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MONTHLY MONETARY ASSESSMENT : MARCH 1987

Summary Assessment

There have been divergent movements in monetary conditions since the last Report (on 2 March). Narrow money growth has fallen back to the middle of the target range and the oil adjusted exchange rate has risen. On the other hand, short and long interest rates have fallen.

M0 grew by 4.1 per cent in the year to March, unchanged from its annual rate in February. (Paras 14-15).

Trends in wide money growth rates have diverged. **PSL2** rose by 13.1 per cent in the twelve months to February, just below the 13.2 per cent growth in January. But **£M3** growth rate jumped to nearly 19 per cent in February (from 17½ per cent in January) due to a build up of building society holdings of bank deposits. (Paras 17-22).

Interest rates have continued to fall along the maturity spectrum, short rates fractionally more than long rates. (Paras 33-35).

The **PSBR** continues at very low levels. (Paras 11-13).

The **exchange rate** has risen by over 3 per cent, despite declining interest rate differentials in favour of the pound, though helped by firmer oil prices. (Paras 37-39).

Latest data confirms the strength of **activity** at the end of 1986 but most later data is affected by the weather. But the February and March CBI Surveys were very buoyant and the fall in unemployment resumed. **Inflation** was in line or a little below expectations. (Paras 2-9).

Asset prices remain buoyant. Gilts have been strong and equities have reached a new peak. House price inflation has risen again after a period of stability. (Paras 10, 33, and 34).

The **eurosterling market** has been very active. Domestic companies alone have raised over £1 billion in the last two months. (Para 25).

MG2 Division
27 March 1987

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A. External Developments

1. Main developments in the G7 countries other than the UK are set out in tables 1-3. In particular:

- **Short term interest rates** in the United States, Japan and Germany have been little changed since the Bank of Japan cut its discount rate to 2½ per cent on 23 February. The Bank of France reduced its money market rates by ¼ per cent on 9 March.

- Recent **GNP** figures for the United States and Germany confirm earlier indications that real and nominal growth slowed in the fourth quarter of 1986. **Consumer price inflation** has picked up in the US, France and Germany but overall remains at about 1 per cent.

- **Exchange rates** have been relatively stable since the Louvre Accord on 22 February, when six of the G7 agreed "to foster stability of exchange rates around current levels". (Sterling, however, has risen by 4½ per cent.)

B. Activity and Inflation

2. Table 4 summarises recent indicators of **activity and inflation.** Production figures published on 17 March and GDP figures published on 20 March have confirmed the strength of the economy at the end of 1986. We have little useful information on the early months of 1987, because the available indicators are distorted by the effects of January's bad weather. The February and March CBI surveys were, however, very buoyant. Taking January and February together, unemployment has continued to fall at around the rate it fell in the last five months of 1986. RPI inflation was slightly lower than expected in February and the strength of sterling over the last month may have improved prospects a little for the latter part of the year.

Projections of Money GDP

3. Figures published on 20 March show **money GDP** about 5¼ per cent higher in the fourth quarter of 1986 than a year earlier. The Budget forecast, which is the starting point for the new MTFS, has growth of money GDP of 6 per cent in 1986-87 as a whole, followed by 7½ per cent in 1987-88; this picture is virtually unchanged since the autumn.

Recent Indicators of Activity

4. The latest **manufacturing output** figures show a rather stronger rise in the fourth quarter of 1986 than previously estimated; manufacturing output was 2¼ per cent higher in the second half of 1986 than in the first half. January output was down 2¼ per cent compared with December, reflecting the impact of adverse weather. The revised output estimate of GDP for the fourth quarter shows 0.3 per cent growth over the third quarter compared with the preliminary estimate of no change. Non-North Sea output rose by almost 1 per cent between Q3 and Q4, and by over 3½ per cent in the year to 1986Q4. The GDP figures for 1986 published on 20 March are marginally stronger than we expected a month ago: they show 2.6 per cent growth in GDP(A) for 1986 as a whole, and 2.8 per cent growth in GDP(O).

5. The provisional figure for **retail sales** in February shows a 2¼ per cent rise over the weather affected January figure. The February figure is virtually the same as the Q4 average. It is impossible to know to what extent the February figure may have been boosted by delayed sales from January; we will have to wait another month at least before we have any firm idea of whether last year's surge in sales is now flattening out.

6. The **CBI surveys** for February and March have been the most unambiguously buoyant pieces of news over the last month or so. These showed quite a marked improvement in total and export order books, and a sharp rise in output expectations. In February there was quite a substantial rise in the balance of firms expecting to raise prices, but this balance fell back again in March.

7. **Unemployment** (seasonally adjusted) fell by 44,000 in February, having been virtually unchanged between December and January. Taking the latest two months together, the average monthly fall in adult unemployment is very similar to the falls recorded in the last five months of 1986. Vacancies fell marginally in February, and have fallen over the last three months. For the moment we would conclude that this fall reflects faulty seasonal adjustment (there was a fall over the same period last year) and bad weather.

Inflation

8. **RPI inflation** was 3.9 per cent in February, the same as in January. This is slightly better than expected. The FSBR, which allows for a ½ point cut in mortgage interest rates in May, has inflation peaking at over 4½ per cent in the summer, but falling back to around 4 per cent by the fourth quarter of the year. February saw quite a sharp (0.7 per cent) monthly increase in non-food producer output prices, which took the twelve month increase in this index up to 4.4 per cent, from 4.1 per cent in January. Although there is clearly some pick-up in producer prices at the moment, according to the Budget forecast this should be only short lived, and producer prices are expected to rise by only 4 per cent in 1987 as a whole.

9. Underlying growth in **average earnings** fell back to 7½ per cent in January following two months at 7¾ per cent. **Settlements** monitored by Department of Employment continue to show a fall (of about 1 per cent) compared with settlements in the previous year - this should lead to a fall in annual earnings growth over the next few months.

10. The annual rate of **house price inflation** (measured by the Halifax index) rose to 14.9 per cent in February, after having been stable at 13.6 per cent since July. This is the highest annual rate since the Halifax index began in 1983, due in part to a distinct pick-up in house prices this month in some of the depressed regions. The Halifax expect house prices to rise by 14 per cent in 1987. This latest evidence reverses the decline

in house price inflation measured by the DoE index, which has been apparent since the autumn, and although disappointing it is too early to draw any conclusions of an acceleration in house prices.

C. Public Sector Finances

11. Table 5 gives the main indicators of the fiscal stance. The PSBR in the first 11 months of 1986-87 was £0.1 billion. This compares with a 1985-86 figure for the same period of £2.7 billion, and a 1986 Budget profile estimate of £4.3 billion. Of the difference of £4.2 billion between Budget profile and outturn to date, less than half (£1.8 billion) is accounted for by central government own account borrowing. Table 6 gives some details of the composition of the undershoot relative to the 1986 Budget forecast. The main explanation is higher than expected non-oil taxes, particularly corporation tax. Local authorities' borrowing so far this year is a net repayment of £0.7 billion, as compared with a Budget profile of net borrowing of £0.6 billion - a difference of £1.3 billion. Public corporations' borrowing has also been substantially below Budget profile so far this year, by £1.0 billion.

12. Borrowing in March is normally high. Central government borrowing this March will be boosted relative to last year by additional expenditure on Rover Group, and by substantially lower PRT receipts as a result of last year's fall in oil prices; partly offsetting these factors will be privatisation proceeds from BGC debt repayments. Local authorities' borrowing in March generally totals £1 billion or more. Our expectation is now for an outturn for the year as a whole of around £3½ billion.

13. Thus latest estimates for the PSBR in 1986-87 continue to confirm the view that, all other things equal, the fiscal stance will have turned out appreciably tighter than expected. Compositional changes in the PSBR point in the same direction.

D. Domestic Monetary and Financial Market Developments

(see Tables 7 to 20)

Narrow Money

14. **M0** (seasonally adjusted) rose by 0.4 per cent in the month to March and the annual growth rate was 4.1 per cent (3.5 per not seasonally adjusted), compared to 4.1 per cent in February and 5.1 per cent in January. The growth in notes and coin - a good guide to underlying trends in M0 - continued to decelerate, falling from an annual rate of 4.3 per cent in February to 3.8 per cent in March. M0 growth has been surprisingly weak in February and March, especially since provisional estimates of retail sales in February show some recovery from the depressed January level.

15. The rise in velocity of M0 during the first quarter of 1987 is largely unexplained. Although this rise may unwind over the coming months, we have no evidence yet of it doing so and the forecast assumes no such unwinding. In April, M0 is forecast to grow at an annual rate of about 4½ per cent, based on the expectation of firmer consumers' expenditure and due to recent falls in interest rates. In May, M0 growth may fall back to about 4 per cent, mainly due to exceptional growth in M0 during May 1986.

16. **M1** rose by £0.3 billion in February and the annual growth rate fell to 21.0 per cent, compared to 23.1 per cent in January and an average growth rate of 22¼ per cent during 1986-87. **NIB M1** rose by £0.5 billion in February and the annual growth rate fell to 10.5 per cent from 10.8 per cent in January. Its average twelve month growth rate has been 10¼ per cent during 1986-87.

Broad Money

17. **£M3** (unadjusted) rose by £2.9 billion in February and the annual growth rate rose to 18.9 per cent, from 17.6 per cent in January. There were no obvious special factors affecting the February figures. The February annual growth rate compares to an average rate of 18¼ per cent in the previous ten months of 1986-87.

18. Looking at the counterparts to £M3 in February shows that the **PSBR** was minus £0.4 billion and was fully funded through a £0.5 billion reduction in nbps holdings of **public sector debt** and £0.1 billion financing by the **public externals**; **bank lending** rose by £2.6 billion; **NNDL's** were expansionary by £0.1 billion and the **banking externals** were expansionary by £0.2 billion.

19. Within the components of £M3, in the month to the end of February: **notes and coin** rose by £48 million; **NIB sight deposits** rose by £458 million; **IB sight deposits** fell by £203 million, compared to an average increase of £750 million in the previous ten months of 1986-87; and **time deposits** (including £CD's) rose sharply - by £2569 million compared to an average increase of £585 million during the rest of 1986-87. This is partly due to a £700 million take-up of CD's by the building societies.

20. In March, the £M3 figures will be affected by the build-up of reserves, which should boost £M3 by about £½ billion. £M3 could be depressed by about £¾ billion due to the proceeds of the BGC redemption, although this should be fully offset by expenditure on Rover. In April, the Rover expenditure is expected to start unwinding in the £M3 figures through some reduction in Rover's bank borrowing, so that the level of £M3 could be boosted by about £½ billion in April. The Rolls Royce privatisation in early May is not expected to lead to any advance build up of deposits during April, but it could depress the level of £M3 in May by about £¼ billion, although this should be fully offset by the residual effects of the Rover expenditure.

21. The annual growth rate of £M3 is expected to fall back to about 17 per cent in March as the £M3 flow in March 1986 was particularly large due to the phasing out of capital allowances. In April, £M3 growth is projected to rise again, possibly to about 18 per cent, on the assumption of an underfund of £1½ billion. This underfund is despite an assumption of relatively high gilt sales in the month; however the PSBR is expected to be about £2¾ billion in April and there are large gilt redemptions during the month. In May, £M3 growth is projected to fall back to about

15¼ per cent, largely due to exceptional growth of £M3 in May 1986. Excluding special factors, the underlying increase in £M3 is flatter over the next three months, with the annual growth rate falling from 17 per cent in March to 16 per cent in May. The following table summarises the forecast:

Projections for £M3

Not seasonally adjusted

		Forecast	Stylised Projections	
		March	April	May
(i)	Underlying Increase	**4075(2440)**	2800(2615)	2275(2510)
	(£m; seasonally adjusted figures shown in brackets)*			
	% Change on Previous Year	**16.9**	18.1	15.9
	Special Factors (£m):			
	Reserves	**450**	0	0
	Privatisation Proceeds/Rover	**0**	0	-250
	Bank lending	**-100**	-300	- 50
(ii)	Total	350	-300	-300
(iii)	Projected Increase (£m)	**4425**	2500	1975
	% Change on Previous Year	**17.1**	18.1	15.7

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

* Based on the following assumptions:

(a) underlying bank lending (seasonally adjusted) rises by £2.4 billion per month.

(b) PSBR is underfunded by £3650 million in March, by £1475 million in April and by £1125 million in May.

22. **PSL2** grew by 13.1 per cent in the twelve months to February, compared to 13.2 per cent in January and an average rate of 14¼ per cent in the previous ten months of 1986-87. The gap between the annual rate of £M3 and PSL2 growth widened further in February, to nearly 6 percentage points, as the building societies' inreased their holdings of £M3. The forecast has PSL2 growth falling to about 12½ per cent in March - which would be its lowest growth rate since January 1986. Thereafter, PSL2 growth is projected to remain at about 12½ per cent in April, before falling again

to about 11½ per cent in May, with building society £M3 holdings expected to continue rising.

Bank lending, debt and equities

23. Bank lending grew by £2.6 billion in February and by 21.7 per cent in the last twelve months, compared to 22.4 per cent in January and an average rate of 19 per cent between April and January. The February increase in bank lending of £2.6 billion is at its average level of the last six months, and there do not appear to have been any special factors at work this month.

24. Advances were £2.6 billion in February, of which £1.1 billion was accounted for by retail banks (compared to £0.6 billion in January). Within retail bank advances, lending to persons for consumption was flat between January and February despite the recovery in retail sales, while housing finance continued to grow strongly. Advances by non-retail banks were strong at £1.5 billion, with lending fairly evenly spread across the institutions and no dominant transactions in the figures. Lending via bank holdings of commercial bills declined further this month, to minus £0.4 billion compared to £0.6 billion last month and £1.5 billion in December.

Projections for Bank Lending

Not seasonally adjusted

		Forecast	Stylised Projections	
		March	April	May
(i)	Underlying Increase (£m, seasonally adjusted figures shown in brackets)	**3700(2400)**	1450(2400)	1850(2400)
	% Change on Previous Year	**20.9**	21.8	21.8
	Special Factors (£m):			
	Rover	**0**	-150	-200
	Mergers	**50**	50	50
	PSBR Offset		-150	
	Bill Leak	**-150**		
	House Purchase		50	100
	Ladbrokes Rights Issue		-100	
(ii)	Total	**-100**	-300	- 50
(iii)	Projected Increase (£m)	**3600**	1150	1800
	Change on Previous Year	**20.8**	21.5	21.5

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

25. **Net equity issues** were £830 million in February - largely due to a placing by Argyll of over £600 million. The February figure compares with £460 million issued in January and an average of £660 million per month during 1986. There were no **net domestic bond issues** by UK companies in February, and there were net redemptions in the three previous months. The monthly average during 1986 was £80 million. **Gross eurosterling issues** announced by UK companies and institutions were £470 million in February, with maturities mainly at 15 years. Up to 19 March, a further £900 million had been announced, also mainly at 15 years maturity. Overseas issues announced in the eurosterling markets were £510 million in February, with another £660 million announced so far in March. The typical maturity of overseas issues has been 5-10 years. Fixed rate borrowing in the euro-markets has been especially buoyant recently, possibly due to the fall in UK rates to below 10 per cent.

26. The stock of **commercial paper** outstanding rose by £227 million in the month, to £889 million at the end of February. Sterling commercial paper issues rose by £140 million in February compared to the previous month, with the window between bill rates and interbank rates (a proxy for commercial paper rates) remaining closed during February. Monetary sector holdings of domestic commercial paper rose by £89 million, to £210 million at the end of February.

<u>Funding</u>

27. The PSBR was fully funded in February giving a cumulative overfund of £3.9 billion this financial year (both figures unadjusted). **Gilt sales** to the nbps and overseas residents were respectively minus £468 million (ie. defunded) and plus £239 million in February, giving cumulative totals of £2.1 billion and £2.0 billion in 1986-87. **National Savings** inflows were £353 million in February giving a cumulative inflow so far this year of £3.1 billion and suggesting an inflow for the year as a whole of about £3.3 billion. **External and foreign currency finance** of the PSBR, excluding overseas purchases of gilts, was minus £150 million (ie. defunded) in February.

28. The stock of **money market assistance** was £14.9 billion at the end of February, little changed on the previous month. Money market assistance is forecast to fall back to about £10¼ billion at the end of March and to under £9¼ billion and £8¼ billion at the end of April and May respectively, largely due to heavy underfunding throughout the period.

Building societies

29. Preliminary estimates for February suggest that retail inflows were again lower than expected, at around £350 million (seasonally adjusted, excluding interest credited). This may imply that the BA privatisation led to a net withdrawal of societies' funds, or that the underlying inflow is somewhat less than the £550 million previously assumed. The latter may be the chief explanation; the underlying strength of inflows has been clouded over the last six months by the TSB, BGC and BA issues, but adjusting for these it is unlikely that inflows have reached £550 million since August 1986. This is in spite of a slight improvement in interest rate competitiveness against the banks.

30. The most likely explanation may lie in the strength of National Savings receipts and unit trusts. Over the forecast it would seem reasonable to lower the underlying figure to £500 million, assuming no significant change in competitiveness following any fall in deposit rates. However, in March a seasonal adjustment factor of +£446 million is applied. On the basis of this seasonal and data for the first two weeks of March, seasonally adjusted retail inflows are expected to be around £880 million. For the rest of the forecast the underlying figure of £500 million is projected (on the basis of fairly neutral seasonals).

31. New mortgage lending is estimated to have been broadly unchanged in February, at around £1300 million (seasonally adjusted). On the basis of the level of new commitments, which rose sharply in December, some rise in lending can be expected. But commitments fell in January and are estimated to have done so again in February, so the scope for a pick-up does not appear large.

32. Wholesale borrowing in February is put at £290 million. This is less than expected with the receipts of recent euromarket issues deferred until March. Nevertheless, liquid assets rose in February and are expected to continue to do so over the forecast.

Interest rates and security prices

33. **Equity prices** (measured by the FT All Share Index) have remained firm, rising 3½ per cent since the time of the last Monetary Prospects report (circulated on 2 March) and by 22 per cent since the beginning of the year. Gross sales of unit trusts in February were, at £1013 million, just below their record January level but were well above their 1986 monthly average of £727 million. The **Government Securities** index has risen by 4 per cent since the end of February with prices reacting favourably to the Budget and also benefitting from lower equity yields, making gilt yields relatively attractive. But the index is still 3½ per cent down on its April 1986 peak. The twenty year par yield is currently 9.1 per cent, compared to 9.7 per cent at the end of February.

34. Real yields of **indexed gilts** have continued to fall since the last report, largely at the short end. For example the real yield on Treasury 1990 stock has fallen by ½ percentage point to 2.4 per cent (assuming 5 per cent inflation, tax ignored). Breakeven inflation rates of Treasury 1990 and 2006 IG's against comparison stocks (at 60 per cent and zero tax rates) are currently 3.3per cent and 5.5 per cent, respectively, compared to 3.4 per cent and 6.3 per cent at the end of February.

35. **Money market rates** have fallen sharply since the end of February, mostly at the shorter end of the yield curve; for example the one month interbank rate has fallen by 1¼ percentage points. The money market yield curve remains downward sloping, with interbank rates ranging from 9.9 per cent at one month to 9.7 per cent at three months and 9.4 per cent at twelve months. There is further evidence since the last report of a reduction in **real rates:** apart from the decline in real yields on IGs - which is consistent with a rise in inflation expectations - the

latest independent inflation forecasts for 1987 have also risen slightly.

E. Exchange Rates and External Accounts

36. Tables 24 and 25 summarise developments in the exchange rate and the current account.

37. The **sterling index**, which rose strongly in the first week and a half of March despite heavy intervention and a ½ percentage point cut in base rates on 9 March, has since steadied and is now around 4½ per cent higher than before the Paris accord. Over the same period sterling has appreciated by 3 per cent against the Yen, 5 per cent against the dollar and 5 per cent against the deutschemark.

38. The strong demand for sterling early in the month partly reflected expectations that a base rate cut would be resisted until after the Budget, providing an opportunity for substantial capital gains on UK gilts. More recently the currency has stabilised despite the favourable City reaction to the Budget: the Chancellor had made it clear that he did not want to see sterling rise much further and base rates fell a further ½ percentage point on the day after the Budget. The **UK interbank rate**, which has fallen nearly 1 percentage point over the past month, indicates that markets are now discounting a further ½ point cut in base rates. Although overseas rates have continued to edge down recently most of the decline in UK rates has been reflected in lower interest rate differentials, against both the eurodollar and the world basket.

39. Sterling has also been helped by a sharp recovery in the **Brent oil price** from a low of $15.8 a barrel on 2 March to just over $18 a barrel now. Earlier worries that some OPEC members were exceeding their quotas appear to have been allayed by suggestions that the Saudis are producing substantially below their quota. The discount on West Texas Intermediate (WTI) futures contracts, which almost disappeared as the spot price fell, has

risen again to around $1 a barrel for December DTI, suggesting that the markets remain doubtful about the sustainability of an $18 a barrel price. The **oil price adjusted exchange rate reference ratio**, which rose by 3¼ per cent as the oil price fell in February, has risen a little further in March to around 99, as both the exchange rate and the oil price have risen.

40. The **February trade figures**, published on 26 March, showed a visible trade deficit of £224 million, compared with a visible deficit of £527 million in January and an average monthly deficit of £910 million in the second half of 1986. Export volumes recovered much more sharply than import volumes from the low, weather affected, levels in January. The volume of exports (excluding oil and erratics) in the three months to February was 2 per cent higher than in the previous three months, continuing the firm upward trend. However, over the same period the volume of imports (excluding oil and erratics) was 2½ per cent lower than in the previous three months. Although it is possible that there is some recovery from the bad weather still to come, DTI's assessment is that the underlying level of import volumes has stabilised in recent months. Combined with an unchanged CSO projection of the monthly invisibles surplus of £600 million, the current account in February was projected to have been in surplus by £376 million, compared to a surplus of £73 million in January.

41. Sterling has been in widespread demand and large market purchases have been possible on most days. Up to 26 March, market purchases were $4152 million and off-market sales were $457 million, giving total net currency purchases of $3695 million in the month so far. The forecast for off-market transactions alone in March is -$480 million.

MG2 Division
27 March 1987

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Monetary developments since last month's report

	Latest outturns available at time of:		
	Sept 1986	**Feb report**	**March report**
Monetary aggregates (12 month % growth)	**(Cal Sept)**	**(Cal Jan)**	**(Cal Feb)**
M0(sa)	4.8	5.1	4.1+ (4.1)
£M3	18.9	17.6	18.9
PSL2	14.8	13.2	13.1
Bank lending	18.4	22.4	21.7
Bank & building society lending(est)	18.9	20.8	20.1
Interest rates (%)	**17 Sept**	**27 Feb**	**26 March**
3 month interbank	10.0	10.8	9.7
20 year gilt-edged	10.0	9.7	9.1
Yield gap	-0.1	1.1	0.6
3 month overseas basket	6.2	6.3	6.1
3 month interbank/euro dollar differential	4.0	4.4	3.3
Real 3 month interbank	6.7	6.5	5.4
Equity dividend yield (all-share)	4.1	3.4	3.4
IG yields (1996) assuming 5% inflation	3.9	3.6	3.5
Exchange rate			
ERI	70.3	69.9	72.1
Oil adjusted reference index*	69.5	71.3	72.9
ERI/reference rate ratio	101.2	98.0	98.9
Asset prices			
FT-A Index (% pa)	26.1	30.6	26.8
FT-A Level (Peak: 1027)	794	983	1019
Halifax house index (% pa)**	13.6	13.6	14.9

+ March outturn

* 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 August, January and February.

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MONTHLY MONETARY REPORT : CHARTS

CHART I

NARROW MONEY

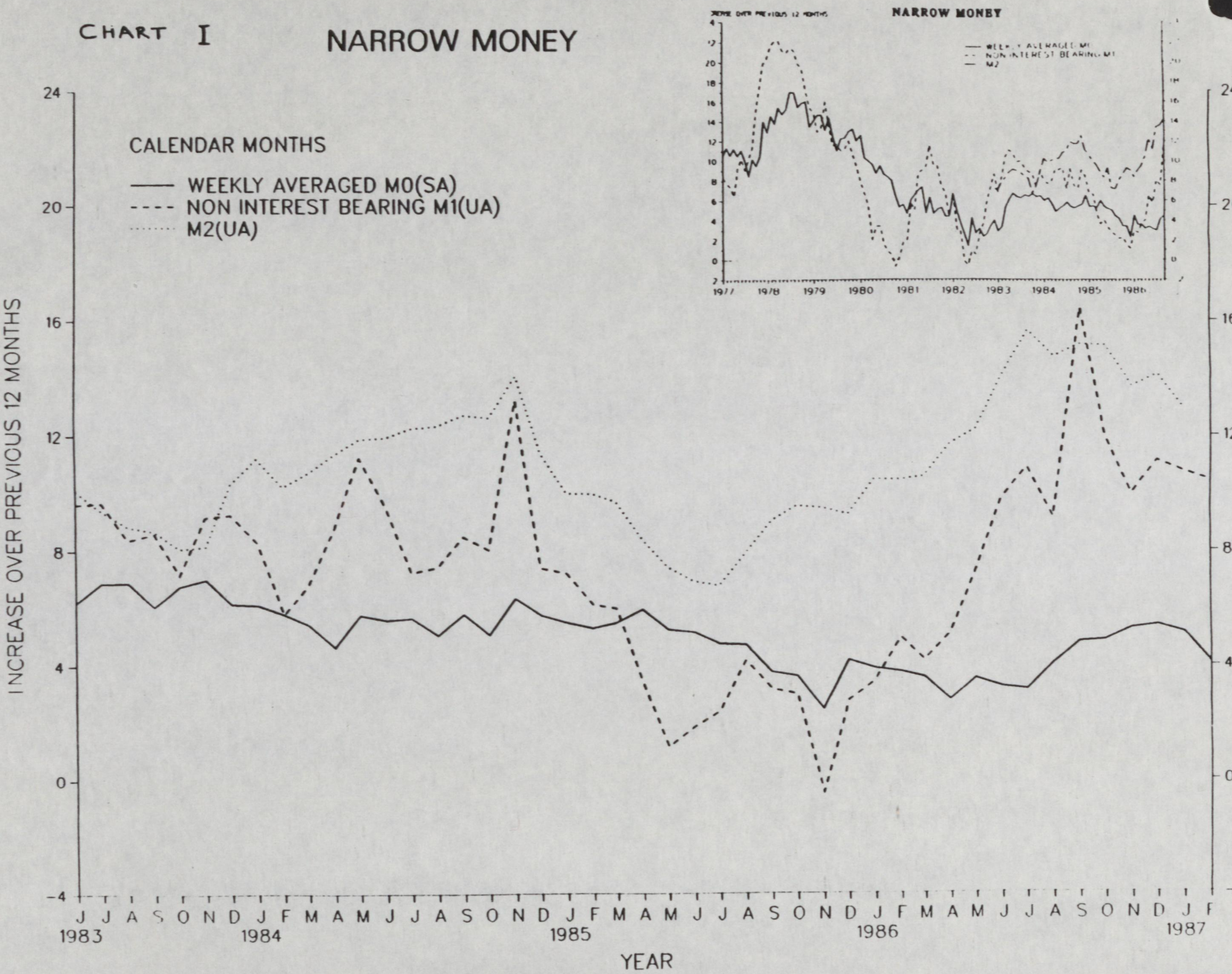


CHART II BROAD MONEY

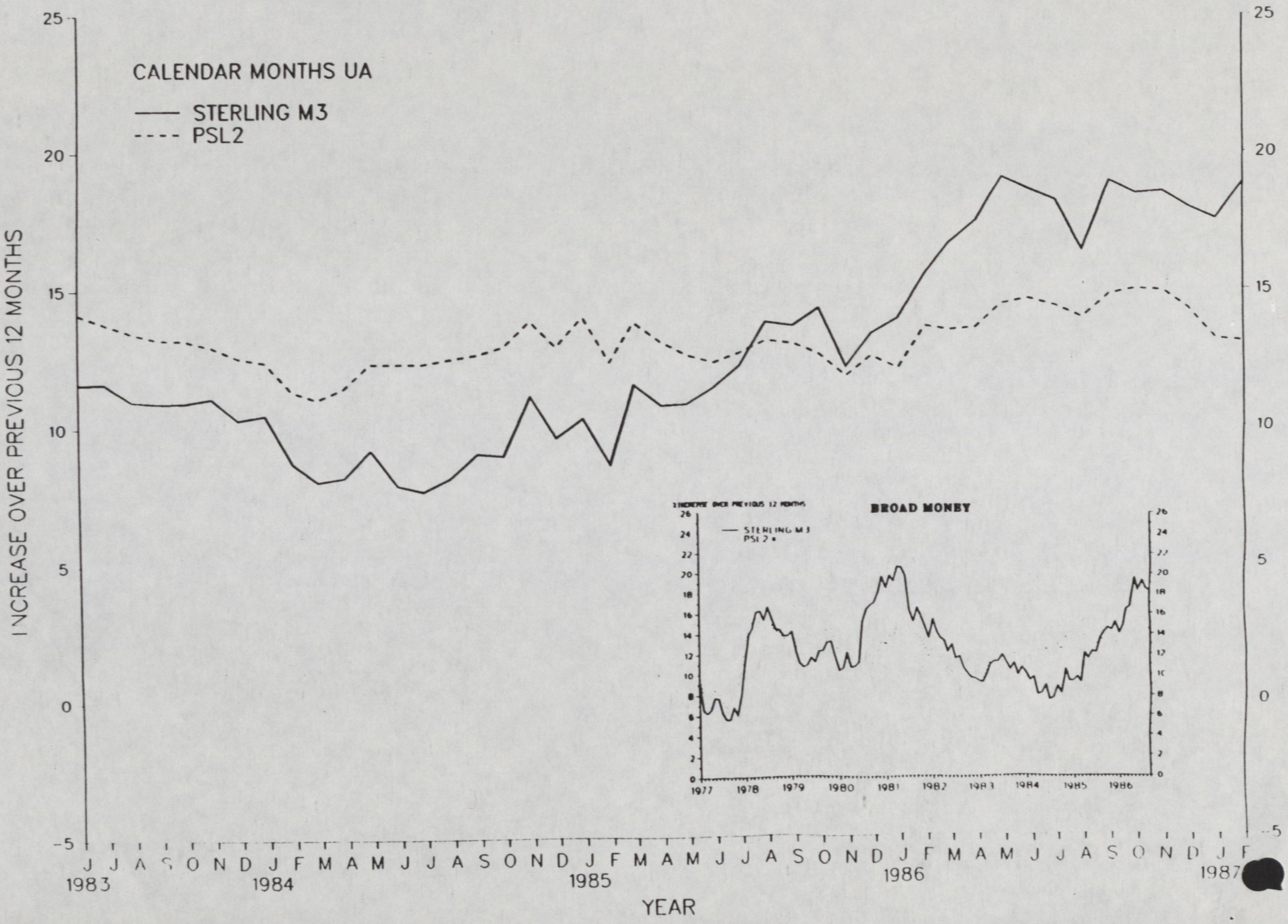


CHART III REAL WEEKLY AVERAGED M0

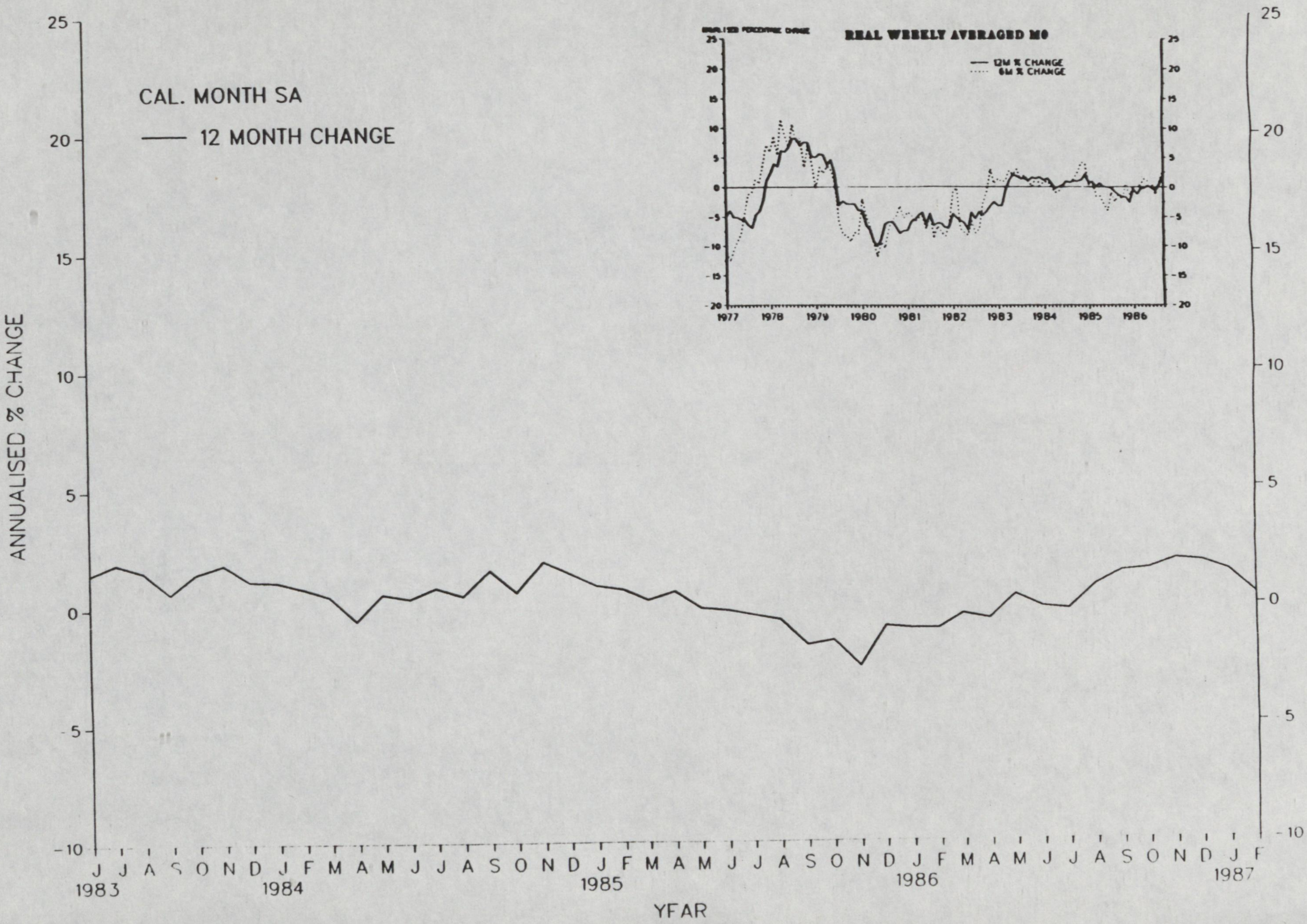


CHART IV

REAL STERLING M3

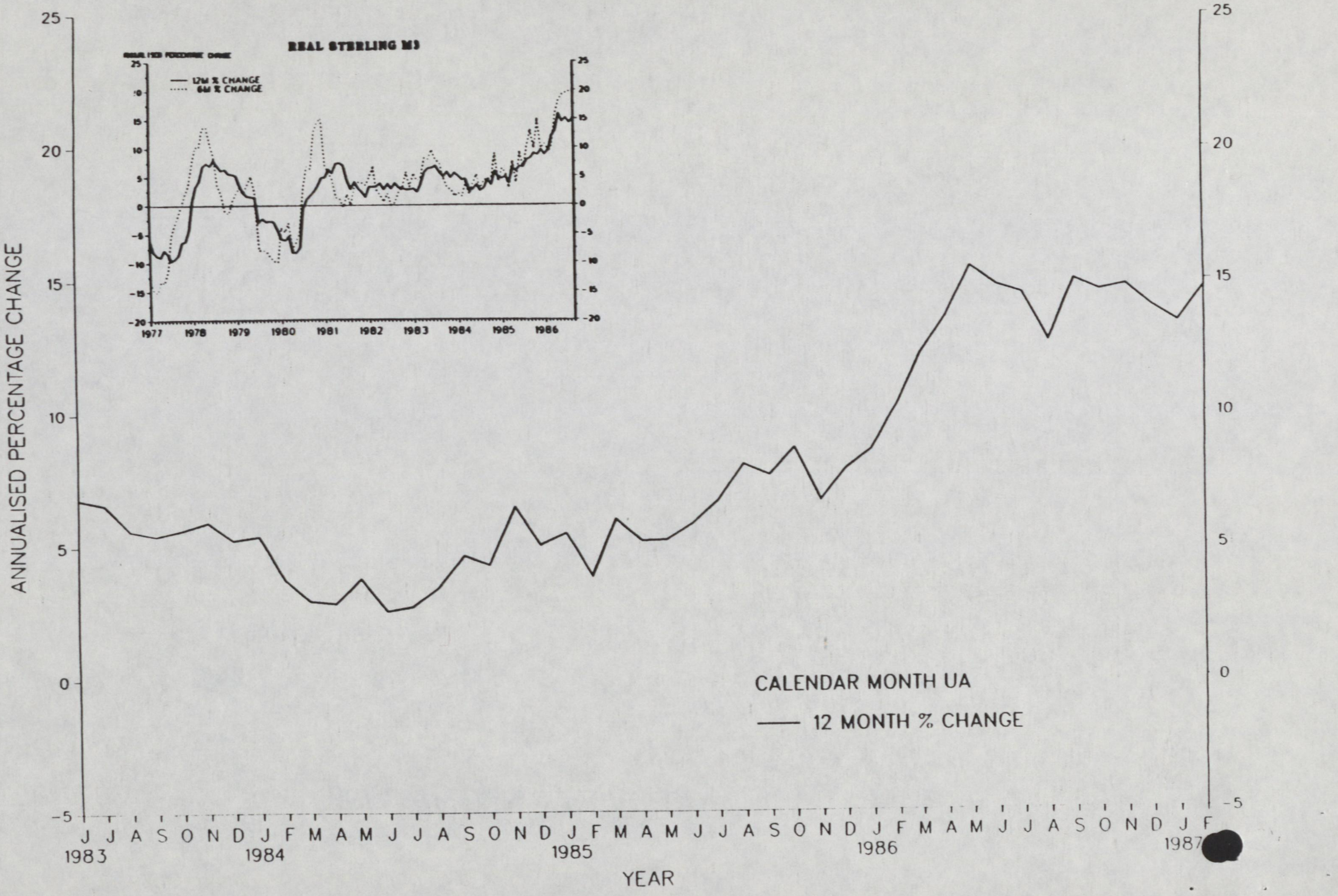
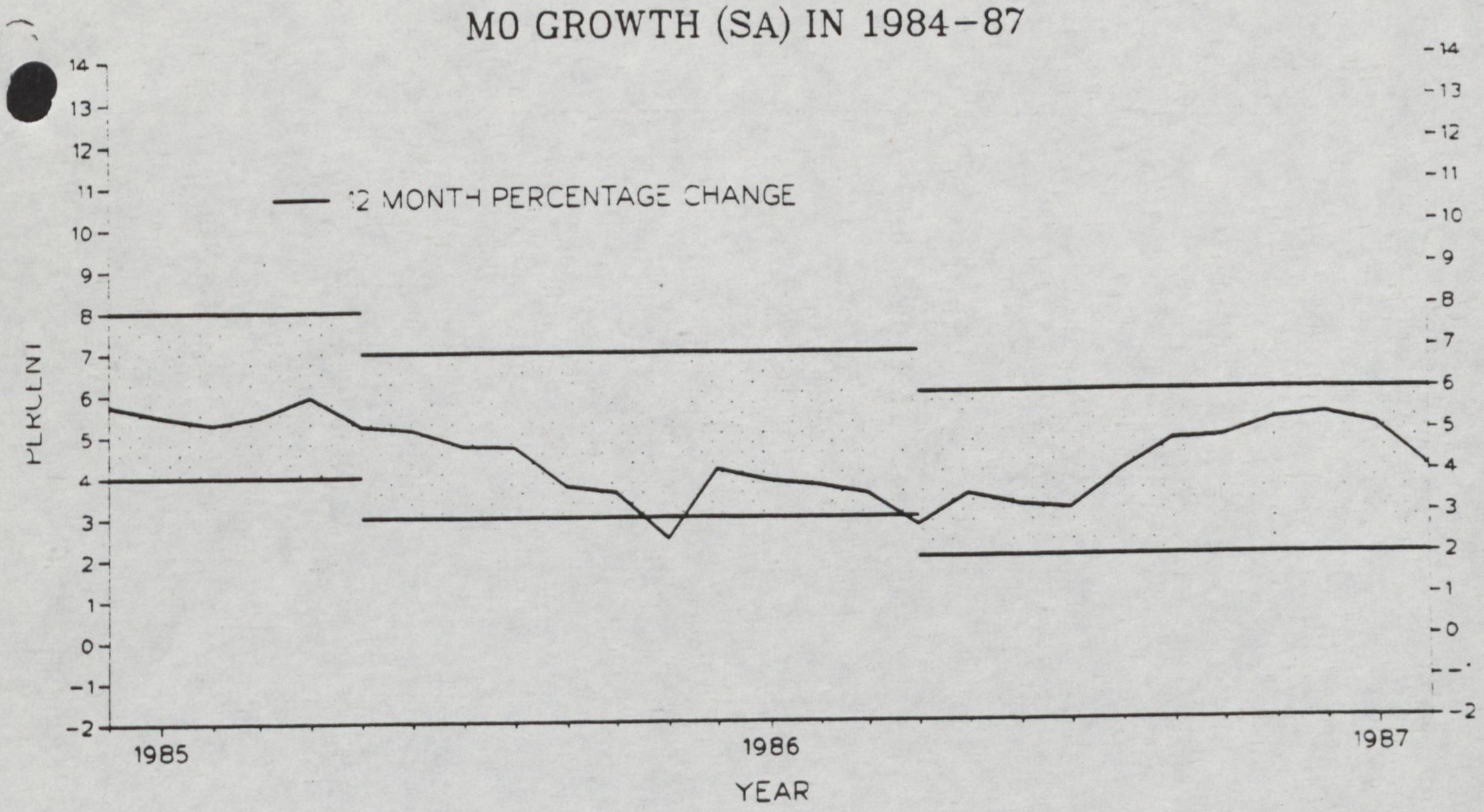
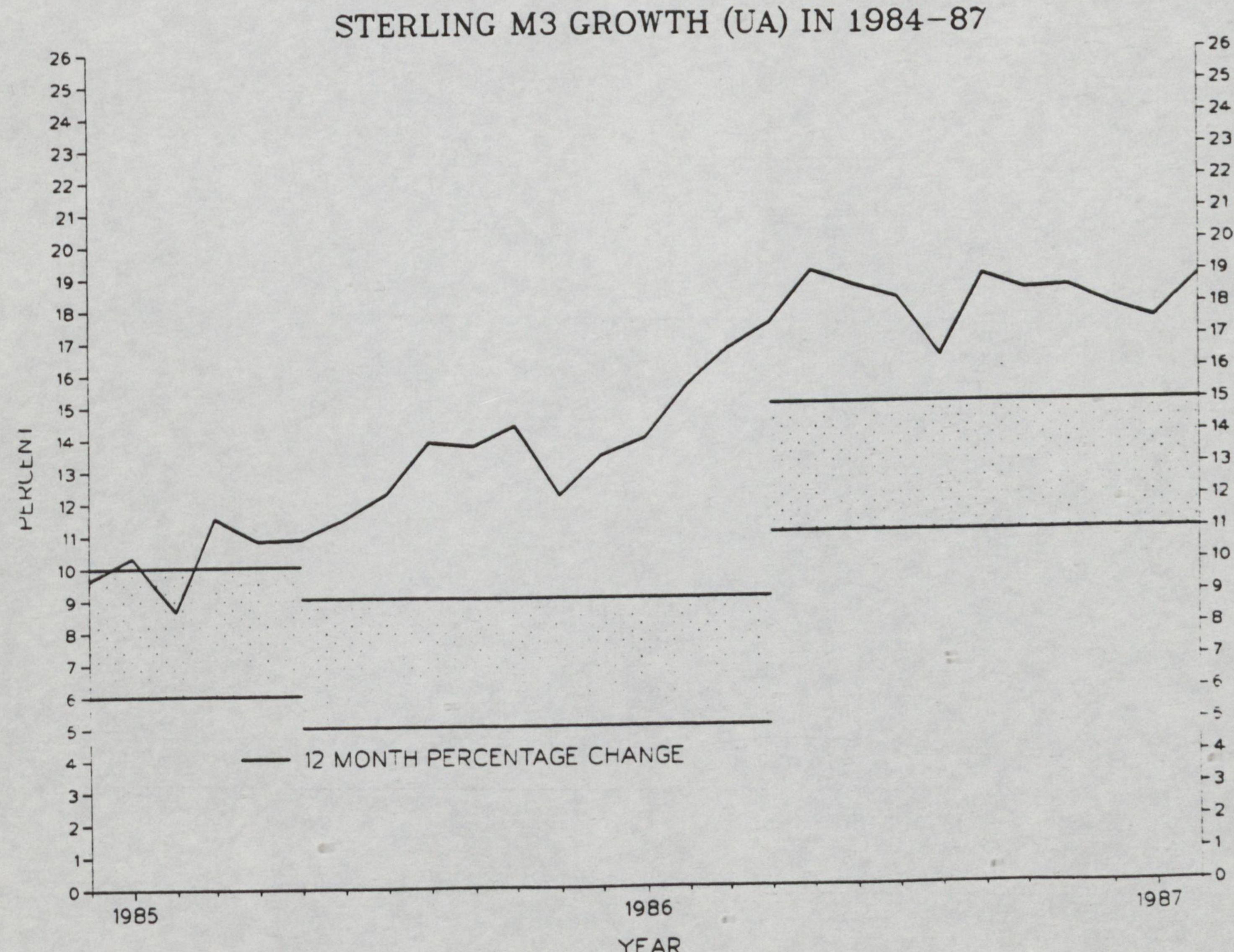


CHART V



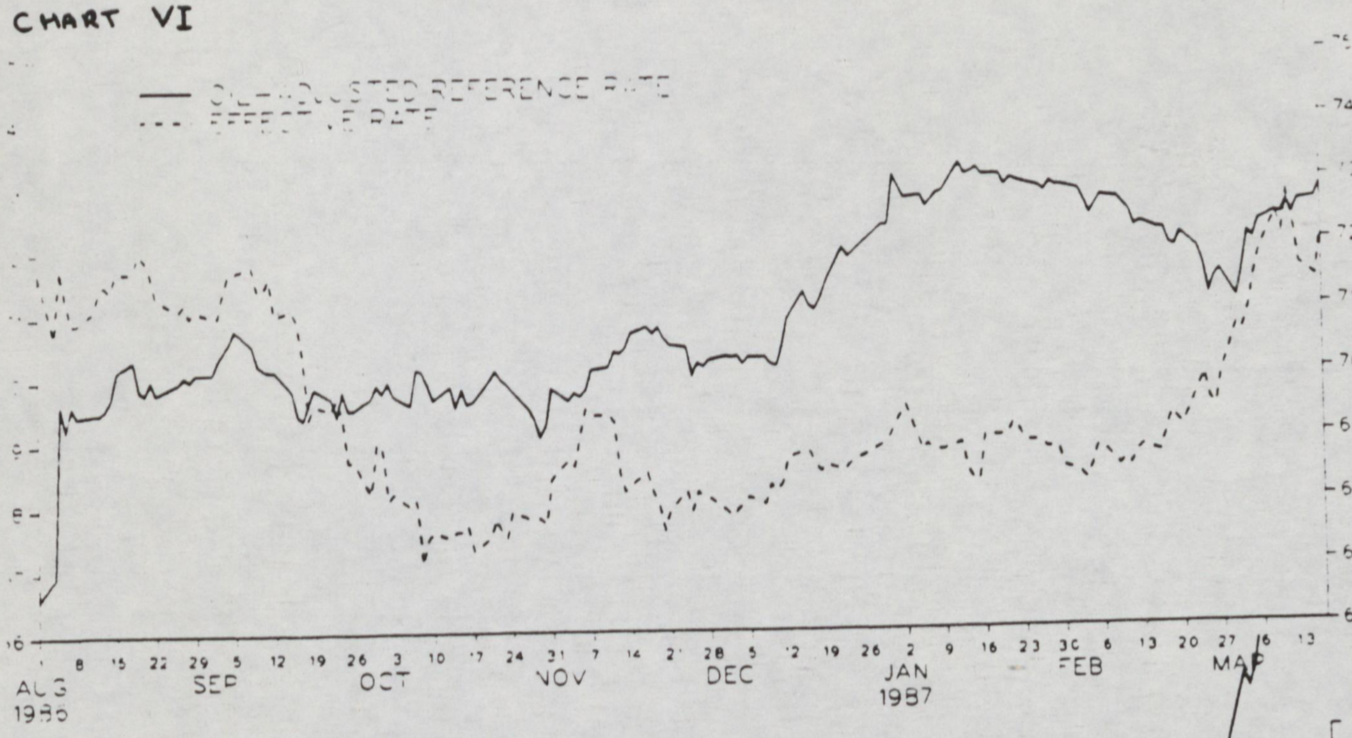
MO GROWTH (SA) IN 1984-87
12 MONTH PERCENTAGE CHANGE
PERCENT
1985
1986
1987
YEAR

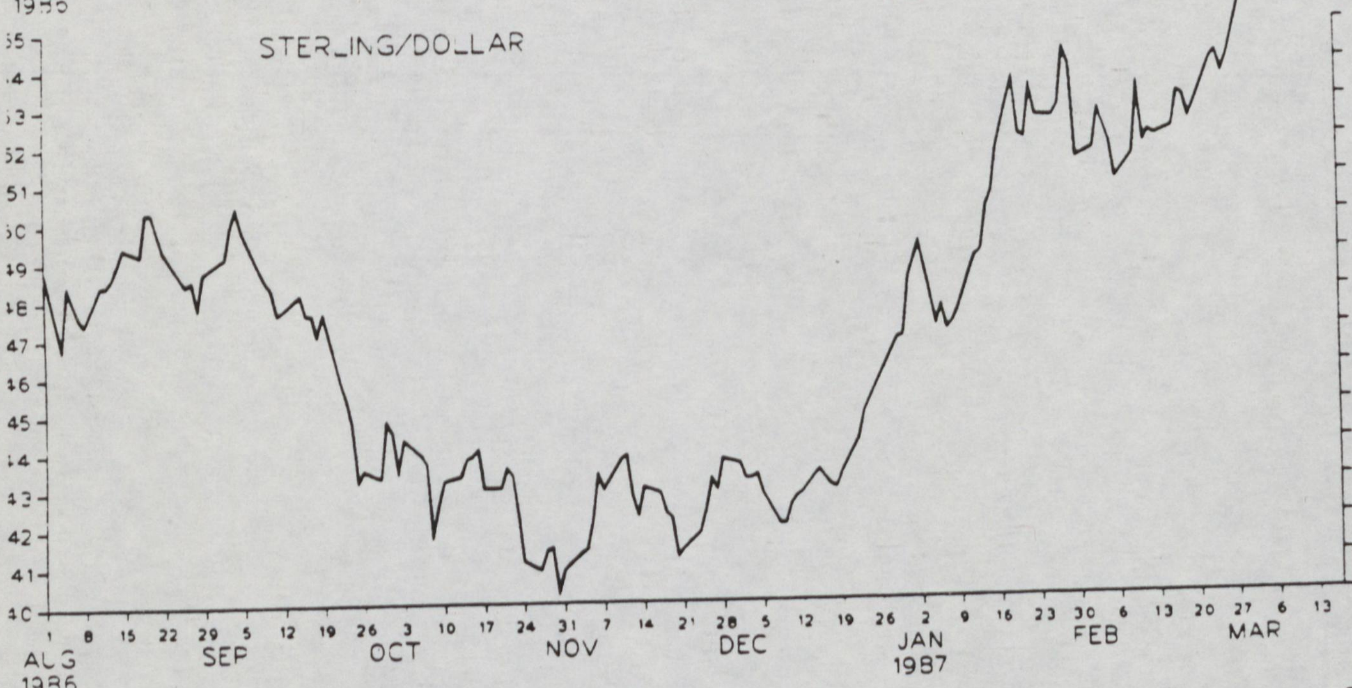


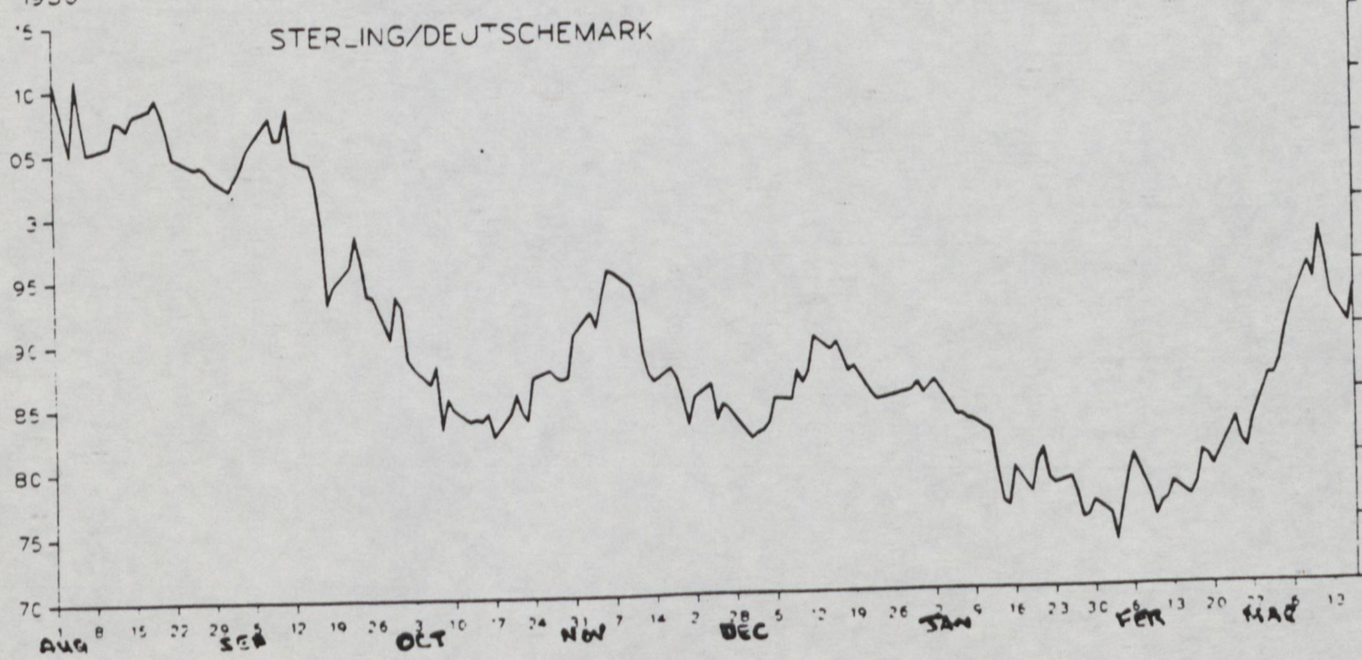
STERLING M3 GROWTH (UA) IN 1984-87
12 MONTH PERCENTAGE CHANGE
PERCENT
1985
1986
1987
YEAR

EXCHANGE RATE

CHART VI







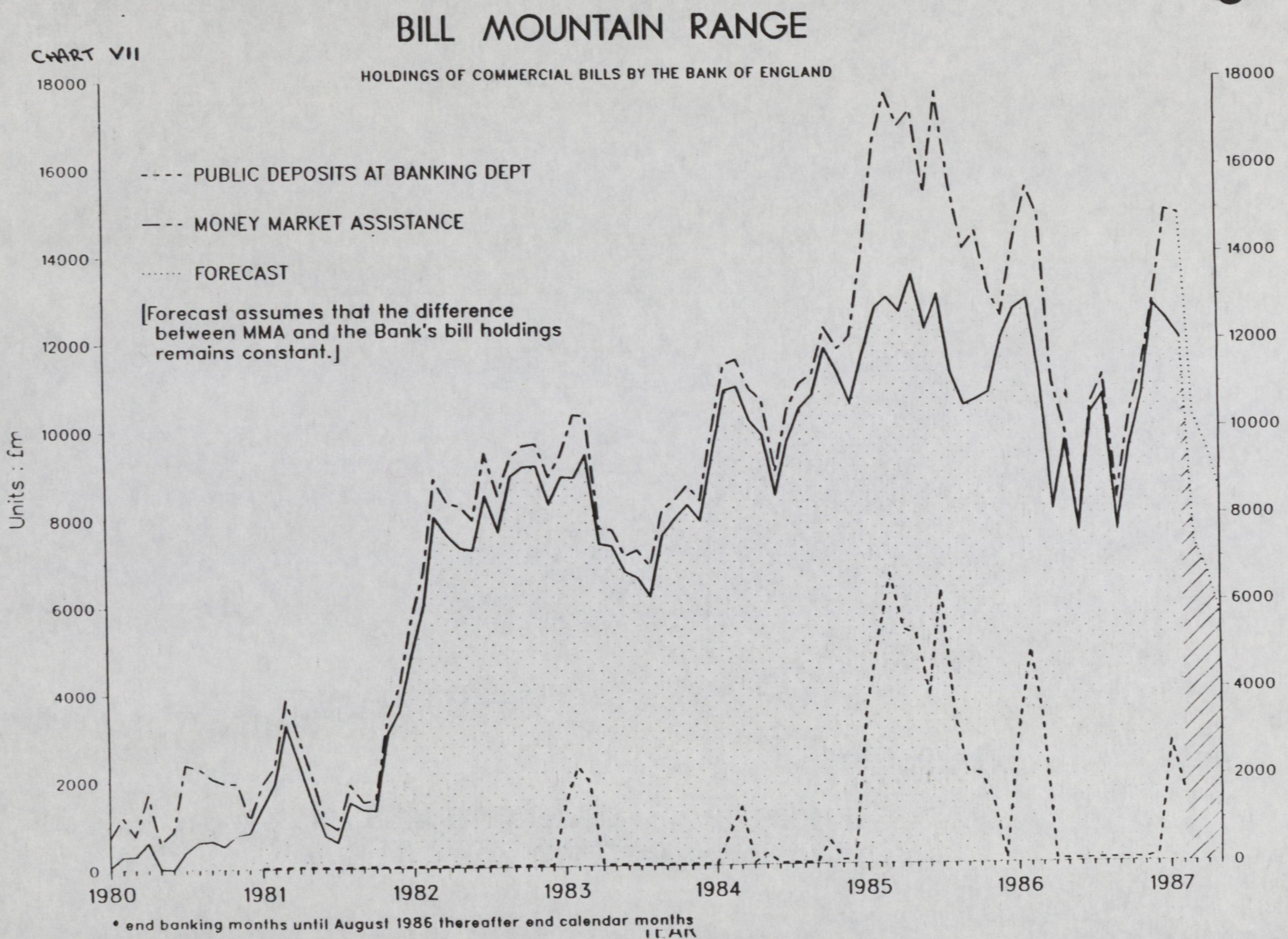


CHART VII
BILL MOUNTAIN RANGE
HOLDINGS OF COMMERCIAL BILLS BY THE BANK OF ENGLAND
---- PUBLIC DEPOSITS AT BANKING DEPT
—-- MONEY MARKET ASSISTANCE
...... FORECAST
[Forecast assumes that the difference between MMA and the Bank's bill holdings remains constant.]
Units : £m
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
1980
1981
1982
1983
1984
1985
1986
1987
• end banking months until August 1986 thereafter end calendar months
YEAR

CHART VIII

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

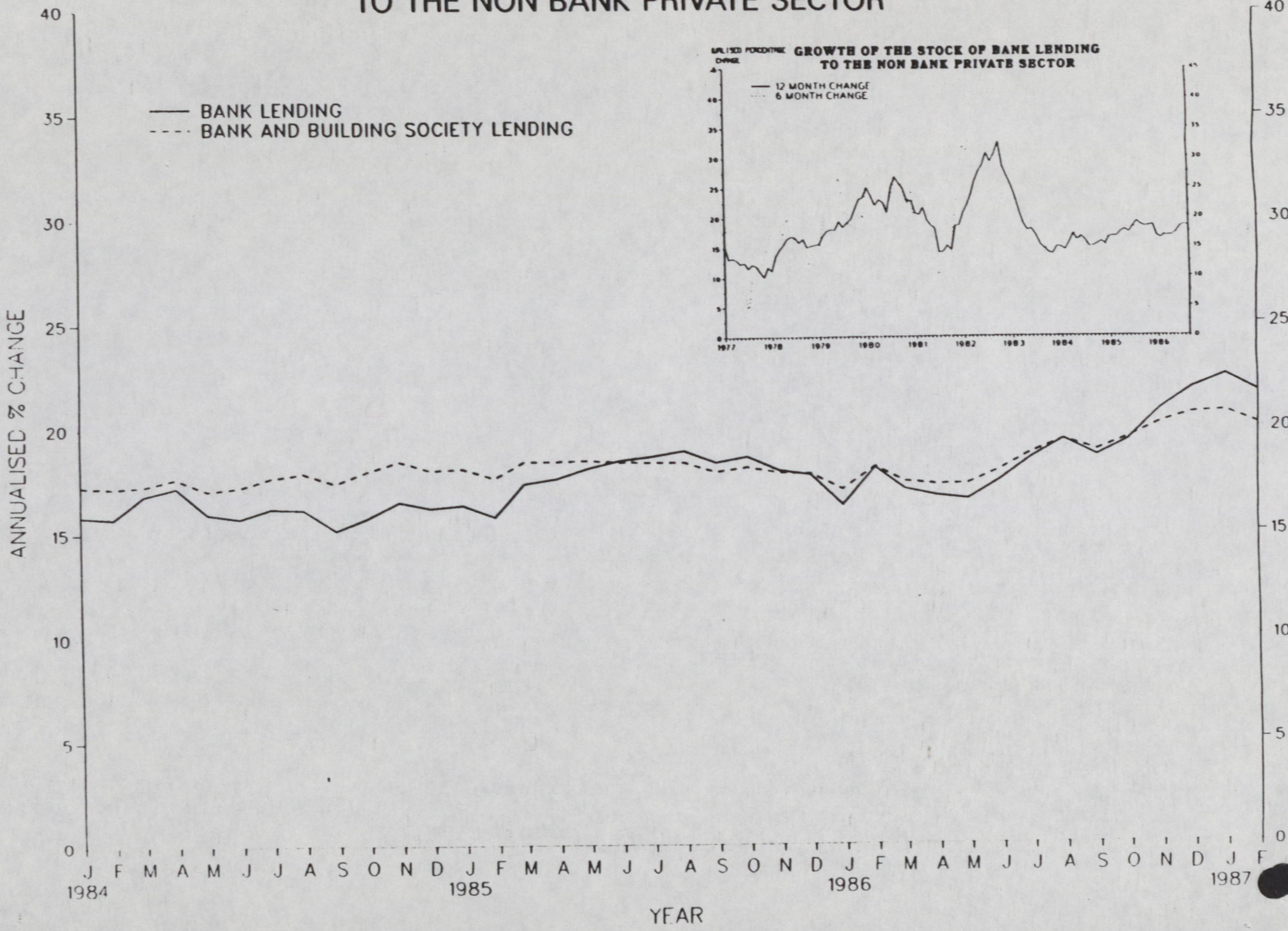


CHART IX

£ CORPORATE BOND ISSUES BY UK LISTED ICCS

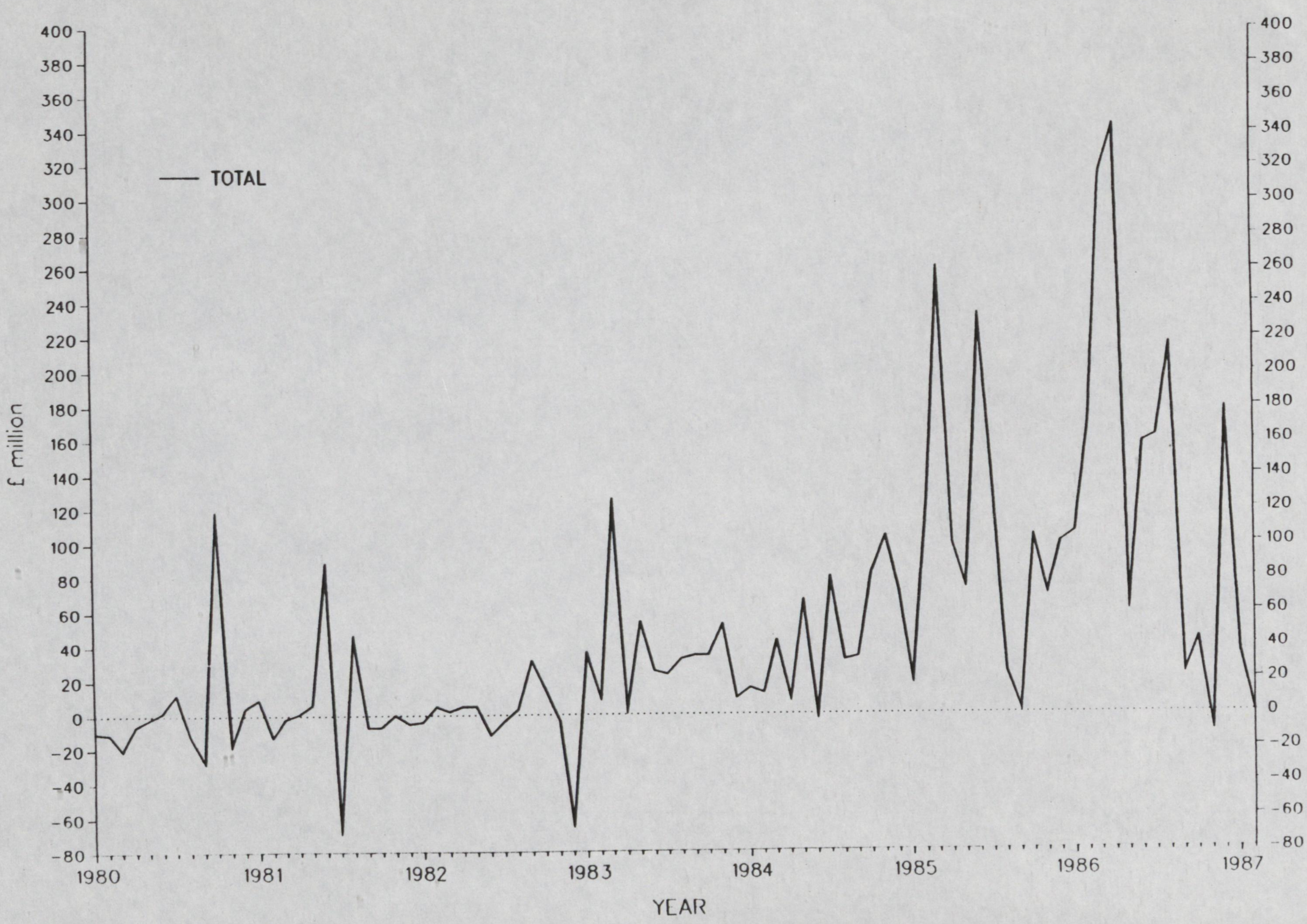
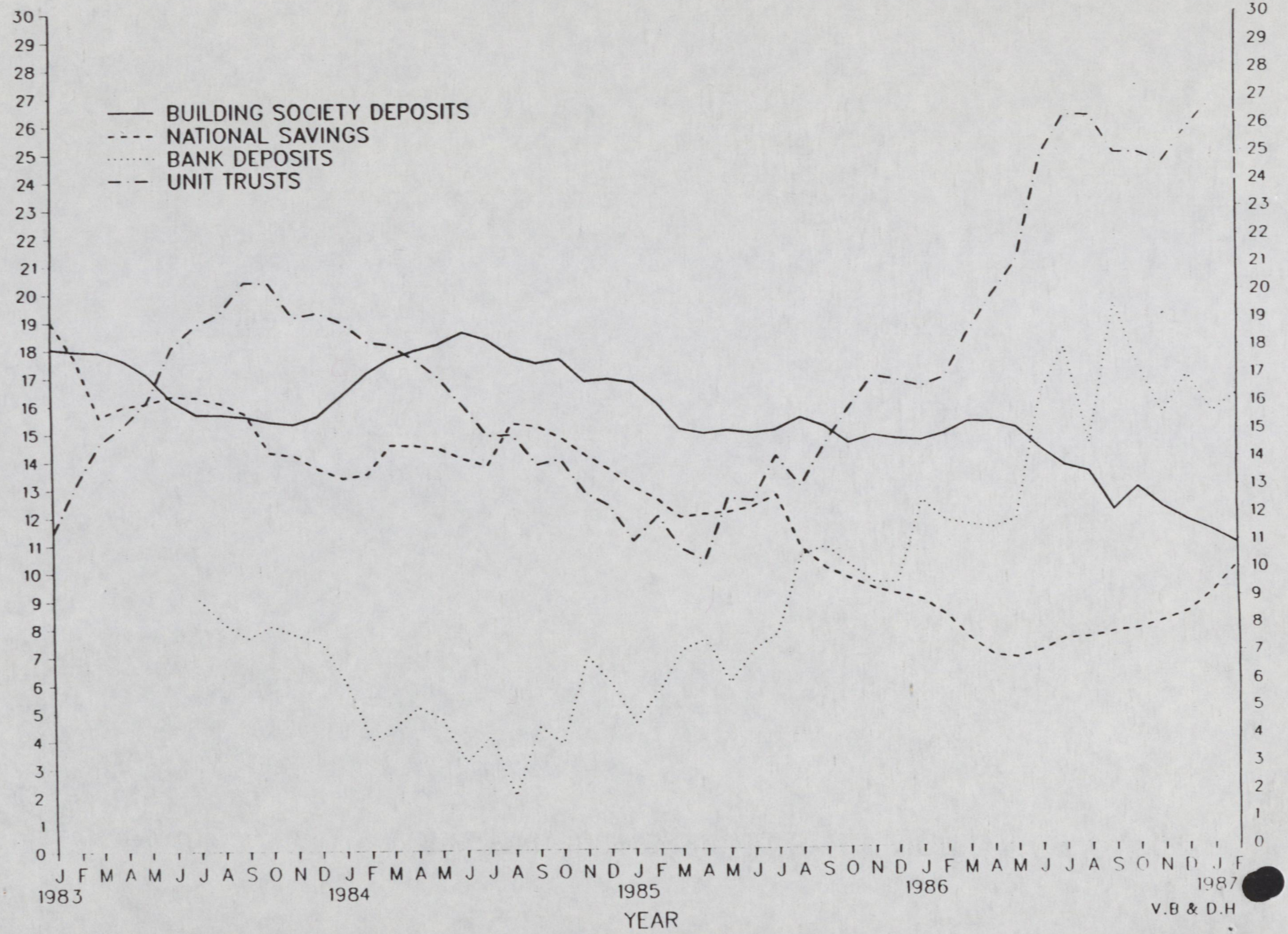


CHART X

RETAIL DEPOSITS



NOMINAL INTEREST RATES

CHART XI

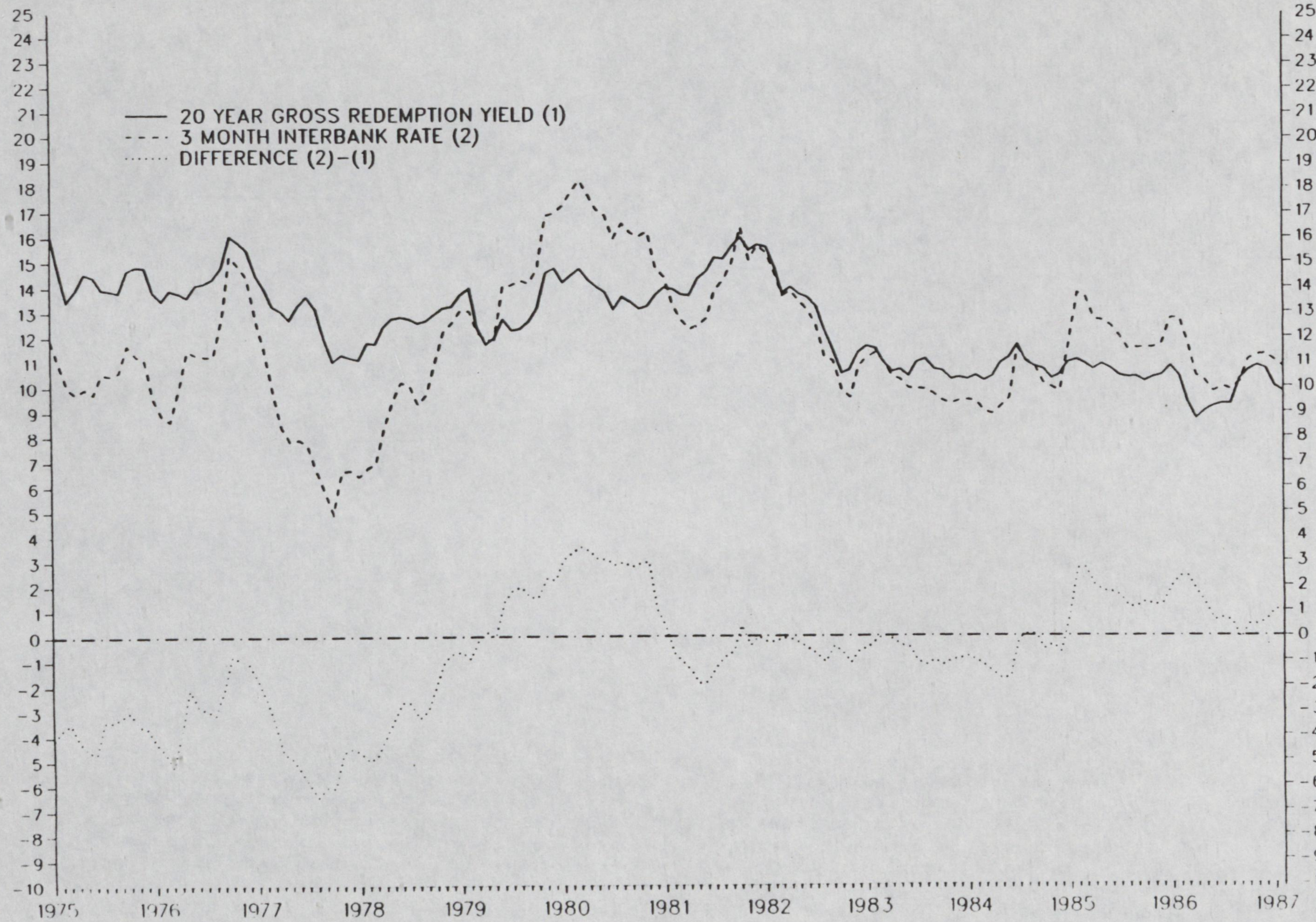


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CHART XII

Per cent Time / Yield Curves of British Government Stocks 16th March 1987

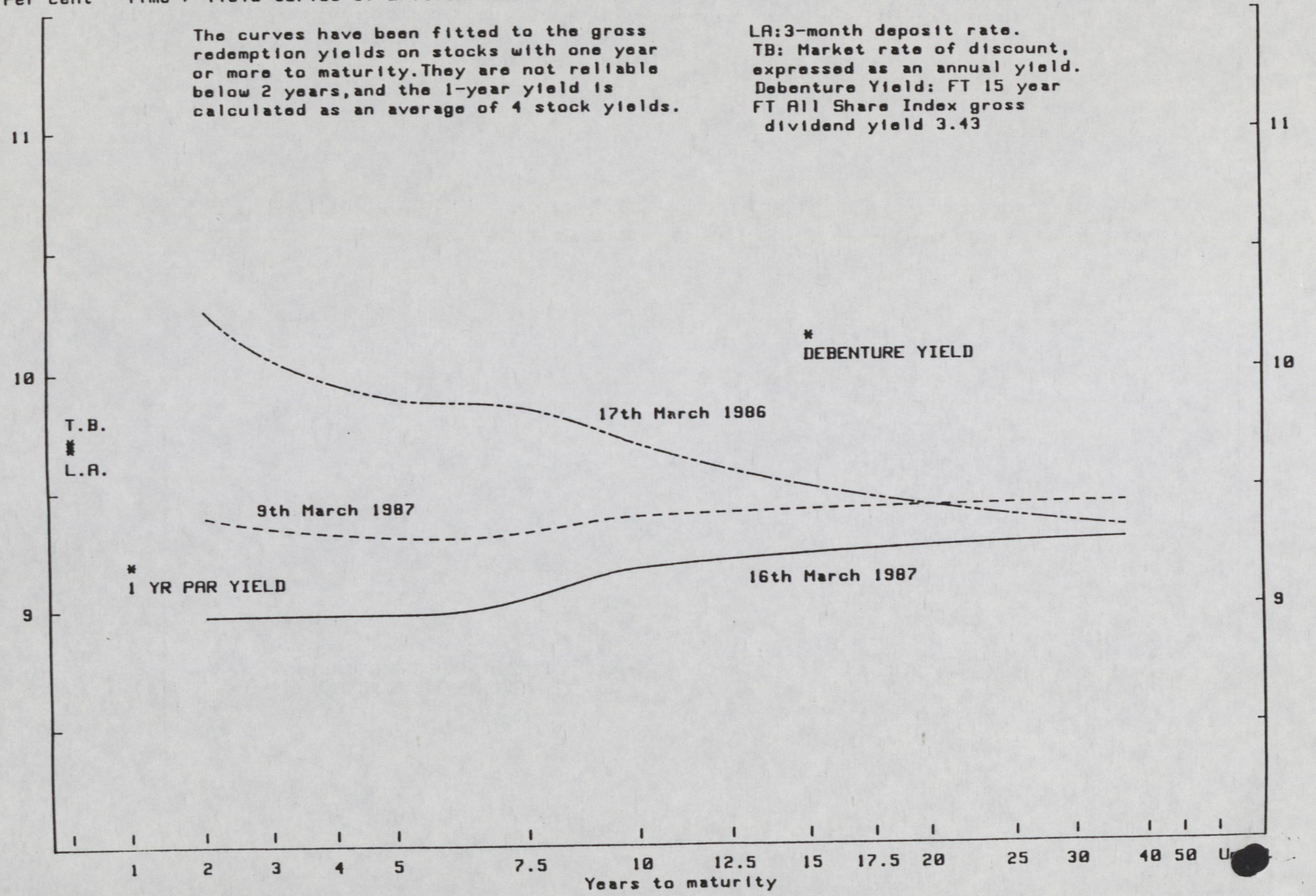


CHART XIII REAL YIELDS

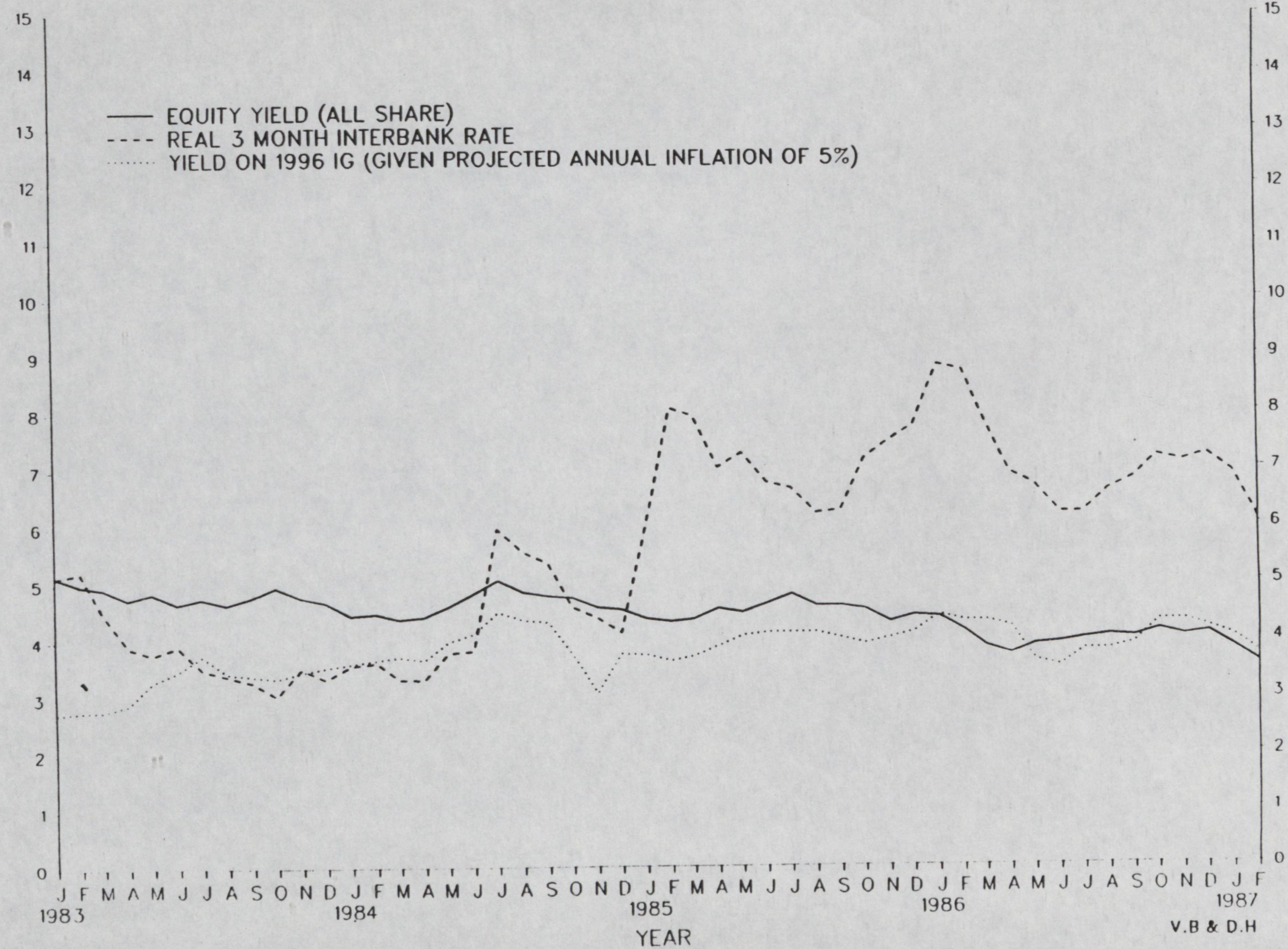


CHART XIV

UK/US INTEREST RATE DIFFERENTIAL

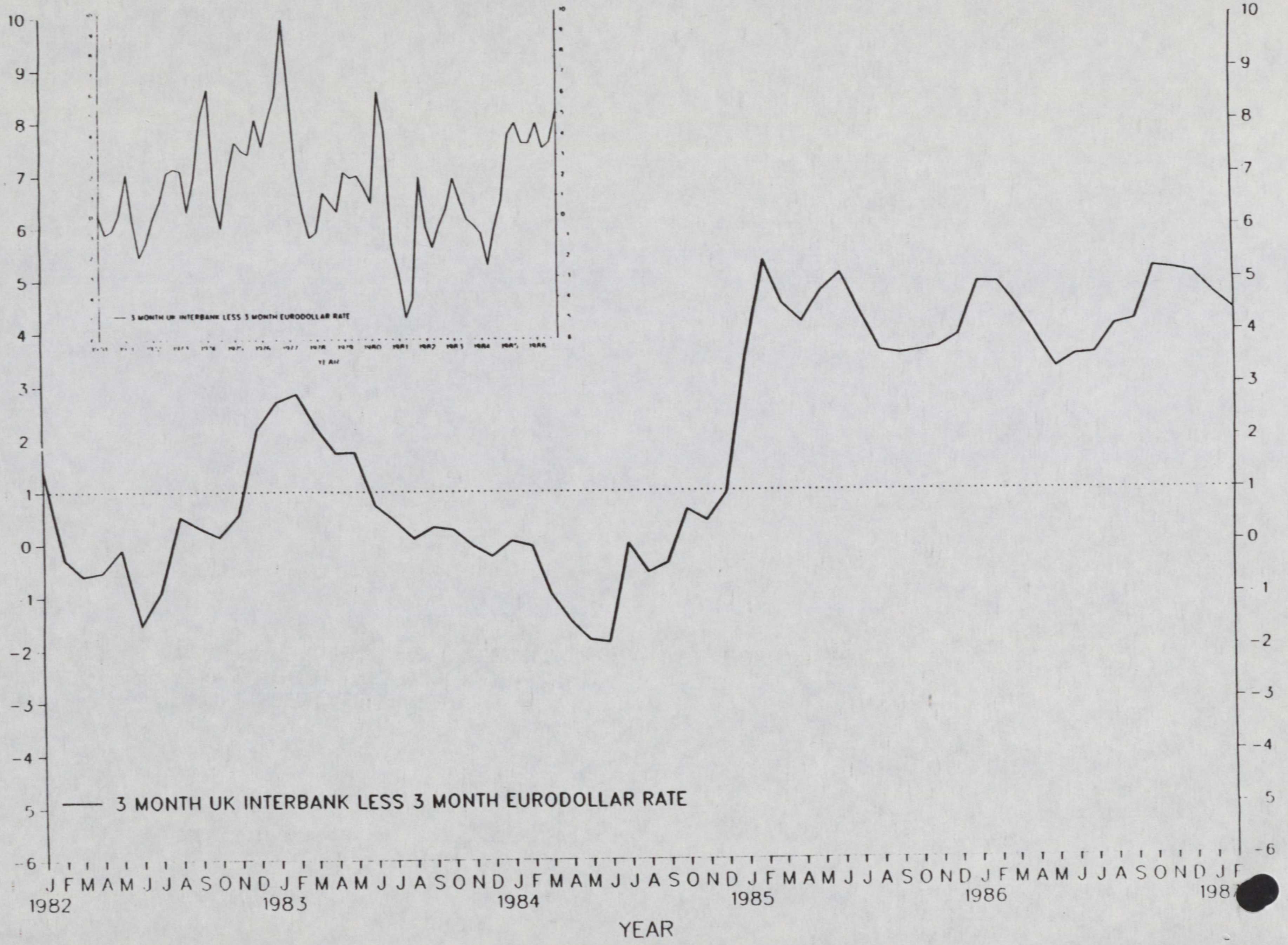
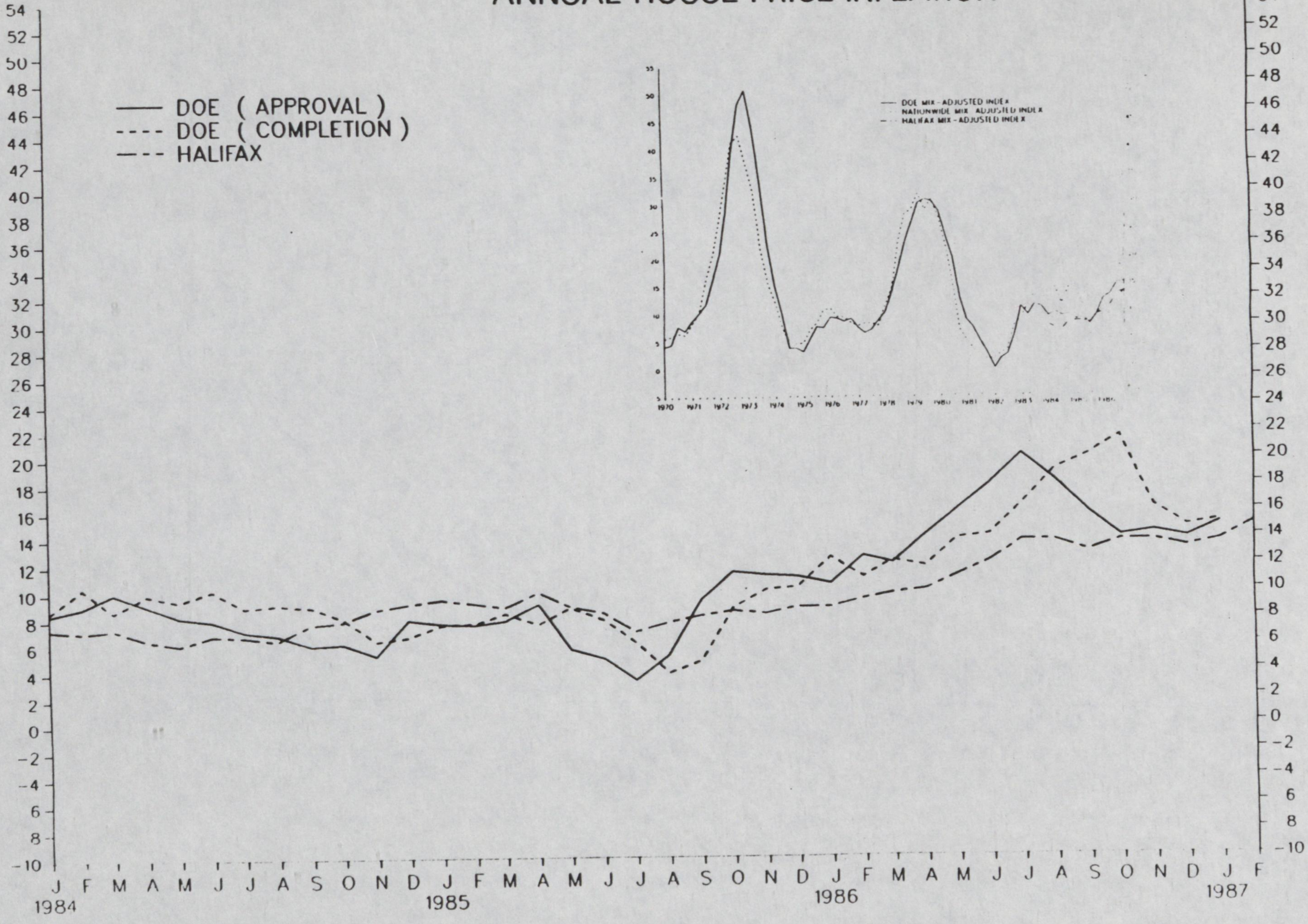


CHART XV

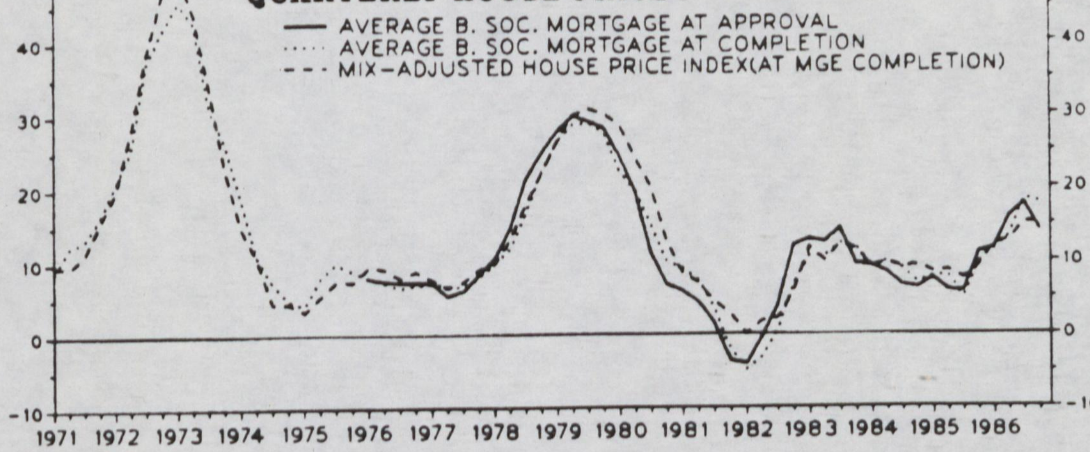
ANNUAL HOUSE PRICE INFLATION



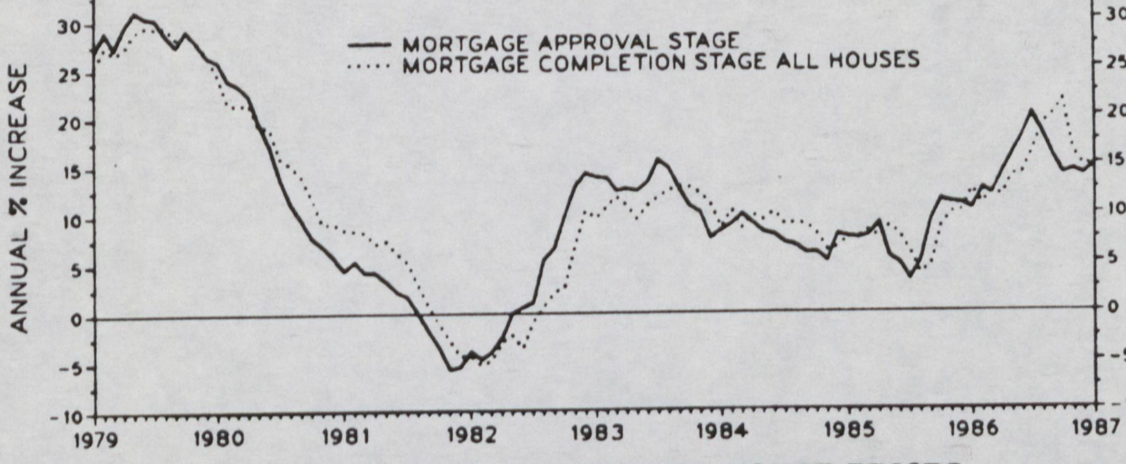
CHARTXVI

CHART IV : HOUSE PRICES

QUARTERLY HOUSE PRICES



MONTHLY HOUSE PRICES



INDICES OF RELATIVE HOUSE PRICES

BASED ON DOE MIX ADJUSTED HOUSE PRICE INDEX

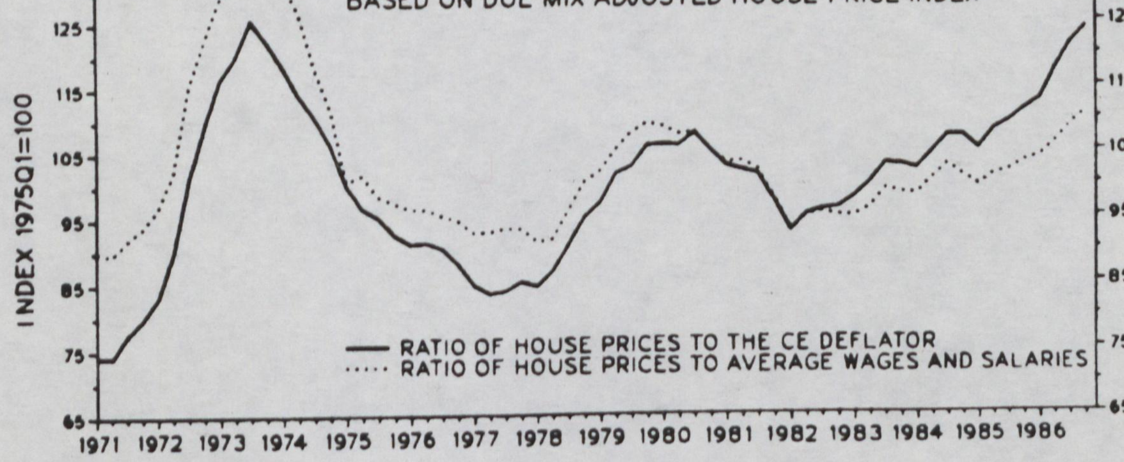
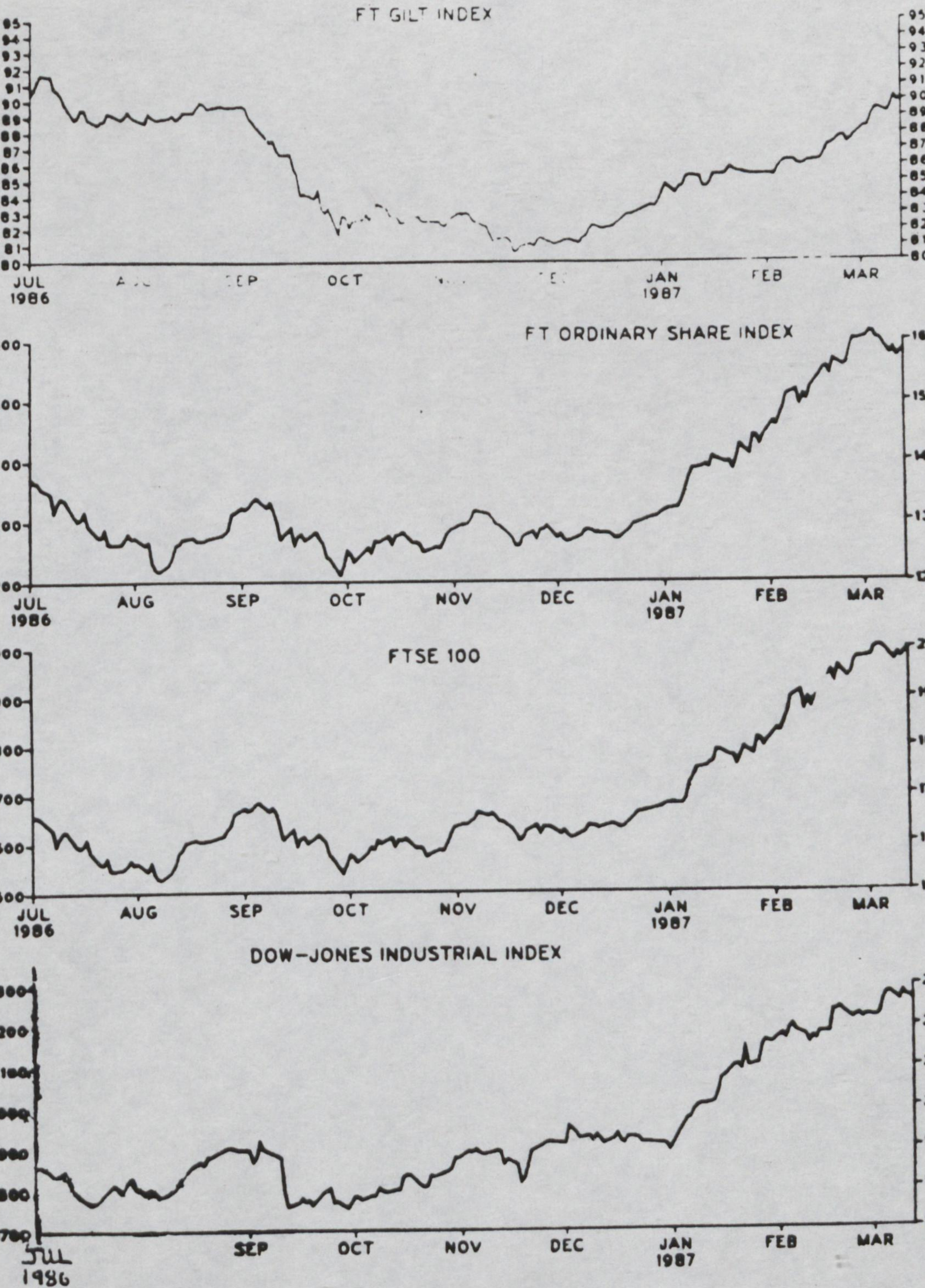


CHART XVII

CAPITAL MARKET INDICES



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MONTHLY MONETARY REPORT : TABLES

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TABLE 1

DEVELOPMENTS IN THE MAJOR 6 (EXCLUDING THE UK) COUNTRIES
(per cent change on same period a year earlier)

		OUTPUT		TRADE VOLUMES		PRICES		MONEY	
	Nominal GNP	Real GNP	Industrial production	Exports	Imports	GNP Deflator	Consumer prices	Narrow money	Broad money
1982	6.2	-1.0	-4.2	-1.6	-0.4	7.3	7.0	6.7	9.9
1983	7.6	2.9	3.4	0.7	2.6	4.6	4.6	9.8	8.6
1984	9.2	5.2	8.4	9.8	12.8	3.8	4.5	6.3	8.5
1985	6.7	3.0	2.9	3.7	4.3	3.5	3.7	7.7	8.2
1986			1.0				1.8	8.6	6.1
1985Q1	6.3	2.9	3.6	6.4	5.4	3.3	3.8	6.7	9.3
Q2	6.7	3.0	3.9	5.9	4.3	3.6	4.0	6.8	8.5
Q3	6.9	3.2	2.2	2.1	3.2	3.6	3.7	8.3	7.9
Q4	6.8	3.0	2.0	0.4	4.5	3.7	3.5	9.1	7.3
1986Q1	6.4	2.8	1.8	-1.1	4.5	3.5	2.9	8.8	6.9
Q2	6.5	2.8	1.1	-0.4	7.5	3.6	1.7	10.2	6.9
Q3	5.9	2.4	0.6	1.1	8.0	3.4	1.5	10.7	7.5
Q4			0.6				1.2	11.5	7.8
1986 Jan			2.8				3.5	8.7	7.0
Feb			1.8				2.9	8.5	6.7
Mar			0.9				2.2	9.2	6.9
April			2.5				1.8	9.7	6.9
May			-0.1				1.7	10.4	6.9
June			1.0				1.7	10.4	6.9
July			0.9				1.4	10.5	7.3
Aug			0.2				1.4	11.0	7.6
Sept			0.8				1.6	10.6	7.7
Oct			0.8				1.2	10.8	7.7
Nov			0.0				1.2	11.8	7.9
Dec			1.0				1.1	12.0	7.9
1987 Jan			0.3 (e)				1.1		

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TABLE 2

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
1986		6.5	5.0	4.6	7.8	11.0
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
	Q4	5.8	4.5	4.7	7.7	11.2
1986	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
1987	Jan	5.9	4.3	4.7	8.4	11.0
	Feb	6.0	4.0	4.1	8.5	11.0
	Mar 20	6.2	4.1	4.0	7.8	9.6

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
1986	114.8	203.1	137.3	70.1	72.8
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
Q4	110.5	208.0	142.6	70.8	68.3
1986 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	110.3	205.0	143.5	71.0	68.5
1987 Jan	105.5	209.4	147.5	71.8	68.9
Feb	103.9	209.3	148.4	72.3	69.9
Mar 20	103.1	211.2	147.2	71.8	71.2
% Change since dollar peak (Feb 85)	-34	+35	+26	+16	+2
% Change since Plaza (Sept 85)	-26	+35	+17	+7	-13

TABLE 4

RECENT INDICATORS OF ACTIVITY AND INFLATION

per cent changes on year earlier

	MONEY GDP
1985-86	9.7
1986-87	6.1*
1986 2	5.9
3	6.3
4	5.7
1987 1	6.6*
2	8.6
3	7.4
4	6.9
1988 1	7.2
1987-88	7.5

* Budget forecast

	OUTPUT		PRICES AND UNIT LABOUR COSTS					
	GDP(O))	Manufacturing Output	RPI	RPI excluding mortgage payments	PPI Output	PPI Input	Unit Wage Costs Manufacturing	Unit Wage Costs Whole economy
1985	3.8	3.1	6.1	5.2	6.3	4.4	5.4	5.3
1986	2.8	0.3	3.4	3.6	4.3	-10.7	5.6	-
1986 1	2.3	- 0.8	4.9	4.6	5.0	- 11.9	7.9	6.1
2	2.3	- 1.0	2.8	3.3	4.3	- 12.4	6.8	6.0
3	3.4	0.9	2.6	3.3	4.0	- 13.1	3.9	4.9
4	3.1	2.4	3.4	3.4	3.9	- 5.6	3.1	
1987 1			4.2*					
2			4.5					
3			4.6					
4			3.9					
1986								
January		- 0.6	5.5	4.9	5.4	- 8.3	8.2	
February		- 0.5	5.1	4.8	5.0	- 12.3	7.4	
March		- 1.4	4.2	4.0	4.7	- 14.9	7.9	
April		- 0.3	3.0	3.4	4.4	- 12.8	6.9	
May		- 1.1	2.8	3.1	4.3	- 12.2	6.9	
June		- 1.3	2.5	3.3	4.3	- 12.4	7.3	
July		1.0	2.4	3.2	4.0	- 14.3	3.4	
August		0.2	2.5	3.3	4.0	- 13.3	5.2	
September		1.4	3.0	3.4	4.0	- 11.5	2.8	
October		2.1	3.0	3.4	4.0	- 7.4	3.0	
November		2.6	3.5	3.3	3.8	- 4.9	3.8	
December		2.3	3.7	3.5	4.0	- 4.4	4.5	
1987								
January		1.6	3.9	3.6	4.1	- 2.5		
February			3.9	3.7	4.4	- 3.2		

* Budget forecast

Table 5: INDICATORS OF FISCAL STANCE

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	1¾	1.0	1¾	0.7	1
1972-73	2.4	3½	2.4	3½	2.0	3
1973-74	4.3	5¾	4.3	5¾	3.5	4¾
1974-75	8.0	9	8.0	9	6.0	6¾
1975-76	10.3	9¼	10.3	9¼	8.1	7¼
1976-77	8.3	6½	8.3	6½	7.4	5¾
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5¼	9.2	5¼	8.5	5
1979-80	10.0	4¾	10.4	5	8.2	4
1980-81	12.7	5½	13.1	5½	11.9	5
1981-82	8.6	3¼	9.1	3½	5.7	2¼
1982-83	8.9	3¼	9.3	3¼	8.4	3
1983-84	9.8	3¼	10.9	3½	12.2	4
1984-85*	10.2	3	12.3	3¾	13.9	4¼
1985-86*	5.8	1½	8.5	2¼	8.4	2¼
1986-87 (latest estimate)	3½	1	8	2	10	2½

* 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

£ billion		PSBR s.a.*	PSBR u.a.	PSBR excluding privatisation s.a.*	PSBR excluding privatisation u.a.	PSFD s.a.+	PSFD u.a.
1985	Q2	1.4	2.6	2.8	4.0	2.4	3.6
	Q3	1.9	2.9	2.3	3.4	1.8	2.5
	Q4	1.2	2.1	1.7	2.6	2.0	0.7
1986	Q1	1.3	-1.9	1.8	-1.4	2.6	1.6
	Q2	2.1	2.2	3.2	3.3	2.0	2.8
	Q3	2.4	3.6	2.4	3.6	2.9	4.8

* financial year - constrained
\+ calendar year - constrained

Table 6: CGBR(O) APRIL-FEBRUARY: COMPARISON WITH BUDGET PROFILE

£ billion (- indicates lower borrowing)

Non-oil taxes	-2.9
Oil taxes and Royalties	+1.4
National Insurance Contributions	-0.5
Net debt interest	+0.4
Supply (excluding advance EC contributions)	-0.1
Other (including departmental balances)	-0.2
Net effect on CGBR(O)	-1.9

- Among non-oil taxes, Corporation Tax and VAT more than account for the excess over the Budget profile.

- Oil taxes and royalties are lower than the Budget profile because of lower oil prices and because of the repayments of APRT announced in the Autumn Statement (all of these repayments were made by the end of February).

- Net debt interest is higher than forecast, mainly due to lower interest receipts.

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TABLE 7

Key Monetary Indicators

	1985-86									calendar months			1986-87
	Feb	**March**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
Monetary Aggregates													
12 month (MO	3.8	4.1	2.1	3.7	3.2	3.1	4.1	4.8	4.9	5.2	5.2	4.1	4.1
% changes (£M3	15.6	16.7	17.5	19.1	18.6	18.2	16.4	18.9	18.5	18.6	18.0	17.6	18.9
ua (PSL2	13.7	13.5	13.6	14.5	14.7	14.4	14.0	14.8	15.0	14.9	14.3	13.2	13.1
Sterling lending (ua) 12 month % change													
Banks lending	18.1	17.1	16.7	16.6	17.5	18.5	19.4	18.6	19.3	20.8	21.7	22.3	21.0
Bank and building societies	18.1	17.4	17.3	17.3	18.0	18.7	19.4	18.9	19.5	20.2	20.7	20.7	20.0
Cumulative Overfunding financial year to date: £mn (over funding -)													
u/a	-2,303	381	-361	1,944	1,569	-40	-62	2,668	810	-17	-1,557	-3,913	-3,950
Money Market Assistance† Level outstanding													
£mn	15,464	14,828	11,010	9,890	7,682	10,523	11,168	8,390	10,247	11,295	12,970	14,948	14,873
Interest Rates													
3 months*	12.6	11.6	10.5	10.2	9.8	10.0	9.9	10.2	11.2	11.2	11.3	11.0	10.8
20 year ϕ	10.4	9.4	8.7	9.0	9.2	9.2	9.4	10.3	10.6	10.9	10.6	10.0	8.8
Effective Exchange Rate	74.2	74.6	76.3	76.1	75.9	74.0	71.4	70.4	67.8	68.5	68.5	68.9	69.0

* Inter bank

ϕ par yield

† banking months until August thereafter end calendar months

TABLE 8: PERCENTAGE GROWTH RATES IN SELECTED MONETARY AGGREGATES

		Weekly averaged MO	M2	£M3	PSL2/-	Real MO	Real £M3	RPI less Mortgage Element
(a)	Financial Years (12 month changes to Calendar March)(%)							
	1981-82/	2.9*		12.2	10.9	-6.6	2.8	9.1
	1982-83/	6.1	9.3	10.9	11.4	1.2	5.7	4.9
	1983-84	5.4	10.7	8.0	11.0	0.5	3.0	4.9
	1984-85	5.5	9.7	11.5	13.8	0.3	6.0	5.3
	1985-86	3.6	10.6	16.7	13.5	-0.4	12.2	4.0
(b)	Changes in 12 months to (%) (u.a except MO)							
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
	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	19.1	14.5	0.4	15.5	3.1
	June	3.2	14.1	18.6	14.7	-0.1	14.8	3.3
	July	3.2	15.7	18.2	14.4	-0.2	14.5	3.2
	August	4.1	14.7	16.4	14.0	0.8	12.7	3.3
	September	4.8	15.2	18.9	14.8	1.4	15.0	3.4
	October	4.9	15.1	18.6	15.0	1.5	14.6	3.4
	November	5.3	13.7	18.6	14.9	1.9	14.8	3.3
	December	5.4	14.1	18.0	14.3	1.8	14.0	3.5
1987	January	5.1	12.9	17.6	13.2	1.4	13.4	3.7
	February	4.1	12.6	18.9	13.1	0.4	14.7	3.7
(c)	Changes in month to (%) (u.a.) (sa figures in brackets)							
	March	1.3(0.5)	1.6(0.8)	4.4(3.5)	2.4(1.7)			
	April	0.5(-0.3)	0.9(1.0)	0.8(1.1)	0.7(0.8)			
	May	1.1(0.9)	1.0(0.8)	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(1.6)	1.1(0.9)	1.0(0.9)			
	August	0.9(1.0)	0.2(0.6)	0.3(0.3)	0.4(0.8)			
	September	-0.6(0.6)	1.7(2.1)	3.2(3.1)	1.5(1.1)			
	October	-0.5(0.0)	0.7(0.4)	0.9(0.1)	1.0(0.6)			
	November	0.9(1.0)	0.8(0.8)	1.5(1.3)	0.9(1.1)			
	December	7.6(1.4)	1.3(0.7)	0.2(0.2)	0.6(0.1)			
1987	January	-6.5(-0.6)	-0.9(0.2)	-0.8(1.1)	-0.2(0.6)			
	February	-1.5(-0.8)	0.4(0.7)	1.9(2.2)	0.9 (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.

TABLE 9

OTHER AGGREGATES

NIBMI	Monthly change (£ million)	+793	+480	-45	+2,699	-2,036	+907	+403	-1,816	+506
	Monthly % change	+2.1	+1.2	-0.1	+6.8	-4.8	+2.3	+1.0	-4.4	+1.3
		(+3.0)	(+0.5)	(-0.2)	(+8.5)	(-6.4)	(+1.0)	(+0.8)	(+1.1)	(+1.7)
	12 Monthly % change	+9.8	+10.9	+9.2	+16.4	+12.0	+10.0	+11.1	+10.8	+10.4
M1	Monthly change (£ million)	+1,643	+1,493	+253	+3,292	-286	+2,147	-872	-247	+303
	Monthly % change	+2.4	+2.2	+0.4	+4.7	-0.4	+2.9	-1.2	-0.3	+0.4
		(+2.8)	(+1.8)	(+0.4)	(+5.5)	(-1.2)	(+2.3)	(-1.4)	(+2.7)	(+0.7)
	12 Monthly % change	+21.6	+23.5	+20.9	+24.7	+23.8	+23.4	+21.1	+23.1	+21.0

NB Figures in brackets are seasonally adjusted.

TABLE 10

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets) Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month Notes (sa) and coin	MO (sa)	% change on year earlier Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)
Aug	14,701	14,587	(+117)	155	14,856	14,742	(+142)	+0.8	+1.0	+4.2	+4.2	+4.1	+4.1
Sept	14,579	14,636	(+49)	191	14,770	14,827	(+85)	+0.3	+0.6	+4.5	+4.4	+4.8	+4.8
Oct	14,561	14,694	(+58)	132	14,693	14,826	(-1)	+0.4	-0.0	+4.9	+4.8	+4.9	+4.9
Nov	14,661	14,807	(+113)	166	14,827	14,973	(+147)	+0.8	+1.0	+5.2	+5.3	+5.2	+5.3
Dec	15,706	14,938	(+131)	250	15,956	15,188	(+215)	+0.9	+1.4	+4.9	+5.1	+5.2	+5.4
1987													
Jan	14,765	14,947	(+9)	157	14,922	15,104	(-84)	+0.1	-0.5	+4.4	+5.5	+4.1	+5.1
Feb	14,530	14,812	(-135)	165	14,695	14,977	(-127)	-0.9	-0.8	+4.3	+4.3	+4.1	+4.1
Mar (4 of 4)	14,576	14,807	(-5)	232	14,808	15,039	(+62)	-0.0	+0.4	+3.2	+3.8	+3.5	+4.1

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
February 1987						
4th	14,852	(-74)	112	14,964	(-157)	-1.0
11th	14,812	(-40)	166	14,978	(+14)	+0.1
18th	14,812	(+0)	214	15,026	(+48)	+0.3
25th	14,771	(-41)	172	14,943	(-82)	-0.6
March 1987						
4th	14,806	(+35)	56	14,861	(-82)	-0.5
11th	14,829	(+23)	206	15,035	(+174)	+1.2
18th	14,817	(-12)	396	15,213	(+178)	+1.2
25th	14,777	(-40)	272	15,049	(-164)	-1.1

TABLE 11

BROAD AGGREGATES: HISTORICAL

£ million

	FEB 87	APR - FEB 1986/1987	APR - FEB 1985/1986
PSBR	-382	26	2735
Debt sales to nbps (-)	436	-1949	-2898
External & fc finance of the public sector (-)	-91	-2027	-2141
	-----	-----	-----
Over(-)/under(+)funding	-37	-3950	-2304
£ bank lending to nbps	2638	26984	17362
Other counterparts	271	-4520	-1700
	-----	-----	-----
£M3	2872	18514	13358
Building Societies:			
Retail	531	10724	13426
Wholesale	-54	261	662
Liquid Assets (-)	-782	-3639	-3520
Other	-212	242	12
	-----	-----	-----
PSL2	2355	26102	23938

TABLE 12

The Components of £M3

seasonally adjusted

		Banking Deposits			
	Notes and Coins	Retail		Wholesale	Change in £M3
		nib	ib		
% change	A	B	C	D	E
1984-85[1]	5.2	6.5	7.7	19.1	11.5
1985-86[1]	3.7	4.4	16.8	26.0	16.7
over 12 months (u.a)					
February	5.3	4.8	16.7	22.9	15.6
March	3.7	4.5	16.8	26.1	16.7
April	3.8	5.8	15.5	28.2	17.5
May	3.2	9.4	13.4	31.7	19.1
June	1.0	14.6	17.5	25.7	18.6
July	5.2	13.9	20.6	21.8	18.2
August	4.1	11.9	16.2	21.6	16.4
September	2.7	23.4	16.8	22.1	18.9
October	5.8	15.2	18.6	22.7	18.5
November	4.0	13.2	17.1	25.5	18.6
December	5.1	14.3	18.7	22.1	18.0
1987 January	3.7	14.7	16.2	22.9	17.6
February	3.1	14.4	17.4	25.4	18.9
over 6 month at annual rate (s.a.)					
September	-1.8	49.2	17.7	16.3	20.5
October	8.6	17.1	21.1	18.6	18.1
November	8.4	14.5	27.5	7.1	14.0
December	-0.8	11.8	19.8	10.6	12.4
1987 January	8.6	11.5	11.8	15.1	12.9
February	-0.1	22.4	16.1	19.5	17.2
£mn changes					
monthly average (u.a)					
1984-85[1]	42	56	238	683	1017
1985-86[1]	15	180	525	1093	1813
monthly change (s.a)					
September	-396	3702	553	614	4473
October	301	-3005	1195	1653	144
November	454	-40	632	848	1894
December	-816	1135	345	-414	251
1987 January	588	-158	316	556	1618
February	-138	801	114	2596	3373

1 March on March

TABLE 13

Components of Broader Liquidity

Seasonally adjusted

	Change in £M3	Building Societies: Retail[1]	Building Societies: Wholesale	Building Societies: Liquid Assets (inc -)	Other[2]	PSL2	PSLX £M3 plus Building Society deposits	PSL2 and National Savings
% change								
1984-85[3]	11.5	15.0				13.8		
1985-86[3]	16.7	15.3		-93.7	-0.1	13.5	14.5	13.3
Over 12 months (ua)								
1986 February	15.6	14.9		-57.4	3.4	13.7	14.5	13.5
March	16.7	15.3		-93.7	-0.1	13.5	14.5	13.2
April	17.5	15.3		-93.6	-2.9	13.6	14.9	13.2
May	19.1	15.1		-86.5	-0.7	14.5	15.7	14.0
June	18.6	14.3		-60.3	2.3	14.7	15.7	14.2
July	18.2	13.7		-45.6	3.8	14.4	15.3	14.0
August	16.4	13.5		-35.7	7.7	14.0	14.5	13.5
September	18.9	12.1		-26.8	5.5	14.8	15.6	14.3
October	18.5	13.0		-29.9	6.0	15.0	15.7	14.4
November	18.6	12.2		-25.0	6.5	14.9	15.5	14.4
December	18.0	11.7		-21.0	3.6	14.3	15.1	13.8
1987 January	17.6	11.3		-43.9	5.4	13.2	13.8	12.9
February	18.9	10.9		-54.7	2.3	13.1	13.8	12.9
Over 6 months at annual rate (sa)								
September	20.5	8.6		-30.6	16.1	14.5	14.6	13.6
October	18.1	10.2		31.5	16.7	14.0	13.9	13.1
November	14.0	9.4		16.9	18.5	12.2	11.8	11.6
December	12.4	9.1		47.4	5.5	9.7	9.8	9.3
1987 January	12.9	8.9		-65.7	2.9	9.1	9.4	8.8
February	17.2	8.4		-77.6	-5.5	10.0	10.8	9.8
monthly average								
1984-85	984	1028	42	-28	139	2221		
1985-86	1595	1200	50	-362	-1.8	2480	2496	2621
monthly change (sa)								
September	4473	-490	38	-790	-252	2979	3201	2954
October	144	2026	210	-801	-83	1496	1601	1679
November	1894	670	-19	231	315	3091	2726	3336
December	251	854	100	-646	-270	289	632	522
1987 January	1618	759	-157	-759	301	1762	1425	2106
February	3373	848	24	-470	-449	3326	3592	3577

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.

TABLE 14 RETAIL DEPOSITS

	Banks	Building Societies[1]	National Savings[2]	Total
% change	O	P	R	T
Seasonally adjusted				
1984-85[3]	7.2	15.1	11.9	12.0
1985-86[3]	11.6	15.3	7.5	12.9
Over 12 months	(ua)	(ua)	(ua)	(ua)
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	19.5	12.1	7.7	13.7
October	17.3	12.9	7.8	13.4
November	15.5	12.2	8.1	12.6
December	16.9	11.7	8.4	12.8
1987 January	15.6	11.3	9.1	12.3
February	16.2	10.9	10.1	12.4
Over 6 months at annual rate	(sa)	(sa)	(sa)	
September	29.5	8.6	9.1	
October	19.6	10.2	9.8	
November	22.4	9.4	9.9	
December	16.6	9.1	9.1	
1987 January	11.7	8.9	8.7	
February	18.6	8.4	10.0	
£mn changes				
monthly average	(ua)	(ua)	(ua)	
1984-85	294	1053	266	
1985-86	568	1170	187	
monthly change	(sa)	(sa)	(ua)	
September	4255	-490	32	
October	-1810	2026	250	
November	592	670	278	
December	1481	854	276	
1987 January	474	759	383	
February	915	848	342	

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)

		Advances	Commercial Bills	Investment[1]	Other[2]	Total (unadjusted)	Total s/a
% change							
1984-85[3]		15.5	27.7	18.0	n/a	17.5	17.5
1985-86[3]		17.9	-7.4	81.3		16.9	16.8
Over 12 months							
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[4]							
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	914	1112	351	982	3359	3530
	November	2259	363	148	492	3262	3847
	December	2581	1455	247	-267	4016	3168
1987	January	825	601	93	-158	1361	1697
	February	2577	-367	84	344	2638	2912

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.

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*		1459	1193	239	(18.0)	27	592	495	205	167
1985	Q1*	506	1030	-548	(16.5)	24	504	354	-30	-322
	Q2*	1490	1219	241	(16.5)	30	508	583	112	287
	Q3*	1666	1157	479	(17.0)	30	590	384	157	535
	Q4*	2172	1367	783	(18.0)	22	766	660	581	165
1986	Q1*	858	1271	-431	(17.5)	18	740	462	187	-531
	Q2*	1591	1645	-74	(16.6)	20	478	522	230	361
	Q3*	1784	1884	-112	(15.7)	12	56	402	1104	222
	Q4*	2252	1556	686	(16.4)	10	938	606	526	182
Forecast										
	Q1*	1346	1312	24	(16.1)	10	294	437	222	393
	Feb+	1187	740	437	(16.3)	10	472	125	292	298
	Mar	1694	1357	327	(16.3)	10	434	271	500	489
	Apr	1944	1369	565	(16.5)	10	431	345	500	668
	May	2091	1456	625	(16.7)	109	512	205	500	874

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

\+ Estimated; part data.

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Table 17: Monetary Aggregates: recent experience and forecast

per cent

	M0 (ua)	M0 (sa)	£M3 (ua)	£M3 (sa)	PSL2 (ua)	PSL2 (sa)
Monthly change to:						
1987						
January	- 6.5	- 0.6	- 0.8	1.1	- 0.2	0.6
February	- 1.5	- 0.8	1.9	2.2	0.9	1.2
March)	0.8*	0.4*	2.9	1.8	1.8	1.2
April) forecast	n/a	0.2	1.6	1.5	1.0	0.9
May)		0.5	1.2	1.4	0.7	0.9
Growth in 12 months to:						
1987						
January	4.1	5.1	17.6	17.9	13.2	12.8
February	4.1	4.1	18.9	19.5	13.1	12.9
March)	3.5*	4.1*	17.1	17.2	12.4	12.4
April) forecast	n/a	4.6	18.1	17.7	12.7	12.5
May)		4.1	15.7	15.6	11.4	11.4

* Outturn

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TABLE 18: MO FORECAST

	LEVELS £ MILLION			% 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
ACTUAL							
Oct	14,694	132	14,826	+0.4	-0.0	+4.8	+4.9
Nov	14,807	166	14,973	+0.8	+1.0	+5.3	+5.3
Dec	14,938	250	15,188	+0.9	+1.4	+5.1	+5.4
Jan	14,947	157	15,104	+0.1	-0.6	+5.5	+5.1
Feb	14,812	165	14,977	-0.9	-0.8	+4.3	+4.1
Mar	14,807	232	15,039	-0.0	+0.4	+3.8	+4.1
FORECAST							
April	14,878	192	15,070	+0.5	+0.2	+4.5*(5.1)	+4.6*(5.[illegible]
May	14,948	192	15,140	+0.5	+0.5	+4.3	+4.1

* Last month's forecast in brackets.

TABLE 19

MONEY SUPPLY AND COUNTERPARTS FORECAST

	OUTTURN	FORECAST		£ mn u/a
	1987 FEBRUARY	MAR	APR	MAY
1. CG (OA)(SURPLUS-)	135	2570	2100	1600
2. LABR	-152	1000	800	-100
3. PCBR	-365	-70	-200	-200
4. PSBR(1+2+3)	-382	3500	2700	1300
5. NET PURCHASE (-) OF DEBT BY THE NON-BANK PRIVATE SECTOR				
GILTS	468	-170	-815	-100
TREASURY BILLS etc	-35	60	0	0
NATIONAL SAVINGS	-353	-260	-190	-200
CTDs	177	100	-20	175
OPS DEBT	179	-140	-100	0
TOTAL	436	-410	-1125	-125
6. EXTERNAL FINANCE OF THE PUBLIC SECTOR (-INCREASE)	-91	560	-100	-50
	-----	-----	-----	-----
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	-37	3650	1475	1125
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	2638	3600	1150	1800
(seasonally adjusted)	(2912)	(2305)	(2090)	(2350)
9. PRIVATE NET EXTERNAL + NET NON-DEPOSIT LIABILITIES	271	-2825	-125	-950
10. £M3 (7+8+9)	2872	4425	2500	1975
% change	1.9	2.9	1.6	1.2
(% change sa)	(2.2)	(1.8)	(1.5)	(1.4)
12 month % change	18.9	17.1	18.1	15.7

TABLE 20 BROAD AGGREGATES FORECAST

£ million u/a

	OUTTURN	FORECAST		
	1987 FEBRUARY	MARCH	APRIL	MAY
PSBR	-382	3500	2700	1300
Debt sales to nbps (-)	436	-410	-1125	-125
External & foreign currency finance of public sector	-91	560	-100	-50
Over(-)/under(+) funding	-37	3650	1475	1125
Bank lending	2638	3600	1150	1800
Other Counterparts	271	-2825	-125	-950
£M3	2872	4425	2500	1975
Building Societies				
Retail	531	700	825	775
Wholesale	-54	100	100	100
Liquid Assets	-782	-325	-650	-725
Other	-212	150	175	-100
PSL2	2355	5050	2950	2025
% change	0.9	1.8	1.0	0.7
(sa)	(1.2)	(1.2)	(0.9)	(0.9)
12 month % change	13.1	12.4	12.7	11.4

TABLE 21 : 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	7.9	12.3	10.2	3.9	8.4	5.0	4.3	3.8
(2)	10.3	7.0	10.4	9.0	3.6	6.6	3.7	3.8	3.4
1986 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	11.3	6.2	11.0	10.6	4.1	7.2	4.0	4.2	3.8
1987 January	11.0	6.1	11.0	10.0	4.1	6.9	3.5	4.0	3.7
February	10.8	6.4	11.0	9.8	4.3	6.5	2.7	3.7	3.5
March 20	9.6	6.4	10.0	8.8	4.3	5.3	2.5	3.5	3.4

* 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 of redemption for 1988 Gilt is 30 March 1988.

TABLE 22: MONEY MARKET INFLUENCES

£ million
not seasonally adjusted

	ACTUAL	Forecast		
	1987 FEB	MAR	APR	MAY
A. Money market influences				
CGBR (increase +)	187	3720	2100	1800
Reserves etc (+)	187	810	10	10
Notes and coin (-)	41	300	-190	-540
National Savings (-)	-367	-260	-190	-190
CTDs (-)	178	100	-10	170
Gilts (-)	244	-170	-1020	-250
Other Exchequer items etc	-102	0	0	0
TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	368	4500	700	1000
B. Money market operations				
Commercial bills (purchase +)				
- Issue Department	403			
- Banking Department	-842			
LA bills (purchase +)				
- Issue Department	-71			
- Banking Department	10			
Treasury bills (purchase +)	-185			
Market advances	427			
Export Credit/ Shipbuilding Repos	48			
Gilt Repos	-50			
Other	0			
TOTAL MONEY MARKET OPERATIONS	-260	-4500	-700	-1000
Change in bankers balances	108			
TOTAL ASSISTANCE OUTSTANDING*	14873	10373	9673	8673
of which commercial bills	12009			

* excluding Treasury bills

TABLE 23 SECRET

CGBR,PSBR,FUNDING AND MONEY MARKET ASSISTANCE

		APR 86 - FEB 87
CGBR		6200
Gilt sales to nbps and overseas (inc-)		-4362
Other CG debt sales to nbps incl Treasury bills* (-)		-2250
CG external and fc finance other than BGS(-)		-293
Funding of the CGBR Over(-)/under(+)		**-705**
OPS net of on lending	-6174	
OPS debt sales to nbps(-)	2439	
OPS currency finance(-)	490	
Funding of OPS Over(-)/under(+)	-3245	

Funding of PSBR Over(-)/under(+)		**-3950**

	£ million u/a
	-705
Other BGS sales (-)	-1323
Other CG debt sales (-)	-450
Notes and coins (-)	6
Other incl exchequer (-)	1031
CG bank deposits (+)	-79

Total influences (surplus+,shortage-)	**-1520**

Change in bankers deposits (-)	-36
Change in level of assistance (+) #	**1556**
of which	
Issue Department bills	1059
Banking Department bills	570
Market advances	91
Repos	-164
Other	0
Level of assistance	
End March 1986	**13317**
End February 1987	**14873**

* Treasury bills usually included below the line in the Money Market Assistance Table

\# Surplus on influences leads to a fall in assistance and vice versa

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TABLE 24

EXCHANGE RATES

		Exchange Rate Index*	Real Exchange Rate	ERI/(Oil Price Adjusted ERI)	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currentcies*	US-UK Interest rate differential	Brent spot price ($/bl)
1983	(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
	(4)	68.3	107.8	0.97	1.43	2.87	79.0	5.1	14.8
1985	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	112.8	1.033	1.5	3.1	84	+3.6	13.0
	September	70.4	111.6	1.004	1.5	3.0	82.6	+4.2	14.4
	October	67.8	106.7	0.971	1.43	2.86	78.8	+5.2	14.0
	November	68.5	108.0	0.975	1.43	2.88	79.4	+5.1	14.9
	December	68.5	108.6	0.964	1.44	2.86	78.8	+5.0	15.5
	January	68.9	112.6	0.950	1.51	2.80	77.8	+4.8	18.4
	February	69.0	113.7	0.960	1.53	2.78	77.4	+4.4	17.2
	March 20	72.2		0.993	1.60	2.93	81.6	+3.3	18.1

† 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 25 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 £mn
1982	0.5	8.6	0.5	3938
1983	-1.1	9.5	-0.6	3132
1984	9.6	11.0	-1.9	1211
1985	6.8	4.2	1.8	2946
1986	2.4	5.8	-0.8	-1099
1986 Q1	-2.5	3.2	3.0	682
2	0.0	2.4	1.9	-95
3	2.9	7.5	-2.4	-931
4	9.3	10.1	-4.9	-756
Jan	-2.6	1.5	4.5	976
Feb	-2.7	2.6	3.3	187
Mar	-2.3	5.7	1.7	-487
Apr	-2.2	-1.8	2.3	231
May	-0.2	7.3	2.9	-200
Jun	2.6	1.7	1.6	-126
Jul	2.6	4.2	-1.9	-12
Aug	-0.4	9.7	-2.8	-735
Sep	6.4	8.4	-2.5	-184
Oct	7.7	5.1	-3.3	-100
Nov	11.3	10.6	-5.0	-384
Dec	9.0	15.0	-6.1	-272
1987 Jan	7.1	5.9	-2.7	73
Feb	18.1	7.7	-2.3	376

* excluding oil and erratics.

tables
25CurAcc

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TABLE 26

GOVERNMENT SHARE SALES: TIMETABLE

1987

28 April (Lists Day: 7 May)	Rolls Royce
9 June	BGC II
1 July (Lists Day: 10 July)	BAA+
18 August	BA II
23 September	Rolls Royce II
October (first half)	BP I

1988

19 April	BGC III

+ No decision on whether more than one call.

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MONTHLY MONETARY REPORT : TABLES