

MONTHLY MONETARY ASSESSMENT: AUGUST 1987

Summary Assessment

Most but not all of the main indicators continue to suggest monetary conditions looser than would be required to meet the Government's objectives for money GDP. Of the monetary aggregates, it is perhaps M0 which is giving the clearest signal for concern, though the rise in growth of broad money and credit has attracted more attention in the markets. But the effect of the rise in base rates will not yet have come through, except on the exchange rate, which has been firm despite falling oil prices.

Main Points

M0 has grown by 4.7 per cent in the 12 months to August. Though this is below the 5.4 per cent in the year to July, M0 has now been growing at an annualised rate above 6 per cent for several months, and the twelve month rate is projected to reach 5½ per cent at the end of October (paras 19-22).

M4 grew by 14.9 per cent in the 12 months to July, 1 per cent more than in the year to June. M3 showed a similar acceleration: from 19.2 per cent to 20.9 per cent in the corresponding periods (para 25).

Bank lending. Sterling lending, at £4.6 billion in July, was some £2 billion higher than the average in the first half of the year. But this owes a good deal to a switch out of foreign currency borrowing by residents - the boost to sterling borrowing being offset within the external counterparts - and to banks improving their share of the mortgage market. Bank and building society lending together in July was not much above the average of recent months (paras 31-33).

The exchange rate has risen slightly since the end of July despite falling oil prices, but against the background of a weak dollar (paras 16,35).

Activity looks set to remain well above levels expected at Budget time but this has not yet manifested itself in higher than expected RPI inflation. The twelve month rate of growth in house prices remains around 14½ per cent, little changed in August and below the March peak (paras 3-11).

MG2 Division

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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:

- GNP grew more slowly in the US in the second quarter than in Q1. It picked up in France and Germany after a bad first quarter.
- After rising sharply earlier in the year, **consumer price inflation** in G7 has remained around 3 per cent since April.
- Non-oil commodity prices are currently about 15 per cent higher (in SDR terms) than a year ago; in particular, metal and non-food agricultural prices are both around 40 per cent higher. Oil spot prices are currently 20 per cent higher (in dollar terms) than a year ago but have weakened over the last month.
- Short term interest rates in the US have risen over the last four weeks, and the discount rate in Italy rose by $\frac{1}{2}$ per cent on 3 September. Short rates in Germany and Japan are little changed.
- The dollar has weakened since the beginning of August, falling by 6 per cent against the yen (to 142 Y/\$ on 10 September) and $3\frac{1}{2}$ per cent against the deutschemark (to 1.81 DM/\$). Since the Louvre Accord the dollar has fallen by 7 per cent against the yen and by 1 per cent against the DM.

B. Activity and Inflation

2. Table 4 summarises recent indicators of **activity and inflation**. The latest employment, unemployment, and overtime figures were all very strong, confirming the buoyancy of the economy in the first half of 1987, and as far as one can tell from the figures, manufacturing production remains on a strong upward trend. Retail sales are rising fast again. The latest RPI inflation figures have been broadly as anticipated.

Recent indicators of activity

3. Provisional figures for production industry output in June show a $\frac{1}{2}$ per cent rise in manufacturing output from May, to a level almost $5\frac{1}{2}$ per cent higher than a year earlier. The August CBI survey, published on 1 September, reported continued buoyancy in manufacturers' order books and output expectations.

4. Retail sales rose 1.4 per cent in July. Though the recent profile has been quite erratic the last two months figures suggest that the underlying trend is firmly upwards. The CSO's latest estimate of consumers' expenditure in the second quarter shows it to be up $4\frac{1}{4}$ per cent on a year earlier (the previous published estimate was a $3\frac{1}{2}$ per cent rise).

5. Provisional estimates of second quarter industrial spending on stocks and fixed investments were published on 20 August. Manufacturers are estimated to have increased stocks marginally, while stocks held by retailers rose more strongly. Industrial investment rose sharply in the second quarter - up $3\frac{1}{2}$ per cent on first quarter levels - with spending by manufacturers up by over $11\frac{1}{2}$ per cent. Private housing starts in July are provisionally estimated to have risen 8 per cent from June, but remain below the high level of starts seen in the first quarter.

6. Unemployment fell by 48,000 in July. The rate of decline has increased recently, even though special measures are contributing less than they were a few months ago. Overtime working rose in June: overtime per operative is now higher than at any other time in the 1980's. Vacancies rose a further 2,000 in July, following a similar increase in June. Further evidence of buoyant activity is provided by the latest figures for manufacturing employment which show an estimated increase of 10,000 in the second quarter, the largest quarterly rise since 1978.

Inflation

7. The outturn for retail prices in August was 4.4 per cent, unchanged from July. Although this was marginally higher than anticipated, underlying RPI inflation still seems little different from projections made at Budget time and, more recently, in June.

8. The twelve month increase in the **producer output price index** (excluding food, drink, and tobacco) in July was 4.6 per cent, compared with a (revised) estimate of 4.4 per cent for June. CBI survey responses relating to manufacturers' price expectations, having edged upwards over the first half of 1987, showed little change in August.

9. **Producer input prices** (also excluding FDT) rose by 12.8 per cent in the year to July, up from 7.2 per cent in the year to June. This acceleration reflects the diminishing influence of the large fall in input prices during the first half of 1986, together with a pick up in prices during the most recent month - most notably for metals and non food agricultural products. (See section A).

10. Underlying growth in **average earnings** in June remained unchanged at $7\frac{1}{2}$ per cent, despite the high overtime figure for June. Private sector settlements concluded during the 1986-87 pay round just ended averaged about $\frac{1}{4}$ per cent lower than the outturn for the previous round. Manufacturing settlements were down 1 per cent on the same comparison, but the latest CBI settlement data points to a small upward drift in manufacturing pay settlements since the end of 1986.

11. The annual rate of **house price inflation** (measured by the Halifax index) was 14.5 per cent in August, little changed from July and compared to a peak of 15.2 per cent in March. Figures for the DoE index show a rise of 15 per cent at completion stage and $13\frac{1}{2}$ per cent at approval in July, compared to $13\frac{1}{4}$ and 12 per cent respectively in June.

Projections for Money GDP

12. June forecast projections for **money GDP** in 1987-88 show an overshoot of over 1 per cent relative to the Budget forecast for $7\frac{1}{2}$ per cent growth. Real activity has been stronger than expected. The GDP deflator is also likely to be higher than in the Budget forecast, but mainly because of higher projected oil prices. It is too early to assess whether this implied improvement in supply performance can be expected to continue through 1987-88. Although demand is clearly buoyant there are, as yet, no convincing signs

of overheating: recent RPI inflation outturns have been broadly as anticipated. UK net trade performance proved better than expected in the first quarter of 1987, but worse in the second quarter.

C. Public Sector Finances and the Fiscal Stance

13. Table 5 gives the main indicators of the fiscal stance. The PSBR for 1987 Q2 has been revised up by £0.4 billion, largely reflecting a higher PCBR.

14. The PSBR in July was a surplus of £0.4 billion, compared with last month's forecast of zero borrowing. Excluding privatisation proceeds the PSBR in the first four months of 1987-88 was £3.7 billion, about £½ billion above the same period in 1986-87, but £1¼ billion below the Budget profile. Most of the difference from profile is accounted for by central government own account borrowing; table 6 analyses this difference. The June forecast was for a PSBR in 1987-88 of £1 billion, nearly £3 billion below the Budget forecast. The latest outturns and revisions do not significantly alter the prospects for the year as a whole.

15. This assessment implies no change since last month in the interpretation of the fiscal stance; the June forecast of the PSBR for the year as a whole points to a tighter fiscal stance than envisaged at Budget time even after taking account of the automatic tightening associated with higher output and higher oil prices.

D. Exchange Rates and External Accounts

16. The sterling index has firmed a little as the dollar has declined over the past month, following a period in late July when poor trade figures, declining short term interest rates and rising rates abroad were tending to depress the pound despite the strength of world oil prices. The pound remained nervous in the first part of August and appreciable support was given on 3 days before the June trade figures were announced. But the sharp rise in UK interest rates on 6 August, together with the announcement of better than anticipated trade figures for June on 11 August, helped sterling to recover to around 72½ despite oil prices falling back and a continuing slight rise in overseas interest rates. The interest

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rate differential now stands at about $3\frac{1}{2}$ per cent against the world basket and $2\frac{1}{2}$ per cent against the dollar, compared to 3 per cent and $2\frac{1}{4}$ per cent at the end of July.

17. The fall in oil prices of over \$2 since the end of July reflects recent OPEC overproduction, and has occurred despite increased tension in the Gulf, which might otherwise be expected to push up oil prices and hence strengthen sterling. As a result, the oil-adjusted reference ratio has risen by about $1\frac{1}{2}$ per cent since the end of July. In August spot and forward market intervention totalled minus \$0.5 billion - most of this occurring on a few days before the June trade figures - which has been partly unwound (by \$0.2 billion) in September so far. The cumulative build-up of reserves this year still stands at about \$10 billion.

18. The July trade figures, published on 1 September, showed a visible deficit of £910 million and a projected current account deficit of £310 million, rather worse than markets expected. Although smaller than the large May deficit the July deficit was £170 million larger than in June, reflecting a sharp rise in the volume of non oil imports which more than offset a recovery in export volumes. The current account is now estimated to have been in deficit by £400 million in the first seven months of 1987.

E. Domestic Monetary and Financial Market Developments

(see Tables 10 to 26)

Narrow Money

19. M0 has begun to exhibit disturbing signs. Since June, annualised three month growth has been consistently around 6-8 per cent. Although the 12 month growth rate has been significantly lower, it is above what was expected at Budget time. Both higher activity and lower than projected interest rates have contributed to this faster growth. After the interest rate rises in August, these are now closer to what was assumed in the Budget projections. But activity looks set to remain more buoyant. Thus as Chart 7 shows, the 12 month growth rate is now projected to start rising

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up to October, compared to some decline forecast at Budget time. Although the annual growth rate is projected to fall back until December, thereafter it is projected to rise to the top of its target range during Q1 1988.

20. M0 (seasonally adjusted) rose by 0.3 per cent in August while the annual growth rate fell back to 4.7 per cent, from 5.4 per cent in July. The lower annual growth rate of M0 in August mainly reflects erratic movements in bankers' balances - both between July and August 1987 and between the corresponding months a year ago. The annual growth rate of notes and coin was, at 4.6 per cent, little changed in August and has been consistently around $4\frac{1}{2}$ per cent since April. But this mainly reflects the brisk growth of notes and coin during 1986 - annualised growth of notes and coin in the three months to August rose to $7\frac{1}{2}$ per cent, from 7 per cent in the three months to July.

21. The upward trend of three month annualised notes and coin growth has continued in the first two weeks of September, with the annualised rate rising to $8\frac{1}{2}$ per cent. The forecast assumes that annualised three month growth continues at this rate during the rest of September and October, reflecting both the expected buoyancy of consumers' expenditure and the expectation that the August base rate increase will not have any immediate dampening effect on M0 growth. Thereafter, annualised M0 growth is expected to fall back steadily - partly reflecting the influence of the base rate increase - to around $3\frac{1}{2}$ per cent by the end of the financial year.

22. In terms of twelve month growth rates, M0 growth is forecast to rise to about $5\frac{1}{2}$ per cent in October (the figure being distorted upwards by abnormally low bankers' balances in October 1986). Thereafter, the annual growth rate is expected to fall back to about 4 per cent in December - reflecting the brisk growth of M0 towards the end of 1986 - before rising again to around 6 per cent at the end of the financial year as the lower levels of M0 in Q1 1987 drop out of the twelve month comparisons. The effect of the base rate increase in August is assumed to reduce the twelve month growth

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rate by $\frac{1}{3}$ percentage point in December, rising to about $\frac{2}{3}$ percentage point by March 1988.

23. NIB M1 increased by £0.1 billion in July and its annual growth rate fell back to 12.5 per cent, from 13.5 per cent in June, as the effects of recent share issues may have begun to unwind. The underlying annual growth rate of NIB M1 seems to have risen during 1987-88.

Broad Money

24. Broad money continued to grow rapidly in July. Twelve month growth rates of all the broad aggregates rose. The very high sterling bank lending figure attracted much comment but needs to be considered with caution. Total bank and building society lending was not out of the ordinary and its twelve month growth rate is marginally below the average of the last few months. On the other hand, part of the explanation for the high sterling lending is that residents switched their borrowing from foreign currency to sterling. This suggests that residents are not wholly confident about the prospects for sterling though the absence of major pressure on the exchange rate implies that non-residents - who switched into sterling over the month - remain relatively optimistic.

25. M4 rose by £5.3 billion (1.9 per cent) in July and its annual rate increased to 15 per cent, from 14 per cent in June. M3 rose by £4.2 billion (2.5 per cent) and its annual rate increased to 21 per cent, from $19\frac{1}{4}$ per cent in June. The differential between the annual growth of M3 and M4 widened in July, to 6 percentage points. This may in part reflect the current buoyancy of equity issues by UK companies, the proceeds being held temporarily as bank deposits prior to deployment, which boosts M3 growth relative to M4 since M3 is a narrower aggregate. Individuals may also have partly financed their equity purchases (in particular of BAA) by running down their building society deposits. (See paras 28 and 42).

26. The forecast shows M4 annual growth rising to $15\frac{1}{2}$ per cent in August and M3 growth rising to 22 per cent, as lending (especially by banks) is expected to remain buoyant, although the twelve month

growth rates are distorted upwards by low growth in August 1986. The differential between the annual growth of M3 and M4 is expected to widen further, to about 6½ percentage points, as building societies renew the build-up of their bank deposits. (See annex for further details of the forecast.)

27. With respect to the **M4 components**, holdings of M3 by the private sector (excluding building societies) rose by £4.0 billion (3 per cent) and private sector retail deposits with building societies rose by £1.1 billion (1 per cent). Within M3 holdings, NIB M1 increased by £0.1 billion, IB retail deposits increased by £0.4 billion and wholesale deposits increased by over £3.6 billion. Wholesale deposits grew by 24 per cent in the twelve months to July, reflecting both the current liquidity of UK companies and OFIs, and a competitive rate of return.

28. Building society retail inflows in July may have been reduced by the BAA privatisation although they were above the monthly average for 1987 so far. Hence the overall picture remains one of strong underlying inflows, reflecting the considerable competitive advantage enjoyed by societies in the retail market over banks and national savings. Building society wholesale funding is estimated at nearly £0.5 billion in July, one of the highest figures of the year, of which the private sector contributed an unusually high £0.3 billion to M4.

29. Societies increased their bank deposits by £250 million in July, following a large (£750 million) run down in bank deposits in June. Societies also bought £179 million of gilts in July, having bought £410 million in June. Some societies have indicated that they have now fully realigned their portfolios following the requirements on capital adequacy introduced earlier this year. Hence their behaviour in the gilts market in future is more likely to be governed by the growth of their portfolios and expected returns relative to competing assets.

30. Bank deposits of the private sector (excluding building societies) increased by a little over £7½ billion (5½ per cent) in the second quarter. After allowing for distortions arising

from oversubscribed share sales at end June, ICC's accounted for about £3 billion of this (an increase of 8 per cent); the personal sector £3½ billion (5 per cent); and OFI's, excluding building societies, about £1 billion (3 per cent). Bank deposits of ICC's are likely to have been boosted by the proceeds of equity issues (see para 25). In recent years OFI's holdings of bank deposits have been growing more rapidly than those of other sectors - by an average of 26 per cent per annum since end 1984 - probably reflecting the rapid expansion of their total portfolios. (Comparable figures for ICC's and the personal sector are 21 and 12 per cent respectively.) Personal holdings of building society deposits have been growing in line with their bank deposits, rising by an average of 12½ per cent per annum since end 1984.

Credit

31. Bank and building society lending rose by 1.9 per cent in July, compared with an average of 1.5 per cent over the previous twelve months. The annual growth rate of lending to the private sector in July was at 19½ per cent, little changed compared to June.

32. Bank lending grew by 2.5 per cent (2.6 per cent seasonally adjusted) in July following a 2.6 per cent increase in June and compared to an average of 1.6 per cent over the previous twelve months. Within bank lending, advances increased by £2.8 billion and lending via commercial bills increased by £1.7 billion. Other lending increased by £0.1 billion. Returns from the London and Scottish retail banks show that advances for house purchase were £0.8 billion, below the very high June figure but still well above the average of the previous six months. This may reflect seasonal factors as well as the widened differential between building society and bank lending rates in recent months. The annual growth rate rose to 22¼ per cent in July, from 21½ per cent in June. Compared to the monthly average of about £2½ billion in the first half of 1987, July's increase was some £2.1 billion higher. Annex 1 considers possible explanations for the current surge in bank lending. The main factors are described below.

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(i) industrial company borrowing rose substantially. The available figures suggest an increase of about £1½-£2 billion in July against a monthly average of only £0.3 billion in the second quarter;

(ii) UK residents appear to have switched out of foreign currency borrowing into sterling borrowing. Foreign currency borrowing fell by some £2¼ billion in July after rising by £12 billion in the first half of the year. Much of this will have been converted to sterling and may account for some of the high figure for companies noted in (i) above;

(iii) the banks continued to increase their share of the mortgage market though the absolute amount advanced by the CLSB banks at £0.8 billion was below the £1.0 billion advanced in June.

(iv) there is weak evidence of round-tripping between bills and deposits on a few days. But the figures suggest that neither this nor Stock Exchange problems affected the bank lending figures to a significant extent.

33. Building society mortgage lending continued to be relatively subdued rising by 1.5 per cent in July and by 17.3 per cent over the past twelve months. Despite cuts in mortgage rates for new borrowers by the Halifax and the Abbey National, societies as a whole remained uncompetitive with respect to banks and miscellaneous financial institutions (MFI's).

Other Broad Money Counterparts

34. A surplus PSBR of £0.4 billion was **overfunded** by £0.5 billion, reflecting public sector debt repayments of £0.7 billion to the non-bank private sector and sales of £1.1 billion overseas, together with a £0.3 billion increase in the reserves. (So far in 1987-88, with the £4.8 billion increase in reserves, there has been cumulative underfunding of £1.9 billion.) Since the building societies made small purchases of gilts in July the **public sector** contribution to M4 is slightly less contractionary, at minus

£0.4 billion. Bank and building society externals were contractionary by £1.6 billion and £NNDLs were expansionary by £1.4 billion.

35. Public and private sector external transactions were contractionary by £2.4 billion in July, although the underlying externals were somewhat less contractionary (minus £1.4 billion) due to a bank switching its provision against its loans to Brazil from sterling to foreign currency, causing an offsetting reduction in £NNDL's. The negative externals are the result of the private sector reducing its foreign currency borrowing - which may reflect an unwinding of speculative positions built up over the previous six months (see para 32 ii) - the other side of the transactions being a take-up of gilts by non-residents and an increase in non-residents' sterling bank deposits. This suggests an asymmetry between domestic and overseas residents in their expected returns on sterling assets, with external outflows of the domestic private sector being matched by inflows from overseas residents (in contrast to previous months when the counterparty to external inflows was the EEA).

M5

36. M5 grew by £5.6 billion (1.9 per cent) in July and at an annual rate of 14½ per cent, compared to 13½ per cent in June. Among the M5 components, aside from the £5.3 billion increase in M4, there was a £0.3 billion increase in private sector holdings of bank bills and a modest rise in holdings of Treasury bills and national savings instruments, offset by a fall in CTDs.

Money Markets and Interest Rates

37. Money market rates realigned after the one percentage point rise in base rates on 6 August, as the one month interbank rate increased by over 100 basis points to 9.8 per cent whereas the twelve month rate increased by under 40 basis points to 10.3 per cent, leaving the yield curve much flatter than before. Rates increased again after the release of the money figures and currently range from 9.7 per cent at one month to 10.7 per cent at twelve months, so that the markets are if anything expecting the next move in base rates to be up rather than down.

38. The stock of money market assistance rose by £1.9 billion in July to £7.0 billion, the shortage reflecting both the overfunding and a £0.7 billion increase in notes and coin. (See Table 26). The Bank of England's purchase of bills will have put downward pressure on bill rates in July, making bill finance relatively attractive to UK corporates. (See para 3.) The stock of assistance fell by £0.9 billion, in August.

39. Gilts began the month with the index at $87\frac{1}{2}$, and with 5, 10, and 20 year par yields at 9.6, 9.9 and 9.7 per cent respectively. The market suffered two falls of nearly 3 points at the longer end - following the 6 August base rate increase and the 20 August provisional money figures. The gilts index now stands at around $85\frac{1}{2}$ (a fall of some $6\frac{1}{2}$ per cent since mid July), and par yields range from 10.3 at 5 years to 10.1 at 20. Breakeven inflation rates of Treasury 1990 and 2006 indexed gilts against comparison stocks are currently 3.5 per cent and 6.0 per cent respectively, compared to 3.5 per cent and 5.5 per cent at the end of July. The equity dividend yield (based on the all-share index) fell to 2.9 per cent in mid-July but has since risen slightly, to 3.1 per cent.

40. The Halifax and Abbey National have reversed their mortgage rate cuts for new borrowers and joined the other societies with mortgage rates of 11.25 per cent. Share rates, which were not lowered by any societies, remain unchanged. Since the banks' deposit rates (and mortgage rates in the case of Natwest and Lloyds) have gone up in line with the rise in base rates, building societies have now lost their exceptional competitiveness on the deposit side, with the spread of top tier rates above those of the banks ranging from about 1.7 per cent net to a more normal 1 per cent. On the other hand, building societies as a whole will have regained competitiveness in the mortgage market, since with an increase in the cost of wholesale funding, the MFI's, like some of the banks, are raising interest rates.

Capital Markets and Corporate Finance

(see tables 20-21)

41. Equity prices (measured by the FT All Share Index) fell back after the base rate rise and remained weak thereafter, especially on the release of the money figures. Prices may also have been

affected by the volume of new issues and announcements during July and August. However, there has been some recovery in equities following a reassessment of the money figures and hence a less pessimistic outlook for interest rates. The index is currently 7 per cent below its mid-July record level.

42. UK commercial companies and building societies raised a total of £2.0 billion net sterling finance in July from the domestic capital and eurosterling markets, compared to a monthly average of £1.3 billion in the second quarter. Most new issues in July were on the stock market (£1.7 billion) as the sharp rise in share prices between May and July has made equity dividend yields increasingly attractive to corporate borrowers. This has continued in August, with net equity issues of £2.0 billion by UK companies. Announcements of future equity issues were over £1½ billion in August, well below the £2½ billion announced both in June and July but still slightly above the monthly average during 1987 so far. The volume of recent issues and announcements may have contributed to the current weakness in equity prices. In contrast, higher interest rates since the second half of June has depressed announcements of new issues in the fixed rate euromarkets, which have been very light between June and August. Building societies made no announcements in the euromarkets in August and have been largely absent from the market this year, having been very active in 1986.

43. The stock of sterling commercial paper (SCP) outstanding rose by £50 million in July, to £1¼ billion (comparable figures for net issues by UK commercial companies are £70 million and £1.1 billion respectively). Monetary sector holdings of SCP rose by £70 million to £½ billion. Although gross and net issues of SCP in July are down on the previous month, this may reflect the relative attractiveness of bill finance during July.

44. Net sales of unit trusts were a record £1.1 billion in July, compared to an average of £0.5 billion per month in the first half of 1987, which is consistent with the buoyancy of domestic equity prices at least in the first half of the month and hence the flood of corporate announcements of new equity issues during July.

45. The £3.6 billion raised by UK concerns in the second quarter compares with an increase in their bank borrowing of £0.8 billion, whereas comparable figures for the quarterly average of 1984 were £0.4 billion and £2.0 billion respectively. Table 20 shows that the trend towards securitisation since 1984 has been mainly via the UK equity and eurosterling markets, although the SCP market is also now making a significant contribution to corporate finance.

MG2 Division

11 September 1987

Monetary developments since last month's report

Latest outturns available at time of:

	Feb Report	July Report	August Report
Monetary aggregates (12 month % growth)	(Jan)	(June)	(July)
M0 (sa)	5.1	4.2	5.4(4.7) ⁺
M3	17.6	19.2	20.9
M4	13.9	13.9	14.9
M5	13.3	13.6	14.6
Bank lending	22.5	21.5	22.2
Bank & building society lending	20.9	19.5	19.6
Interest rates (%)	27 Feb	28 July	10 Sept
3 month interbank	10.8	9.3	10.2
20 year gilt-edged (par yield)	9.7	9.5	10.1
Yield gap	1.1	-0.2	0.1
3 month overseas basket	6.3	6.4	6.8
3 month interbank/euro dollar differential	4.4	2.4	2.7
Real 3 month interbank	6.7	5.7	6.1
Equity dividend yield (all-share)	3.4	3.0	3.1
IG yields (1996) assuming 5% inflation	3.6	3.7	3.9
Exchange rate			
ERI	69.9	72.6	72.9
Oil adjusted reference index*	71.3	73.8	72.9
ERI/reference rate ratio	98.0	98.4	100.0
Asset prices			
FT-A Index (% pa)	30.8	55.9	41.7
FT-A Level (July peak: 1239)	985	1199	1152
Halifax house index (% pa)**	13.6	14.3	14.3(14.5) ⁺

+ August 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 January, June and July.

BANK LENDING

Bank lending in sterling increased by £4.6 billion (2.5 per cent) in July, having risen by £4.7 billion in June. Over the latest three months, sterling bank lending increased at an annualised rate of 28 per cent. Below we examine the possible reasons.

2. There are a number of possible explanations for the current surge in sterling bank lending:

(i) shifts in market share of total lending in favour of banks against other lenders;

(ii) switches in currency composition of borrowing by residents - out of foreign currency into sterling;

(iii) round-tripping - companies borrowing at rates below interbank rates and re-depositing the proceeds profitably - and arbitrage between domestic bills and US commercial paper;

(iv) heavy corporate demand for capital expenditure purposes;

(v) increased bank lending to security dealers, associated with the Stock Exchange settlement problem.

These are considered in turn.

Shifts in Banks' Market Share

3. The rapid growth of bank lending partially reflects the greater competitiveness of banks in the mortgage lending market (see para 30 of main report). Banks' mortgage lending increased by a record £0.8 billion per month in the second quarter, while building societies' new lending fell to £1.2 billion per month - the third successive decline (all figures seasonally adjusted). The banks' share of the mortgage lending market has risen to 36 per cent in Q2, from 19 per cent in Q2 1986, while the building societies' share has fallen to 51 per cent, from 77 per cent a year ago.

4. The shift in market share seems to have continued in July. CLSB banks' lending for house purchase was again strong (£0.8 billion, compared to an average of £0.7 billion per month in Q2) while building society lending remained subdued (£1.3 billion). The annual growth rate of total mortgage lending has been about 20 per cent throughout the past year, however, which does not indicate a recent surge in total personal sector borrowing for house purchase. Moreover, lending to persons for consumption seems to have been modest in July: the CLSB returns show lending for consumption of £0.2 billion, although the average monthly figure in the second quarter was, at £0.5 billion, relatively high.

Shifts in Currency Composition of Lending

5. The sterling lending figures also seem to have been affected by the private sector's switching between sterling and foreign currency borrowing. Prior to the Election, the private sector was building up its foreign currency borrowing, which increased by £12 billion in the first half of 1987 (see table 20). Much of this may have been in connection with planned foreign acquisitions by UK corporates, which would result in an increase in their physical foreign currency assets and a corresponding increase in financial foreign money liabilities without any major implications for monetary conditions. But some of the high foreign currency borrowing may have been speculative, in the anticipation of sterling appreciation after the Election, which would reduce the sterling value of foreign currency liabilities. In July, foreign currency borrowing fell by £2½ billion, suggesting weakening of domestic sentiment on sterling matched by a switch into sterling borrowing. The overseas sector, by contrast, appeared willing to increase its net sterling assets in July, increasing gilts holdings by £1.2 billion and net sterling bank deposits by £0.3 billion. The Exchange Equalisation Account sold sterling over the month but only in relatively modest amounts - less than £0.7 billion.

Round Tripping

6. The Bank of England was buying bills throughout the whole of July to meet market shortages, the average daily purchase being £500 million. This will have put downward pressure on bill rates, perhaps at times pushing them below deposit rates. While we have no direct evidence of round tripping induced by this, chart A1 shows that a window may have opened up between three month bill and interbank rates, after allowing for dealing costs, at sometime during the mornings of 1, 9, 16 and 17 July (however, at the times for which we have data, there were no occasions when round-tripping was profitable). Moreover, wholesale bank deposits rose by over £3 billion in July, compared to an average of less than £1 billion in the previous twelve months, and this would also be consistent with the existence of round tripping activity (although part of the rise in wholesale deposits is probably due to high capital issues by ICCs). Anecdotal evidence from a merchant bank further suggests there were opportunities for bill arbitrage throughout the first week of July though this seems to be an isolated source of such anecdotes.

7. It is also possible that the downward pressure on bill rates induced companies to switch from borrowing via the US commercial paper (CP) market to borrowing via bills, which would be consistent with the reduction in foreign currency borrowing in July (see above). Chart A3 suggests that there may have been arbitrage opportunities in favour of domestic bill finance relative to US CP (with forward cover) for one month maturities in the first half of July.

Corporate Borrowing

8. Provisional estimates of manufacturing investment show an increase of £0.2 billion (11½ per cent) in the second quarter, while the level of stocks held by manufacturers, wholesalers and retailers increased by over £0.3 billion (both figures seasonally adjusted). There is no data yet available for July but business confidence appears to have remained strong and it seems reasonable that, with the clarification of political prospects after the General

Election, companies will have proceeded with capital expenditure programmes waiting on the outcome. Certainly, industrial and commercial companies' appetite for non-bank finance was substantial; they raised £2.1 billion net in domestic capital markets in July (mainly from equity issues), compared with a monthly average of £1.3 billion in the second quarter.

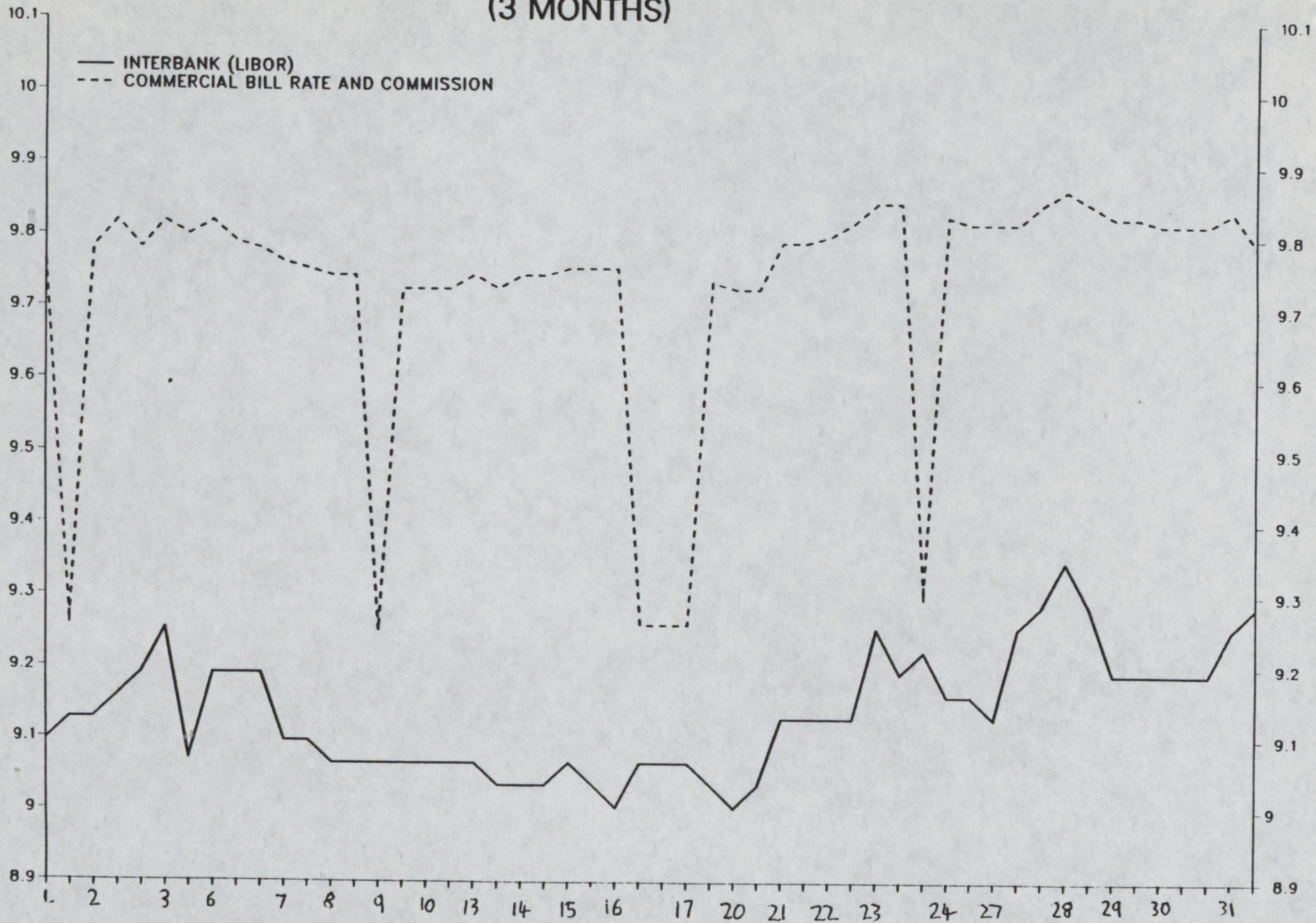
9. Banks lent nearly £1.7 billion to companies in July by way of commercial bills and it seems likely that little if any of this was used to repay advances. A sectoral breakdown of total bank lending is not available for July but the returns for the CLSB banks show virtually no change in advances to companies. So if total bank lending to companies was of the order of £1½-2 billion, this will have represented a sharp increase from the monthly average of only £0.3 billion in the second quarter.

Stock Exchange Settlement Problems

10. Press reports have suggested that bank lending was boosted in both June and July by settlement problems on the Stock Exchange (SE). Since June, the settlement backlog has increased by up to £1 billion, to about £3½ billion, and the Bank of England now requires brokers to have higher collateral against loans of stock. Both factors might be expected to increase bank lending, but there is no evidence of this in the latest banking statistics. For example, while lending to OFI's (excluding building societies) increased by over £3 billion in the second quarter, their bank deposits rose by only £0.2 billion: if SE firms had been borrowing to provide collateral against stock loans then deposits would be expected to have risen correspondingly. In addition, there was a small fall in lending by the clearing banks to securities dealers in June and a larger (£225 million) reduction in July. Nor have the Bank of England's normal statistical enquiries with the banks produced any evidence of large loans to SE firms.

Conclusion

11. There is no shortage of explanations for the high bank lending figure in July. The two most important factors quantitatively seem to have been (i) the switch out of foreign currency borrowing into sterling borrowing by residents and (ii) the surge in corporate borrowing from banks, despite their continued heavy demands on the capital markets as well. In addition, banks continued to increase their share of mortgage lending at the expense of the building societies. Conditions may also have existed to allow round-tripping but the fact that this has not been widely reported suggests that in fact it has not been on a significant scale. Finally, whilst the Stock Exchange settlement problems might have been expected to add to bank lending, the figures themselves do not lend much support to this thesis.

COMMERCIAL BILL AND INTERBANK RATES
(3 MONTHS)

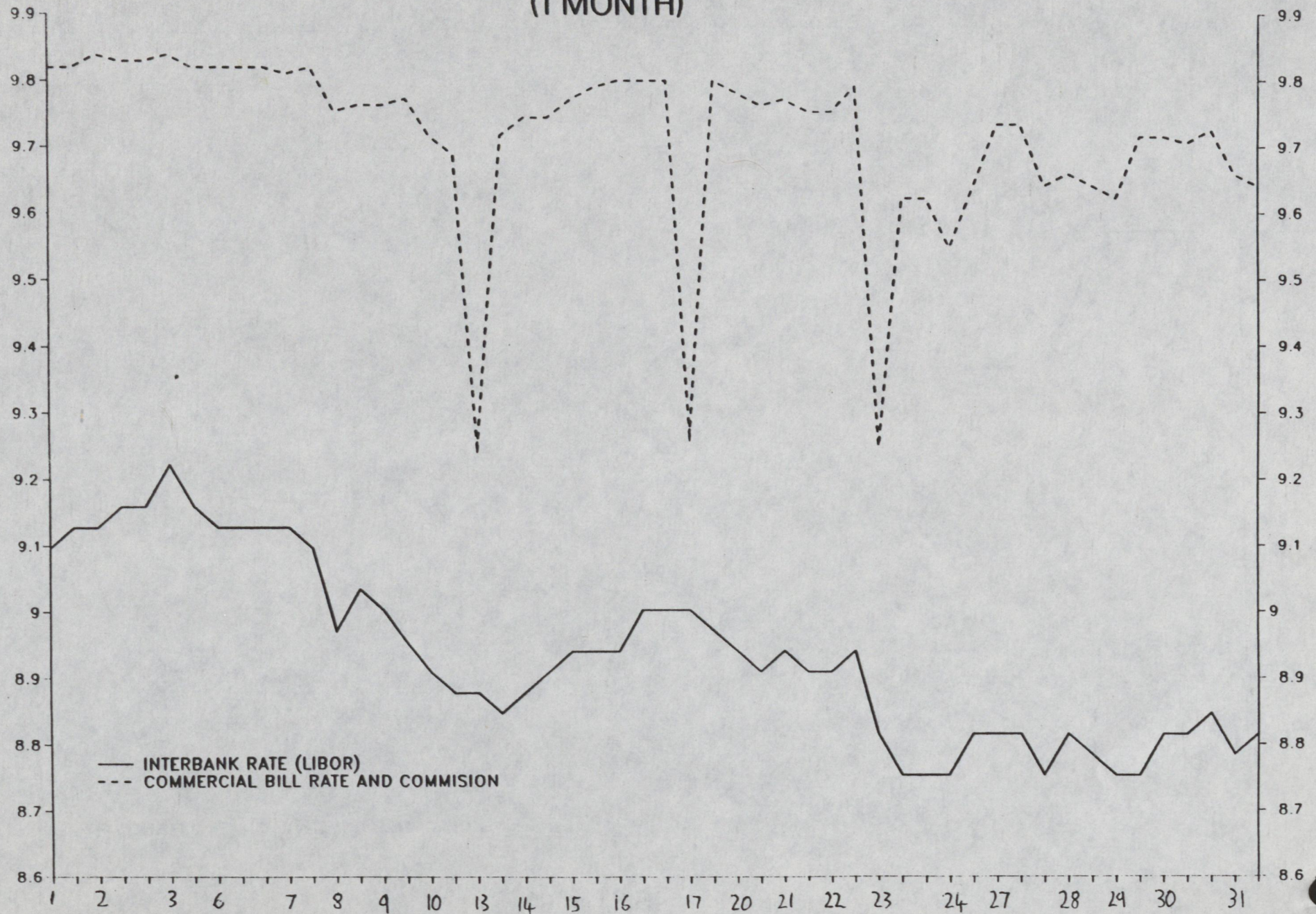
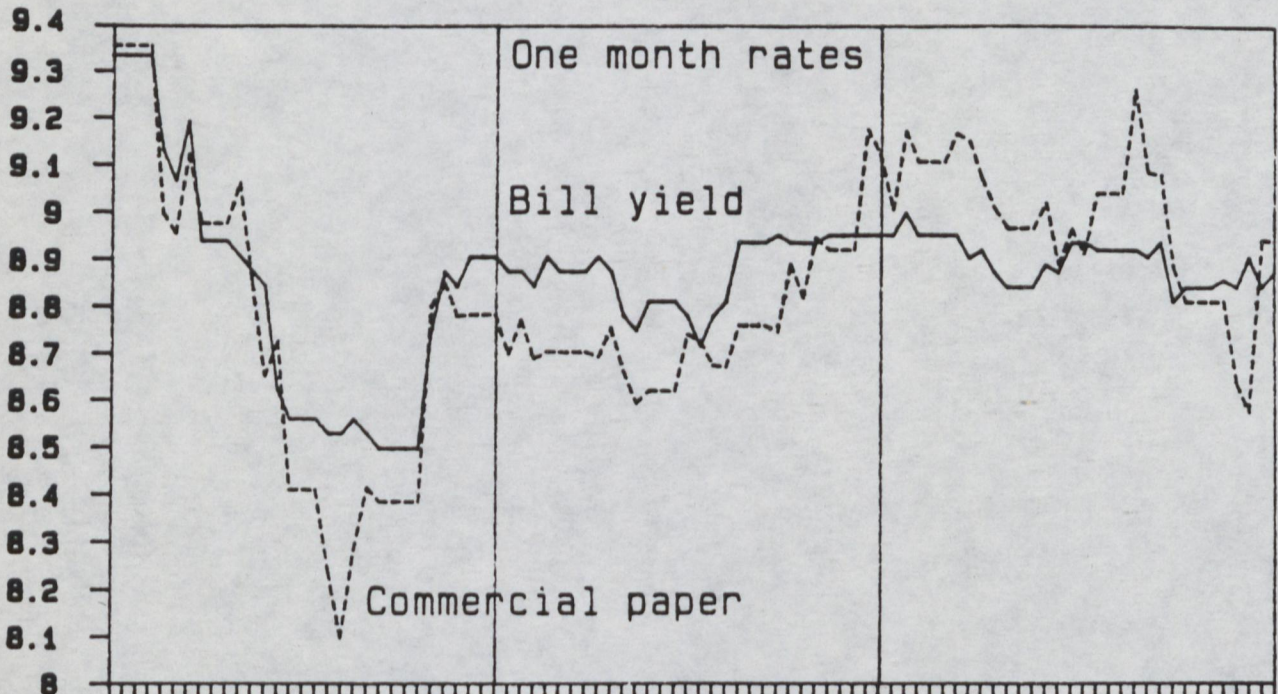
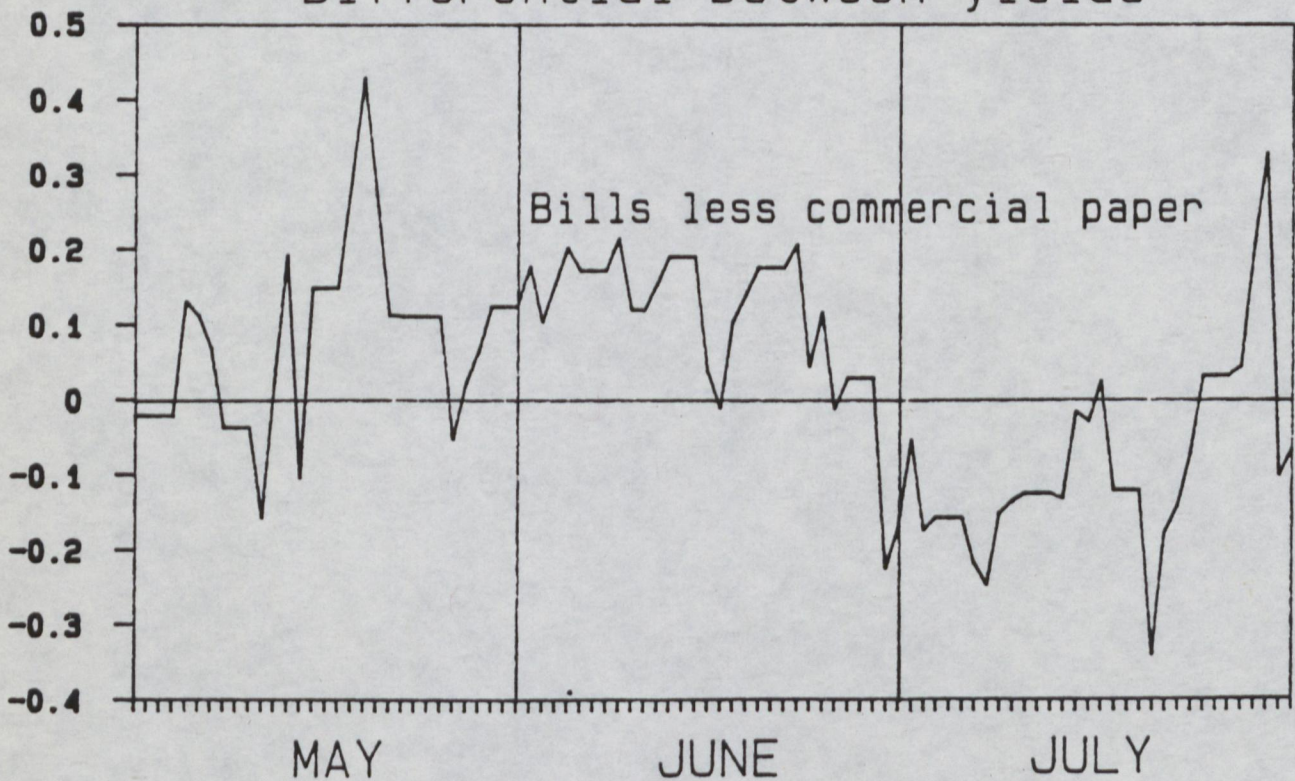
COMMERCIAL BILL AND INTERBANK RATES
(1 MONTH)

CHART A3

Yield on bank bills and US commercial paper
(adjusted for forward rates)



MAY JUNE JULY
Differential between yields



BROAD MONEY FORECAST

1A. The forecast shows broad money growing in August at close to the average monthly rate during the past year - about $1\frac{1}{2}$ per cent a month for M4 and about $1\frac{1}{2}$ per cent for M3 - and growing more slowly in September and October. The annual rates are, however, affected by the pattern of growth a year ago, namely exceptionally low growth in August 1986 and very high growth in September 1986 associated with the TSB share sale. This causes the forecast twelve month growth rates to rise in August, with M4, at $15\frac{1}{2}\%$, over 15% for the first time since November 1986 and M3 growth, at 22% , more than one per cent higher than July's high figure. The annual rates fall back in September and October to about $14\frac{1}{2}$ per cent for M4 and about $19\frac{1}{2}$ per cent for M3, a little lower than July's rates but still some $\frac{1}{4}$ per cent above the rates in the first six months of 1987.

2A. Special factors affecting the forecast are set out in Table 1. They have little effect on broad money growth in August and October, and are contractionary in September by £600 million, largely due to the Midland Bank rights issue. In October, proceeds of £0.7 billion from the BP sale contribute to an overfund of £1.8 billion, but the sale also has offsetting expansionary effects of £0.2 billion on lending and £0.2 billion on the externals. Midland Bank's sale of subsidiaries to an Australian bank is contractionary by £350 million via NNDL's in October.

3A. The lending forecast assumes that underlying seasonally adjusted bank lending grows by 1.6 per cent (about £3 billion), and building society lending by 1.0 per cent (about $\frac{1}{2}$ billion), per month. These underlying flows incorporate the effect of increased bank mortgage lending at the expense of building societies. Special factors superimposed on the underlying forecast as set out in Table 2: ^{they} increase lending by 100 in August, have no net effect in September and increase bank lending by 500 (and total lending by 300) in October. Lending is boosted by 100 in August due to exceptionally large capital issues by ICCs and also by 200 by a known bridging transaction which will unwind in September. Privatisations increase bank lending by 200 in September (Rolls Royce and TSB Second calls) and by 200 in October (BP).

4A. With the building societies' loss of competitiveness in the retail deposit market (albeit from an exceptionally strong base) following the rise in base rates, societies' underlying retail inflows are estimated to fall over the next three months by approximately £50m per month. The monthly profile is affected by privatisations with increased inflows in August (BAA return funds) and decreased inflows in September (Rolls Royce and TSB), and October (BP). With mortgage lending increasing due to improved competitiveness, societies are forecast to increase wholesale funding and, where this is impracticable, to run down liquidity ratios. Despite a heavy tax call in September, balance sheet expansion means that total liquid assets in the form of bank deposits and gilts are forecast to rise. The forecast does not make any allowance for possible tax rebates (up to £500m) related to the societies' dispute with the inland revenue.

5A. The stock of money market assistance is forecast to fall by about £1 billion in each of the next two months, to about £6 billion in August and £5 billion in September, before rising again in October to about the present level of £7 billion. The main features of the forecast (shown in Table 24) are the return in August of £750 million oversubscribed for BAA shares (reducing the need for assistance); in September fairly low net gilt sales of £375 million, in spite of the auction, because of buying in of £625 million; and in October a large market surplus mainly due to overfunding. It is assumed that the weekly Treasury bill tender, which has been 400 since the end of May, will fall to 300 in August, 200 in September, and 100 in October: this will reduce the need for commercial bill purchases by about £350 million per month.

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ANNEX TABLE 1

Broad Money Forecasts

£ million not seasonally adjusted

	AUGUST		SEPTEMBER		OCTOBER	
	M4	M3	M4	M3	M4	M3
(1) Underlying Increase*	2550	2300	2975	2075	2325	2175
Special Factors:						
Privatisations	- 50	- 50	-200	-200	200	200
Bank/Building Society Lending	150	150	200	200	100	100
Midland issue and sale of banks	-	-	-600	-600	-350	-350
Intervention	-200	-200	-	-	-	-
(ii) Total	-100	-100	-600	-600	- 50	- 50
(iii) Projected Increase	2450	2200	2375	1475	2275	2125
% Change of Previous month	0.9	1.3	0.8	0.8	0.8	1.2
% Change on previous year	15.5	22.1	14.6	19.4	14.3	19.8
<u>Memo</u>						
Underlying % Change on previous year	15.5	20.1	14.9	17.8	14.6	18.3
% Change expected at Budget time	14.2	17.3	14.1	15.3	14.4	16.0

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

* Based on the following assumptions:

(a) Underlying bank lending rises by £3.0 billion per month and building society lending rises by £1.2 billion per month, both seasonally adjusted.

(b) The public sector contribution to M4 and M3 is as follows:

	August	September	October
M4	750	600	-1675
M3	700	500	-1775

ANNEX TABLE 2

Lending Forecasts

£ million

	AUGUST			SEPTEMBER			OCTOBER		
	Bank Lending	Building Society Lending	Lending Counter-Part To M4*	Bank Lending	Building Society Lending	Lending Counter-Part To M4*	Bank Lending	Building Society Lending	Lending Counter-Part To M4*
(i) Underlying Increase	2900	1200	3950	2950	1200	4000	3000	1200	4100
Special Factors:									
PSBR offset	-50	-	-50	-	-	-	100	-	100
Bill leak	-100	-	-100	-100	-	-100	200	-	200
Privatisations	-50	-	-50	200	-	200	200	-	-
Capital issues	300	-	300	-100	-	-100	-	-	-
(ii) Total	100	-	100	-	-	-	500	-	300
(iii) Projected Increase (seasonally adjusted)	3000	1200	4050	2950	1200	4000	3500	1200	4400
Projected Increase (nsa)	2050	1275	3175	3950	1050	4850	3350	1300	4350
% change on previous	22.1	16.8	19.2	23.0	16.2	19.6	22.6	16.2	12.9
<u>Memo</u>									
Underlying % Change on previous year	20.9	16.2	19.2	21.8	15.7	19.6	21.1	15.3	18.9
% Change expected at Budget time	20.4	16.8	18.4	21.3	16.3	18.9	20.3	15.9	18.1

*Excludes bank lending to building societies (which is included under Bank Lending)

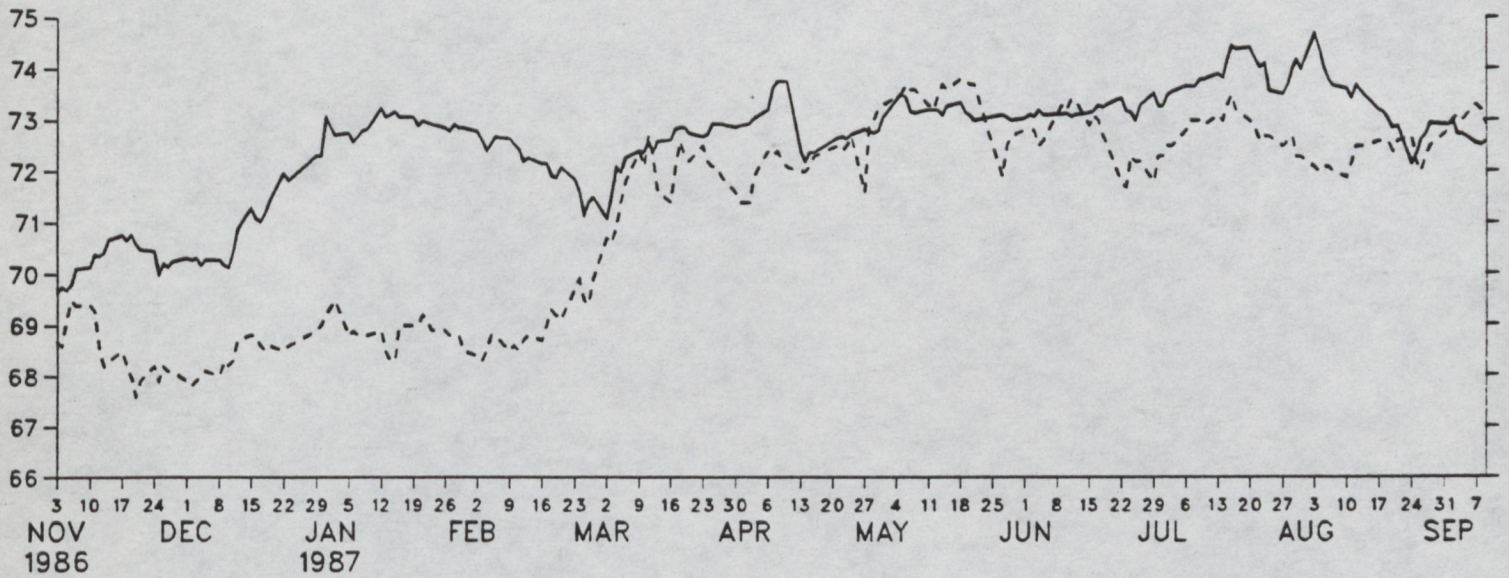
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MONTHLY MONETARY REPORT : CHARTS

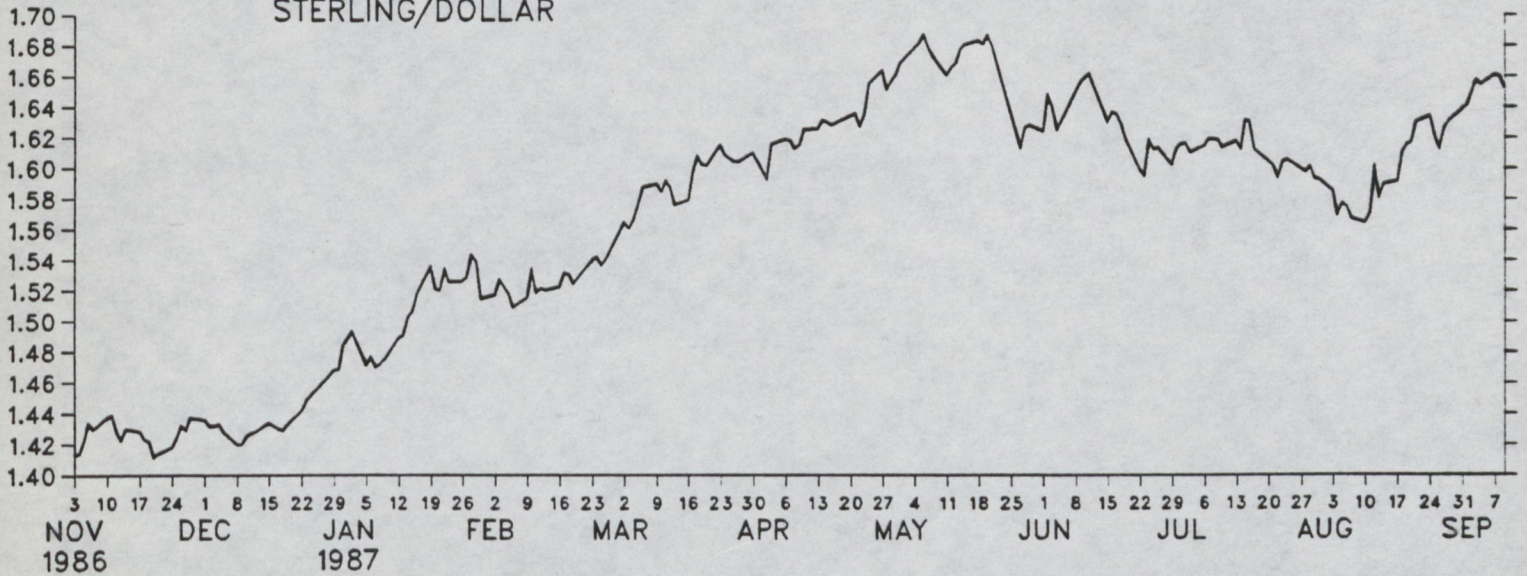
- I Exchange Rate Short Term
- II UK/US interest rate differential
- III Narrow money growth
- IV Broad money growth
- V Real M0 growth
- VI Real Broad money
- VII FSBR budget profile M0
- VIII FSBR budget profile M3
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- XV Yield Curve
- XVI Real Yields
- XVII House prices 1
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- XIX Capital Markets

CHART I: EXCHANGE RATE

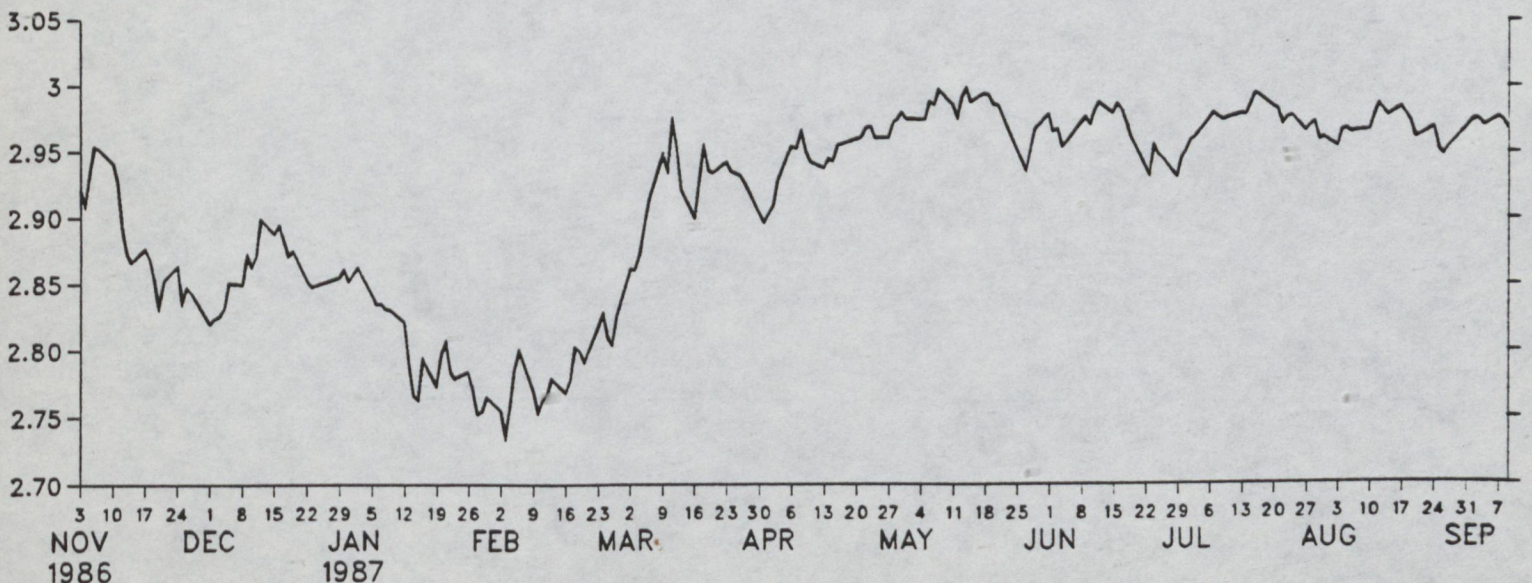
— OIL-ADJUSTED REFERENCE RATE
 - - - EFFECTIVE RATE



STERLING/DOLLAR



STERLING/DEUTSCHEMARK



UK/US INTEREST RATE DIFFERENTIAL

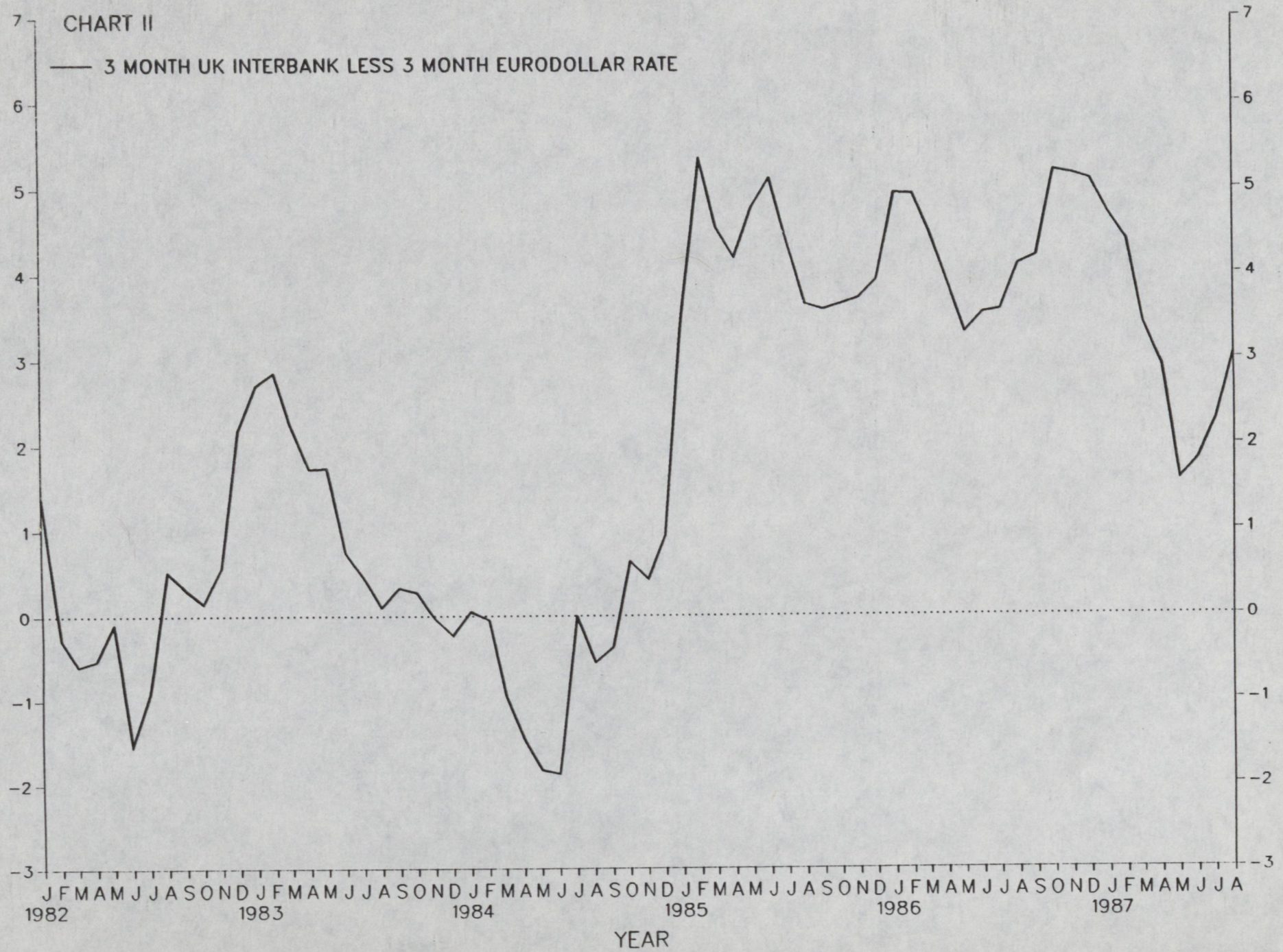


CHART III NARROW MONEY

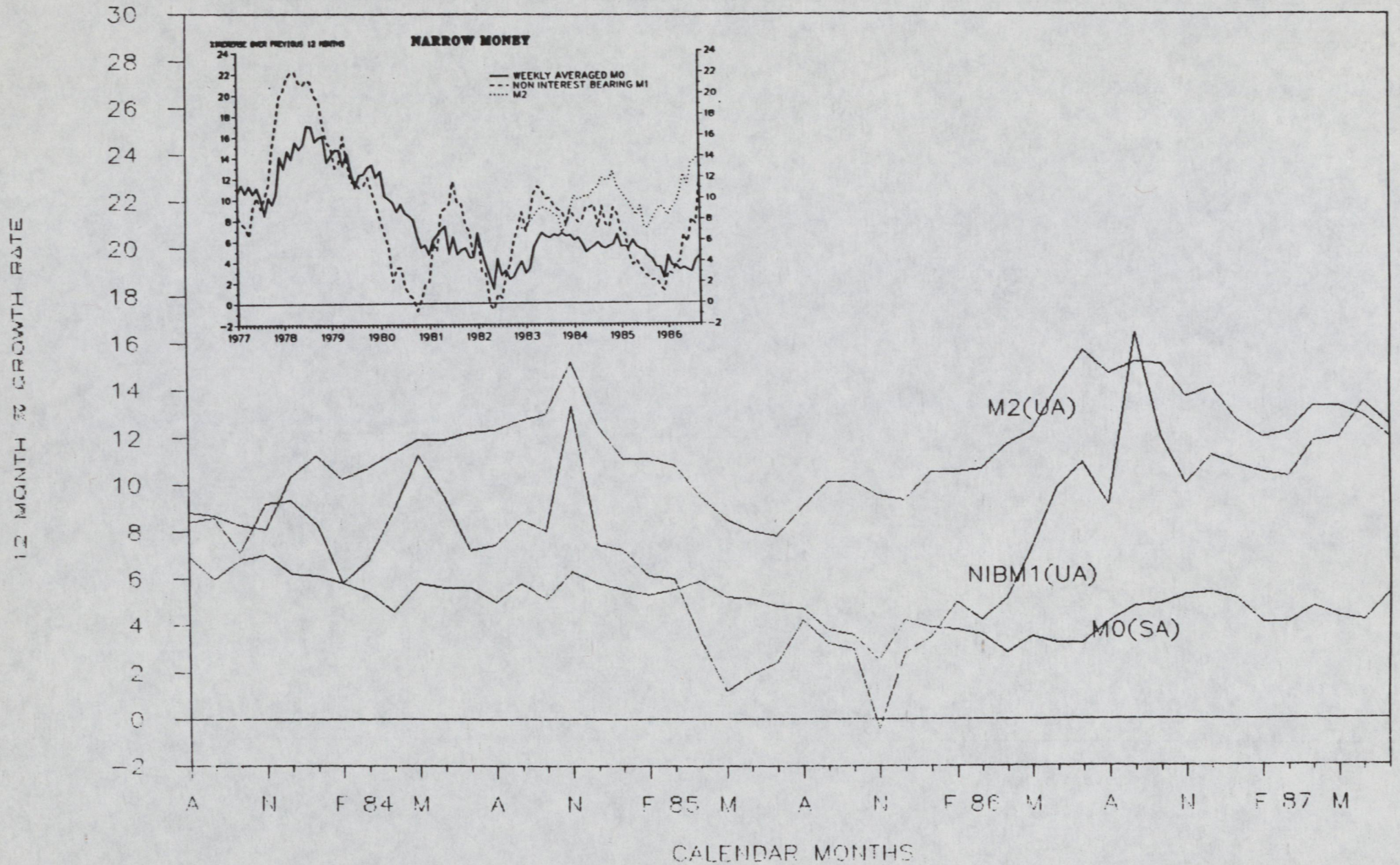


CHART IV BROAD MONEY

Annual percentage growth (sa)

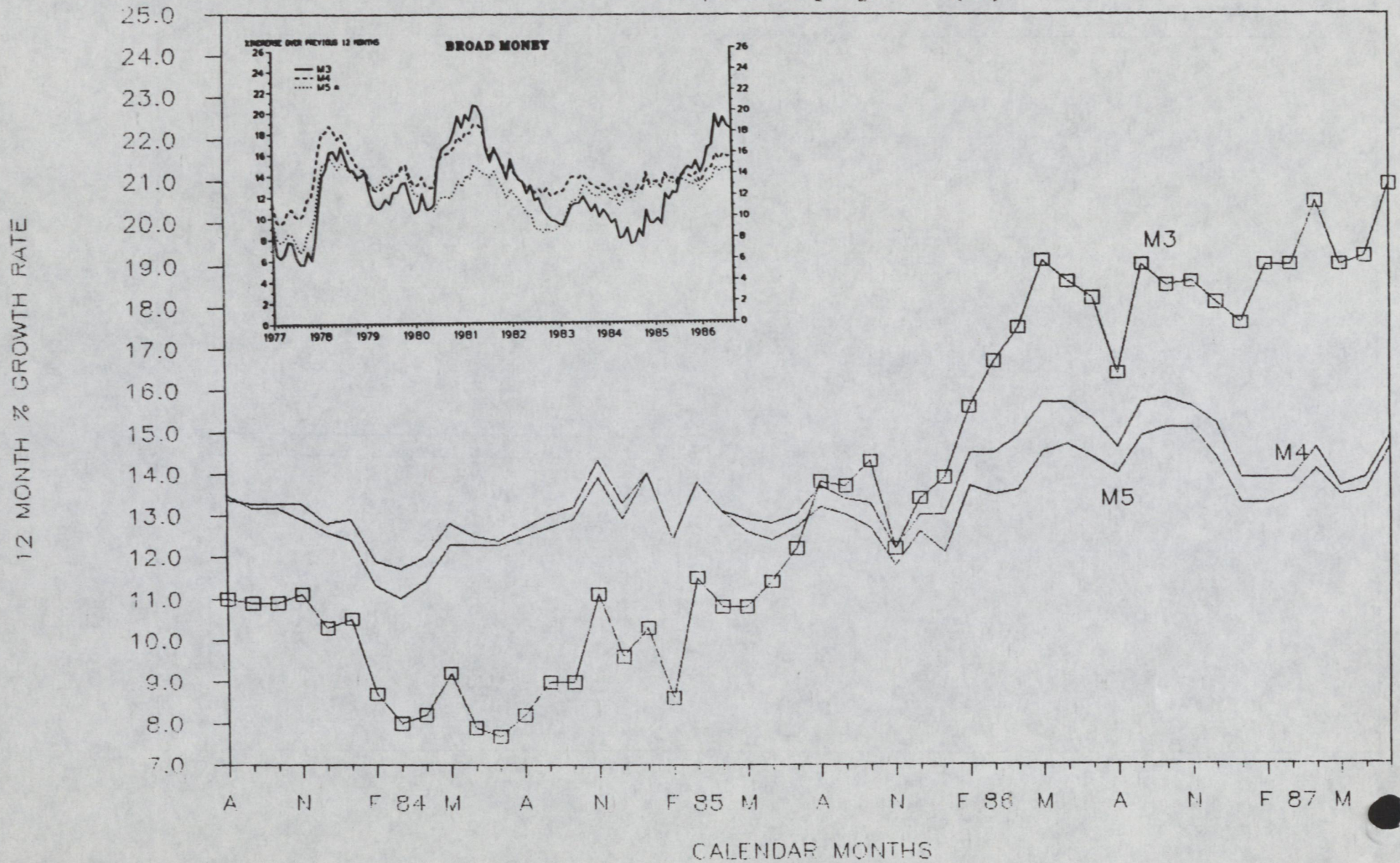


CHART V REAL MO

Annual percentage growth (sa)

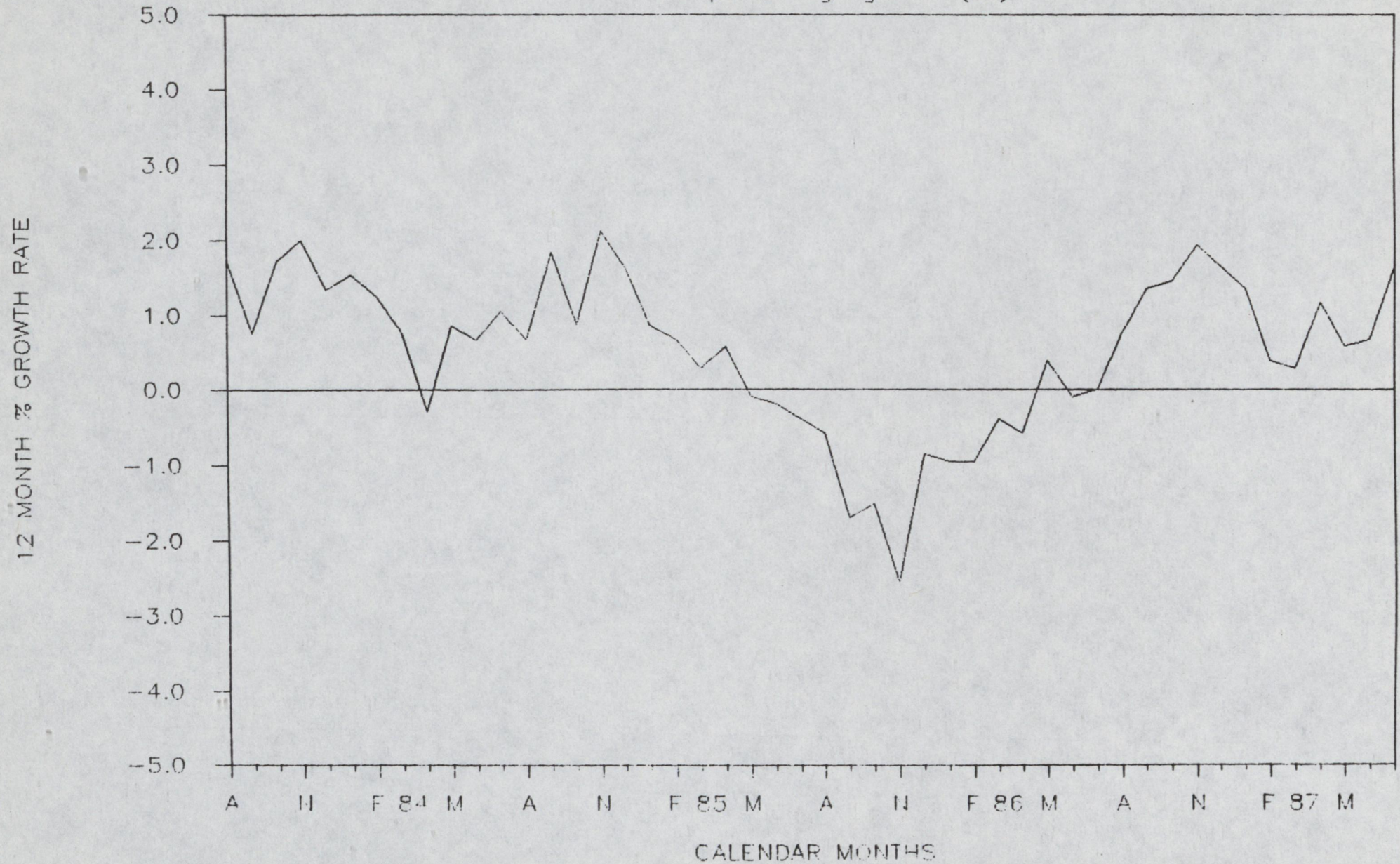


CHART VII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR MO

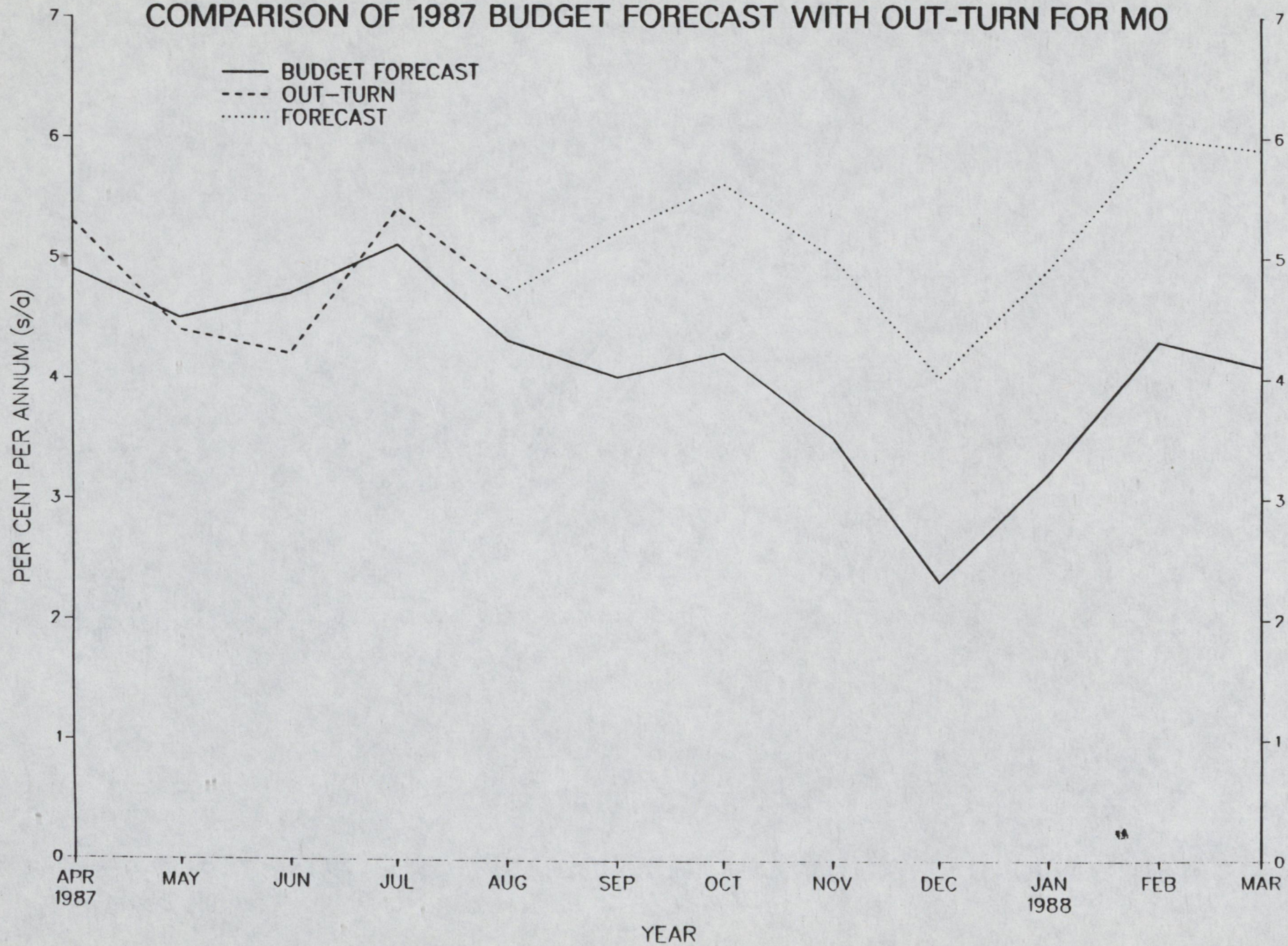
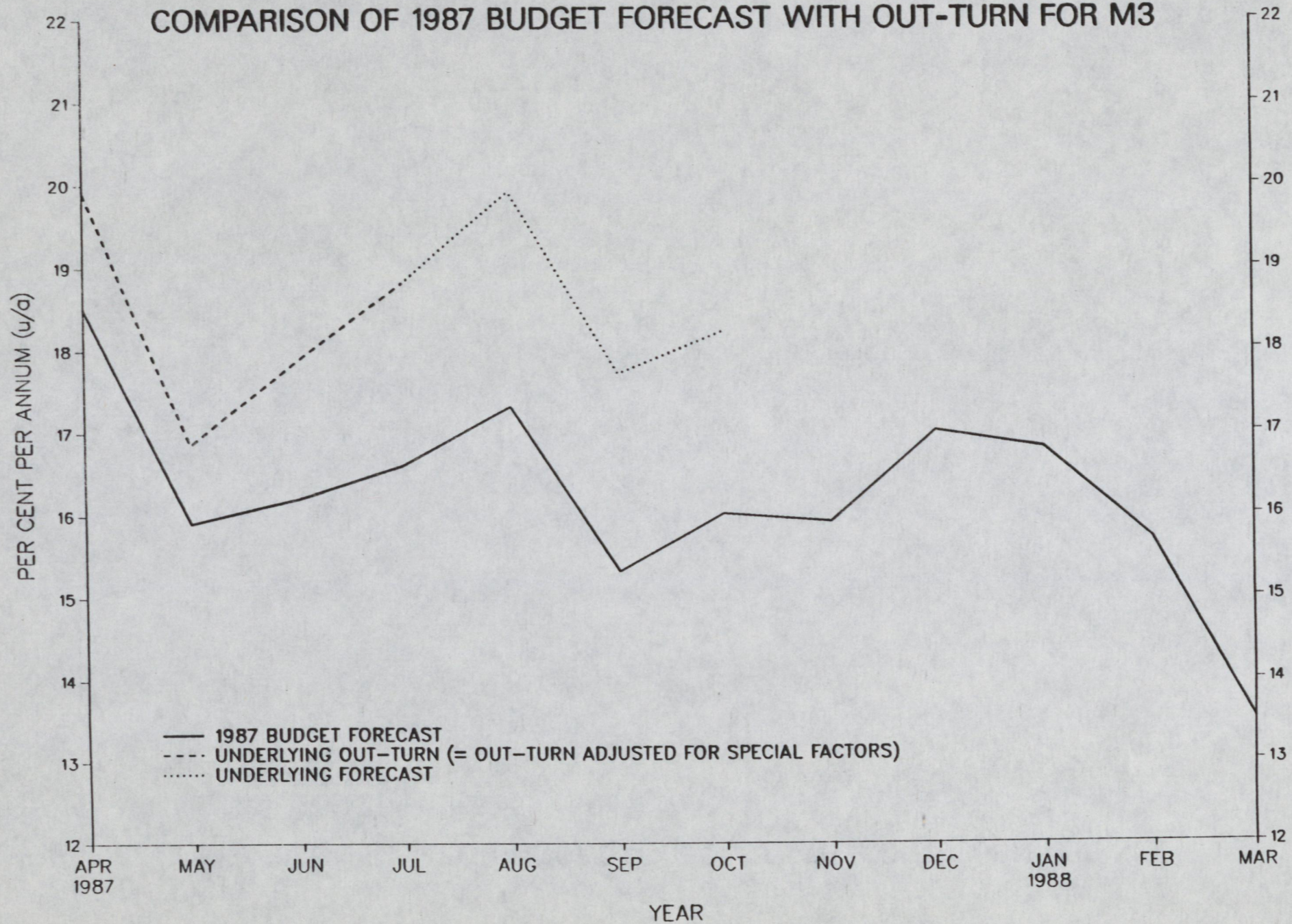


CHART VIII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M3



M0 GROWTH (SA) COMPARED TO TARGET RANGE

CHART IX

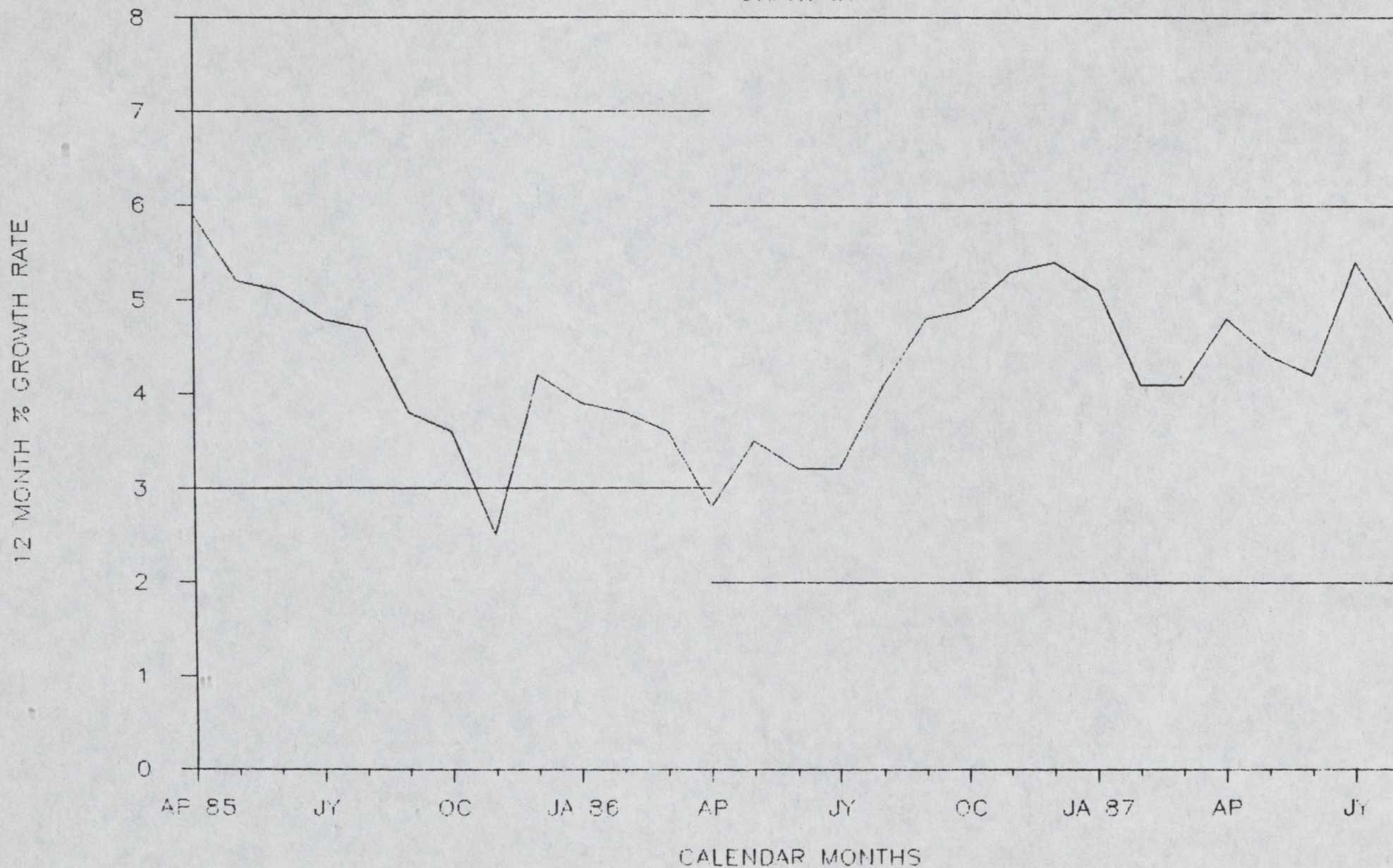
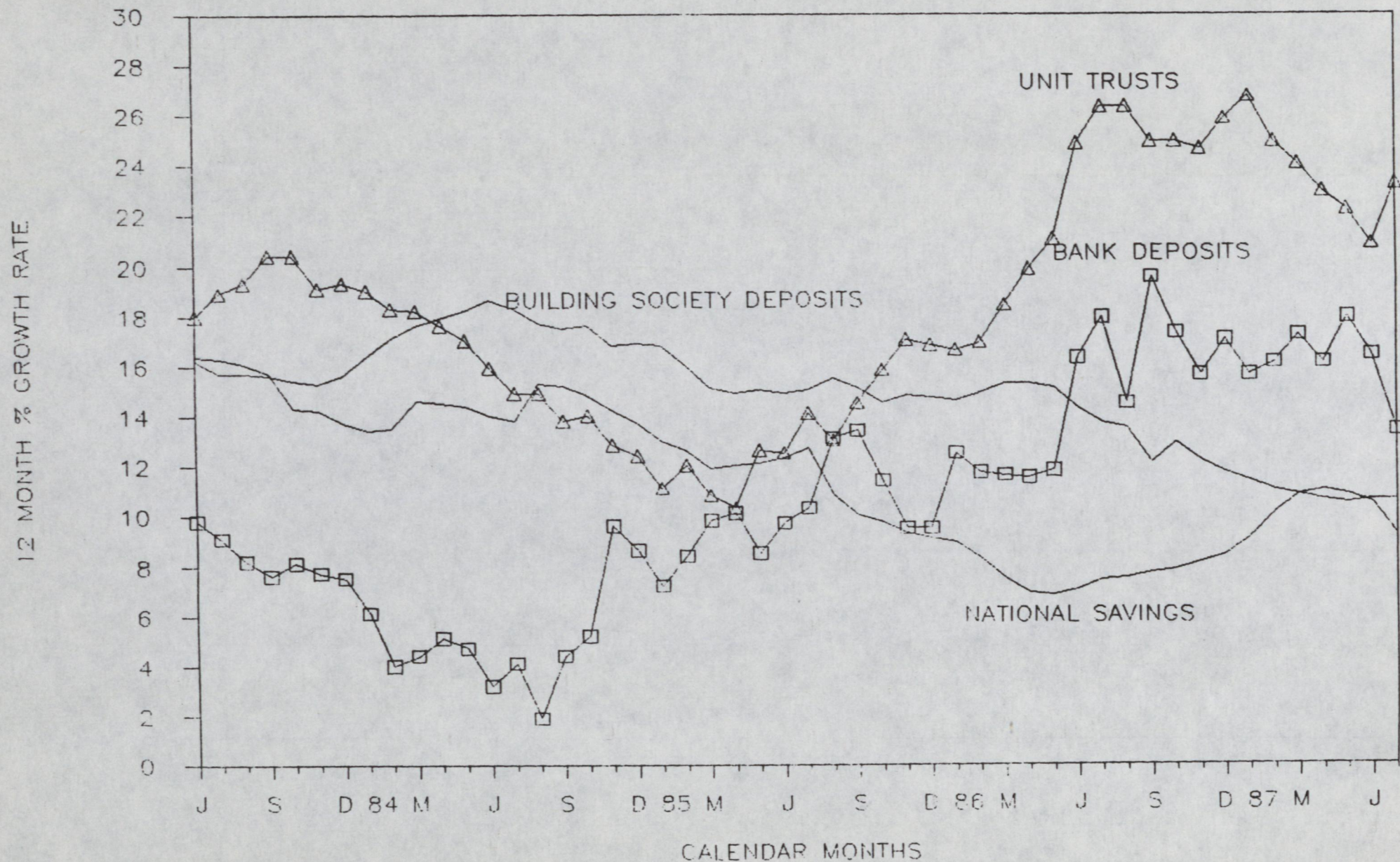
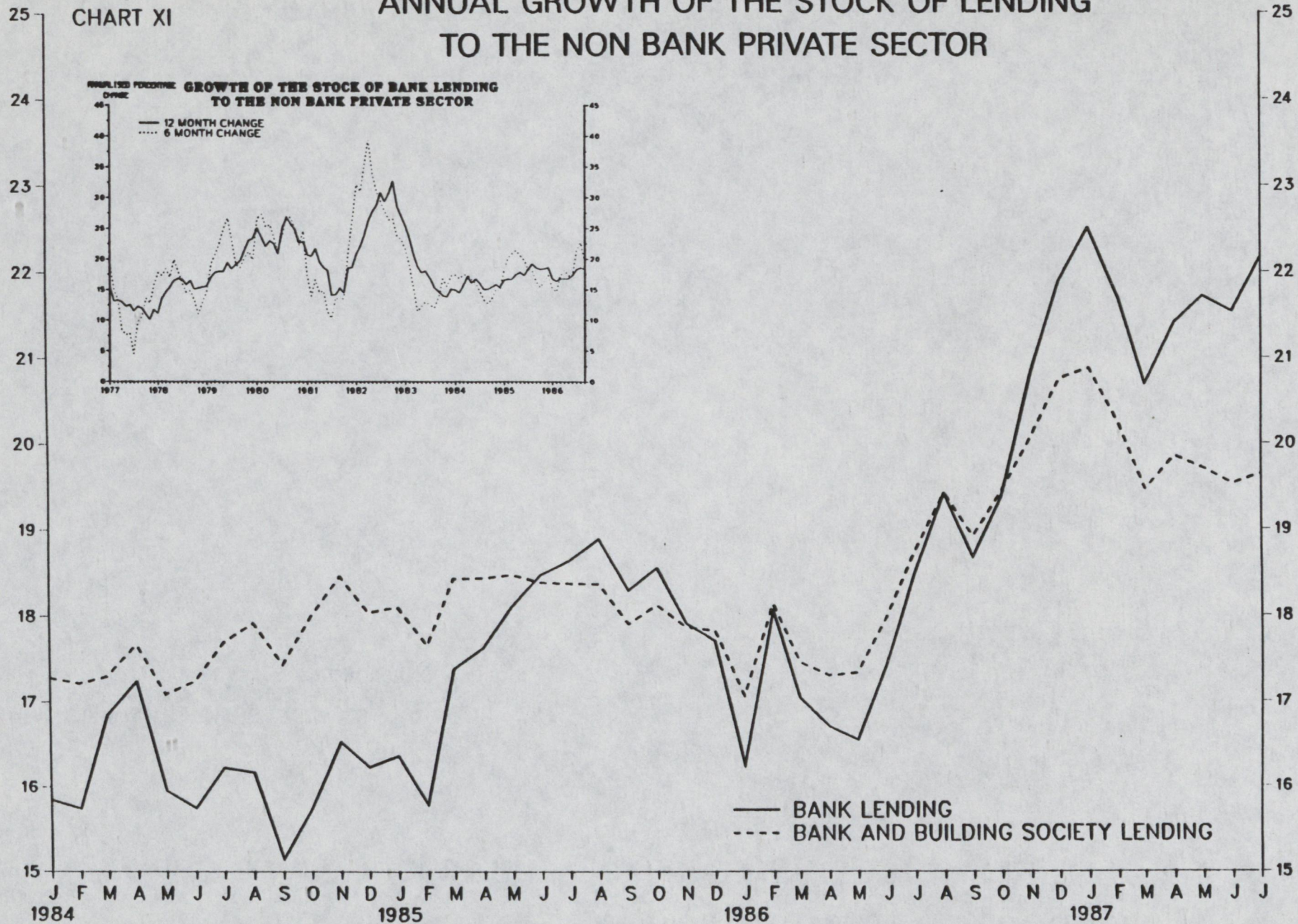


CHART X RETAIL DEPOSITS

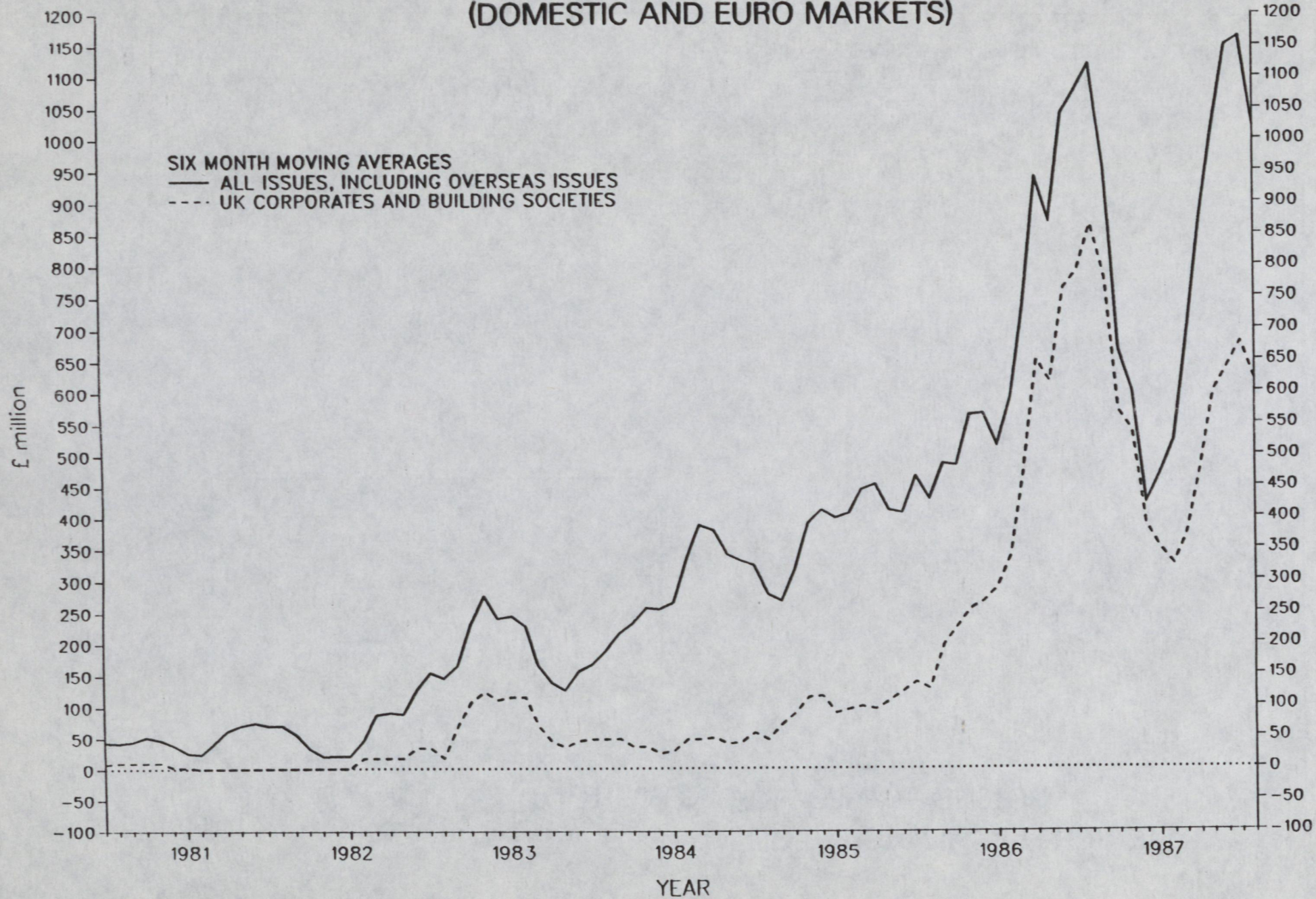


ANNUAL GROWTH OF THE STOCK OF LENDING TO THE NON BANK PRIVATE SECTOR



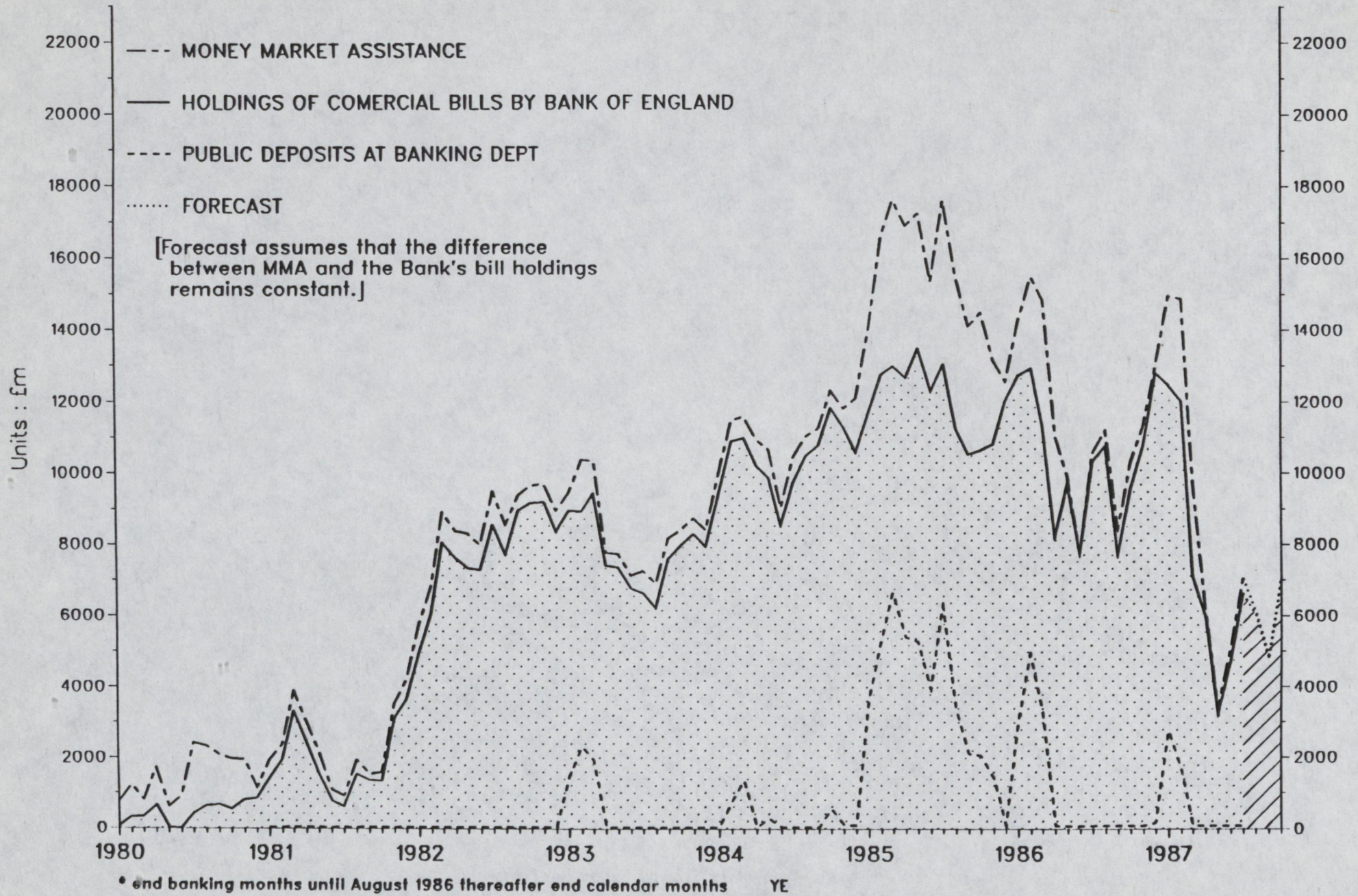
STERLING BOND ISSUES BY UK AND OVERSEAS INSTITUTIONS (DOMESTIC AND EURO MARKETS)

CHART XII

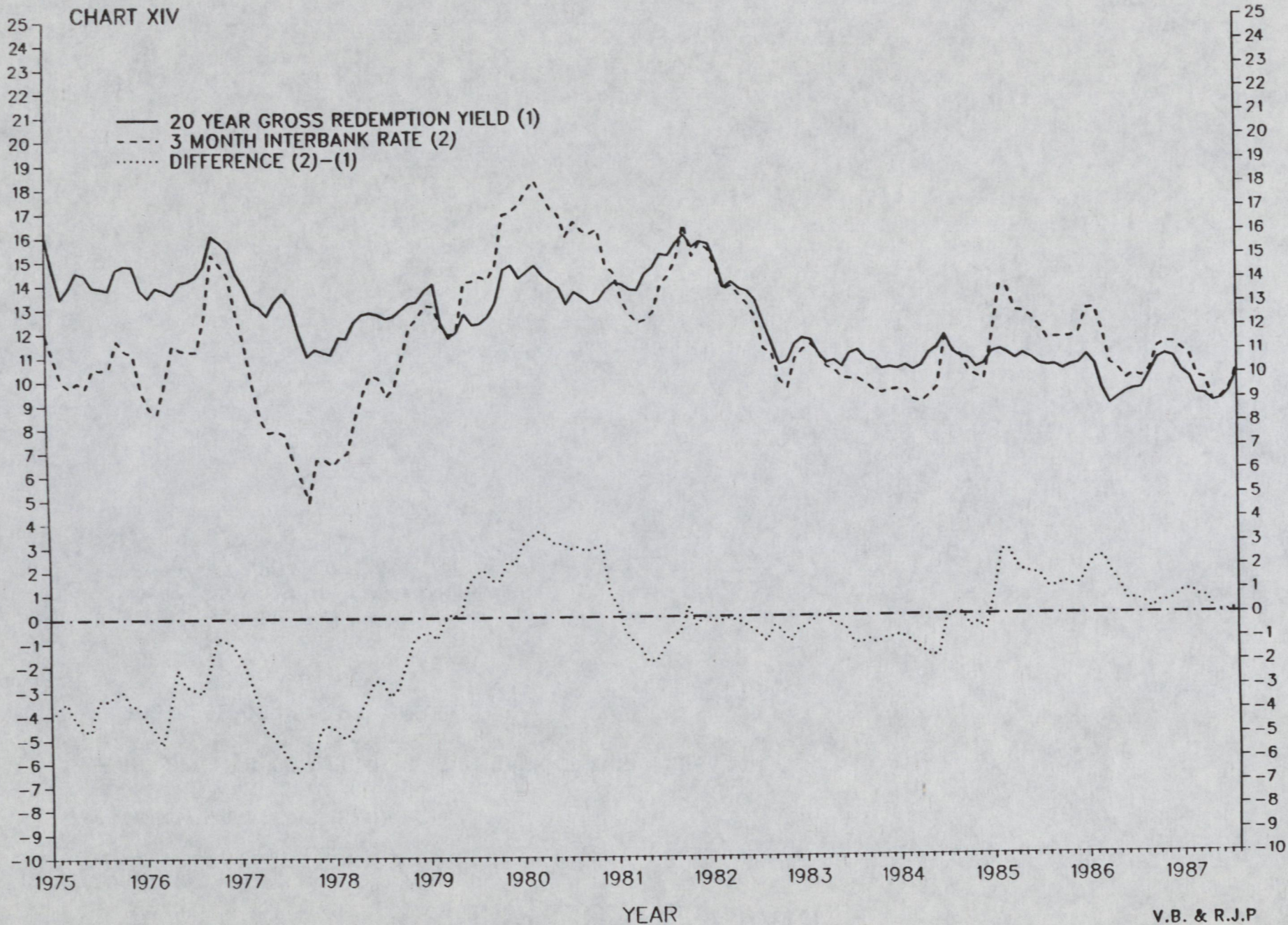


BILL MOUNTAIN RANGE

CHART XIII



NOMINAL INTEREST RATES



Per cent Time / Yield Curves of British Government Stocks

CHART XV

7th September 1987

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, and the 1-year yield is calculated as an average of 4 stock yields.

LA: 3-month deposit rate.
 TB: Market rate of discount, expressed as an annual yield.
 Debenture Yield: FT 15 year
 FT All Share Index gross dividend yield 3.06

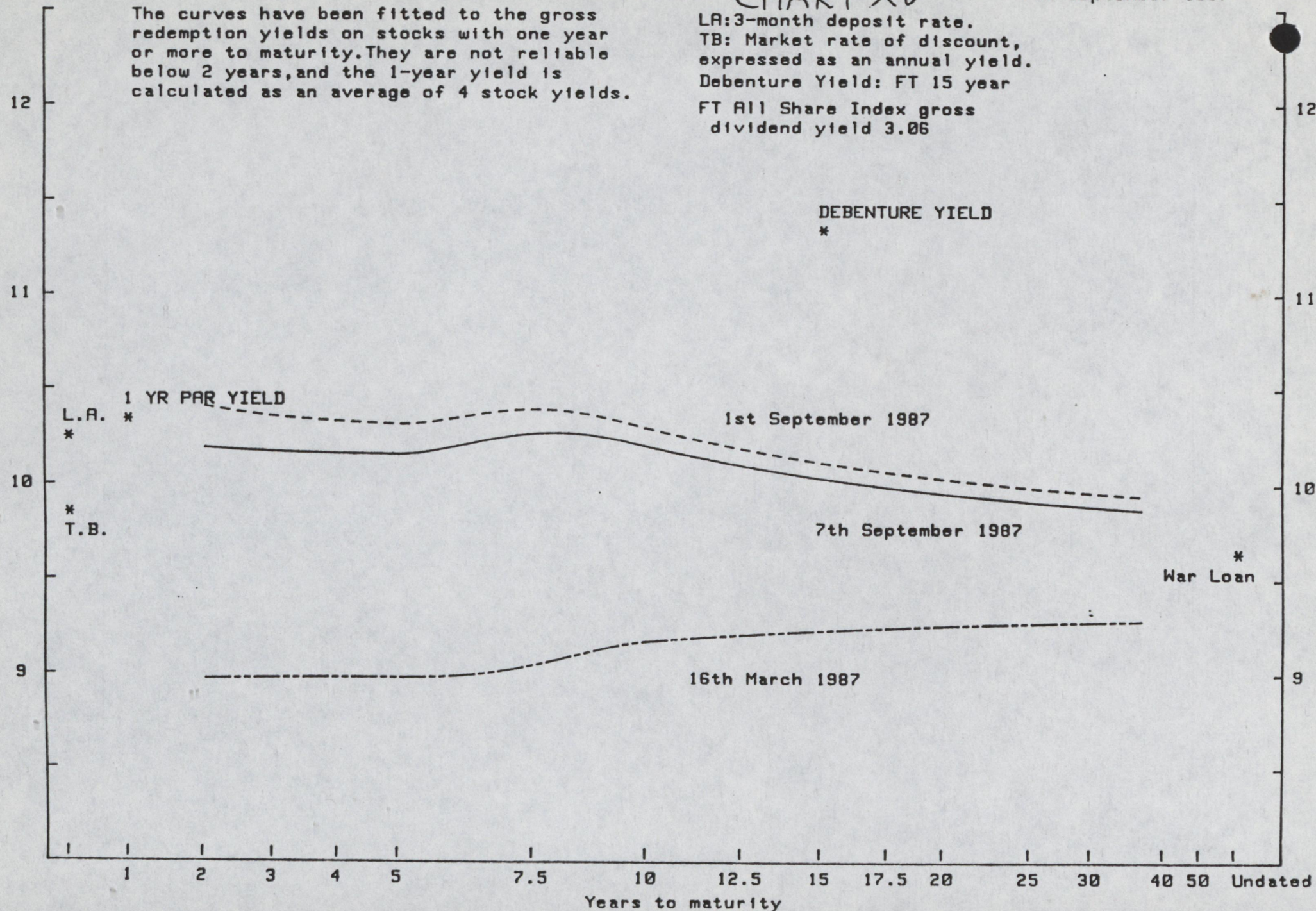
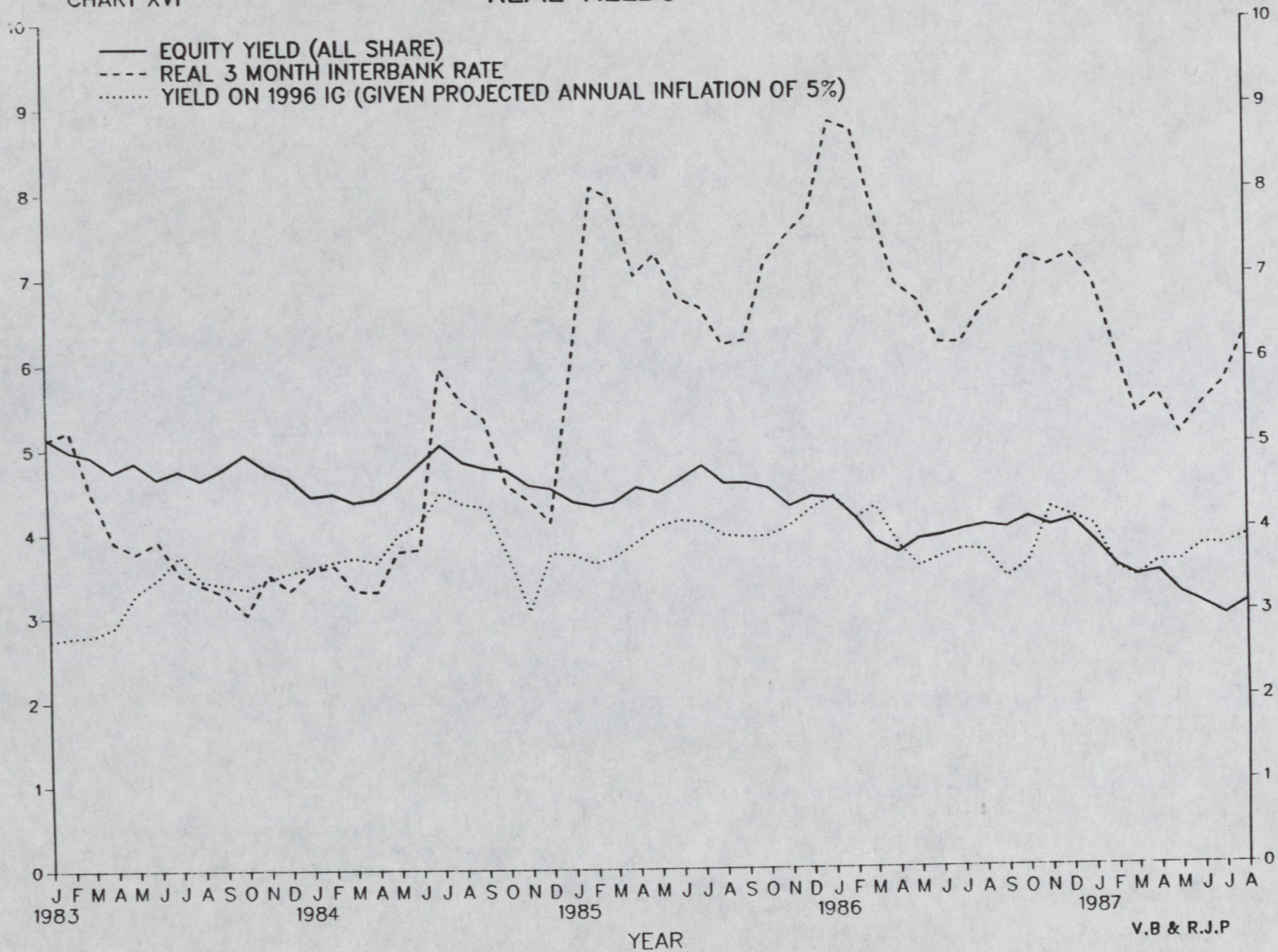


CHART XVI

REAL YIELDS



ANNUAL HOUSE PRICE INFLATION

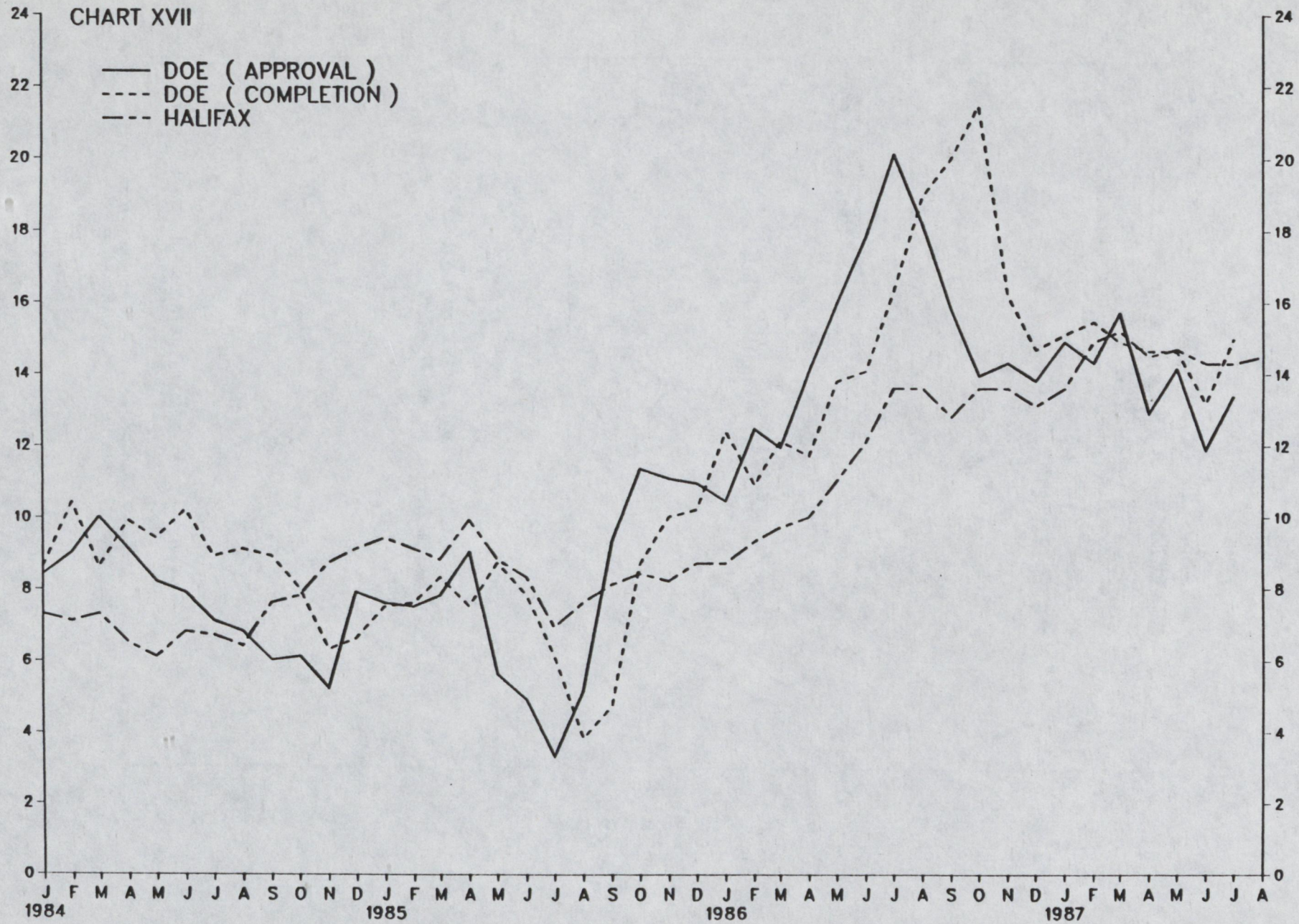


CHART VIII HOUSE PRICES 2

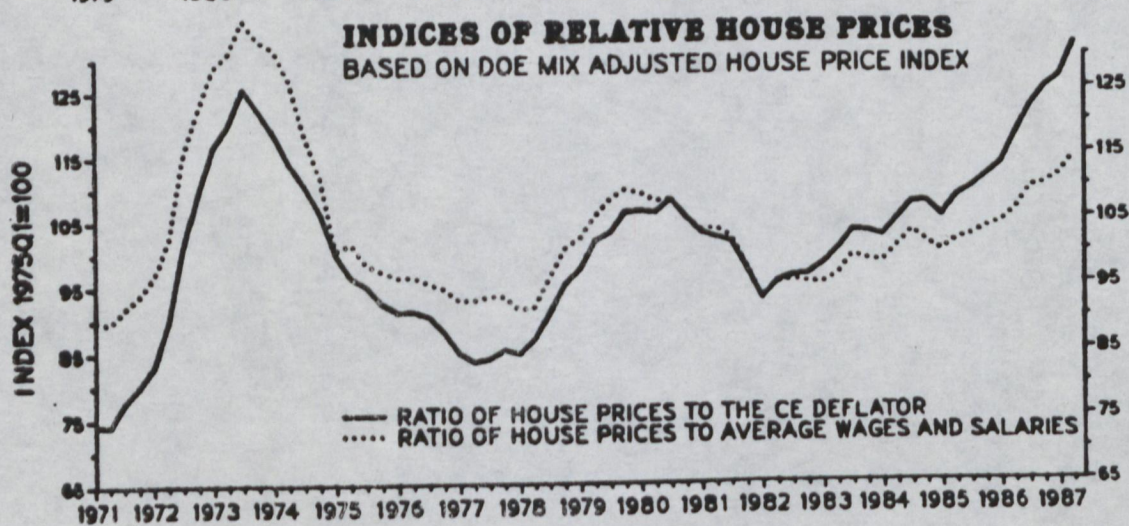
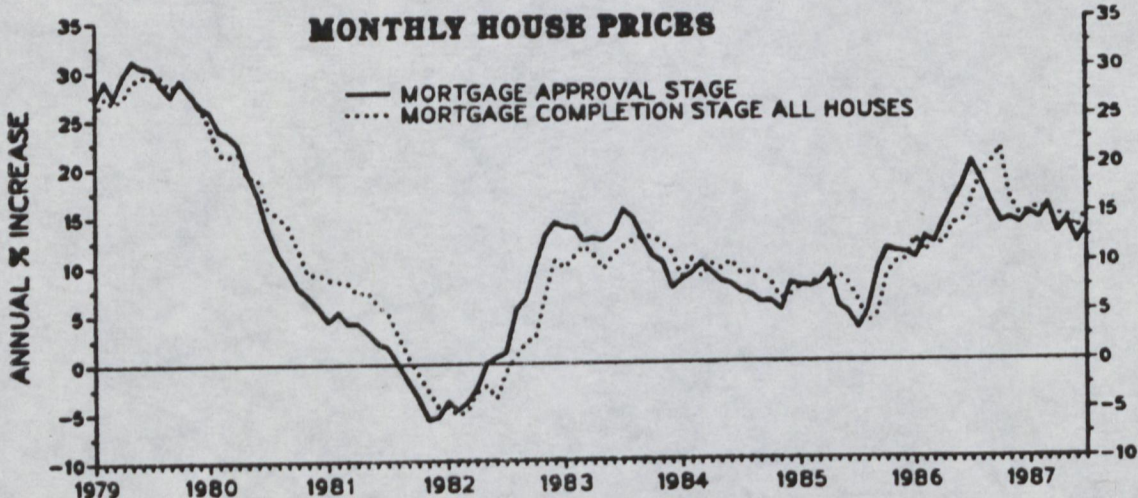
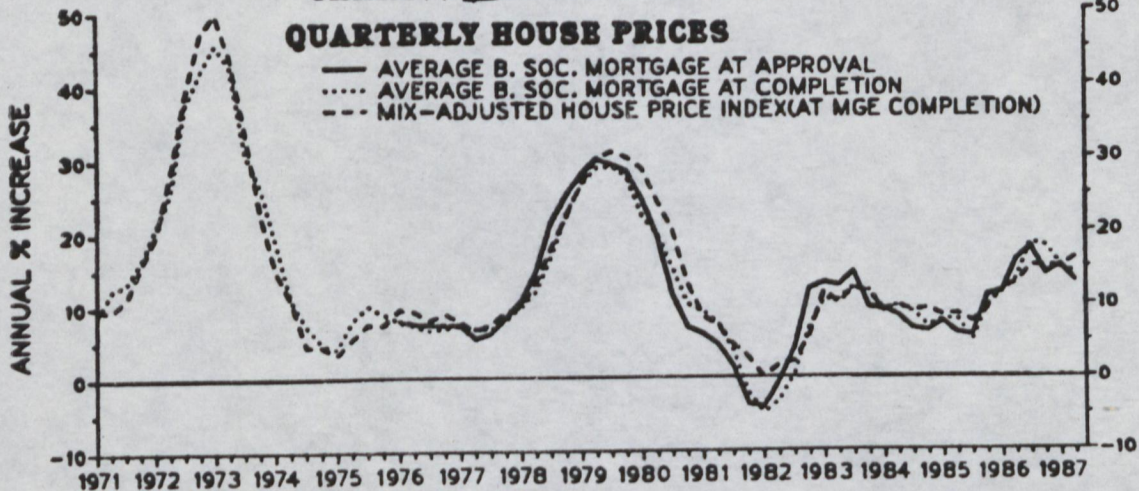
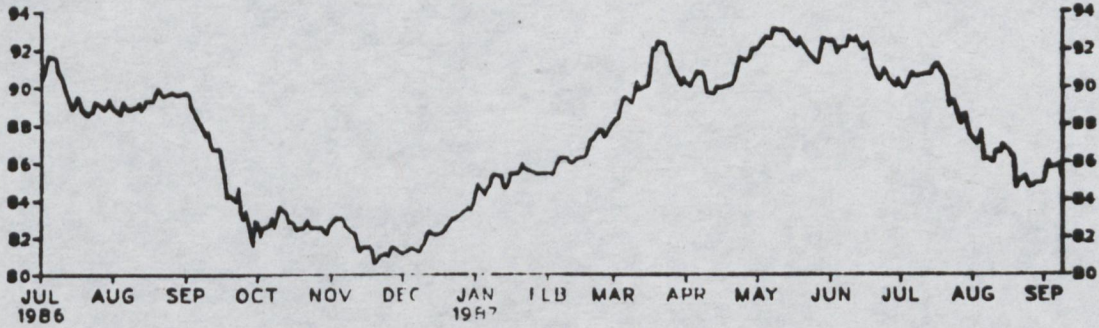


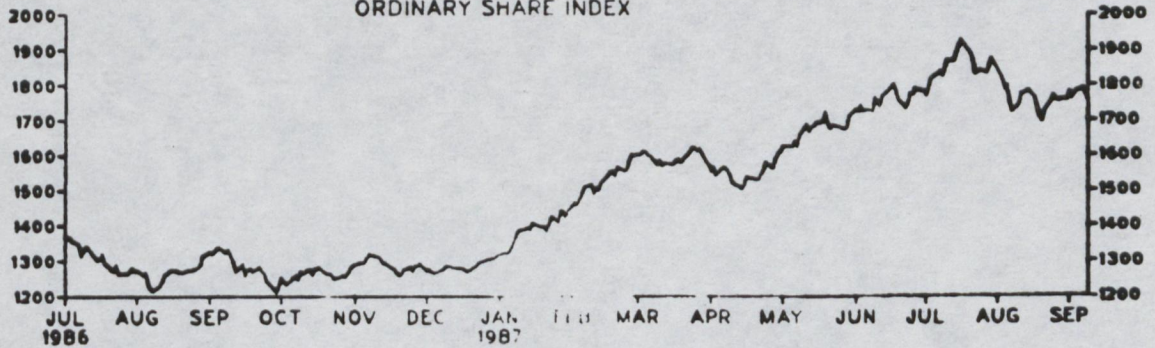
CHART XIX

CAPITAL MARKET INDICES

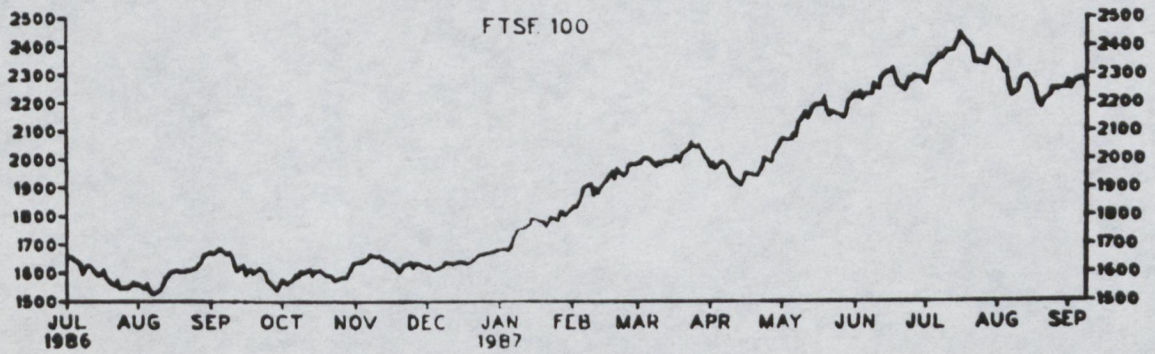
GILT INDEX



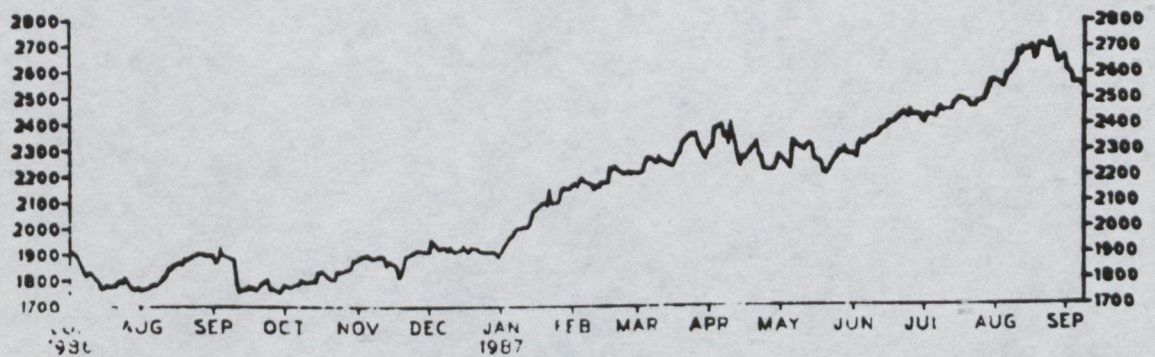
ORDINARY SHARE INDEX



FTSE 100



DOW-JONES INDUSTRIAL INDEX



SECRET

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- Table 3 - Exchange rates in G5

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TABLE 1. DEVELOPMENTS IN THE MAJOR 6 (EXCLUDING THE UK) 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	6.2	-0.6	-4.1	-2.6	-1.3	6.9	7.0	6.7	9.9
1983	7.4	2.8	3.3	0.1	3.6	4.5	4.6	9.7	8.5
1984	9.5	5.1	8.4	10.0	15.8	4.2	4.5	6.3	8.5
1985	6.8	3.1	2.8	2.5	3.6	3.8	3.7	7.8	8.3
1986	6.2	2.7	1.0	0.4	7.6	3.4	1.8	10.2	7.2
1986Q1	6.6	3.0	1.8	-0.9	5.1	3.5	2.9	8.6	6.8
Q2	6.7	3.1	1.0	-0.1	8.0	3.5	1.7	10.2	6.7
Q3	6.1	2.6	0.6	1.7	10.4	3.4	1.5	10.6	7.4
Q4	5.2	2.2	0.5	0.9	6.9	2.9	1.1	11.4	7.8
1987 Q1	5.4	2.4	1.0	3.3	7.2	2.9	1.5	12.3	7.9
Q2			2.1				2.6	11.4	8.2
1987 Jan			-0.2				1.1	13.0	8.1
Feb			1.0				1.5	12.8	8.0
Mar			2.1				2.0	11.2	7.7
Apr			0.8				2.6	12.1	8.2
May			2.8				2.6	11.7+	8.3+
June			2.7				2.6	10.4+	8.2+

* On national accounts basis

+ Estimate.

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
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
1987 Q1	6.0	4.1	4.2	8.3	10.7
Q2	6.8	3.8	3.8	8.1	9.2
1987 Jan	5.8	4.3	4.6	8.4	11.0
Feb	6.1	4.0	4.0	8.5	11.0
Mar	6.2	4.0	4.0	8.0	10.0
Apr	6.5	3.9	3.9	8.0	9.8
May	7.0	3.8	3.8	8.2	8.8
June	7.0	3.7	3.7	8.2	9.0
July	6.7	3.7	3.9	7.9	9.2
Aug	6.8	3.7	4.0	7.9	10.1
Sept 7	7.2	3.7	4.0	7.9	10.2

* CD rate for US, Gensaki for Japan, Interbank rates for rest.

TABLE: EFFECTIVE 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
1987 Q1	104.2	210.1	147.7	71.9	70.2
Q2	101.1	222.9	146.9	71.6	72.7
1987 Jan	105.5	209.4	147.5	71.8	68.9
Feb	103.9	209.3	148.4	72.3	69.0
Mar	103.3	211.7	147.1	71.8	71.9
Apr	101.0	222.7	146.6	71.6	72.3
May	100.4	225.3	147.2	71.7	73.3
June	101.8	220.8	146.8	71.5	72.6
July	103.3	213.7	146.6	71.6	72.8
Aug	103.3	218.2	146.0	71.1	72.3
Sept 9	100.4	223.9	147.2	71.4	72.9
% Change since dollar peak (Feb 85)	-36	+42½	+25½	+15	+4
% Change since Plaza (Sept 85)	-28	+43	+17½	+6	-11
% change since Louvre Accord (Feb 87)	-3½	+7	-½	-1	+5½

TABLE 4:

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

	MONEY GDP		OUTPUT		PRICES AND UNIT LABOUR COSTS					
			GDP(O)	Manufacturing Output	RPI	RPI excluding mortgage payments	Producer Prices***		Unit Wage Costs	
							Output	Input	Manufacturing	Whole economy
1985-86	9.7	1985	3.7	3.0	6.1	5.2	6.3	4.4	5.6	5.3
1986-87	6.2	1986	2.8	0.9	3.4	3.6	4.3	-10.7	4.6	5.3
1986 2	6.2	1986 1	2.2	- 0.6	4.9	4.6	5.0	- 11.9	7.3	6.0
3	6.5	2	2.0	- 0.6	2.8	3.3	4.3	- 12.4	6.2	6.2
4	5.9	3	3.5	1.3	2.6	3.3	4.0	- 13.0	3.2	4.2
1987 1	6.4	4	3.6	3.6	3.4	3.4	4.0	- 5.6	1.6	4.9
2	8.9*	1987 1	4.2	4.3	3.9	3.7	4.1	- 1.7	0.9	4.1
3	8.6	2	3.8	4.7	4.2	3.6	4.5	4.6	1.3	
4	8.8	3								
1988 1	8.8	4								
1987-88	8.8									
		1986 June		- 1.1	2.5	3.3	4.3	- 12.4	6.2**	
		July		1.4	2.4	3.2	4.0	- 14.3	5.2	
		August		0.8	2.5	3.3	4.0	- 13.3	4.6	
		September		1.5	3.0	3.4	4.0	- 11.5	3.2	
		October		3.4	3.0	3.4	4.0	- 7.4	2.7	
		November		3.7	3.5	3.3	3.8	- 4.9	1.8	
		December		3.6	3.7	3.5	4.0	- 4.4	1.6	
		1987 January		2.6	3.9	3.7	4.2	- 2.5	1.9	
		February		5.3	3.9	3.7	4.2	- 2.9	1.5	
		March		5.0	4.0	3.8	4.1	0.4	0.9	
		April		3.5	4.2	3.6	4.3	3.0	0.5	
		May		5.2	4.1	3.8	4.5	3.4	0.8	
		June		5.4	4.2	3.5	4.4	7.2	1.3	
		July			4.4	3.7	4.6	12.8		
		August			4.4	3.7				

* June forecast.

** Wage cost figures show averages for three months ending in month indicated.

*** Excluding food, drink and tobacco.

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	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	9½	10.3	9½	8.1	7¾
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	5½	9.2	5½	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	3¾	9.1	3½	5.7	2¾
1982-83	8.9	3¾	9.3	3¾	8.4	3
1983-84	9.8	3¾	10.9	3½	12.2	4
1984-85*	10.2	3	12.3	3¾	13.9	4¾
1985-86*	5.8	1½	8.5	2½	8.4	2¾
1986-87	3.3	¾	7.7	2	9.7	2½
1987-88 (June forecast)	1.0	½	6.3	1½	7.3	1¾

* 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		PSBR excluding privatisation		PSFD	
		s.a.*	u.a.	s.a.*	u.a.	s.a.+	u.a.
1985	Q2	1.4	2.6	2.8	4.0	2.6	4.0
	Q3	1.9	3.0	2.3	3.4	1.7	2.3
	Q4	1.2	2.1	1.7	2.6	2.0	0.4
1986	Q1	1.3	-1.9	1.8	-1.4	2.3	1.6
	Q2	2.2	2.3	3.3	3.4	2.7	3.5
	Q3	2.5	3.6	2.5	3.6	2.6	4.5
	Q4	-2.5	-1.6	-0.3	0.5	2.0	0.0
1987	Q1	1.4	-0.7	2.5	0.4	2.5	-1.7
	Q2	0.7	1.1	3.0	3.4		

* financial year - constrained

+ calendar year - constrained

Table 6: CGBR(O) April - July: Comparison with Budget Profile
 £ billion (-indicates lower borrowing)

Receipts

Inland Revenue	- 0.4
Customs and Excise	- 0.3
National insurance contributions	- 0.1
Privatisation proceeds	- 0.2
Other receipts	+ 0.1

Expenditure

Net debt interest payments	+ 0.2
Net payments to EC	-
NIF benefit funding	+ 0.1
Other departmental expenditure ⁽¹⁾	- 1.0

<u>Net effect on CGBR(O)</u>	- 1.6
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(1) on a cash basis, net of certain receipts and on-lending

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TABLE 7

		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 currencies*	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
1987	(1)	69.9	114.2	0.967	1.54	2.83	78.8	4.3	17.9
	(2)	72.8	116.7	0.996	1.64	2.96	82.6	2.1	18.6
1987	January	68.9	112.6	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	113.7	0.960	1.53	2.78	77.4	+4.5	17.2
	March	71.9	116.4	0.991	1.59	2.92	81.2	+3.6	18.0
	April	72.3	115.8	0.994	1.63	2.95	82.1	+3.0	18.2
	May	73.3	117.6	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	116.7	0.991	1.63	2.96	82.6	+1.8	18.9
	July	72.8	116.9	0.985	1.61	2.97	82.9	+2.7	19.8
	August	72.3	115.7	0.988	1.60	2.97	82.8	+3.0	18.9
	September 10th	72.9	n/a	n/a	1.65	2.97	83.0	+2.8	18.4

† 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 8 : 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**		
								1990	2001	2011
1985	(1)	13.0	8.9	12.9	10.9	5.7	6.9	4.4	3.5	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	6.6	4.3	3.8	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.1	4.3	3.8	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.1	4.1	3.9	3.6
1986	(1)	12.4	7.9	12.3	10.2	3.9	8.2	4.3	4.2	3.8
	(2)	10.2	7.0	10.4	9.0	3.6	6.5	3.6	3.6	3.4
	(3)	10.0	6.2	10.0	9.7	3.4	6.5	3.7	3.9	3.5
	(4)	11.2	6.1	11.0	10.7	4.1	6.8	3.7	4.1	3.8
1987	(1)	10.6	6.3	10.8	9.6	4.3	6.0	3.0	3.7	3.5
	(2)	9.2	7.1	9.4	9.0	3.8	5.2	2.4	3.8	3.6
1987	January	11.0	6.1	11.0	10.0	4.1	6.6	3.5	4.0	3.7
	February	10.8	6.4	11.0	9.8	4.3	6.2	3.0	3.7	3.5
	March	9.9	6.5	10.4	9.1	4.5	5.2	2.5	3.5	3.4
	April	9.8	6.9	10.0	9.2	4.2	5.4	2.6	3.6	3.4
	May	8.8	7.2	9.1	8.8	3.7	4.9	2.1	3.6	3.6
	June	9.0	7.1	9.0	8.9	3.5	5.3	2.3	3.9	3.7
	July	9.3	6.9	9.0	9.3	3.4	5.7	2.2	4.0	3.8
	August	10.2	7.0	10.0	10.0	3.9	6.3	2.6	4.3	4.0
	September 10	10.2	7.5	10.0	10.1	3.9	6.3	3.2	4.3	4.1

* 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 and quarterly for last Friday in each month. Assumes inflation averages 5 per cent per annum to redemption.

TABLE 9 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	4035
1983	-1.1	9.5	-0.6	3338
1984	9.6	11.0	-1.9	1474
1985	6.8	4.2	1.8	2919
1986	2.4	5.7	-0.8	-980
1986 Q1	-2.5	3.2	3.0	733
2	0.0	2.4	1.9	135
3	2.9	7.5	-2.4	-918
4	9.3	9.9	-4.9	-930
1987 Q1	11.2	5.4	-1.0	471
Q2	6.3	10.1	+1.1	-561
Jan	-2.6	1.5	4.5	995
Feb	-2.7	2.6	3.3	204
Mar	-2.3	5.7	1.7	-466
Apr	-2.2	-1.8	2.3	283
May	-0.2	7.3	2.9	-113
Jun	2.6	1.7	1.6	-35
Jul	2.6	4.2	-1.9	-5
Aug	-0.4	9.7	-2.8	-734
Sep	6.4	8.4	-2.5	-179
Oct	7.7	5.1	-3.3	-155
Nov	11.3	10.6	-5.0	-462
Dec	9.0	15.0	-6.1	-313
1987 Jan	7.3	6.4	-2.7	18
Feb	18.2	8.5	-1.5	333
Mar	7.9	1.0	+0.8	119
April	8.9	10.7	+1.1	74
May	5.4	14.0	+0.3	-496
June	4.7	5.5	+1.6	-140
July	8.5	10.8	-0.4	-310

* excluding oil and erratics.

TABLE 10

Key Monetary Indicators

	1985-86											1986-87
	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>
<u>MONETARY AGGREGATES</u>												
12 month % change (ua)												
MO	4.1	4.8	4.9	5.2	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3
M3	16.4	19.0	18.5	18.6	18.1	17.6	19.0	19.0	20.5	19.0	19.2	20.9
M4	14.6	15.7	15.8	15.6	15.2	13.9	13.9	13.9	14.6	13.7	13.9	14.9
M5	14.0	14.9	15.1	15.1	14.4	13.3	13.3	13.5	14.1	13.5	13.6	14.6
<u>STERLING LENDING</u>												
12 month % change (ua)												
Banks	19.4	18.6	19.4	20.8	21.9	22.5	21.7	20.7	21.4	21.7	21.5	22.9
Banks and building societies	19.4	18.9	19.4	20.1	20.7	20.9	20.2	19.5	19.9	19.7	19.5	19.6
<u>OVER(-)/UNDER (+) FUNDING</u>												
financial year to date:£mn												
	-75	2,654	812	-3	-1,577	-3,931	-3,969	393	3215	5178	2420	1928
<u>MONEY MARKET ASSISTANCE</u>												
Level outstanding £mn												
	11,168	8,390	10,247	11,295	12,970	14,948	14,873	9,742	6126	3340	5132	7038
<u>INTEREST RATES</u>												
3 months*	9.9	10.2	11.1	11.3	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3
20 year ^φ	9.4	10.3	10.6	10.9	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3
<u>EFFECTIVE EXCHANGE RATE</u>												
	71.4	70.4	67.8	68.5	68.5	68.9	69.0	71.9	73.3	73.3	72.6	72.8

* Inter bank

^φ par yield[†] banking months until August thereafter end calendar months

Table II

MONETARY AGGREGATES 1986-87

	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY
<u>M0</u>									
Averaged weekly									
Monthly change (£ million)	+134	+1,129	-1,034	-228	+115	+325	+42	-93	+423
Monthly % change	+0.9	+7.6	-6.5	-1.5	+0.8	+2.2	+0.3	-0.6	+2.8
	(+1.0)	(+1.4)	(-0.6)	(-0.8)	(+0.4)	(+0.4)	(+0.5)	(+0.2)	(+1.2)
12 Monthly % change	+5.2	+5.2	+4.1	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3
<u>M3</u>									
(Exc Public sector deposit)									
Monthly change (£ million)	+2,225	+267	-1,225	+2,945	+6,813	+3,203	+3,263	+1,904	+4,199
Monthly % change	+1.5	+0.2	-0.8	+2.0	+4.4	+2.0	+2.0	+1.1	+2.5
	(+1.3)	(+0.2)	(+1.1)	(+2.3)	(+3.3)	(+1.9)	(+2.1)	(+1.0)	(+2.3)
12 Monthly % change	+18.6	+18.1	+17.6	+19.0	+19.0	+20.5	+19.0	+19.2	+20.9
<u>M4</u>									
Monthly change (£ million)	+2,583	+1,691	-325	+2,470	+6,668	+3,555	+3,454	+4,044	5,301
Monthly % change	+1.0	+0.7	-0.1	+0.9	+2.5	+1.3	+1.3	+1.5	+1.9
	(+1.1)	(+0.2)	(+0.6)	(+1.4)	(+2.1)	(+1.4)	(+1.4)	(+1.3)	(+1.8)
12 Monthly % change	+15.6	+15.2	+13.9	+13.9	+13.9	+14.6	+13.7	+13.9	14.9
<u>M5</u>									
Monthly change (£ million)	+2,573	+1,529	-666	+2,616	+6,976	+3,575	+4,121	+4,159	+5,653
Monthly % change	+1.0	+0.6	-0.2	+0.9	+2.5	+1.3	+1.4	+1.4	+1.9
	(+1.2)	(+0.1)	(+0.6)	(+1.3)	(+1.9)	(+1.2)	(+1.6)	(+1.3)	(+1.8)
12 Monthly % change	+15.1	+14.4	+13.3	+13.3	+13.5	+14.1	+13.5	+13.6	+14.6
<u>NIBMI</u>									
Monthly change (£ million)	+926	+410	-1,842	+516	+1,055	+474	+1,167	+1,469	+122
Monthly % change	+2.3	+1.0	-4.4	+1.3	+2.6	+1.2	+2.8	+3.4	+0.3
	(+1.1)	(+0.8)	(+1.0)	(+1.7)	(-0.6)	(-0.2)	(+3.5)	(+3.8)	(-0.3)
12 Monthly % change	+10.0	+11.2	+10.8	+10.5	+10.3	+11.8	+12.0	+13.5	+12.5
<u>M1</u>									
Monthly change (£ million)	+2,197	-871	-237	+409	+4,381	+725	+2,983	+2,120	+1,008
Monthly % change	+3.0	-1.2	-0.3	+0.5	+5.8	+0.9	+3.7	+2.5	+1.2
	(+2.4)	(-1.4)	(+2.8)	(+0.8)	(+4.0)	(+0.2)	(+4.1)	(+2.6)	(+0.9)
12 Monthly % change	+23.5	+21.2	+23.2	+21.2	22.6	+23.3	+23.8	+23.9	+22.7
Net £ deposits from banks abroad	+803	+719	+1,004	-845	-1,395	+714	+992	-940	+408
Overseas non-bank £ deposits	-255	+180	+475	+550	+742	-190	+760	-432	+561
<u>WIDER £ AGGREGATE</u>									
Monthly change (£ million)	+2,773	+1,166	+254	+2,650	+6,160	+3,732	+5,015	+532	+5,168
Monthly % change	+1.6	+0.7	+0.1	+1.5	+3.4	+2.0	+2.6	+0.3	+2.6
	(+1.5)	(+0.7)	(+1.7)	(+1.8)	(+2.5)	(+1.9)	(+2.8)	(+0.2)	(+2.5)

NB Figures in brackets are seasonally adjusted.

TABLE 12

REAL PERCENTAGE GROWTH RATES OF MONETARY AGGREGATES

	RPI less Mortgage Element	Weekly Averaged M0	M3	M4	M5	
FINANCIAL YEARS (12 month % changes to calendar March)						
1981-82	9.8	-6.5	4.2	3.7	3.0	
1982-83	5.9	-0.6	5.4	7.9	8.0	
1983-84	4.6	0.8	3.3	6.8	6.1	
1984-85	5.2	0.3	6.0	8.2	8.2	
1985-86	4.0	-0.4	12.2	10.1	9.1	
1986-87	3.8	0.3	14.6	9.7	9.3	
12 MONTH % CHANGES (ua except M0)						
	JUNE	3.3	-0.1	14.8	12.0	11.0
	JULY	3.2	0.0	14.5	11.7	10.9
	AUGUST	3.3	0.8	12.7	10.9	10.4
	SEPTEMBER	3.4	1.4	15.1	11.9	11.1
	OCTOBER	3.4	1.5	14.6	12.0	11.3
	NOVEMBER	3.3	1.9	14.8	11.9	11.4
	DECEMBER	3.7	1.6	13.9	11.1	10.3
1987	JANUARY	3.7	1.4	13.4	9.8	9.3
	FEBRUARY	3.7	0.4	14.8	9.8	9.3
	MARCH	3.8	0.3	14.6	9.7	9.3
	APRIL	3.6	1.2	16.3	10.6	10.1
	MAY	3.8	0.6	14.6	9.5	9.3
	JUNE	3.5	0.7	15.2	10.0	9.8
	JULY	3.7	1.6	16.6	10.8	10.5

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TABLE 13

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets)			% change on previous Month		% change on year earlier						
	Notes and coin (nsa)	Notes and coin (sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)	
1987												
Mar	14,577	14,808	(-3)	232	14,809	15,040 (+64)	-0.0	+0.4	+3.2	+3.8	+3.5	+4.1
Apr	14,931	14,903	(+95)	203	15,134	15,106 (+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,973	14,976	(+73)	203	15,176	15,179 (+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,947	15,071	(+95)	136	15,083	15,207 (+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,272	15,154	(+83)	234	15,506	15,388 (+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,338	15,259	(+105)	182	15,520	15,441 (+53)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
Sept ^f (2 of 5)	15,427	15,362	(+103)	269	15,696	15,631 (+190)	+0.7	+1.2	+5.8	+5.0	+6.3	+5.4
Latest 4 weeks ^f	15,389	15,328	(+139)	200	15,589	15,527 (+98)	+0.9	+0.6	+4.8	+4.9	+5.0	+5.0
Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)						
August												
5th	15,202	(+43)	260	15,462	(-8)		-0.1					
12th	15,245	(+43)	209	15,454	(-8)		-0.1					
19th	15,270	(+25)	59	15,328	(-126)		-0.8					
26th	15,317	(+47)	202	15,518	(+190)		+1.2					
September^f												
2nd	15,379	(+62)	325	15,703	(+185)		+1.2					
9th	15,346	(-33)	214	15,560	(-143)		-0.9					

^f Most recent data include estimates only for coin and unbacked note issues. The percentage changes for September so far use as their base the average for the full relevant month; for the latest 4 week period changes as based on the previous 4 week period and a comparable period a year ago.

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TABLE 14

BUILDING SOCIETY BALANCE SHEET FLOWS

(Unadjusted, fm)

	Assets					Liabilities			
	Total Flow	Net Mortgage Advances & Unsecured Lending	Liquid Assets	Fixed assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)	
1985 *	1459	1193	239 (18.0)		27	592	495	205	167
1986 *	1623	1589	17 (16.4)		17	553	498	523	49
1985 Q2*	1490	1219	241 (16.5)		30	508	583	113	286
Q3*	1666	1157	479 (17.0)		30	590	384	153	539
Q4*	2172	1367	783 (18.0)		22	766	660	594	152
1986 Q1*	858	1271	-431 (17.5)		18	740	462	167	-511
Q2*	1591	1645	-74 (16.6)		20	478	522	321	270
Q3*	1783	1884	-112 (15.7)		11	56	402	1099	226
Q4*	2262	1556	686 (16.4)		20	938	649	403	272
1987 Q1*	1240	1120	105 (16.1)		15	484	594	279	-117
Q2*	1602	1284	303 (16.2)		15	595	523	182	302
June	965	1354	-404 (16.2)		15	556	1067	8	-666
Forecast									
Q3*	1509	1210	284 (16.3)		15	481	430	392	206
July +	1536	1308	213 (16.2)		15	281	745	475	35
August	1886	1273	598 (16.4)		15	404	93	400	989
Sept	1103	1048	40 (16.3)		15	697	451	300	-345
Oct	2312	1295	1002 (16.7)		15	1038	313	300	661

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

+ Estimated ; part data

TABLE 15

COMPONENTS OF M3

	BANK DEPOSITS				
	NOTES AND COINS	RETAIL		WHOLESALE	M3
		NIB	IB		
% CHANGES					

Financial years (ua)					
1984-85 ¹	5.2	6.5	7.7	19.1	11.5
1985-86 ¹	3.7	4.5	16.8	26.1	16.7
1986-87 ¹	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
JULY	5.3	13.9	20.6	21.8	18.2
AUGUST	4.1	11.9	16.2	21.7	16.4
SEPTEMBER	2.7	23.4	16.8	22.1	19.0
OCTOBER	5.8	15.3	18.6	22.8	18.5
NOVEMBER	4.0	13.3	17.1	25.6	18.6
DECEMBER	5.1	14.4	18.7	22.3	18.1
1987 JANUARY	3.7	14.7	16.2	23.0	17.6
FEBRUARY	3.2	14.5	17.2	25.7	19.0
MARCH	-2.2	16.9	17.4	25.5	19.0
APRIL	6.4	14.5	17.1	28.0	20.5
MAY	3.6	16.4	19.0	23.1	19.0
JUNE	4.0	18.1	15.4	25.3	19.2
JULY	6.3	15.4	12.0	32.5	20.9
Over 6 months (sa)					
1987 FEBRUARY	0.0	19.6	15.7	21.1	17.3
MARCH	2.9	-8.4	16.2	35.5	17.8
APRIL	2.3	10.5	12.2	37.8	22.0
MAY	-2.3	21.0	10.4	40.3	24.0
JUNE	9.0	24.5	11.3	40.0	26.0
JULY	3.5	22.9	12.5	48.8	29.2
CHANGES £ MILLION					

monthly average (sa)					
1984-85 ¹	42	56	238	683	1017
1985-86 ¹	17	90	161	556	1565
1986-87 ¹	4	359	538	1255	2157
Over 1 month (sa)					
1987 FEBRUARY	-135	808	30	2743	3446
MARCH	-215	-15	702	4694	5166
APRIL	264	-357	488	2603	2998
MAY	156	1278	295	1748	3477
JUNE	-111	1705	557	-426	1725
JULY	267	-409	564	3527	3949

¹March on March

TABLE 16

SECRET

THE COMPONENTS OF M4 AND M5

BUILDING SOCIETIES							
	M3	RETAIL ¹	WHOLESALE	HOLDINGS OF M3 (inc -)	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							

Financial years (ua)							
1984-85 ²	11.5	15.1		1.5	13.8	12.2	13.8
1985-86 ²	16.7	15.3	52.6	93.7	13.5	-0.1	14.5
1986-87 ²	19.0	10.8	11.4	57.7	13.9	5.3	13.5
Over 12 months (ua)							
JULY	18.2	13.7		46.6	15.3	1.0	14.4
AUGUST	16.4	13.5		34.5	14.6	5.1	14.0
SEPTEMBER	19.0	12.1		24.1	15.7	2.8	14.9
OCTOBER	18.5	12.9		28.7	15.8	4.1	15.1
NOVEMBER	18.6	12.2		24.0	15.6	5.4	15.1
DECEMBER	18.1	11.7		17.9	15.2	1.7	14.4
1987 JANUARY	17.6	11.4		43.0	13.9	3.3	13.3
FEBRUARY	19.0	11.0		62.9	13.9	3.7	13.3
MARCH	19.0	10.8		57.7	13.9	5.3	13.5
APRIL	20.5	10.6		55.7	14.6	5.3	14.1
MAY	19.0	10.5		60.0	13.7	9.5	13.5
JUNE	19.2	10.5		69.0	13.9	9.4	13.6
JULY	20.9	10.6		69.2	14.9	8.0	14.6
Over 6 months (sa)							
1987 FEBRUARY	17.3	8.5		65.5	11.0	-0.5	10.3
MARCH	17.8	12.2		61.3	12.9	-1.9	12.1
APRIL	22.0	10.6		56.0	14.5	-4.9	13.5
MAY	24.0	11.0		68.2	15.1	1.5	14.4
JUNE	26.0	11.8		51.7	17.5	10.8	17.1
JULY	29.2	11.9		43.8	20.3	11.8	19.8
CHANGES £ MILLION							

monthly average (sa)							
1984-85 ²	984	1034	42	-28	139	2221	2090
1985-86 ²	1565	1207	50	-362	-118	2480	2557
1986-87 ²	2157	938	17	-372	51	2791	2975
Over 1 month (sa)							
1987 FEBRUARY	3446	877	-62	-625	3636	-48	3588
MARCH	5166	1499	-136	-848	5681	-309	5272
APRIL	2998	1297	41	-665	3671	-321	3350
MAY	3477	918	100	-720	3775	820	4595
JUNE	1725	1335	3	525	3558	255	3913
JULY	0	901	294	-180	4964	334	5298

1. Net in flow including Term shares, and SAVE.

2. Treasury bills, bank bills, LA temporary debt, CTD's and some national savings accounts.

3. March on March

TABLE 17

RETAIL DEPOSITS

	BANKS.	BUILDING ¹ SOCIETIES	NATIONAL SAVINGS	TOTAL
% CHANGES				
Financial years (ua)				
1984-85 ³	7.1	15.1	11.9	12.0
1985-86 ³	11.6	15.3	7.5	12.9
1986-87 ³	17.2	10.8	10.8	12.7
Over 12 months (ua)				
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	15.6	12.2	8.1	12.6
DECEMBER	17.0	11.7	8.4	12.8
1987 JANUARY	15.6	11.4	9.1	12.3
FEBRUARY	16.1	11.0	10.1	12.4
MARCH	17.2	10.8	10.8	12.8
APRIL	16.1	10.6	11.0	12.5
MAY	17.9	10.5	10.8	12.9
JUNE	16.4	10.6	10.5	12.9
JULY	13.4	10.6	9.2	
Over 6 months (sa)				
1987 FEBRUARY	17.2	8.5	9.9	11.4
MARCH	5.6	12.2	11.5	9.9
APRIL	11.6	10.6	11.5	11.3
MAY	14.4	11.0	11.3	12.1
JUNE	16.4	11.8	11.5	12.1
JULY	16.5	11.9	10.8	
CHANGES £ MILLION				
monthly average (sa)				
1984-85 ³	42	1034	683	1759
1985-86 ³	255	1207	1093	2555
1986-87 ³	871	938	266	2075
Over 1 month (sa)				
1987 FEBRUARY	838	877	342	2057
MARCH	687	1499	281	2467
APRIL	131	1297	244	1672
MAY	1573	918	230	2721
JUNE	2262	1305	298	3865
JULY	155	901	248	1304

NOTES

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

TABLE 18

Breakdown of Bank Lending by instrument (banking months before 1986 October)

		unadjusted					
		Advances	Commercial Bills	Investment ¹	Other ²	Total	Total s/a
<u>1984-1986</u>							
<u>% change³</u>							
1984-85		15.5	27.7	18.0	n/a	17.5	17.5
1985-86		17.9	-7.4	81.3		16.9	16.8
<u>Monthly average³</u>							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
<u>Contributions to annual bank lending growth⁴</u>							
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	
<u>Monthly changes</u>							
<u>Banking months</u>							
1986	July	2100	1956	421	282	4759	3164
	August	1524	-404	-10	432	1542	2502
	September	1757	-459	-21	-605	673	888
<u>Calendar months</u>							
1986	October	858	1154	323	980	3315	3486
	November	2221	420	129	482	3252	3837
	December	2655	1369	288	-271	4041	3193
1987	January	905	562	34	-136	1365	1701
	February	2617	-426	71	345	2607	2881
	March	4644	-2026	337	420	3375	2083
	April	1746	-409	211	-402	1146	1989
	May	3607	-2126	293	497	2271	2734
	June	5152	752	-8	-1210	4686	3931
	July	2122	1677	-102	868	4565	4861

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.

COUNTERPARTS TO M3 M4 M5

£ million

	M3	M4	M5
LATEST MONTH : JULY 1987	----	----	----
PSBR	-420	-420	-420
Debt sales (-): Other Public Sector	192	105	105
Central Government	524	703	713
Public external & fc finance (-)	-788	-788	-788
-----	-----	-----	-----
Over(-)/under(+)funding	-492	-400	-390
-----	-----	-----	-----
£ lending to private sector	4566	5942	6275
Bank/bank & b society externals (-)	-1481	-1612	-1612
Bank/bank & b society £NNDLs (-)	1606	1380	1380
-----	-----	-----	-----
TOTAL	4199	5310	5653
-----	-----	-----	-----

FINANCIAL YEAR 1987/88 TO DATE

PSBR	664	664	664
Debt sales (-): Other Public Sector	1388	556	606
Central Government	-1738	-1341	-786
Public external & fc finance (-)	1614	1614	1614
-----	-----	-----	-----
Over(-)/under(+)funding	1928	1493	2098
-----	-----	-----	-----
£ lending to private sector	12669	18775	19315
Bank/bank & b society externals (-)	-2068	-2411	-2411
Bank/bank & b society £NNDLs (-)	40	-1494	-1494
-----	-----	-----	-----
TOTAL	12569	16363	17508
-----	-----	-----	-----

FINANCIAL YEAR 1986/87

PSBR	3343	3343	3343
Debt sales to private sector (-)	-1235	-5840	-6082
Public external & fc finance (-)	-1700	-1700	-1700
-----	-----	-----	-----
Over(-)/under(+)funding	408	-4197	-4439
-----	-----	-----	-----
£ lending to private sector	30299	47406	48393
Bank/bank & b society externals (-)	-676	-1553	-1553
Bank/bank & b society £NNDLs (-)	-4601	-8689	-8689
-----	-----	-----	-----
TOTAL	25430	32967	33712
-----	-----	-----	-----

Table 21:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING			
Banks	Building Societies	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL	
1984											
Q1	5141	3007	8148		163	44	25	232	8380	1102	9482
Q2	2781	4076	6857		429	75	0	504	7361	808	8169
Q3	3285	4087	7372		288	59	100	447	7819	1047	8866
Q4	4535	3402	7937		249	73	210	532	8469	1948	10417
1985											
Q1	7093	3189	10282		924	170	235	1329	11611	3225	14836
Q2	4158	3748	7906		1092	327	230	1649	9555	1382	10937
Q3	4148	3560	7708		873	274	130	1277	8985	-806	8179
Q4	4803	4232	9035		525	89	200	814	9849	939	10788
1986											
Q1	7431	3867	11298		471	209	350	1030	12328	2362	14690
Q2	5465	5083	10548		1369	344	325	2038	12583	1575	14158
Q3	5764	5592	11356		1431	290	231	1952	13302	3488	16790
Q4	10433	4667	15100	65	2329	-52	281	2633	17733	591	18324
1987											
Q1	7037	3464	10501	312	1558	-781	1231	2320	12821	7358	20179
Q2	8585	4240	12825	588	2231	346	740	3905	16730	4633	21363
Average per quarter											
1984	3936	3643	7579	0	282	63	84	429	8007	1226	9234
1985	5051	3682	8733	0	854	215	199	1267	10000	1185	11185
1986	7273	4802	12075	16	1403	198	297	1913	13989	2054	16043
1987											
H1	7811	3852	11663	450	1895	-218	986	3113	14776	5996	20771
1987											
JANUARY	1316	1304	2620	150	500	-67	110	693	3313	1368	4681
FEBRUARY	2594	980	3574	85	870	20	315	1290	4864	2404	7268
MARCH	3127	1180	4307	77	183	-735	806	331	4638	3586	8224
APRIL	1333	1590	2923	193	828	110	440	1571	4494	1242	5736
MAY	2222	1295	3517	79	414	184	150	827	4344	2635	6979
JUNE	5032	1355	6387	289	1007	58	150	1504	7891	756	8647
JULY	4639	1302	5941	24	1734	68	150	1976	7917	-2239	5678
AUGUST					1972	386	150				

*Gross Issues announced by U.K. ICC's.

TABLE 22

SECRET

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

	APR-JUL 1987	£ million	u/a
CGBR	3755		
Gilt sales to nbps and overseas (inc-)	-3357		
Other CG debt sales to nbps incl Treasury bills* (-)	-1228		
CG external and fc finance other than BGS(-)	4434		
Funding of the CGBR Over(-)/under(+)	3604		3604
		Other BGS sales (-)	1548
OPS net of on lending	-3091	Other CG debt sales (-)	-780
OPS debt sales to nbps(-)	1388	Notes and coins (-)	-1020
OPS currency finance(-)	27	Other incl exchequer (-)	-559
Funding of OPS Over(-)/under(+)	-1676	CG bank deposits (+)	-188
	-----	Total influences*	2605
Funding of PSBR Over(-)/under(+)	1928	(surplus+,shortage-)	-----
		Change in bankers deposits (-)	100
		Change in level of assistance (+) #	-2705
		of which	
		Issue Department bills	331
		Banking Department bills	1436
		Market advances	-1341
		Repos	-3131
		Level of assistance	
		End March 1986	13317
		End March 1987	9742
		End July 1987	7038

* 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

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted

M0

M3

M4

M5

1 MONTH % CHANGE TO:

1987 MAY		0.3	2.0	1.3	1.4
JUNE		-0.6	1.1	1.5	1.4
JULY		2.8	2.5	1.9	1.9
AUG	)	* 0.1	1.3	0.9	0.8
SEP	) FORECAST	N/A	0.8	0.8	0.8
OCT	)	N/A	1.2	0.8	0.6

12 MONTH % CHANGE TO:

1987 MAY		4.4	19.0	13.7	13.5
JUNE		4.2	19.2	13.9	13.6
JULY		5.3	20.9	14.9	14.6
AUG	)	* 4.5	22.1	15.5	15.0
SEP	) FORECAST	N/A	19.4	14.6	14.2
OCT	)	N/A	19.8	14.3	13.8

Seasonally adjusted

1 MONTH % CHANGE TO:

1987 MAY		0.5	2.1	1.4	1.6
JUNE		0.2	1.0	1.3	1.3
JULY		1.2	2.3	1.8	1.8
AUG	)	* 0.3	1.5	1.3	1.3
SEP	) FORECAST	1.0	0.7	0.4	0.4
OCT	)	0.4	0.9	0.6	0.5

12 MONTH % CHANGE TO:

1987 MAY		4.4	18.9	13.5	13.4
JUNE		4.2	19.1	13.7	13.5
JULY		5.4	20.8	14.8	14.4
AUG	)	* 4.7	22.2	15.4	15.0
SEP	) FORECAST	5.2	19.3	14.5	14.1
OCT	)	5.6	20.3	14.4	14.0

* August out-turn for M0

SECRET

TABLE 24: MO FORECAST

	LEVELS £ MILLION			SEASONALLY ADJUSTED			
	Notes and coin	Bankers' Deposits	MO	% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
				Notes and coin	MO	Notes and coin	MO
ACTUAL							
Jan	14,947	157	15,104	+0.1	-0.5	+5.5	+5.1
Feb	14,811	165	14,976	-0.9	-0.8	+4.3	+4.1
Mar	14,808	232	15,040	-0.0	+0.4	+3.8	+4.1
April	14,902	204	15,106	+0.6	+0.4	+4.6	+4.8
May	14,975	204	15,179	+0.5	+0.5	+4.5	+4.4
June	15,070	137	15,207	+0.6	+0.2	+4.6	+4.2
July	15,154	234	15,388	+0.5	+1.2	+4.7(4.8)	+5.4(5.1)
August	15,259	182	15,441	+0.7	+0.3	+4.6(4.5)	+4.7(4.7)
FORECAST							
September	15,380	220	15,600	+0.8	+1.0	5.1(4.9)	5.2(4.8)
October	15,465	190	15,655	+0.6	+0.4	5.2	5.6
November	15,530	190	15,720	+0.4	+0.4	4.9	5.0
December	15,600	190	15,790	+0.5	+0.4	4.4	4.0
January	15,650	190	15,840	+0.3	+0.3	4.7	4.9
February	15,690	190	15,880	+0.3	+0.3	5.9	6.0
March	15,730	190	15,920	+0.3	+0.3	6.2	5.9

* Last month's forecast in brackets.

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TABLE 25

BROAD AGGREGATES FORECAST

£ mn u/a

	OUTTURN	FORECAST		
	1987 JULY	AUG	SEP	OCT
1. CG (OA) (SURPLUS-)	-345	1200	375	-1200
2. LABR	186	250	-175	-300
3. PCBR	-261	-50	125	150
4. PSBR(1+2+3)	-420	1400	325	-1350
5. NET DEBT SALES TO NBPS (-)				
GILTS	631	-100	-225	-725
TREASURY BILLS etc	-17	50	50	50
NATIONAL SAVINGS	-178	-250	-150	-75
CTDs	88	0	250	150
OPS DEBT	192	50	100	150
TOTAL	716	-250	25	-450
6. EXTERNAL FINANCE OF PUBLIC SECTOR (INC-)	-788	-450	150	25
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	-492	700	500	-1775
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	4566	2050	3950	3350
(seasonally adjusted)	(4862)	(3000)	(2950)	(3500)
9. PRIVATE NET EXTERNALS AND NET NON-DEPOSIT LIABILITES	125	-550	-2975	550
10.M3 (7+8+9)	4199	2200	1475	2125
BUILDING SOCIETIES:				
11. RETAIL DEPOSITS	1052	675	975	600
12. WHOLESALE DEPOSITS NBPS	294	150	100	100
13. HOLDINGS OF M3 (-)	-235	-575	-175	-550
14.M4 (10+11+12+13)	5310	2450	2375	2275
15.MONEY MARKET INSTRUMENTS	279	0	-25	-350
16.NATIONAL SAVINGS BANK	64	75	75	75
17.M5 (14+15+16)	5653	2525	2425	2000

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TABLE 26: MONEY MARKET INFLUENCES

£ million
not seasonally adjusted

	Actual		Forecast	
	1987 JULY	AUG	SEP	OCT
A. Money market influences				
(i) CGBR (+)	-431	808	575	-1150
(ii) Reserves etc (+)	337	-325	-25	-125
(iii) Notes and coin (-)	-732	-102	475	-375
(iv) National Savings (-)	-169	-233	-150	-100
(v) CTDs (-)	90	16	250	150
(vi) Gilts (-)	-453	-267	-375	-900
(vii) Other Exchequer items etc	-473	334	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	<u>-1831</u>	<u>231</u>	<u>750</u>	<u>-2500</u>
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	1373	-349		
- repo terms	0			
Banking Department	515	-463		
(ii) LA bills (purchase +)				
Issue Department	54	17		
Banking Department	54	-57		
(iii) Treasury bills (purchase +)	-46	690	500	300
(iv) Market advances	-90	-72		
(v) Export Credit/Shipbuilding Repos	0			
(vi) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	<u>1860</u>	<u>-234</u>	<u>-750</u>	<u>2500</u>
C. Change in bankers balances = A + B	29	-3		
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	7038	6114	4864	7064
of which commercial bills	6620	6017	4767	6967

GOVERNMENT SHARE SALES: TIMETABLE

1987

23 September

Rolls-Royce II

15 October (lists ~~20~~ October)

BP I

1988

19 April

BGC III

19 May

BAA II