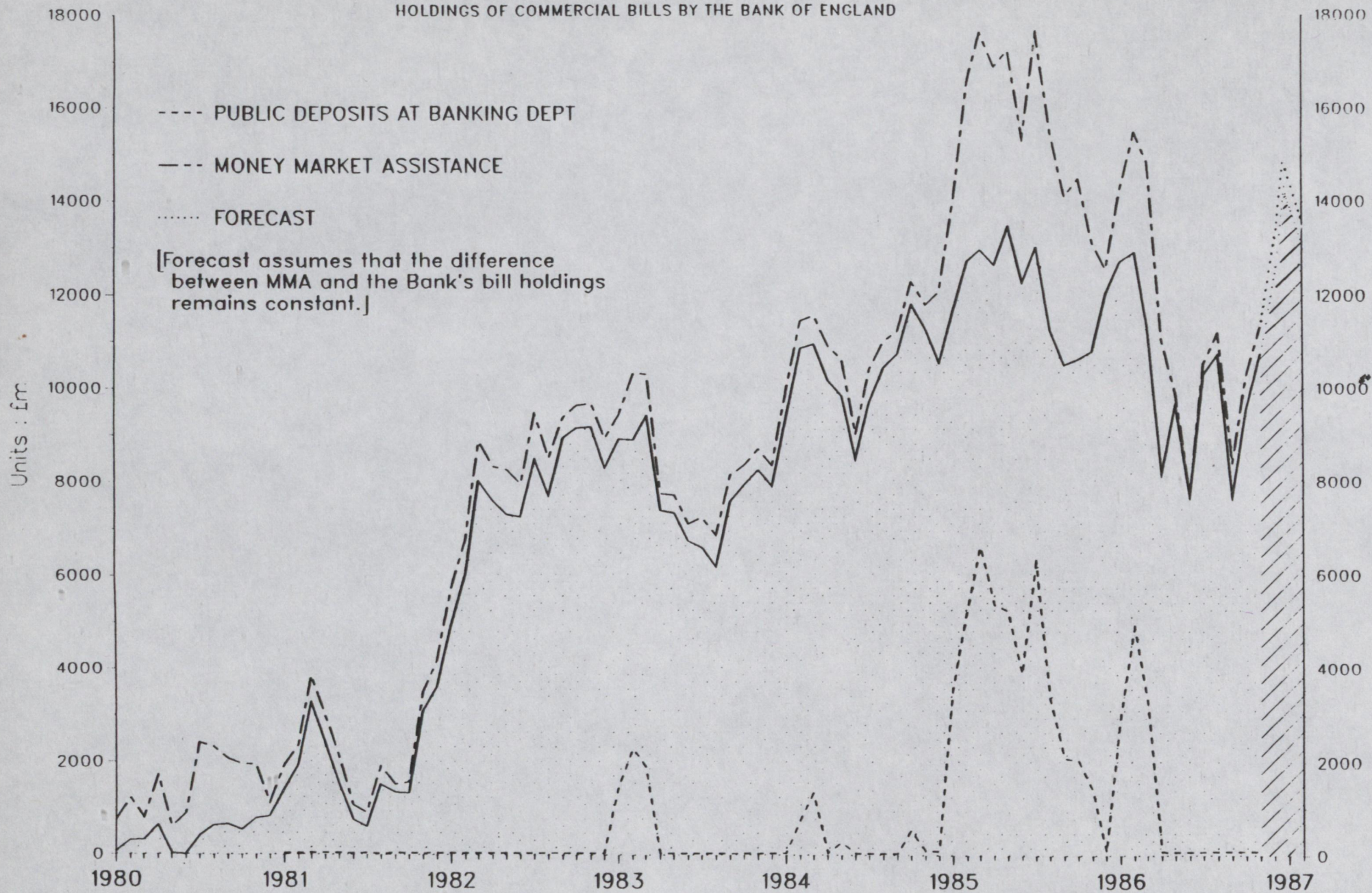
### EXCHANGE RATE





# BILL MOUNTAIN RANGE

HOLDINGS OF COMMERCIAL BILLS BY THE BANK OF ENGLAND

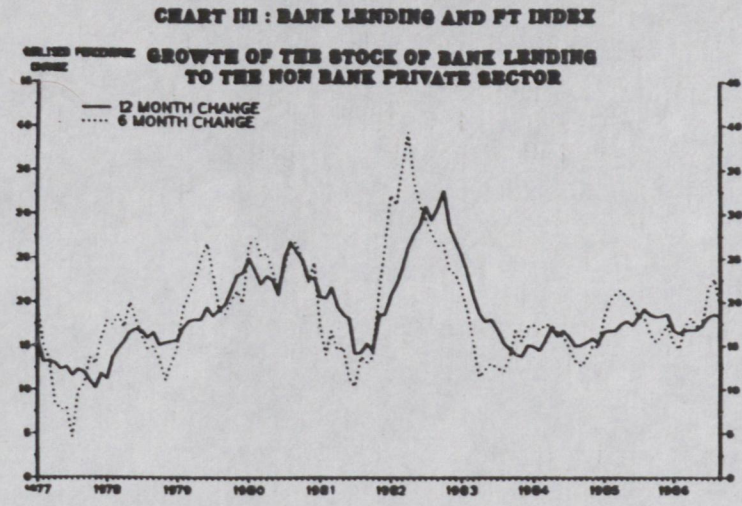
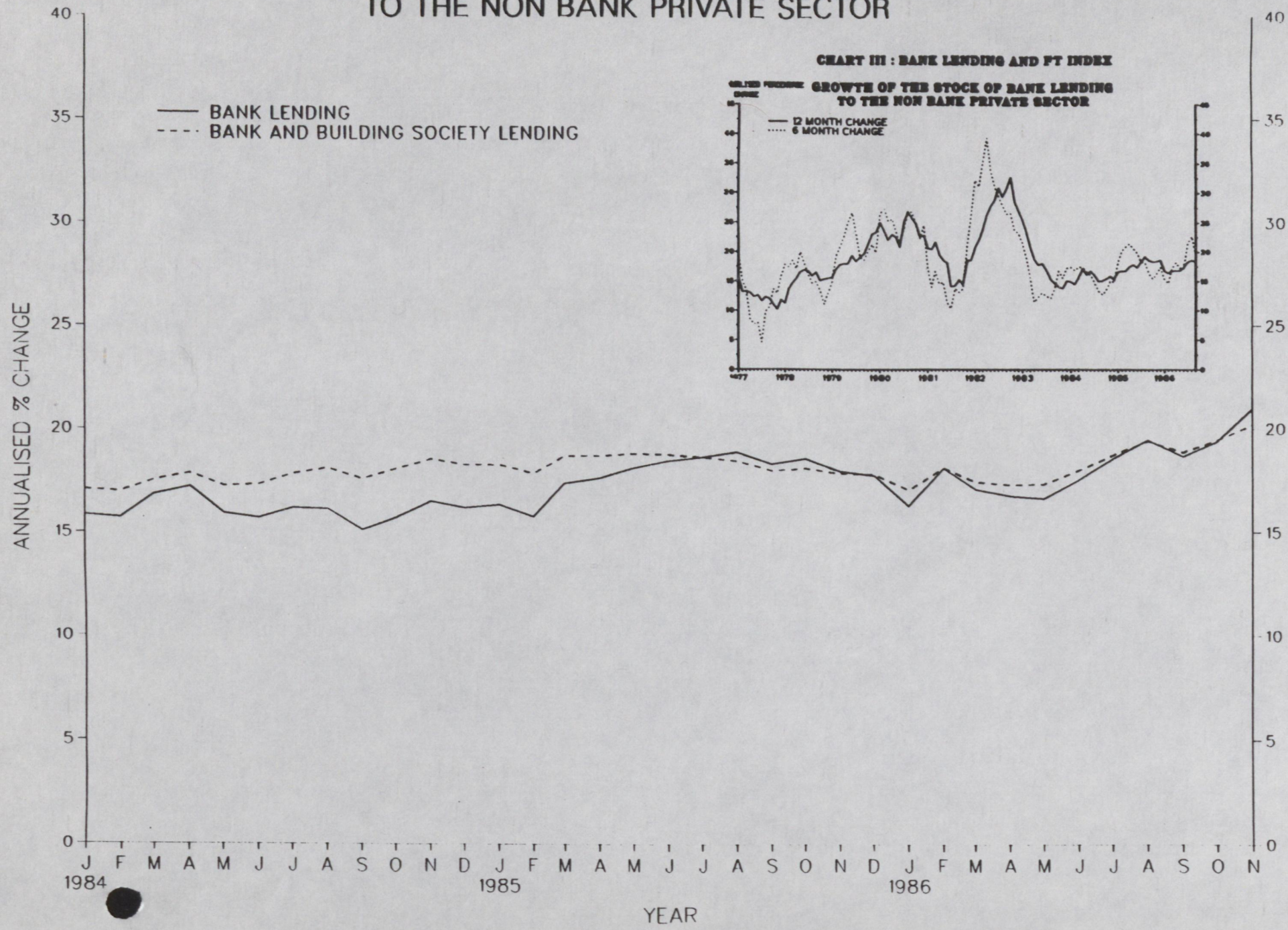


\* end banking months until August 1986 thereafter end calendar months



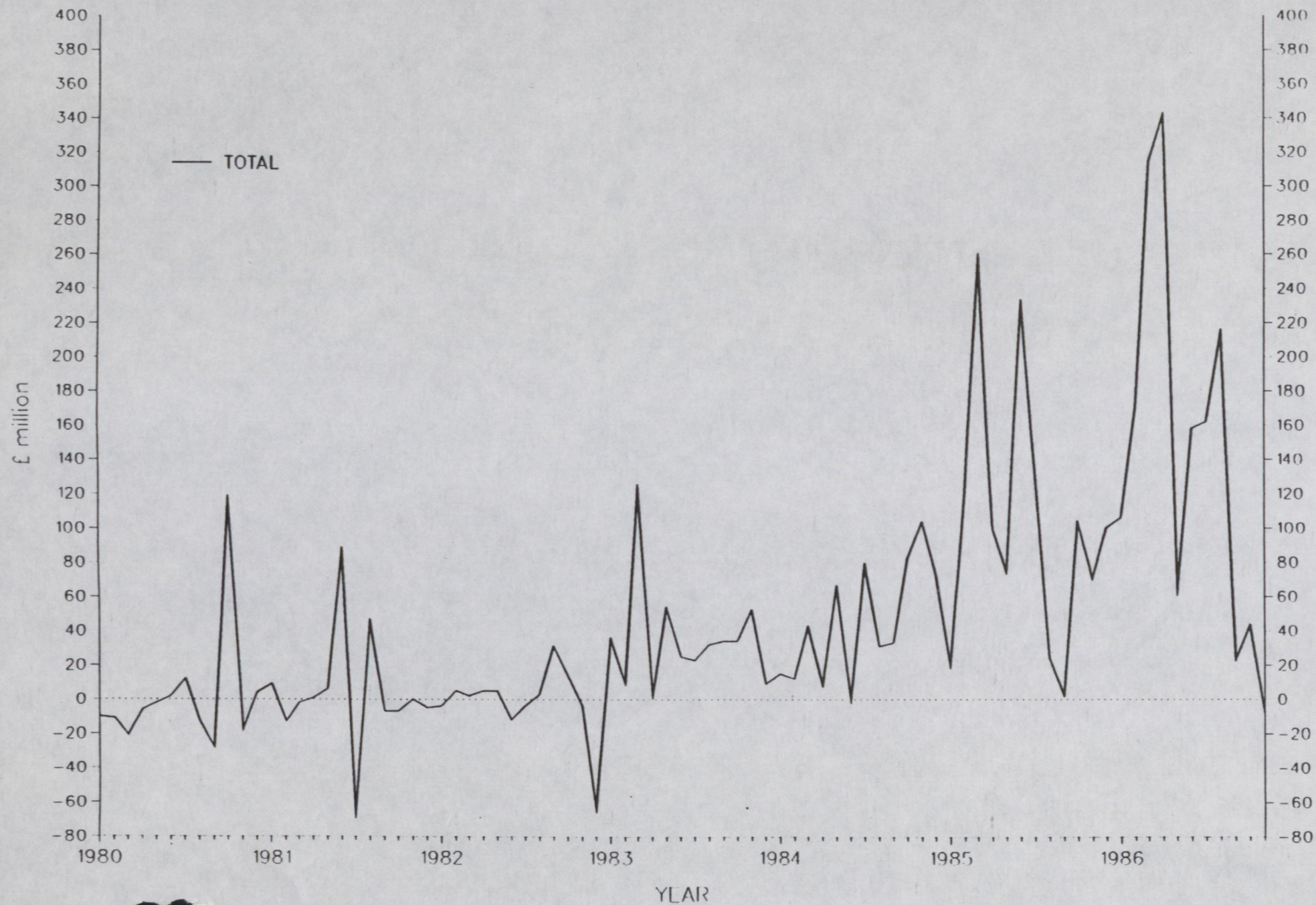
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# ANNUAL GROWTH OF THE STOCK OF LENDING TO THE NON BANK PRIVATE SECTOR



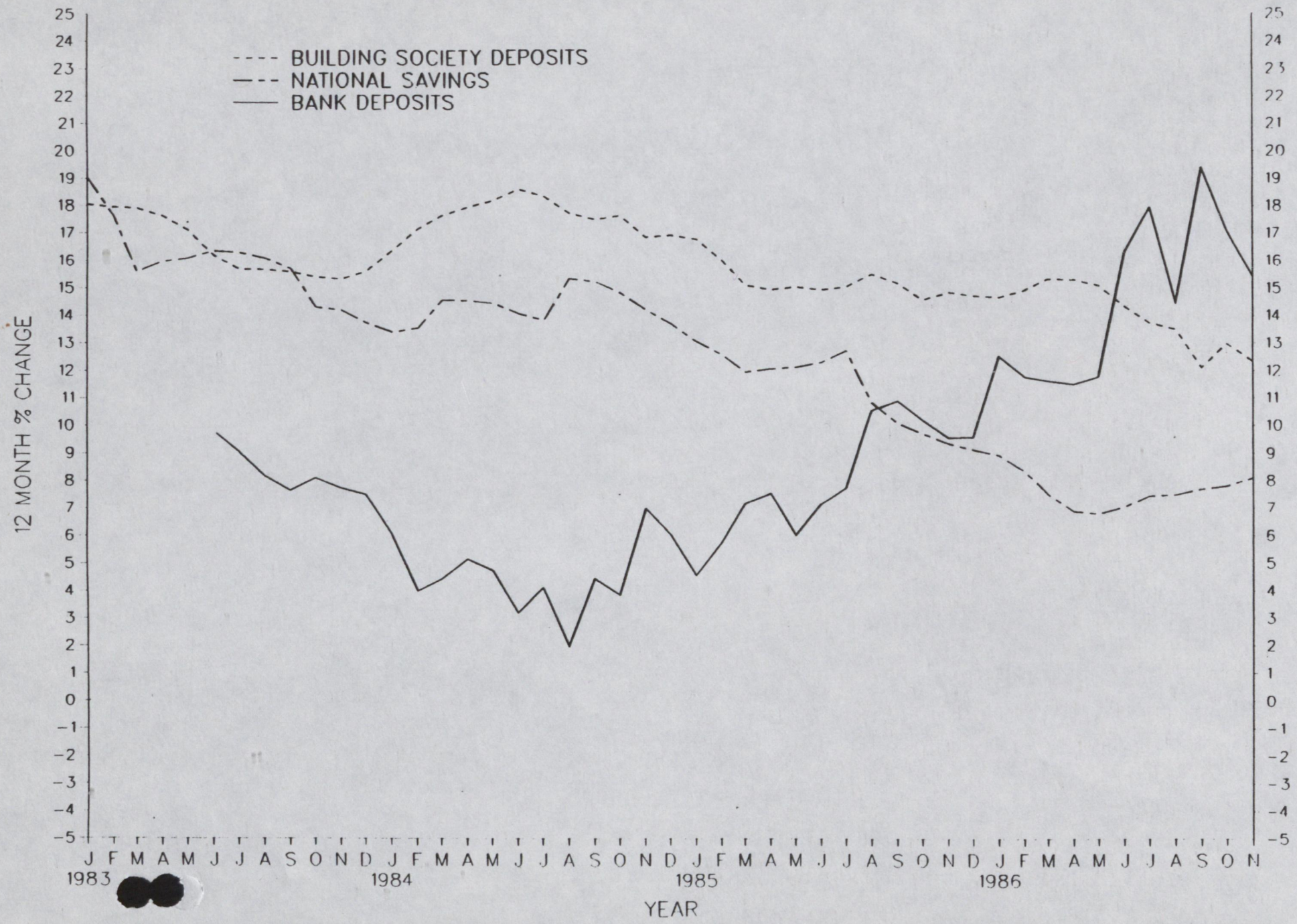


# £ CORPORATE BOND ISSUES BY UK LISTED ICCS





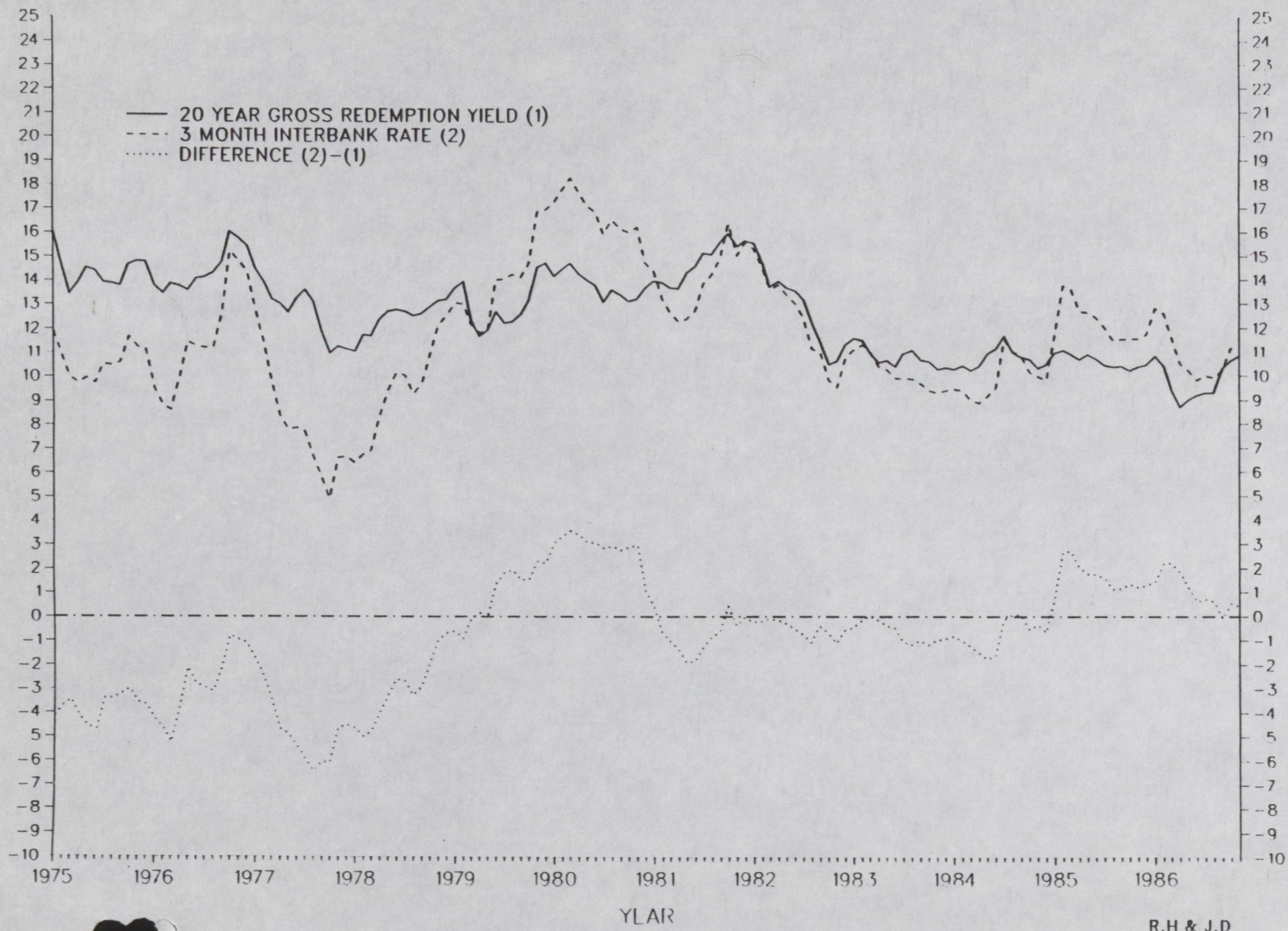
# RETAIL DEPOSITS





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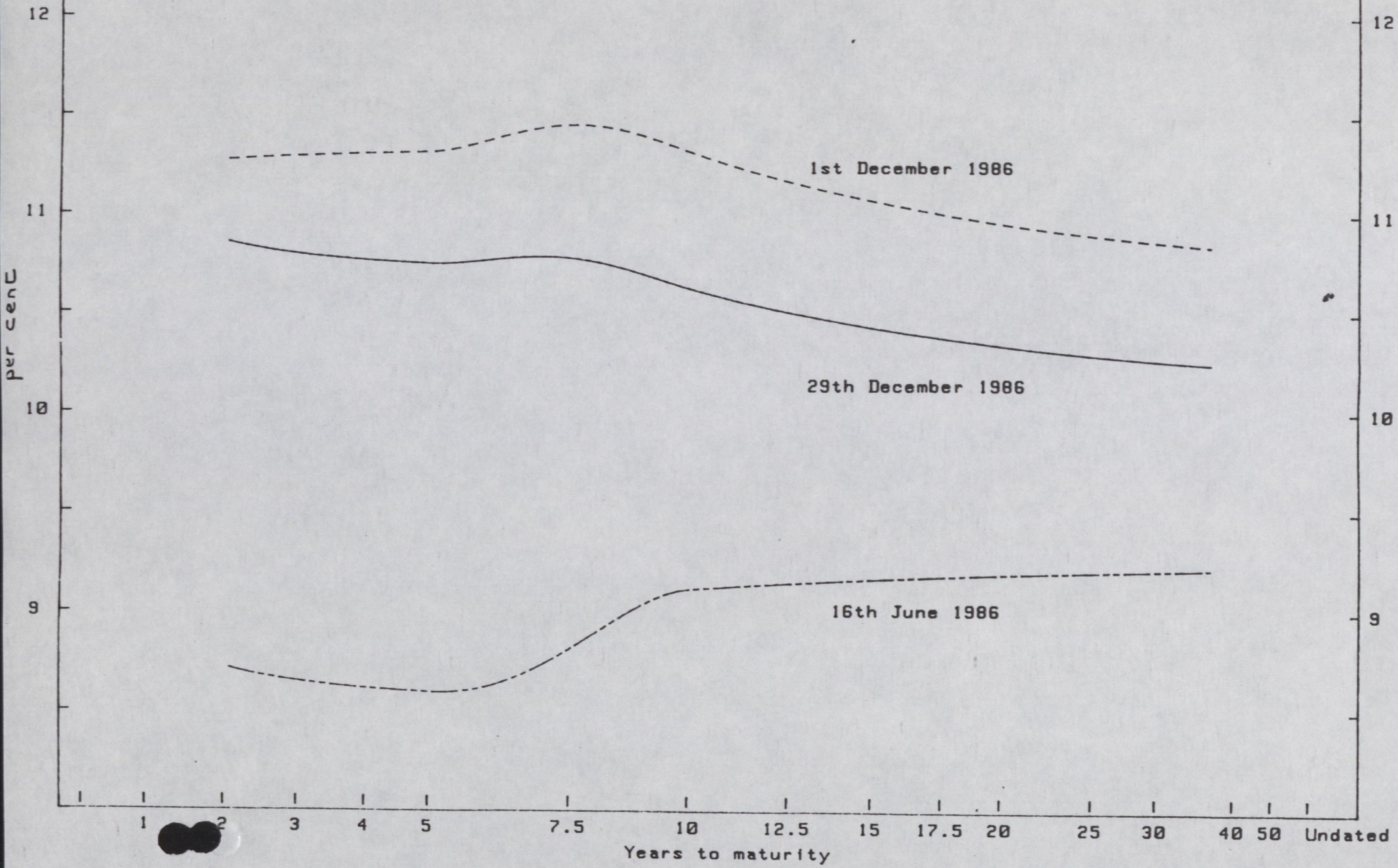
# NOMINAL INTEREST RATES



R.H & J.D

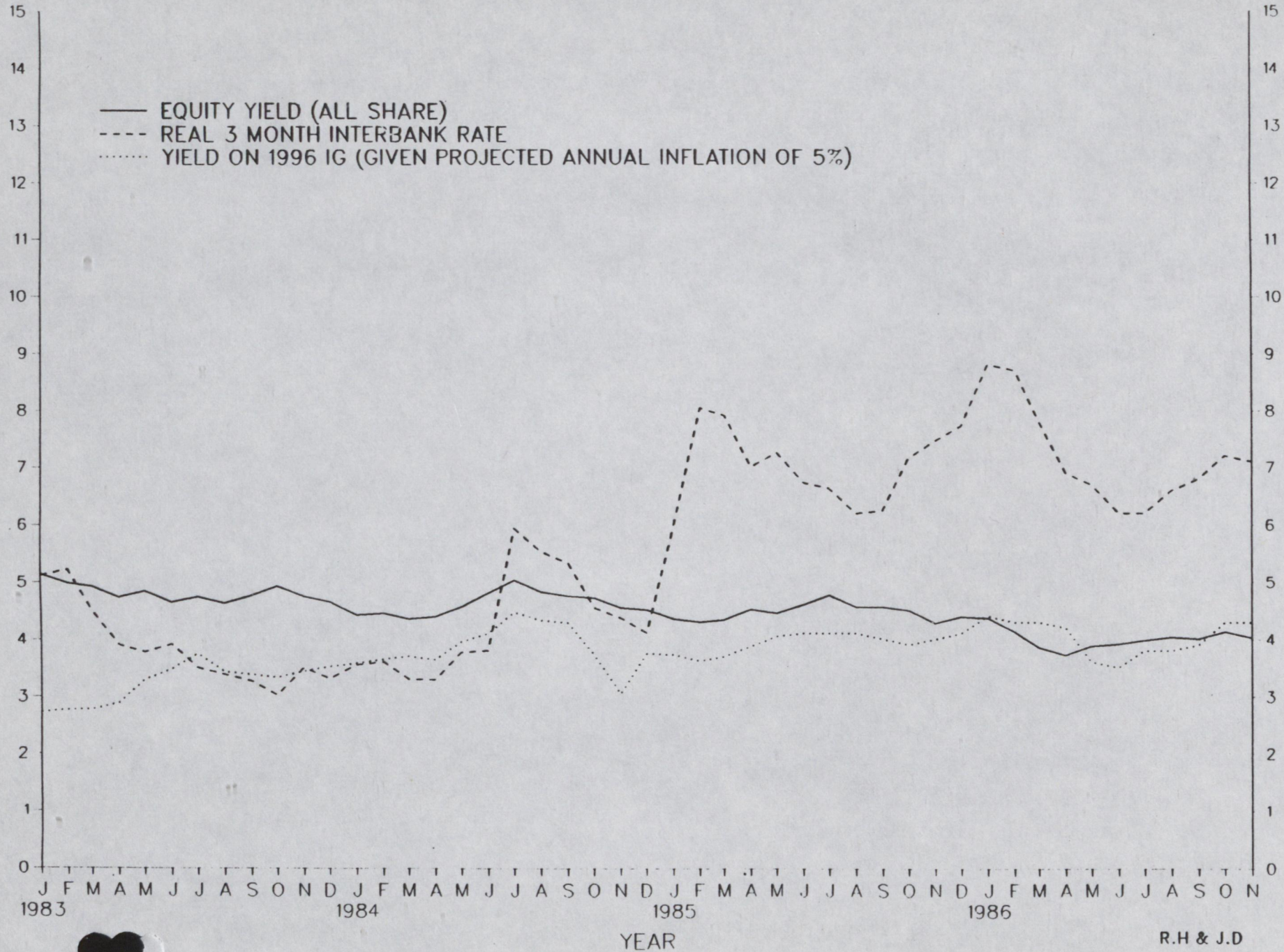


The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years



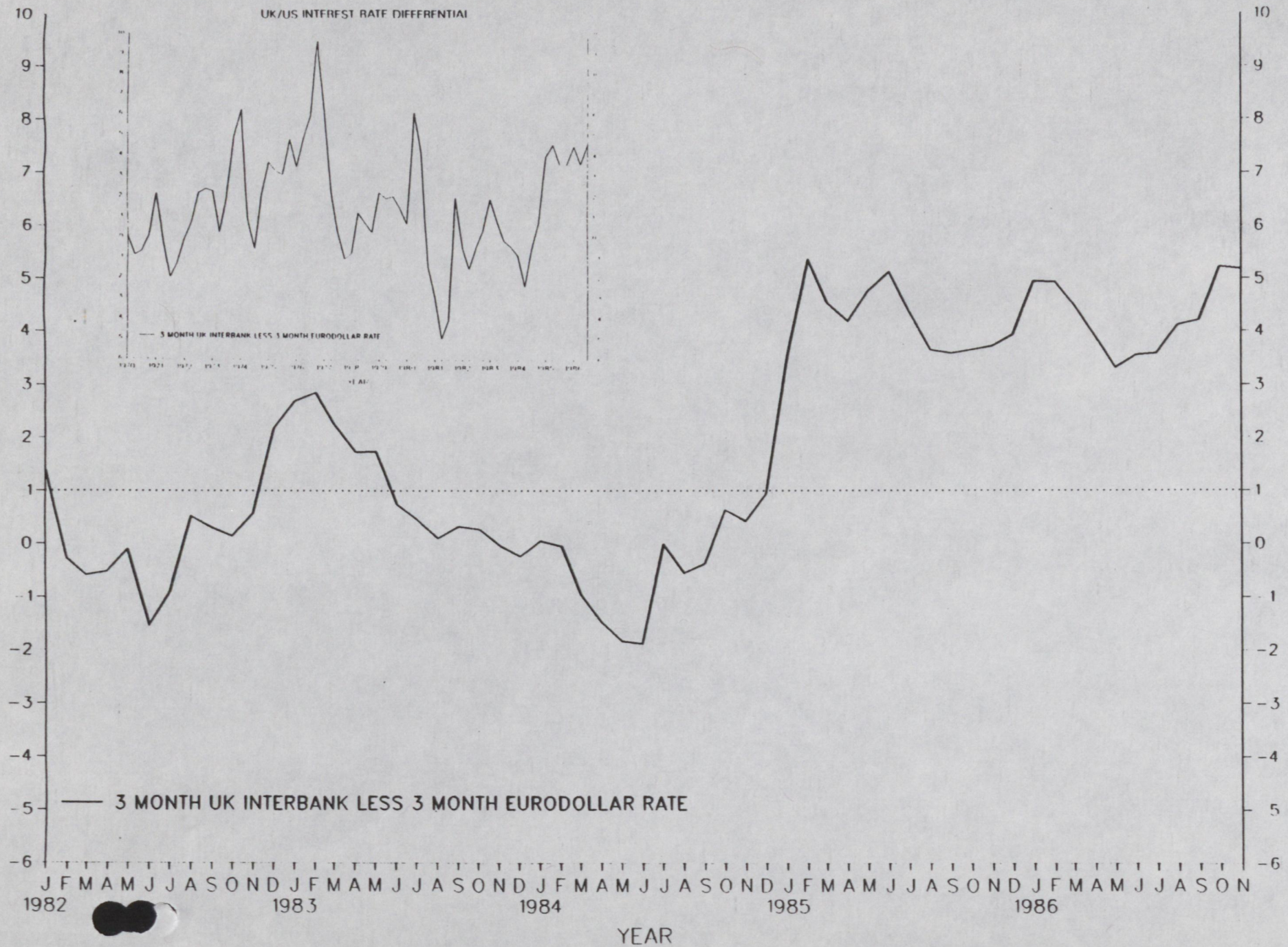


# REAL YIELDS



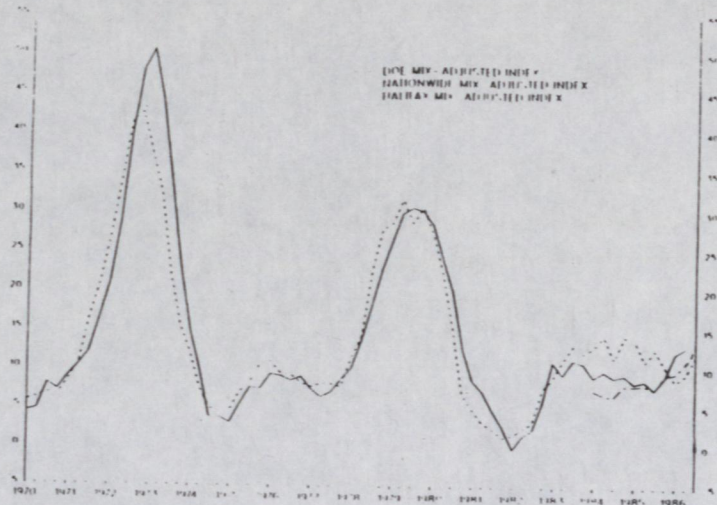
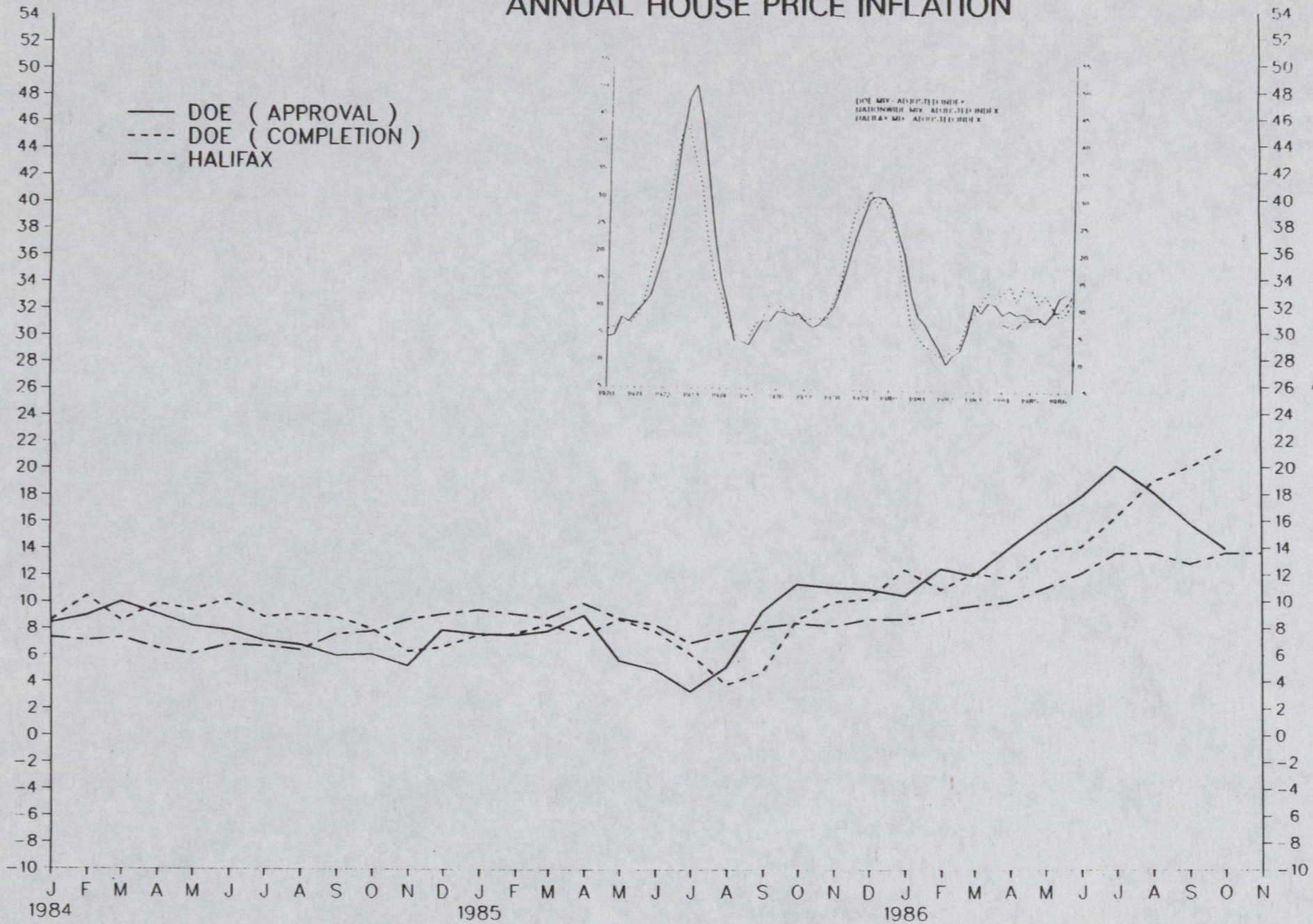


# UK/US INTEREST RATE DIFFERENTIAL





# ANNUAL HOUSE PRICE INFLATION





**: HOUSE PRICES**

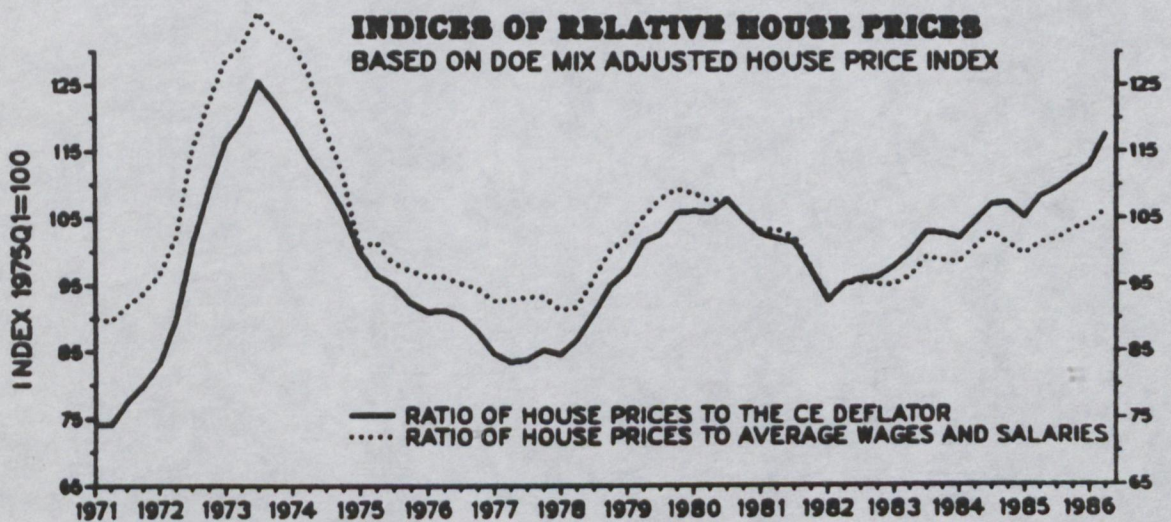
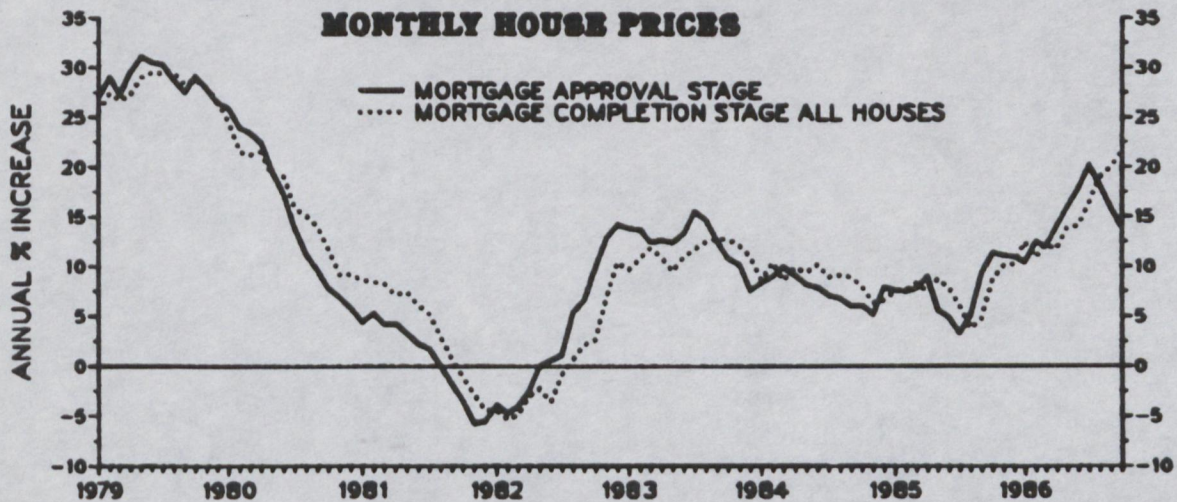
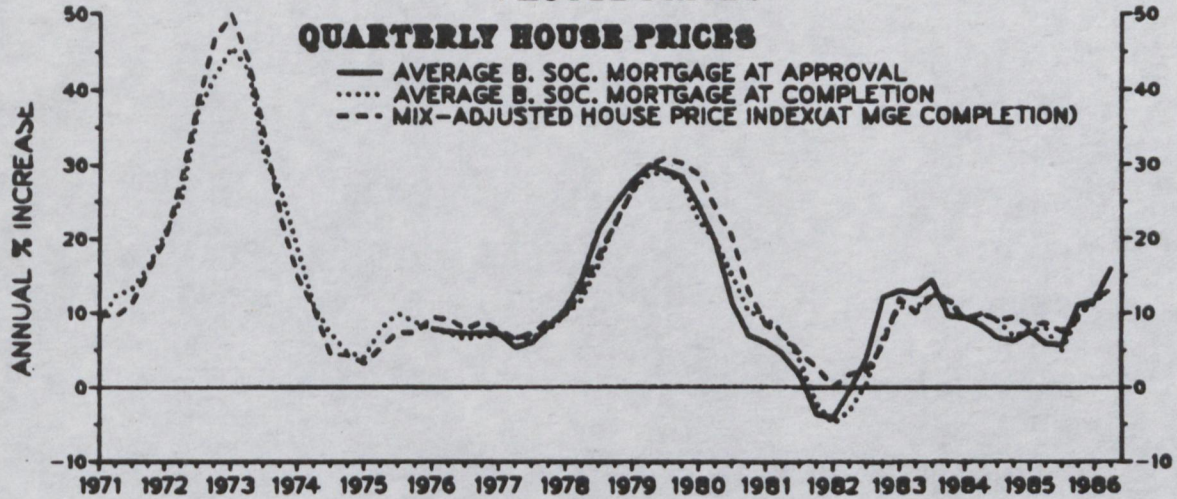
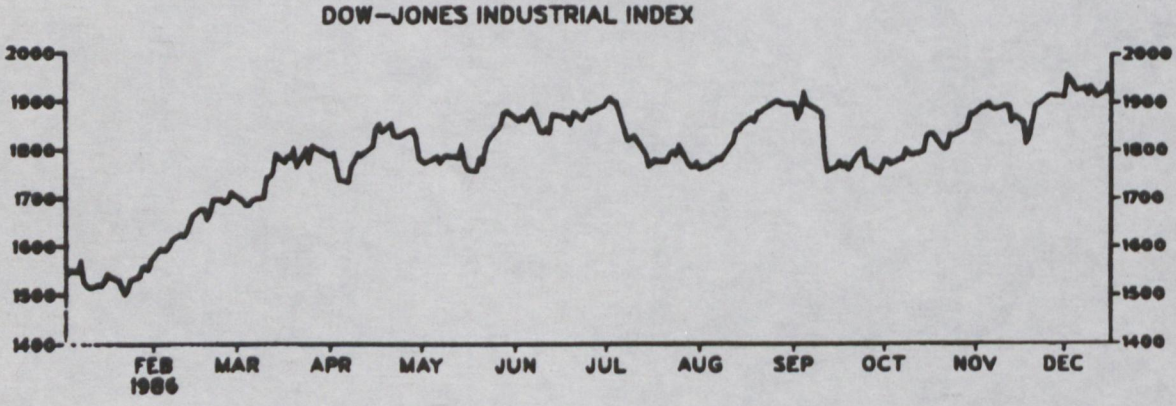
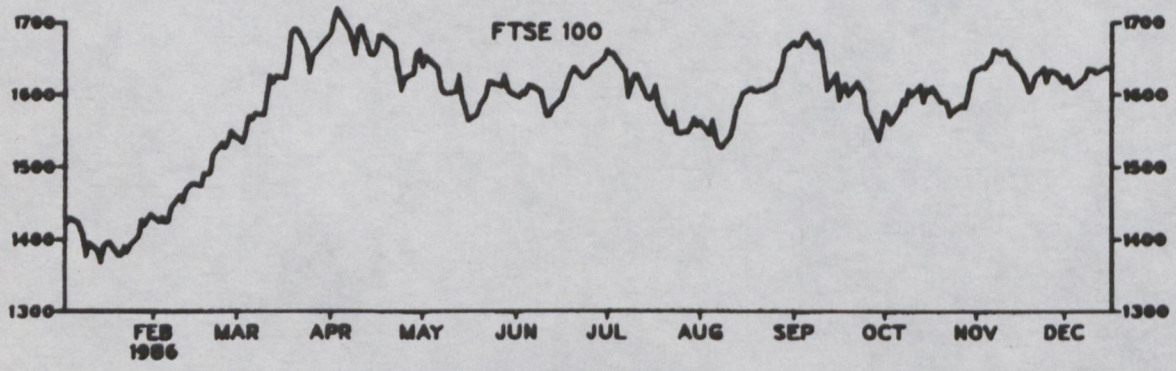
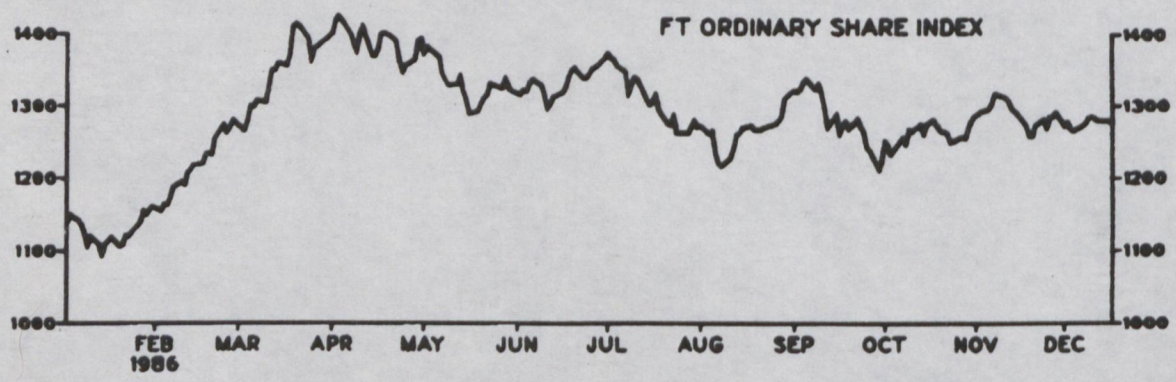
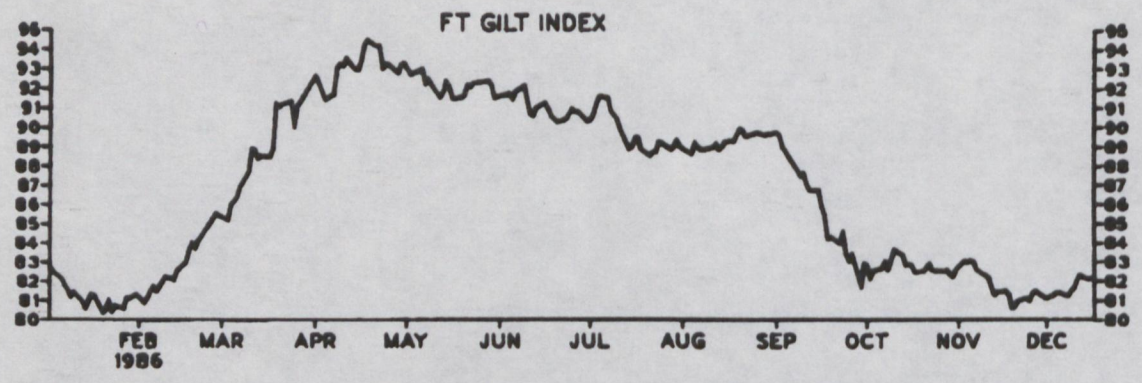




CHART XIX

CAPITAL MARKET INDICES





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Table 1

## DEVELOPMENTS IN THE G5 COUNTRIES

(per cent change on same period a year earlier)

	Nominal GNP	OUTPUT		TRADE VOLUMES		PRICES		MONEY	
		Real GNP	Industrial production	Exports	Imports	GNP Deflator	Consumer prices	Narrow money	Broad money
1982	5.7	-0.5	-3.5	-1.4	1.3	6.1	6.2	7.3	10.8
1983	7.1	3.0	3.8	0.3	2.9	4.0	3.8	9.6	8.6
1984	8.5	4.7	8.0	9.1	12.5	3.6	4.1	6.7	8.6
1985	6.5	3.0	3.1	3.6	3.6	3.4	3.5	8.2	8.4
1985Q1	6.1	2.7	3.5	6.0	5.3	3.3	3.6	7.1	9.1
Q2	6.6	3.1	4.2	6.4	3.5	3.4	3.8	7.3	8.6
Q3	6.7	3.2	2.7	2.3	2.4	3.4	3.5	8.8	8.2
Q4	6.6	2.9	2.2	-0.2	3.1	3.6	3.2	9.6	7.8
1986Q1	6.2	2.7	1.7	-1.7	3.2	3.4	2.6	9.8	7.5
Q2	5.9	2.6	0.8	-1.4	7.6	3.2	1.4	11.3	7.8
Q3	5.4	2.4	0.8	1.1	9.0	2.9	1.2	12.2	8.6
1986 Jan			2.4				3.3	9.7	7.5
Feb			2.0				2.8	9.6	7.4
Mar			0.8				2.0	10.3	7.6
April			2.0				1.5	10.9	7.7
May			-0.2				1.4	11.7	8.0
June			0.8				1.4	11.3	7.8
July			0.8				1.2	11.9	8.4
Aug			0.7				1.1	12.4	8.6
Sept			0.9				1.3	12.2	8.7
Oct			0.4				1.0		



## THREE MONTH INTEREST RATES IN THE G5 COUNTRIES

	United States	Japan	Germany	France	UK
1982	12.2	6.9	8.9	14.7	12.3
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	6.3	6.0	11.7	9.9
1985	8.1	6.5	5.5	10.0	12.2
1985 Q1	8.7	6.3	6.2	10.6	13.1
Q2	8.0	6.3	5.9	10.4	12.7
Q3	7.8	6.3	5.0	9.9	11.7
Q4	7.9	7.1	4.9	9.1	11.6
1986 Q1	7.6	6.0	4.6	8.7	12.4
Q2	6.7	4.7	4.6	7.4	10.2
Q3	6.0	4.7	4.6	7.2	10.0
1986 Jan	7.9	6.6	4.7	9.0	12.7
Feb	7.7	6.1	4.5	8.9	12.8
Mar	7.3	5.5	4.5	8.4	11.8
April	6.6	4.8	4.5	7.7	10.4
May	6.7	4.7	4.6	7.3	10.3
June	6.7	4.6	4.6	7.3	9.8
July	6.4	4.6	4.6	7.2	10.0
Aug	6.0	4.7	4.6	7.2	9.9
Sept	5.7	4.7	4.5	7.1	10.2
Oct	5.7	4.8	4.6	7.5	11.1
Nov	5.8	4.4	4.7	7.6	11.1
Dec	6.0	4.4	4.8	8.0	11.4



Table 3

## EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK
1980	93.7	126.4	128.8	94.4	96.0
1981	105.6	142.9	119.2	84.3	94.8
1982	118.0	134.6	124.4	76.6	90.4
1983	124.8	148.4	127.1	70.0	83.2
1984	134.6	156.7	123.8	65.7	78.6
1985	140.7	160.5	123.6	66.3	78.2
1985 Q1	149.7	154.3	119.3	63.4	72.1
Q2	145.8	155.2	121.6	65.2	78.9
Q3	138.4	157.6	125.0	67.2	82.1
Q4	128.8	174.9	128.5	69.3	79.8
1986 Q1	121.2	186.8	133.1	71.0	75.1
Q2	116.0	202.8	134.7	69.0	76.0
Q3	111.4	214.8	138.6	69.5	71.9
1986 Jan	125.2	177.8	132.0	70.4	76.6
Feb	120.5	189.2	133.2	71.1	74.2
Mar	117.8	193.1	134.2	71.5	74.6
Apr	117.4	197.5	134.4	69.1	76.2
May	114.9	205.5	134.7	69.0	76.1
June	115.8	205.4	134.9	69.0	75.8
July	113.1	214.5	136.2	69.2	74.0
Aug	110.8	213.4	139.3	69.6	71.4
Sept	110.4	216.6	140.3	69.8	70.4
Oct	109.9	213.3	142.0	70.6	67.8
Nov	111.4	205.7	142.3	70.7	68.5
Dec 29	108.7	207.1	144.7	71.0	68.9
% Change since dollar peak (Feb 85)	+31.8	+31.8	+23.5	+14.5	-1.9
% Change since Plaza (Sept 85)	-22.1	+32.2	+13.3	+5.4	-16.0



Table 4

RECENT INDICATORS OF ACTIVITY AND INFLATION  
per cent changes on year earlier

MONEY				OUTPUT			PRICES AND UNIT LABOUR COSTS					
		<u>GDP</u>		<u>GDP(O)</u>	<u>Manufacturing</u> <u>Output</u>	<u>RPI</u>	<u>RPI excluding</u> <u>mortgage payments</u>	<u>PPI</u> <u>Output</u>	<u>PPI</u> <u>Input</u>	<u>Unit Wage Costs</u>		
										<u>Manufacturing</u>	<u>whole economy</u>	
1984-85		7.4	Latest	1984	3.2	3.9	5.0	4.4	5.6	8.7	3.0	4.0
1985-86		9.7	pub-	1985	3.8	3.2	6.1	5.2	6.3	4.2	5.4	5.2
	FSBR		lished									
1986	2	7.8	AS	1986	2.4	- 0.8	4.9	4.6	5.0	- 11.9	7.8	6.0
	3	6.7	5.5	2	2.2	- 1.0	2.8	3.3	4.3	- 12.4	6.9	6.4
	4	6.2	5.7	3	3.4	0.7	2.6	3.3	4.0	- 13.1	4.1	
1987	1	6.5										
1986-87		6.8										
1987-88		6.4										
				January		- 0.5	5.5	4.9	5.4	- 8.3	8.1	
				February		- 0.2	5.1	4.8	5.0	- 12.3	7.3	
				March		- 1.5	4.2	4.0	4.7	- 14.9	8.2	
				April		- 0.2	3.0	3.4	4.4	- 12.8	6.8	
				May		- 1.1	2.8	3.1	4.3	- 12.2	6.7	
				June		- 1.4	2.5	3.3	4.3	- 12.4	7.3	
				July		1.0	2.4	3.2	4.0	- 14.3	3.8	
				August		0	2.5	3.3	4.0	- 13.3	5.5	
				September		1.3	3.0	3.4	4.0	- 11.5	3.1	
				October		2.1	3.0	3.4	4.1	- 7.6	3.1	
				November			3.5	3.3	3.9	- 5.5		



TABLE 5 : INDICATORS OF FISCAL STANCE

(a) Annual Data

	PSBR		PSBR excluding privatisation proceeds		PSFD	
	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)
1970-71	0.8	1½	0.8	1½	-0.2	-½
1971-72	1.0	1½	1.0	1½	0.7	1
1972-73	2.4	3½	2.4	3½	2.0	3
1973-74	4.3	5½	4.3	5½	3.5	4½
1974-75	8.0	9	8.0	9	6.0	6½
1975-76	10.3	9½	10.3	9½	8.1	7½
1976-77	8.3	6½	8.3	6½	7.4	5½
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5½	9.2	5½	8.5	5
1979-80	10.0	4½	10.4	5	8.2	4
1980-81	12.7	5½	13.1	5½	11.9	5
1981-82	8.6	3½	9.1	3½	5.7	2½
1982-83	8.9	3½	9.3	3½	8.4	3
1983-84	9.8	3½	10.9	3½	12.1	4
1984-85*	10.2	3	12.3	3½	13.8	4½
1985-86*	5.8	1½	8.5	2½	7.9	2½
1986-87 (AS forecast)	7	1½	11½	3	[12.7]	[3½]

\* If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.3 per cent lower in 1985-86.

(b) Quarterly Data

<u>£ billion</u>		<u>PSBR</u>		<u>PSBR excluding privatisation</u>		<u>PSFD</u>	
		s.a.	u.a.	s.a.	u.a.	s.a.	u.a.
1985	Q2	1.4	2.6	2.7	3.9	2.3	3.5
	Q3	1.9	3.0	2.4	3.4	1.7	2.3
	Q4	1.2	2.1	1.8	2.7	1.9	0.5
1986	Q1	1.3	-1.9	1.7	-1.4	2.6	1.5
	Q2	2.1	2.2	3.2	3.3	1.9	2.6
	Q3	2.5	3.5	2.5	3.5	3.1	5.1



TABLE 6

CGBR(O) April to November : Changes  
From Budget Profile - £ billion

1. Customs and Excise Receipts	0.7
2. Inland Revenue Receipts: Oil	- 0.8
3. Inland Revenue Receipts: Non-oil	0.3
4. National Insurance Contributions	0.5
5. Supply Expenditure	0.3
6. Interest and Dividend Receipts	- 0.3
7. Privatisation proceeds	0.0
8. Other receipts (net)	<u>0.2</u>
9. CGBR(O)	<u>0.0</u>
(=-1-2-3-4+5-6-7-8)	-0.3



TABLE 7

Key Monetary Indicators

	1985-86							calendar months					1986-87
	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>
Monetary Aggregates													
12 month (MO)	2.4	3.8	4.1	3.8	4.1	2.1	3.7	3.2	3.1	4.1	4.8	4.9	5.2
% changes (£M3)	12.2	13.4	13.9	15.6	16.7	17.5	19.1	18.7	18.3	16.5	19.0	18.6	18.6
ua (PSL2)	11.8	12.6	12.1	13.7	13.5	13.6	14.5	14.7	14.5	14.1	15.0	15.2	15.3
Sterling lending (sa) 12 month % change													
Banks lending	18.0	17.8	16.3	18.1	17.1	16.7	16.6	17.5	18.5	19.4	18.6	19.3	20.8
Bank and building societies	17.8	17.8	17.0	18.1	17.4	17.3	17.3	18.0	18.7	19.4	18.9	19.4	20.2
Cumulative Overfunding from bk April: £mn (- = over funding)													
u/a	543	2,072	-1,924	-2,254	435	-361	1944	1572	-31	-51	2585	793	-97
Money Market Assistance/ Level outstanding													
£mn	13,117	12,540	14,238	15,464	14,828	11,010	9,890	7,682	10,523	11,168	8,390	10,247	11,295
Interest Rates													
3 months*	11.6	11.8	12.8	12.6	11.6	10.5	10.2	9.8	10.0	9.9	10.2	11.2	11.2
20 year <sup>∅</sup>	10.4	10.4	10.8	10.4	9.4	8.7	9.0	9.2	9.2	9.4	10.3	10.6	10.9
Effective Exchange Rate													
	80.0	79.1	76.6	74.2	74.6	76.3	76.1	75.9	74.0	71.4	70.4	67.8	68.5

\* Inter bank

<sup>∅</sup> par yield

/ banking months until August thereafter end calendar months



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TABLE 8: PERCENTAGE GROWTH RATES IN SELECTED MONETARY AGGREGATES

	Weekly averaged				Real	Real	RPI less	
	MO	M2	EM3	PSL2 †	MO	EM3	Mortgage Element	
(a)	Financial Years (12 month changes to Calendar March)(%)							
	1981-82 <sup>†</sup>	2.9*		12.2	10.9	-6.6	2.8	9.1
	1982-83 <sup>†</sup>	6.1	9.3	10.9	11.4	1.2	5.7	4.9
	1983-84	4.9	10.3	7.9	11.0	0.0	2.9	4.9
	1984-85	6.0	8.8	12.1	13.8	0.7	6.4	5.3
	1985-86	4.1	11.1	16.7	13.5	0.1	12.2	4.0
(b)	Changes in 12 months to (%) (u.a except MO)							
1984	March	5.4	10.7	8.0	11.0	0.5	3.0	4.9
	June	5.6	11.9	7.9	12.3	0.4	2.6	5.2
	September	5.8	12.7	9.0	12.7	1.5	4.6	4.2
	December	5.8	11.4	9.6	12.9	1.4	5.1	4.3
1985	March	5.5	9.7	11.5	13.8	0.3	6.0	5.2
	June	5.1	6.9	11.4	12.4	-0.2	5.8	5.3
	July	4.8	6.8	12.2	12.7	-0.4	6.7	5.2
	August	4.7	7.9	13.8	13.2	-0.6	8.1	5.3
	September	3.8	9.0	13.7	13.1	-1.7	7.7	5.6
	October	3.6	9.6	14.3	12.7	-1.5	8.7	5.2
	November	2.5	9.5	12.2	11.8	-2.6	6.7	5.2
	December	4.2	9.3	13.4	12.6	-0.9	7.9	5.1
1986	January	3.9	10.5	13.9	12.1	-1.0	8.6	4.9
	February	3.8	10.5	15.6	13.7	-1.0	10.3	4.8
	March	3.6	10.6	16.7	13.5	-0.4	12.2	4.0
	April	2.8	11.7	17.5	13.6	-0.6	13.6	3.4
	May	3.5	12.2	19.0	14.5	0.4	15.4	3.1
	June	3.2	14.0	18.7	14.7	-0.1	14.9	3.3
	July	3.2	15.6	18.3	14.5	0.0	14.6	3.2
	August	4.1	14.7	16.5	14.1	0.8	12.8	3.3
	September	4.8	15.1	19.0	15.0	1.4	15.1	3.4
	October	4.9	15.4	18.6	15.2	1.5	14.8	3.4
	November	5.3		18.6	15.3	2.0	14.8	3.3
(c)	Changes in month to (%) u.a. (sa figures in brackets)							
1985	November	0.6(0.6)	2.0(1.9)	1.4(1.0)	1.0(1.1)			
	December	7.7(1.3)	1.0(0.5)	0.7(0.7)	1.1(0.8)			
1986	January	-5.5(-0.3)	0.2(1.4)	-0.4(1.8)	0.7(1.6)			
	February	-1.5(0.1)	0.7(0.8)	0.8(1.1)	0.9(1.1)			
	March	1.3(0.4)	1.6(0.7)	4.4(3.5)	2.4(1.7)			
	April	0.5(-0.3)	0.9(0.9)	0.8(1.1)	0.7(0.8)			
	May	1.1(0.9)	1.0(0.7)	3.3(3.1)	2.0(2.0)			
	June	-0.4(0.4)	2.5(2.1)	0.9(0.9)	1.3(1.2)			
	July	1.7(0.1)	1.8(1.5)	1.1(0.9)	1.1(1.0)			
	August	0.9(1.0)	0.2(0.5)	0.3(0.3)	0.5(0.8)			
	September	-0.6(0.6)	1.7(2.0)	3.1(3.1)	1.5(1.1)			
	October	-0.5(-0.0)	0.9(0.1)	0.8(0.1)	1.1(0.7)			
	November	0.9(1.0)		1.4(1.2)	1.0(1.2)			

\* The growth rate of MO over the twelve months to banking April 1982 is adjusted to remove the distortion caused by the changed definition of bankers' balances within MO.

† Banking month financial years except MO in 1982-83.

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Table 9

<u>OTHER AGGREGATES</u>		March	April	May	June	July	Aug	Sep	Oct	Nov
<u>NIBMI</u>	Monthly change (£ million)	+1005	- 94	972	795	485	-45	2607	-1985	906
	Monthly % change	+2.8	-0.3	+2.6	+2.1	+1.2	-0.1	+6.7	-4.7	+2.3
	12 Monthly % change	(-1.0)	(-0.1)	(+1.8)	(+3.1)	(+0.5)	(-0.2)	(+8.3)	(-6.3)	(+1.0)
		+4.2	+5.0	+7.2	+9.8	+10.9	+ 9.2	+16.2	+11.9	+9.9
<u>M1</u>	Monthly change (£ million)	+2855	189	+2181	+1645	+1496	+251	+3198	-278	2136
	Monthly % change	+4.6	+0.3	+3.4	+2.5	+2.2	+0.4	+4.6	-0.4	+2.9
	12 Monthly % change	(+2.2)	(+0.5)	(+3.0)	(+2.9)	(+1.8)	(+0.4)	(+5.4)	(-1.2)	(+2.3)
		+19.6	+20.1	+20.9	+21.7	+23.5	+20.9	+24.5	+23.7	+23.3

NB Figures in brackets are seasonally adjusted.

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## CONFIDENTIAL

Table 10

## MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets)						% change on previous month		% change on year earlier	
	Notes (s.a) and coin		Bankers' deposits		MO		Notes (s.a.) and coin	MO	Notes (s.a.) and coin	MO
April	14,242	(-29)	167	(-14)	14,409	(-43)	-0.2	-0.3	+2.8	+2.8
May	14,332	(+90)	208	(+41)	14,540	(+131)	+0.6	+0.9	+3.2	+3.5
June	14,406	(+74)	186	(-22)	14,592	(+52)	+0.5	+0.4	+3.3	+3.2
July	14,470	(+64)	130	(-56)	14,600	(+8)	+0.4	+0.1	+3.6	+3.2
August	14,587	(+117)	155	(+25)	14,742	(+142)	+0.8	+1.0	+4.2	+4.1
Sept	14,636	(+49)	191	(+36)	14,827	(+85)	+0.3	+0.6	+4.4	+4.8
Oct	14,694	(+58)	132	(-59)	14,826	(-1)	+0.3	-0.0	+4.8	+4.9
Nov	14,808	(+114)	166	(+34)	14,973	(+147)	+0.8	+1.0	+5.2	+5.3
Dec (5 out of 5)	14,915	(+107)	247	(+81)	15,162	(+189)	+0.7	+1.3	+5.0	+5.2
Latest 4 weeks <sup>†</sup>	14,916	(+81)	283	(+133)	15,199	(+214)	+0.5	+1.4	+5.2	+5.4

## Weekly data

% change  
on previous week  
MO

## Calendar November

November	5th	14,773	(+26)	172	(-52)	14,945	(-25)	-0.2
	12th	14,783	(+10)	164	(-8)	14,947	(+2)	+0.0
	19th	14,812	(+29)	215	(+51)	15,028	(+81)	+0.5
	26th	14,837	(+25)	114	(-101)	14,951	(-77)	-0.5

## Calendar December

	3rd	14,908	(+72)	107	(-8)	15,015	(+64)	+0.4
	10th	14,834	(-75)	210	(+103)	15,044	(+29)	+0.2
	17th	14,923	(+89)	193	(-17)	15,116	(+72)	+0.5
	24th	15,114	(+191)	445	(+252)	15,559	(+443)	+2.9
	31st	14,794	(-320)	283	(-162)	15,076	(-483)	-3.1

<sup>†</sup> Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.



Table 11

BROAD AGGREGATES: HISTORICAL

	£million, Actual		
	NOVEMBER	APRIL TO NOVEMBER	APRIL TO NOVEMBER
		1986	1985
PSBR	18	5697	6022
Debt sales to nbps	-565	-3736	-3712
External and foreign currency finance of the public sector	-343	-2058	-1767
Over(-)/under(+) funding	-890	-97	543
Bank lending	3309	18922	11813
Other Counterparts	-318	-2322	-198
£M3	2101	16503	12158
Building Societies			
Retail	274	6638	8405
Wholesale	45	417	432
Liquid Assets	352	-1048	-3758
Other	43	1620	6
PSL2	2815	24130	17247



TABLE 12

## The Components of EM3

seasonally adjusted

		Banking Deposits				Change in EM3
		Notes and Coins	Retail		Wholesale	
			nib	ib		
<u>% change</u>		A	B	C	D	E
1984-85 <sup>1</sup>		5.2	6.5	7.7	19.1	11.5
1985-86 <sup>1</sup>		3.7	4.4	16.8	26.0	16.7
over 12 months (u.a)						
1985	November	2.7	-2.1	19.0	18.0	12.2
	December	4.8	1.8	15.5	20.3	13.4
1986	January	4.9	2.7	19.6	18.0	13.9
	February	5.3	4.8	16.7	22.9	15.6
	March	3.7	4.4	16.8	26.1	16.7
	April	3.8	5.8	15.5	28.2	17.5
	May	3.3	9.4	13.4	31.7	19.1
	June	1.1	14.6	17.5	25.8	18.7
	July	5.3	13.9	20.6	21.8	18.3
	August	4.2	11.9	16.2	21.6	16.5
	September	2.7	23.1	16.8	22.0	18.9
	October	5.6	15.2	18.3	22.8	18.5
	November	3.5	13.3	16.8	25.5	18.5
over 6 month at annual rate (s.a.)						
1986	June	2.2	18.0	17.0	41.2	25.
	July	-1.9	19.4	19.7	33.5	23.2
	August	5.5	10.4	17.6	32.7	21.5
	September	-1.7	48.3	17.7	16.5	20.4
	October	8.0	17.0	20.5	19.1	18.1
	November	7.2	14.8	26.8	7.2	13.8
<u>fmn changes</u>						
monthly average (u.a)						
1984-85 <sup>1</sup>		51	115	188	628	984
1985-86 <sup>1</sup>		39	85	444	1026	1595
monthly change (s.a)						
1986	June	-230	1382	1529	-1431	1249
	July	-10	202	1694	-664	1222
	Aug	412	-485	-659	1204	472
	September	-397	3609	553	614	4379
	October	265	-2918	1082	1763	192
	November	418	5	632	776	1821

<sup>1</sup> March on March



TABLE 13

## Components of Broader Liquidity

Seasonally adjusted

		Building Societies							
		Change in EM3	Retail <sup>1</sup>	Wholesale <sup>1</sup>	Liquid Assets (inc -)	Other <sup>2</sup>	PSL2	EM3 plus Building Society deposits	PSL2 and National Savings
<u>% change</u>									
1984-85 <sup>3</sup>		11.5	15.0		-1.5	12.2	13.8		
1985-86 <sup>3</sup>		16.7	15.3		-93.7	-0.1	13.5	14.5	13.
Over 12 months (ua)									
1985	December	13.4	14.7		-46.0	4.9	12.6	13.0	12.4
1986	January	13.9	14.6		-67.6	-2.1	12.1	13.1	12.0
	February	15.6	14.9		-57.4	3.4	13.7	14.5	13.3
	March	16.7	15.3		-93.7	-0.1	13.5	14.5	13.1
	April	17.5	15.3		-93.6	-3.1	13.6	14.9	13.1
	May	19.1	15.1		-86.5	-1.0	14.5	15.7	13.9
	June	18.6	14.3		-60.3	1.9	14.7	15.7	14.0
	July	18.2	13.7		-45.6	4.6	14.5	15.3	13.9
	August	16.3	13.5		-35.7	9.8	14.1	14.6	13.6
	September	18.7	12.1		-26.8	8.4	15.0	15.6	14.4
	October	18.3	13.0		-27.0	9.3	15.4	15.9	14.7
	November	18.4	12.3		-19.4	10.6	15.4	15.8	14.8
Over 6 months at annual rate (sa)									
1986	June	25.1	13.6		-32.8	1.2	18.0	19.6	16.4
	July	23.2	12.6		-44.6	9.4	16.5	17.4	15.2
	August	21.5	11.9		-47.6	15.5	15.9	16.1	14.8
	September	20.4	7.9		-30.6	23.4	14.6	14.3	13.8
	October	18.1	9.6		-26.2	23.9	14.4	13.9	13.8
	November	13.8	8.9		-7.2	27.3	12.9	12.0	12.4
monthly average									
1984-85		984	1028	42	28	139	2221		
1985-86		1595	1200	50	-362	-1.8	2480	2496	2621
monthly change (sa)									
1986	June	1249	902	-131	552	521	3093	2701	3345
	July	1222	791	-156	-42	676	2491	1784	2765
	August	472	1012	303	23	403	2213	1778	2413
	September	4379	-549	38	-790	-96	3015	3081	3184
	October	192	2032	269	-567	-93	1833	1910	2057
	November	1821	667	45	464	367	3364	2910	3584

1. Net inflow including Term shares, and SAYE.
2. Treasury bills, bank bills, LA temporary debt, CTD's and some national savings accounts.
3. March on March.



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TABLE 14 RETAIL DEPOSITS

		Banks	Building <sup>1</sup> Societies	National <sup>2</sup> Savings	Total
<u>% change</u>		O	P	R	T
<b>Seasonally unadjusted</b>					
1984-85 <sup>3</sup>		7.2	15.1	11.9	12.0
1985-86 <sup>3</sup>		11.6	15.3	7.5	12.9
<b>Over 12 months</b>					
1985	November	9.5	14.8	9.3	12.2
	December	9.5	14.7	9.1	12.2
1986	January	12.5	14.6	8.9	13.0
	February	11.7	14.9	8.3	12.9
	March	11.6	15.3	7.5	12.9
	April	11.5	15.3	6.9	12.7
	May	11.8	15.1	6.8	12.7
	June	16.3	14.3	7.0	13.7
	July	17.9	13.7	7.4	14.0
	August	14.5	13.5	7.5	12.8
	September	19.3	12.1	7.7	13.6
	October	17.1	13.0	7.8	13.4
	November	15.4	12.3	8.1	12.6
<b>Over 6 months at annual rate</b>					
		(sa)	(sa)	(sa)	
1986	June	17.5	13.6	6.2	
	July	19.2	12.6	7.3	
	Aug	14.5	11.9	8.8	
	September	29.1	7.9	10.0	
	October	19.2	9.6	11.1	
	November	22.1	8.9	11.4	
<b>£mn changes</b>					
<b>monthly average</b>		(ua)	(ua)	(ua)	
1984-85		294	1053	266	
1985-86		568	1170	187	
<b>monthly change</b>		(sa)	(sa)	(sa)	
1986	June	2911	902	320	
	July	1896	791	357	
	Aug	-1144	1012	274	
	September	4162	-549	230	
	October	-1836	2033	303	
	November	627	667	257	

**Notes**

1. Total retail funds, including terms shares and SAYE.
2. Total inflows
3. April on April.

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TABLE 15

Breakdown of Bank Lending by instrument (banking months)

		unadjusted					
		Advances	Commercial Bills	Investment <sup>1</sup>	Other <sup>2</sup>	Total	Total a/a
<u>% change</u>							
1984-85 <sup>3</sup>		15.5	27.7	18.0	n/a	17.5	17.5
1985-86 <sup>3</sup>		17.9	-7.4	81.3		16.9	16.8
Over 12 months							
1985	December	16.9	27.2	38.1		18.3	18.6
1986	January	16.4	12.2	46.8	n/a	16.6	16.8
	February	16.4	10.0	71.4		16.4	16.4
	March	16.4	6.0	75.8		16.5	16.8
	April	17.9	-7.4	81.3		16.9	16.8
	May	18.4	-7.1	84.7		17.0	16.8
	June	17.7	-13.1	88.0		17.4	17.3
	July	17.7	5.6	94.6		18.2	18.3
	August	17.7	5.3	80.8		18.4	18.6
	September	18.4	4.3	80.6		18.6	18.5
Contributions to annual bank lending growth <sup>4</sup>							
1986	April	15.6	-0.7	1.7	0.2	16.9	
	May	16.0	-0.7	1.8	-0.1	17.0	
	June	15.4	-1.2	1.9	1.3	17.4	
	July	15.4	0.5	2.1	0.2	18.2	
	August	15.5	0.5	1.9	0.6	18.4	
	September	16.2	0.4	1.9	1.2	18.6	
monthly average							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
monthly change							
1986	June	1737	-909	290	137	1262	2096
	July	2100	1956	421	282	4759	3164
	August	1524	-404	-10	432	1542	2502
	September	1757	-459	-21	-605	673	888
Calendar months							
1986	October	960	1142	334	917	3353	3524
	November	2323	381	148	457	3309	3894

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

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TABLE 16

## BUILDING SOCIETY BALANCE SHEET FLOWS

(Unadjusted, £m)

		Assets				Liabilities				
		Total flow	Net Advances	Liquid assets	Fixed assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)	
1984*		1357	1214	120	(18.3)	23	714	387	148	108
1985*		1449	1193	239	(18.0)	17	592	495	205	157
1985	Q1*	501	1030	-548	(16.5)	19	504	354	-30	-327
	Q2*	1475	1219	241	(16.5)	15	508	583	112	272
	Q3*	1654	1157	479	(17.0)	18	590	384	157	523
	Q4*	2167	1367	783	(18.0)	17	766	660	581	160
1986	Q1*	858	1271	-431	(16.6)	18	740	462	187	-531
	Q2	1587	1645	-74	(16.0)	16	478	522	230	357
	Q3	1782	1884	-1.2	(15.1)	10	56	402	1104	220
	Oct	3293	1877	1406	(15.6)	10	1951	292	654	396
	Nov	1597	1585	2	(15.4)	10	160	127	380	930
-----										
Forecast										
	Dec	2041	1191	840	(15.7)	10	824	1418	500	-701
	Jan	1811	1232	569	(15.9)	10	879	958	550	-576
	Feb	2026	1108	908	(16.2)	10	675	25	550	776

\* Monthly Averages  
 Figures in ( ) liquidity ratio, unadjusted end period.



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Table 17 Monetary Aggregates: recent experience and forecast

per cent

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	M0 (ua)	(sa)	M3 (ua)	(sa)	PSL2 (ua)	(sa)
<b>Monthly change to:</b>						
October	- 0.5	0.0	0.8	0.1	1.1	0.7
November	0.9	1.0	1.4	1.2	1.0	1.3
December )	7.4 *	1.3 *	0.6	0.6	0.6	0.5
January ) forecast		0.0	0.1	2.0	0.1	1.2
February )		0.5	2.0	2.3	1.2	1.3
<b>Growth in 12 months to:</b>						
October	4.9	4.9	18.6	19.1	15.2	14.6
November	5.2	5.3	18.6	19.3	15.3	14.8
December )	5.0 *	5.2 *	18.5	19.3	14.6	14.5
January ) forecast		5.6	19.1	19.5	13.9	14.0
February )		5.9	20.6	21.0	14.2	14.2

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\*actual figures for December

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Table 18: M0 Forecast

	LEVELS £ MILLION			% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
	Notes (s.a) and coin	Bankers' Deposits	M0	Notes (s.a) and coin	M0	Notes (s.a) and coin	M0
<b>Actual</b>							
Aug	14,587	155	14,742	+0.8	+1.0	+4.2	+4.1
Sept	14,636	191	14,827	+0.3	+0.6	+4.4	+4.8
Oct	14,694	132	14,826	+0.4	-0.0	+4.8	+4.9
Nov	14,808	166	14,973	+0.8	+1.0	+5.2	+5.3
Dec	14,915	247	15,162	+0.7	+1.3	+5.0	+5.2*(+4.3)
<b>FORECAST</b>							
Jan	14,973	192	15,165	+0.4	+0.0	+5.6	+5.6*(+4.8)
Feb	15,048	192	15,240	+0.5	+0.5	+6.0	+5.9

\* Last month's forecast in brackets



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Table 19: MONTHLY CHANGES IN MONEY SUPPLY AND COUNTERPARTS

	OUTTURN		FORECASTS	
	NOVEMBER	DEC	JAN	FEB
1. CG (DA) (SURPLUS-)	758	-1000	-3540	532
2. LABR	-345	340	40	180
3. PCBR	-395	60	-220	-25
4. PSBR (1+2+3)	18	-600	-3720	687
5. NET PURCHASE (-) OF DEBT BY THE NON-BANK PRIVATE SECTOR				
GILTS	-580	250	23	640
TREASURY BILLS	27			
NATIONAL SAVINGS	-257	-125	-295	-171
CTDs etc	-104	-400	1200	200
OPS DEBT	349	-75	265	-30
TOTAL	-565	-350	1193	640
6. EXTERNAL FINANCE OF THE PUBLIC SECTOR (-INCREASE)	-343	-467	-257	-157
	-----	-----	-----	-----
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	-890	-1417	-2784	1170
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR (seasonally adjusted)	3309	3448	2064	1826
	3894	2600	2400	2100
9. PRIVATE NET EXTERNAL + NET NON-DEPOSIT LIABILITES	-318	-1092	820	66
10. £M3 (7+8+9)	2101	940	100	3060
% change	1.4	0.6	0.1	2.0
(% change sa)	1.2	0.6	2.0	2.3
12 month % change	18.6	18.5	19.1	20.6



TABLE 2 | : NOMINAL AND REAL INTEREST RATES

		NOMINAL RATES				REAL RATES				
		Three month interbank	Three month Eurodollar	Base Rate	Long Rate (20 year Gilts)	Expected inflation over 12 months*	Real 3-month interbank rate	Yield on Index-linked Gilts**		
								1988	1996	2011
1983	(1)	11.1	9.2	10.8	11.5	6.3	4.8	2.7	2.6	2.5
	(2)	10.2	9.4	10.0	10.5	6.2	4.0	3.7	3.2	2.7
	(3)	9.8	10.1	9.5	10.9	6.3	3.5	4.2	3.6	3.1
	(4)	9.4	9.9	9.0	10.4	6.0	3.4	3.7	3.5	3.0
1984	(1)	9.2	10.1	8.9	10.3	5.8	3.4	4.1	3.6	3.2
	(2)	9.3	11.4	8.9	10.9	5.6	3.4	4.8	3.8	3.3
	(3)	11.1	11.7	11.0	11.2	5.5	3.7	5.6	4.4	3.7
	(4)	10.1	9.8	10.0	10.6	5.6	4.5	4.7	3.8	3.2
1985	(1)	13.0	8.9	12.9	10.9	5.7	7.1	5.0	3.7	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	7.0	4.7	4.0	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.4	4.8	4.1	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.5	4.3	4.0	3.6
1986	(1)	12.4	7.8	12.3	10.2	3.9	8.4	5.0	4.3	3.8
	(2)	10.2	6.9	10.4	9.0	3.6	6.6	3.7	3.8	3.4
1985	September	11.6	8.2	11.5	10.4	5.3	6.3	4.8	4.0	3.5
	October	11.5	8.2	11.5	10.2	4.4	7.1	4.4	3.9	3.4
	November	11.6	8.1	11.5	10.4	4.1	7.5	4.3	4.0	3.6
	December	11.8	8.1	11.5	10.4	4.0	7.8	4.6	4.1	3.6
1986	January	12.8	8.1	12.3	10.8	4.0	8.8	5.0	4.4	3.8
	February	12.6	7.9	12.5	10.4	3.9	8.7	5.0	4.3	3.8
	March	11.6	7.5	12.0	9.4	3.8	7.8	4.9	4.3	3.7
	April	10.5	6.8	11.0	8.7	3.6	6.9	3.5	4.2	3.5
	May	10.2	7.0	10.3	9.0	3.5	6.7	3.5	3.6	3.3
	June	9.8	7.0	10.0	9.2	3.6	6.2	4.0	3.5	3.3
	July	10.0	6.6	10.0	9.3	3.6	6.2	4.1	3.8	3.5
	August	9.9	6.0	10.0	9.4	3.3	6.6	3.8	3.8	3.5
	September	10.2	6.0	10.0	10.3	3.4	6.8	4.5	3.9	3.6
	October	11.2	6.0	11.0	10.6	4.2	7.0	4.9	4.2	3.7
	November	11.2	6.1	11.0	10.9	4.1	7.1	4.0	4.3	3.8
	December 30	11.3	6.3	11.0	10.3	4.1	7.2	4.1	4.1	3.8

\* Unweighted average of forecasts by Phillips and Drew, National Institute and the London Business School; the expected rate of inflation for a given month is the change in the price level between six months earlier and six months ahead. This is assumed to approximate roughly to average inflation expectations over the three months immediately ahead.

\*\* Average of yields calculated for each Friday of month or quarter. Assumes inflation averages 5 per cent per annum to redemption. Date



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TABLE 22: MONEY MARKET INFLUENCES

£ million  
not seasonally adjusted

	ACTUAL	Forecast		
	CAL NOV	CAL DEC	CAL JAN	CAL FEB
<b>A. <u>Money market influences</u></b>				
CGBR (increase +)	+555	-800	-3290	+715
Reserves etc (+)	-5	+100	0	0
Notes and coin (-)	-277	-435	+615	-115
National Savings (-)	-281	-125	-295	-170
CTDs (-)	-182	-400	+1200	+200
Gilts (-)	-834	-50	-75	+540
Other Exchequer items etc	+241	-	-	-
	-----	-----	-----	-----
TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	-783	-1710	-1845	+1170
	-----	-----	-----	-----
<b>B. <u>Money market operations</u></b>				
Commercial bills (purchase +)				
- Issue Department	+1311			
- Banking Department	-162			
LA bills (purchase +)				
- Issue Department	-147			
- Banking Department	-40			
Treasury bills (purchase +)	-227			
Market advances	+86			
Export Credit Repos	-			
Gilt Repos	-			
Other				
	-----	-----	-----	-----
TOTAL MONEY MARKET OPERATIONS	+821	+1710	+1845	-1170
	-----	-----	-----	-----
Change in bankers balances	+38			
TOTAL ASSISTANCE OUTSTANDING*	+11295	+13000	+14850	+13680
of which commercial bills	+10723			
* excluding Treasury bills				

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## CONFIDENTIAL

TABLE 23

		EXCHANGE RATES							
		Exchange Rate Index*	Real Exchange Rate	ERI/(Oil Price Adjusted ERI) <sup>†</sup>	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currencies*	US-UK Interest rate differential	Brent spot price (\$/bl)
1983	(1)	80.6	108.5	1.002	1.53	3.69	92.4	+1.9	29.1
	(2)	84.3	114.8	1.043	1.55	3.86	100.0	+0.8	29.7
	(3)	84.9	114.7	1.042	1.53	3.94	103.4	-0.3	30.9
	(4)	83.2	112.5	1.035	1.47	3.93	102.9	-0.5	29.6
1984	(1)	81.7	110.5	1.012	1.44	3.87	101.9	-0.9	29.7
	(2)	79.8	109.2	0.988	1.40	3.78	99.6	-2.1	29.7
	(3)	78.0	106.9	0.979	1.30	3.78	99.5	-0.6	28.5
	(4)	75.0	103.7	0.946	1.21	3.72	97.5	+0.3	28.6
1985	(1)	72.1	100.2	0.908	1.12	3.63	95.2	+4.4	27.7
	(2)	78.9	111.4	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	117.7	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	116.2	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	112.5	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	118.3	1.101	1.51	3.39	91.4	+3.3	12.8
	(3)	71.9	113.6	1.049	1.5	3.1	84.9	(+3.7)	12.4
1985	September	81.4	117.0	1.026	1.37	3.87	102.9	+3.4	27.7
	October	80.4	116.4	1.006	1.42	3.76	100.0	+3.3	28.5
	November	80.0	116.5	0.990	1.44	3.73	99.3	+3.5	29.7
	December	79.1	115.8	1.006	1.45	3.63	96.9	+3.7	26.6
1986	January	76.6	113.0	1.015	1.42	3.47	92.9	+4.7	22.1
	February	74.2	111.1	1.019	1.43	3.33	89.3	+4.7	17.3
	March	74.6	113.4	1.078	1.47	3.33	89.0	+4.1	13.8
	April	76.3	117.6	1.114	1.50	3.40	91.8	+3.7	12.4
	May	76.1	118.8	1.088	1.52	3.39	91.4	+3.2	14.1
	June	75.9	118.4	1.110	1.51	3.37	91.0	+2.8	11.9
	July	74.0	116.4	1.109	1.51	3.2	88.1	+3.4	9.6
	August	71.4	112.6	1.033	1.5	3.1	84	+3.6	13.5
	September	70.4	111.7	1.004	1.5	3.0	82.6	+4.2	14.2
	October	67.8	106.7	0.971	1.43	2.86	78.8	+5.2	13.9
	November	68.5	108.2	0.975	1.43	2.88	79.4	+5.1	14.7
	30 December	69.0		0.953	1.47	2.86	79.1	+5.0	17.7

† Oil price adjusted ERI has roughly the same inflation implications as does an ERI of 80 given an oil price of \$29 (their average values for January 1983 - November 1985). The ratio shown therefore indicates whether movements in the ERI are inflationary or otherwise, relative to the period Jan 1983 - Nov 1985, having allowed for oil prices.

\* 1975=100



TABLE 24 CURRENT ACCOUNT

Percentage Change On Previous Year

	Export Volume less oil and erratics	Import Volume less oil and erratics	Terms* of Trade (AVI) 1980=100	Current balance fmn
1982	0.1	8.6	1.2	3938
1983	-1.1	9.5	-0.5	3132
1984	9.6	11.0	-2.1	1211
1985	6.9	4.2	1.7	3549
1985 Q1	11.4	7.0	-2.4	-17
2	9.6	5.1	-0.2	1518
3	7.1	2.4	3.8	1445
4	0.2	2.4	6.0	604
1986 Q1	-3.0	2.9	2.6	549
2	-0.3	2.8	4.0	275
3	2.3	8.5	-1.8	-781
Jan	-2.8	0.9	3.5	1052
Feb	-3.0	2.3	2.9	162
Mar	-2.8	5.6	4.6	-665
Apr	-2.4	-1.5	-0.7	350
May	-0.3	7.5	2.7	-63
Jun	2.0	2.6	0.6	-12
Jul	2.4	5.3	1.2	115
Aug	-0.9	11.3	-2.0	-763
Sep	5.6	9.0	-2.1	-134
Oct	7.6	6.6	-2.7	-35
Nov	11.2	12.1	-5.0	-232

\*excluding oil and erratics



Table 25

SECRET

## GOVERNMENT SHARE SALES: TIMETABLE

1987

27 January (Lists Day: 6 Feb	BA I
6 May (Lists Day: 14 May)	Rolls Royce <sup>+</sup>
9 June	BGC II
30 June (Lists Day: 8 July)	BAA <sup>+</sup>
18 August	BA II <sup>*</sup>
October (first half)	BP I

+ No decision on whether more than one call.

\* To be confirmed.