

MONETARY MONETARY ASSESSMENT : MARCH 1988

Summary Assessment

The indicators continue to suggest a strong economy, though the effects of the rise in sterling during March remain to be seen. The reduction in base rates of 17 March has left interest rates about  $\frac{1}{2}$  per cent lower than assumed in the Budget Forecast; the effect on monetary conditions of a higher exchange rate and lower interest rates is examined in a special Annex.

Main Points

Sterling has risen by about 3 per cent since 7 March, both against the DM and in effective terms, following the decision by the authorities to refrain from further large-scale intervention - which totalled \$2 billion in the first week of the month. A rise in the oil price has left the oil adjusted exchange rate 2 per cent higher. (Paras 21, 23).

The Budget Forecast showed money GDP growth for 1987-88 of  $9\frac{3}{4}$  per cent. A deceleration is projected for 1988-89, with growth of  $7\frac{1}{2}$  per cent. If sustained, the combination of the rise in the exchange rate and lower interest rates in March might further reduce money GDP growth by about  $\frac{1}{4}$  per cent in 1988-89. (Paras 16, 17 and Annex)

M0 grew by 5.3 per cent in the year to February, and the 12 month growth rate is expected to rise to  $5\frac{1}{2}$  per cent in March. As consumer spending slows, the rate is projected to fall from  $5\frac{1}{2}$  per cent in April to below 5 per cent in July. (Paras 26, 27)

February broad money and credit growth was relatively modest. This may owe something to the partial unwinding of earlier bill arbitrage, although most will probably unwind in March and April. M4 grew by 16 per cent in the year to February ( $16\frac{1}{2}$  per cent in the previous month). Bank and building society lending grew by 20 per cent in the year to February, unchanged from the previous month. (Paras 29-37)

Building societies continued to benefit from the unpopularity of equities and unit trusts, allowing many societies to bid aggressively for lending, market share. (Paras 33, 36)

Annex: The Rise in the Exchange Rate

Price Mark 2

11A.

You may like to think through

this latest Treasury assessment, in particular the annex on the exchange rate.

RECG 343

## A. External Developments

1. Total output in the G5 rose by 3 per cent in 1987. Growth was much stronger in the second half of the year than the first (table 1). Industrial production picked up in all countries at the end of 1987. In January it was 6 per cent higher than a year earlier in the US. A continuing rise in commodity prices, particularly in industrial materials, is consistent with the picture of strengthening industrial activity since last summer (table 3C).

2. Short term interest rates in the US have fallen by about  $\frac{1}{2}$  percentage point since the beginning of the year, most of the fall occurring in January. Rates in Germany and Japan drifted down slightly during January and have been broadly unchanged since then (table 3A).

3. The dollar effective exchange rate remained relatively stable from the middle of January to the middle of March, following sharp falls at the end of 1987 and a partial recovery in early January. Since then it has fallen by 1 percentage point and is now 9 per cent lower than immediately before the stock market crash.

4. Share prices have risen in all major markets since January. Prices on Wall Street have now recovered about half their earlier losses while those in Tokyo are virtually back to their levels immediately before the crash.

### Conditions in West Germany

5. Industrial production was nearly 5 per cent higher in January than a year earlier, but this exaggerated the strength of activity as production in January 1987 was hit by bad weather. The trade surplus increased sharply in the last two months of 1987 in dollar terms, but this was mainly because of the fall in the dollar. In DM terms the surplus remained fairly constant during 1987.

6. Inflation remains a little below 1 per cent and, with unit labour costs hardly rising and import prices remaining low in DM terms, cost pressures remain weak. The new targeted aggregate (M3) continues to grow close to the upper end of its 3-6 per cent range.

## B. Activity and Inflation

7. Table 4 summarises recent indicators of activity and inflation. Indicators released this month show continued strength of economic activity and little change in inflation. High levels of overtime working held the underlying increase in average earnings at 8½ per cent for the second successive month.

### Recent indicators of activity

8. National accounts for the fourth quarter of 1987, published on 18 March, showed the average measure of GDP up just over ½ per cent from the third quarter. The output measure of GDP - a more reliable indicator of short term GDP trends - rose 1 per cent in the fourth quarter, somewhat less than the 1½-2 per cent increases in GDP(O) seen in the second and third quarters.

9. Output growth was broadly based in 1987Q4: manufacturing output rose 1¼ per cent; services ¾ per cent; and construction activity nearly 3½ per cent. Latest indicators suggest continued expansion into 1988: **manufacturing output** rose, provisionally, around ¼ per cent between December and January. The March CBI survey of manufacturers, which reflects responses collected since the rise in sterling but before the base rate cut, was published on 28 March. Output expectations remain high and the CBI expect continued rapid growth across the whole range of manufacturing. However, responses for total and export order books (adjusted for seasonal variation) have fallen relative to both January and February outturns, and may hint at some moderation in growth later in 1988. Private sector **housing starts** eased only slightly in January following a sharp increase to historically high levels in December.

10. Fourth quarter growth in the expenditure measure of GDP (1¼ per cent) was also broadly based: **consumers' expenditure** rose 1 per cent; exports of goods and services 1½ per cent, and fixed investment a strong 4 per cent after rather sluggish growth earlier in 1987. The fourth quarter saw a particularly notable rise in **industrial investment spending** (revised) primarily reflecting a

sharp increase in recorded investment by the financial and business services industry. While quarter to quarter movements in industrial investment are often erratic, growth of 9 per cent in 1987 is indicative of the underlying buoyancy of business investment .

11. Consumers' expenditure growth has apparently been maintained into 1988 with retail sales broadly unchanged between January and February but - for these two months - up by over 1 per cent relative to 1987Q4 levels. New car registrations fell only marginally in January following a high December outturn.

12. Labour market indicators are consistent with continued growth in activity. Overtime working in manufacturing rose sharply in January, to a level well above recent outturns. Unemployment fell further in February, though the 33,000 reduction was slightly below the average 50,000 monthly fall over the preceding 6 months. Unfilled vacancies at job centres fell for the third successive month in February, but remain high by recent standards.

#### Inflation

13. Retail price inflation remained unchanged at 3.3 per cent between January and February, while inflation measured by the RPI excluding mortgage interest payments edged down from 3.7 to 3.6 per cent (see Table 4b). The 12 month increase in the producer price index (excluding food, drink and tobacco) in February was 5.0 per cent, compared to 4.8 per cent in January. Despite this, the March CBI survey of manufacturers saw the second consecutive monthly fall in (seasonally adjusted) price expectations. The CBI remarked that the rate of price inflation is now slowing. The annual increase in producer input prices (also excluding FDT) was 5.6 per cent in February, up from 4.5 per cent in January. Input prices rose 1 per cent on a seasonally adjusted basis in February, following a period of downward movement totalling 1½ per cent over the six months to January.

14. Underlying growth in average earnings remained at 8½ per cent in January. Increases in the manufacturing sector edged up from

8½ to 8½ per cent, while in services there was a fall from 8½ to 8½ per cent.

15. Figures for house prices in February show that the rapid rates of increase seen over recent months are, if anything, rising further. The Halifax index reported in last month's report showed an increase from 16.3% in January to 16.9%, whilst the DoE indices on completions and approvals showed increases from 21.3% to 21.8% and from 20.5% to 22.7% respectively. More evidence is also coming in - largely from the Royal Institute of Chartered Surveyors - of considerable changes in the regional pattern of house price inflation, with the North, the South West and the East Midlands experiencing 'mushrooming' growth, with the market in London and the South East slowing. It is thought that the Budget measure on joint mortgages may provide a temporary lift to London prices, but will prove a depressing factor over the medium term.

#### Projections for money GDP

16. Money GDP is estimated to have increased 9½ per cent in the year to the fourth quarter of 1987, the same as the average year-on-year increase for the last three quarters of the year (ie the first three quarters of financial year 1987-88). The Budget forecast showed a 9½ per cent increase in money GDP for 1987-88 as a whole, with deceleration to 7½ per cent growth in 1988-89. For 1987-88 the difference between the Budget forecast and the figure of 10 per cent circulated at the time of the winter internal forecast represents a difference of rounding rather than a significant change of view about the prospects for activity or the GDP deflator in early 1988. The Budget forecast for 1988-89 (7½ per cent money GDP growth) is in line with the winter internal forecast, though the composition has changed marginally, with real activity showing ¼ per cent higher growth, and the GDP deflator ¼ per cent lower.

17. Following the recent appreciation of sterling, the effective exchange rate now stands around 3 per cent higher than assumed for the remainder of 1988 in the Budget forecast. Against this,

base rates are a half point lower (though the difference for market rates is marginally smaller). If sustained, this is likely to constitute a small net tightening of monetary conditions: money GDP growth may possibly be reduced by a little under  $\frac{1}{4}$  per cent, with real GDP around 0.1 per cent lower, in 1988-89, see Annex. Lower interest rates and a stronger pound imply downward pressure on the RPI, together with some shift from external to domestic demand. Though the latter effects may be relatively small it will be important to monitor closely CBI survey outturns on export order books and retail sales figures over the coming months.

### C. Public Sector Finances and the Fiscal Stance

18. Table 5 gives the main indicators of the fiscal stance. The PSBR in February was a surplus of £0.5 billion, with privatisation proceeds close to zero. The PSBR for the first eleven months of 1987-88 is a surplus of £7.4 billion, £7.5 billion greater than the 1987 Budget profile. Central government own account borrowing is £6.8 billion below profile - Table 6 gives details. Public corporations' borrowing is £0.7 billion below profile, but local authorities' borrowing is £0.2 billion above profile. Excluding privatisation proceeds, there was a surplus of £2.3 billion in April to February.

19. The published 1988 Budget forecast for the PSBR in 1987-88 was a surplus of £3.1 billion. This forecast was deliberately cautious - the corresponding central forecast was a surplus of £3.7 billion.

20. The latest central estimate for the PSBR in 1987-88 (£3.3 billion as of 24 March - estimate made for funding purposes) represents a predicted undershoot of about £7 $\frac{1}{4}$  billion on the 1987 Budget forecast (which was for a PSBR of £3.9 billion). Nearly £4 billion of this undershoot is now estimated to be attributable to higher than expected economic activity and higher oil prices (onshore GDP deflator growth being much as expected). Of the remainder almost £1 billion reflects higher receipts from Local Authority sales of land and existing buildings and mortgage

repayments, which have little impact on the economy. This leaves an estimate of about £2¼ billion - attributable to both higher revenue and lower expenditure - representing a tightening of ex-ante fiscal stance ie for given activity and prices. (Privatisation proceeds are likely to be much as expected in the 1987 Budget.) In other words, even excluding the automatic fiscal tightening connected with higher than expected activity, and after allowing for relevant compositional changes, fiscal stance in 1987-88 appears to have been appreciably tighter than envisaged in the 1987 Budget. On the basis of latest data the direct effect of fiscal policy therefore looks to have been in the direction of restraining money GDP growth, although to some extent this assessment may be symptomatic of errors in the latest GDP estimates.

#### D. UK Exchange Rate and External Accounts

21. Foreign exchange markets in the first half of March were dominated by the decision of the UK authorities to allow sterling to rise above DM 3. Sterling began the month firmly above DM 2.99, despite poor trade figures for January. Easier oil prices did not have any effect, and heavy intervention was necessary to hold the DM 3 rate. After the cap was lifted, sterling rose rapidly despite further intervention. The announcement of larger than expected fiscal surpluses caused sterling to move above DM 3.09 and a rise above DM 3.10 on 17 March was followed by a decision to cut the Bank's dealing rates by ½ per cent. Sterling subsequently fell back to under DM 3.09 on worse than expected trade figures for February. In effective terms sterling has risen from 74.7 to 77.1 (up to 28 March), a 3¼ per cent rise over this period, and from \$1.77 to \$1.85, a rise of 4½ per cent.

22. The UK 3 month interest rate, which stood at 9.3 at the beginning of the month, eased back to 8.8 on 28 March. The decline was fairly steady over the first half of the month, though re-inforced after the uncapping of sterling and the subsequent base rate cut on 17 March. Rates in other major countries have been stable over the period, so the interest rate differentials against them have narrowed by half a point since the beginning

of the month, more than reversing February's rise.

23. The rise in sterling took place despite a further fall in the Brent oil price, from \$14¼ a barrel at the end of February to just over \$14 a barrel in mid March. As a result the oil adjusted ERI rose sharply, by nearly 4½ per cent, over this period. Subsequently, OPEC developments have brought the oil price back to \$15½, but the adjusted exchange rate is still 2 per cent higher than at the beginning of March.

24. Since the beginning of March official intervention has amounted to \$2.8 billion, of which \$0.8 billion has taken place since sterling rose above 3 DM on 7 March.

25. The February trade figures, published on 25 March, showed a current account deficit of £720 million compared with a revised deficit of £844 million in January. This was rather worse than City expectations, reflecting a 2 per cent fall in exports volumes recorded, a 2½ per cent fall in import volumes and a ½ per cent improvement in the terms of trade. The February figures - like those for January - should be interpreted with some caution. We are satisfied that all documents received by Customs have been correctly processed and validated and there is no evidence of shipments being delayed by documentation problems. It is possible that some traders may have been late in submitting documents, but this is unlikely to explain the sharp fall in January and February. The Ferry operators' strike in early February is likely to have affected exports more than imports, although most shipments from Dover were apparently re-routed to neighbouring parts. The Ford strike is estimated to have had only minimal effects. We will have to wait for some months before we can be sure whether the pattern of trade in January and February has been distorted.



## E. Domestic Monetary and Financial Market Developments

(see Tables 10 to 27)

### Narrow Money

26. M0 growth was below expectations in February, reflecting erratic falls in bankers' balances and the Northern Irish note issue. The seasonally adjusted 12 month growth rate rose to 5.3 per cent, from 4.6 per cent in January, reflecting developments a year ago. The 12 month growth rate of notes and coin rose to 5½ per cent, from 4½ per cent in January. In contrast, annualised six month growth of notes and coin has been falling recently, from 8 per cent in December to 5½ per cent in February, although this may reflect in part faulty seasonal factors in the months around Christmas when seasonal influences are particularly strong.

27. Based on the weekly figures to date, the forecast has the 12 month growth rate of M0 rising to about 5½ per cent in March, with the growth rate still being depressed (by about ¼ per cent) by a series of low figures for bankers' balances. The 12 month growth rate of M0 is projected to remain at about 5½ per cent in April, but to fall under 5 per cent from July, mainly reflecting an expected slowdown in the growth of consumer spending.

28. NIB M1 rose by £0.6 billion in February and the annual growth rate rose to 12 per cent, from 11½ per cent in January. The annual growth rate of NIB M1 has been relatively stable, at between 10 and 12 per cent, since the end of 1986, in contrast to earlier periods when NIB M1 growth was extremely volatile. Interest-bearing sight deposits fell by £1.0 billion in February which, together with the increase in NIB M1, gives a £0.4 billion fall in M1 in February and the annual growth rate of M1 fell to 20½ per cent, from 21½ per cent in January. The growth of IB sight deposits has slowed down since the stock market crash, averaging a fall of £0.3 billion per month since October compared to an average increase of £1.4 billion per month in the six months to October. To what extent this might reflect a slowdown in the growth of corporate liquidity

post-crash - as companies increasingly finance their takeover activity from their stocks of liquidity - is unclear prior to the Q1 sectoral breakdown available next month. However, the growth of wholesale bank deposits - which consist primarily of company deposits - has slowed rapidly in 1988 so far (see table 15).

### Broad Money

29. Twelve month growth rates of broad money fell back in February, reflecting the low growth of bank deposits. This may owe something to the partial unwinding of bill arbitrage in December and January, although it is likely that much of the bill arbitrage has still to unwind, since interest differentials were apparently greatest for 3 month bills which will mature in March and April. Building society retail deposits continued to grow strongly, so that while the 12 month growth rate of M3 fell back by 2 percentage points in February the 12 month growth rate of M4 fell by just over  $\frac{1}{2}$  percentage point, to 16 per cent. Within the broad money counterparts, the rise in bank and building society lending was at more normal levels in February, after two very high months.

30. M4 grew by £1.2 billion (0.4 per cent) in February and at an annual rate of 16 per cent, compared to 16 $\frac{1}{2}$  per cent in January. M3 rose by £0.5 billion (0.3 per cent) in February and the annual rate fell to 20 $\frac{1}{2}$  per cent, from 22 $\frac{1}{2}$  per cent in January.

31. With respect to the M4 components, holdings of M3 by the private sector excluding building societies rose by £0.1 billion. Private sector retail deposits with the building societies (including interest credited) were £1.2 billion in February, which continues the trend of a substantially higher level of inflows compared to pre-crash. Wholesale funding of the building societies by the private sector was negligible.

32. Of the M3 components, retail bank deposits increased by £1.3 billion in February - almost double the average increase of the previous 12 months - while wholesale deposits fell by £0.5 billion, compared to an average increase of £2 billion per month

over the previous 12 months. The low figure for wholesale deposits suggests there may have been some unwinding of December's and January's bill arbitrage this month, although the fall in wholesale deposits was exclusively in sight deposits whereas the unwinding of arbitrage would be expected to show up primarily in a fall in time deposits.

33. **Building societies' retail inflows**, at just over £1 billion (excluding interest credited), were very strong in February, despite a slight narrowing of their competitive advantage over the banks which raised some retail rates following the  $\frac{1}{2}\%$  base rate rise on 2 February. The continued weakness both of unit trust inflows and new equity issues is one explanation. Another, which may become increasingly important, is the provision of current account services, notably the launch by the Abbey National at the beginning of March of its "Current Account", following the success of the Nationwide Anglia's "Flex Account". Wholesale funding in February was, at £100 million, surprisingly low. So far this year societies have announced over £2½ billion of issues and facilities in bond markets, CD and Commercial Paper, and syndicated credit. Not all will be taken up, but there will be a significant inflow of wholesale funds over the next few months, which point to a planned expansion of lending activity. Meanwhile their liquidity ratio, at 16.6% (not seasonally adjusted including building society CDs), continues at a relatively high level.

#### Credit

34. **Bank and building society lending** rose by £4.0 billion (1.2 per cent) in February and the 12 month growth rate was virtually unchanged at around 20 per cent. While there was probably a partial unwinding of previous months' bill arbitrage in February, the 12 month growth rate of sterling lending is probably still being inflated by this.

35. **Sterling bank lending** grew by 1.2 per cent in February and at an annual rate of 24½ per cent, compared to 24½ per cent in January. Of the £2.5 billion increase in sterling bank lending,

advances increased by £2.3 billion, lending via commercial bills increased by £0.4 billion and lending to GEMM's fell by £0.3 billion. The £0.4 billion increase in acceptances provides further evidence that there was not a substantial amount of unwinding of previous months' bill arbitrage in February, although the increase in acceptances is more than fully explained by the Bank's net purchases of £1 billion of bills during the month. The CLSB banks covered £0.8 billion (about 40 per cent) of total bank advances. Of these, lending to persons was £0.5 billion, all of which was for house purchase. This compares with an average level of lending for house purchase of  $\frac{1}{4}$  billion per month in the previous four non-interest charging months. Although CLSB bank lending to persons for consumption was flat in February, seasonal factors are likely to have had a depressing influence.

36. Building societies' mortgage lending in February was £1.4 billion, slightly lower than January's exceptionally high level, but still one of the highest figures over the past year. In combination with the lower level of bank mortgage lending in recent months, this suggests that building societies are gaining market share, although some increase in total mortgage demand would tie in with the acceleration of house prices. Also, recent mortgage commitment figures have been very high, and the Budget changes may stimulate additional demand from unmarried co-habitors trying to beat the 1 August 1988 deadline for obtaining separate mortgage interest tax relief for each borrower. It is not yet clear whether other societies will follow the half point cut in mortgage rates announced by the Halifax on March 30. Half point cuts are unusual, and the Halifax were somewhat uncompetitive previously. On the other hand societies with excess funds will be reluctant to be upstaged. Should a further half point cut be made, societies would be likely to reduce their rates by around a full point, and possibly even by slightly more. In the absence of any further cut, some societies may alternatively choose peripheral mortgage rate moves by starting to offer fixed rate mortgages or move towards LIBOR linked mortgages. The forecast is for building society mortgage lending to recover in March to the January level of £1.7 billion (seasonally adjusted) and to increase slightly thereafter.

37. The provisional analysis of sterling bank lending by industry in the quarter to February suggests a continuation of the pattern in the previous two quarters. Lending remained very high to property companies, "other financial" (including mortgage finance companies), "other services" (mainly small businesses) and distribution companies, while securities dealers, brokers and jobbers continued to repay debt. New developments included some moderation in lending to the personal sector, both for house purchase and for consumption, though this is partly seasonal and also reflects higher mortgage lending by building societies. There was a surge in lending to manufacturing and construction companies, as in the same quarter last year, but lending to leasing companies fell back sharply.

#### Other Broad Money Counterparts

38. A PSBR surplus of £0.5 billion and gilt sales of £0.8 billion to the private sector were largely responsible for the overfund of £1.6 billion in February, giving a cumulative overfund of £5.7 billion in 1987-88 so far and a forecast underfund of about £½ billion in 1987-88 as a whole. On the basis of the funding rule for 1988-89 (which is based on funding with respect to the M4 private sector) overfunding was £1.5 billion in February, giving a cumulative M4 overfund in the financial year so far of £6.7 billion. The forecast is for a cumulative M4 overfund of £¼ billion in 1987-88 as a whole. The residual counterparts to M4 were minus £1.2 billion in February, reflecting bank and building society external transactions of minus £0.5 billion and £NNDL's of minus £0.7 billion.

39. The external counterparts to M4 were minus £0.9 billion in February. The main influence behind the public externals of minus £0.4 billion was continued gilt sales to the overseas sector, although at a much lower level than before the crash. Banks' and building societies' external transactions were minus £0.5 billion, reflecting the net reduction in banks' foreign currency assets. Banks' foreign currency lending to the private sector fell by £1.0 billion in February. Most of this is accounted for by the repayment of borrowing by non-monetary sector bank branches in the Channel Islands, so that the source of the reduction in currency

lending may be the overseas sector.

40. The **broad money forecast** for March shows very large one-month rises in both M3 and M4, reflecting expected underfunding of about £6 billion. This compares, however, with underfunding in March last year of £4½ billion (and £3½ billion on the M4 basis), so that the annual rate of M3 is virtually unchanged at 20½ per cent. M4 annual growth rises to 16½ per cent, from 16 per cent in February. Other influences in March are broadly offsetting (see Table 24) with a continuing boost to retail infows - reflecting low unit trust inflows - offset by a continued rundown of liquidity by companies in substitution for equity issues, and some further unwinding of bill arbitrage. The growth of bank and building society lending in March is forecast to be similar to February's - that is, quite moderate monthly growth by recent standards but annual growth remaining at almost 20 per cent for bank and building society lending and 24 per cent for bank lending. The factors causing relatively modest growth in March are shown in Table 25: some further unwinding of arbitrage and reduced borrowing caused by the PSBR surplus, partly offset by continued extra borrowing to replace equity issues. Building societies are expected to continue to recover market share from banks in the mortgage market.

#### Money Markets and Interest Rates

41. **Money market rates** began March ranging from 9.0 per cent at one month to 9.7 per cent at 12 months. The uncapping of sterling followed by the cut in base rates to 8½ per cent has led to a steady fall in rates, which currently range from 8.6 per cent at one month to 9.2 per cent at 12 months.

42. The stock of **money market assistance** is expected to fall sharply, from £13½ billion at the end of February to about £8½ billion by the end of March, reflecting March's £6 billion underfund (see Table 27). It is expected to rise modestly in April and return to about £9 billion in May.

#### Gilts

43. **Gilts** began March with the index at 90.5 and 5,10 and 20 year

par yields at 8.9, 9.3 and 9.1 respectively. The market rose slightly during the first half of the month, with the index reaching 90.8, and the 5 year par yield dropping briefly below 9%. However the market fell back after the Budget, and the cut in interest rates had little impact. The index currently stands at 90.2, with par yields at 8.9, 9.3 and 9.2 respectively.

44. Real yields on **index-linked stock** began March at around 3.9 (3.6 at the very long end). During the early part of the month yields rose to 4.0 (3.7 at the very long end) before falling again to levels comparable to the beginning of the month. Break-even inflation rates for index-linked Treasury 1990 and 2006 are currently 4.0 and 5.3 respectively compared with 3.6 and 5.3 at the end of February. The **equity dividend yield** (based on the all share index) stands at 4.4, up from 4.2 at the start of March.

#### Capital Markets and Corporate Finance

45. **Equity prices** rose slightly in the first half of March but were little affected by the Budget and the base rate cut, and subsequently fell sharply, reflecting both currency fears and worries of the strength of the US economy. The index currently stands at 899, 15 per cent above its post-crash trough in November and 27 per cent down on its July peak. New issues remain depressed but the **eurobond market** has continued to strengthen, with issues by UK companies rising from £0.7 billion in January to £0.9 billion in February and £1.2 billion in March so far. The majority of these issues have been by financial companies and building societies, with maturities of 5 years, compared to a typical maturity of 15 years pre-crash.

46. There were net inflows into **unit trusts** of £162 million in February, which continues the depressed level of inflows post-crash. (Before the crash, inflows were averaging £660 million per month during 1987.)

47. **Sterling commercial paper** outstanding recovered further in February to £2¼ billion, from £2½ billion in January and £2 billion

in December. The recovery is likely to reflect seasonal influences, and also possibly the closure of the window during February between bill rates and interbank rates - making commercial paper issues more attractive. Monetary sector holdings rose by £90 million in February, to £0.7 billion.

MG2 Division

30 March 1988



## Monetary developments since last month's report

Latest outturns available at time of:

	Sept Report	Feb Report	Mar Report
Monetary aggregates (12 month % growth)	(Aug)	(Jan)	(Feb)
M0 (sa)	4.7	4.6	5.3
M3	22.1	22.4	20.4
M4	15.6	16.6	16.0
M5	14.9	16.3	15.5
Bank lending	21.6	24.6	24.3
Bank & building society lending	18.8	20.0	19.9

Interest rates (%)	1 Oct	1 Mar	28 Mar
3 month interbank	10.3	9.3	8.8
20 year gilt-edged (par yield)	10.0	9.1	9.2
Yield gap	0.3	0.2	-0.4
UK real 3 month interbank	6.1	5.0	4.4
Equity dividend yield (all-share)	3.0	4.2	4.4
IG yield (2001) assuming 5% inflation	4.4	3.9	3.9

## 3 month UK interest differential with:

Germany	5.8	6.0	5.4
US	2.1	2.6	1.9
World basket	3.4	3.2	2.5

## Exchange rate

DM/£	2.99	2.99	3.09
ERI	72.8	74.8	77.1
Oil adjusted ERI*	99.7	106.9	108.7
(Oil-adjusted reference index)	(73.0)	(70.0)	(70.9)

## Asset prices

FT-A Index (% pa)	56.4	-8.0	-10.5
FT-A Level (July peak: 1239)	1215	914	899
Halifax house index (% pa)**	14.8	16.9	

\* 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 September and February.

## THE RISE IN THE EXCHANGE RATE

This annex considers the 3 per cent appreciation of sterling - both against the DM and in effective terms - during March:

- i. It puts the rise in context of sterling's behaviour over the last few years; and
- ii. It considers the possible impact on monetary conditions, taken together with the  $\frac{1}{2}$  per cent cut in base rates during March.

### Exchange Rate Developments since 1985

2. Chart 1 shows the behaviour of sterling since early 1985. The chart shows that over this period, despite its recent rise, sterling has fallen by around 20 per cent against the DM. In contrast, a weakening dollar has resulted in nearly a 50 per cent appreciation of the \$/£ exchange rate. Sterling's effective rate is unchanged over the period.

3. Chart 2 shows comparable sterling exchange rates in real terms (using relative producer prices as the deflator). Since early 1985, sterling's 20 per cent depreciation against the DM has been more than sufficient to offset higher domestic producer price inflation of about 15 per cent, so that the real DM/£ exchange rate has fallen by about 5 per cent. But the combination of a stable effective rate over the period and lower world inflation than in the UK has resulted in a 10 per cent rise in the real sterling effective rate. Interestingly, the real DM/£, \$/£ and sterling effective rates are all currently <sup>around</sup> their average levels of 1980.

### Impact on Monetary Conditions

4. Table 1 below gives details of the 1988-89 Budget Forecast, as it relates to monetary conditions. The Forecast was made on the assumption of unchanged interest rates (at 9 per cent) and DM/£ exchange rate (at 3DM).

Table 1 The Budget Forecast, 1988-89

	per cent per annum			Current balance £ billion	Exchange Rate	
	Money GDP o/w	Output	GDP deflator		ERI	\$/£
1987 Q1	7.3	4.3	3.0	0.8	69.9	1.54
Q2	8.8	4.4	4.2	-0.3	72.8	1.64
Q3	10.6	5.1	5.2	-0.9	72.7	1.62
Q4	9.8	5.2	4.4	-1.3	74.9	1.75
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1988 Q1	10.1	4.1	5.8	-1.0	74.8	1.78
Q2	9.5	4.3	5.0	-0.6	74.8	1.79
Q3	6.7	2.2	4.4	-1.0	75.2	1.81
Q4	7.1	2.2	4.8	-1.3	75.5	1.82
1989 Q1	7.1	3.1	3.9	-0.8	75.9	1.84
1987-88	9.8	4.7	4.9	-3.4	73.8	1.70
1988-89	7.6	3.0	4.5	-3.8	75.4	1.82

The table shows that money GDP growth is projected to fall back during 1988-89, with the year on year growth rate falling from 9.8 per cent in 1987-88 to 7.6 per cent in 1988-89, mostly reflecting lower growth of output, but also some easing of inflation. The exchange rate is projected to rise slightly over this period, primarily reflecting a weaker dollar.

5. Since the Budget Forecast was made sterling has risen to an effective rate of about 77 and DM3.09 (28 March) as the authorities refrained from further large-scale intervention, while a  $\frac{1}{2}$  point reduction in base rates on 17 March has left short rates at just over  $8\frac{1}{2}$  per cent. The effect on monetary conditions of these changes will depend on circumstances - for example, whether the new configuration of interest and exchange rates is broadly sustained throughout 1988. (The worse than expected trade figures for February, announced on 25 March, led to an immediate  $\frac{1}{2}$  per cent fall in sterling's effective rate, to 76.7, and a fall against the deutschemark to DM3.07, although these losses were largely recovered on 28 March.)

6. Depending amongst other things on whether the rise in the exchange rate reflected a permanent change in sentiment in favour of sterling, and hence whether interest and exchange rates stay around

current levels, money GDP growth could be reduced by about  $\frac{1}{4}$  percentage point in 1988-89, reflecting a 0.1 percentage point fall both in the rate of inflation and output growth. The balance of expenditure is also likely to be affected, with a lower contribution to money GDP growth from the trade balance and a greater contribution from consumption. For example, the growth of exports might be reduced, and the growth of imports increased, by about  $\frac{1}{2}$  percentage point in 1988-89, implying a deterioration of the current balance of perhaps around £ $\frac{1}{4}$  billion.

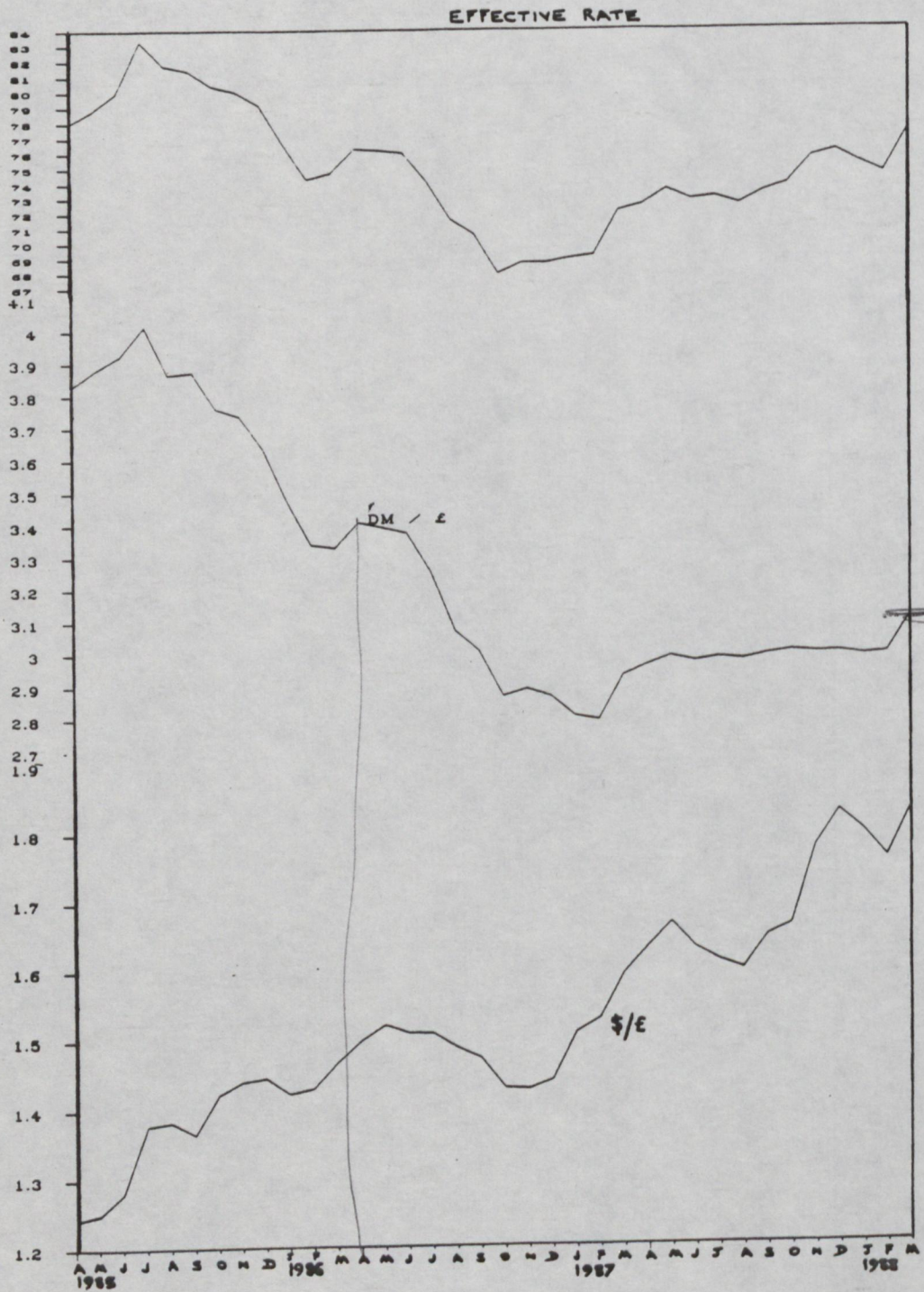
7. Assuming interest rates stay at around  $8\frac{1}{2}$  per cent, these calculations suggest that an effective exchange rate of about  $76\frac{1}{4}$  and a deutschemark rate of a little below DM3.04 in 1988-89 would be consistent with the Budget Forecast projections of money GDP growth and inflation. But this combination of interest and exchange rates would probably lead to some shift in the pattern of demand, for example the current balance might still deteriorate by around £ $\frac{1}{4}$  billion relative to the Budget Forecast.

### Conclusion

8. The jump in the exchange rate during March should be judged in comparison to levels of sterling over recent years. Put in this context, the higher level of the exchange rate in March - particularly the DM/£ rate - is by no means exceptional. Monetary conditions could be marginally tighter, with both inflation and output growth lower by 0.1 per cent in 1988-89.

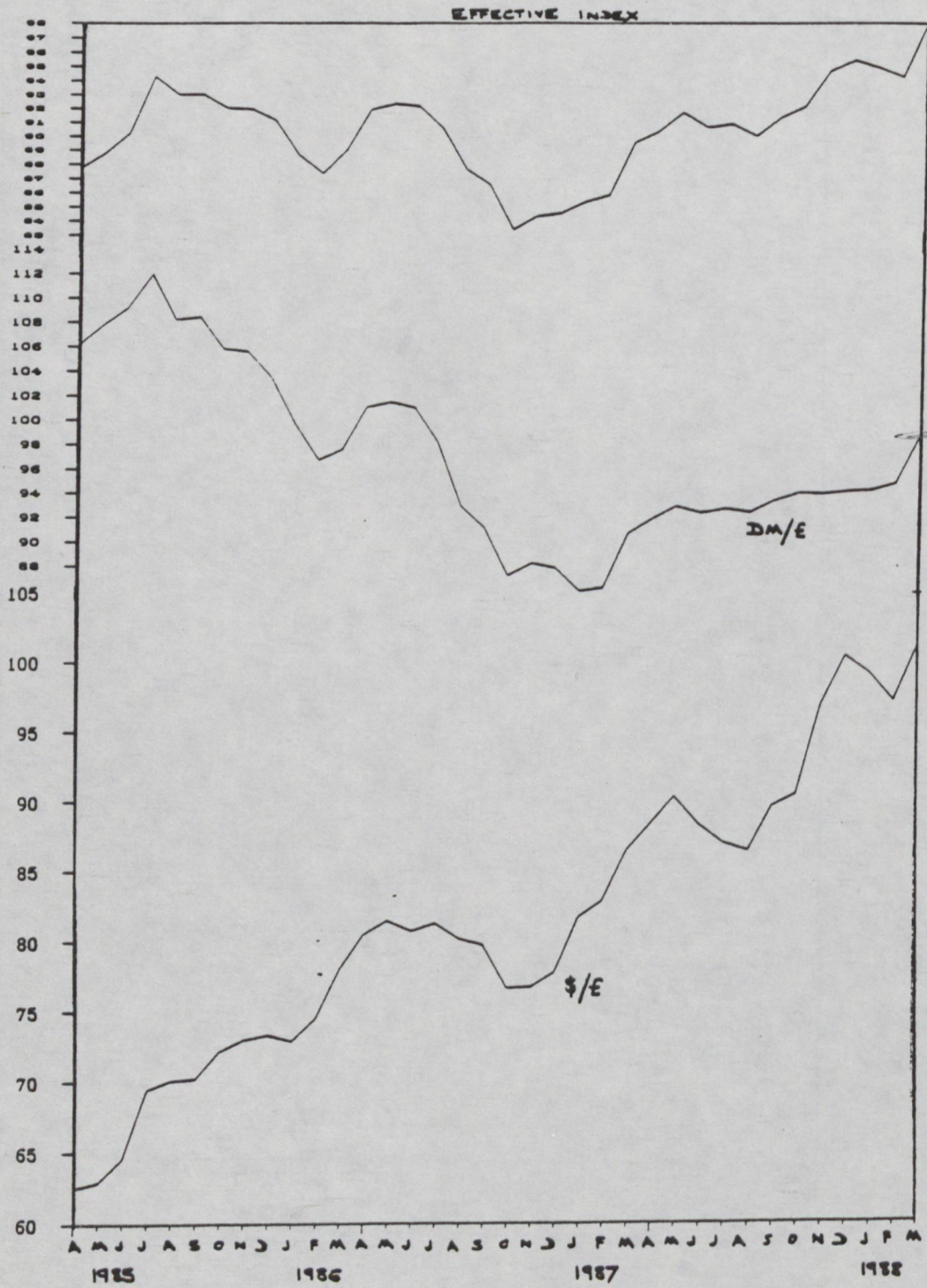
# CHART A1

## STERLING EXCHANGE RATES



# CHART A2

## REAL STERLING EXCHANGE RATES (1980 = 100)



**NOTE**

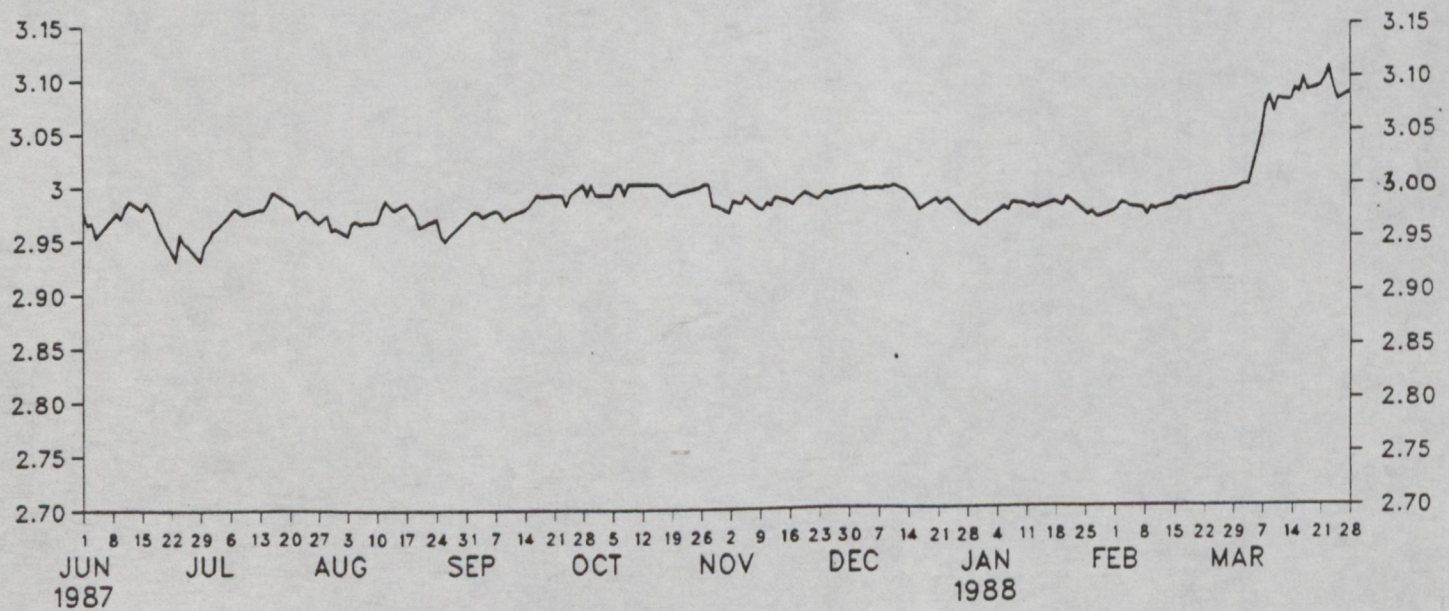
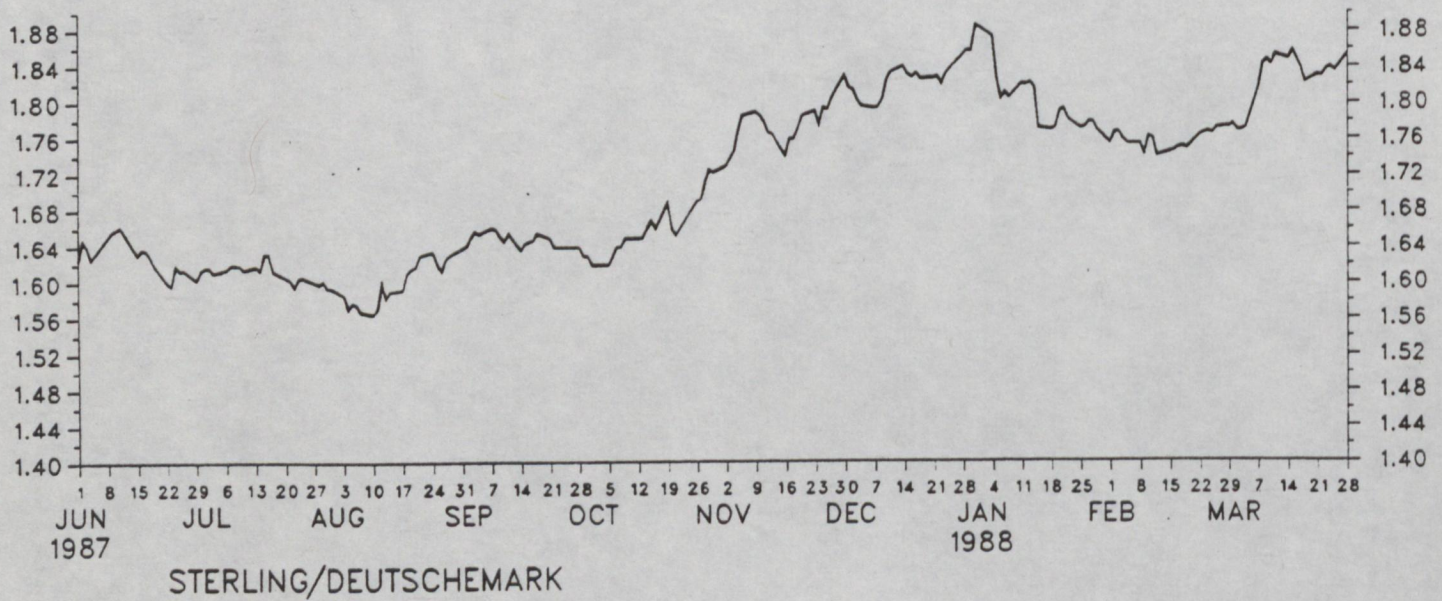
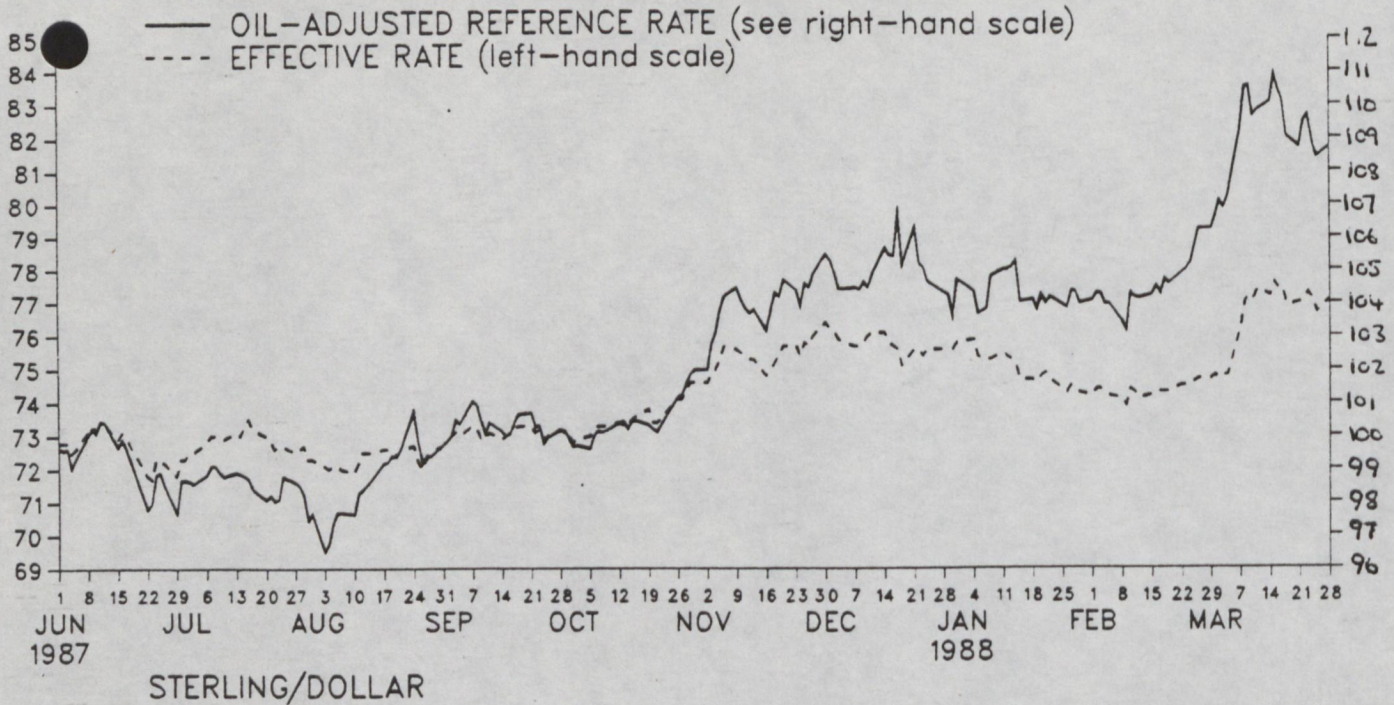
Figures for March 1988 are estimates

SECRET

MONTHLY MONETARY REPORT : CHARTS

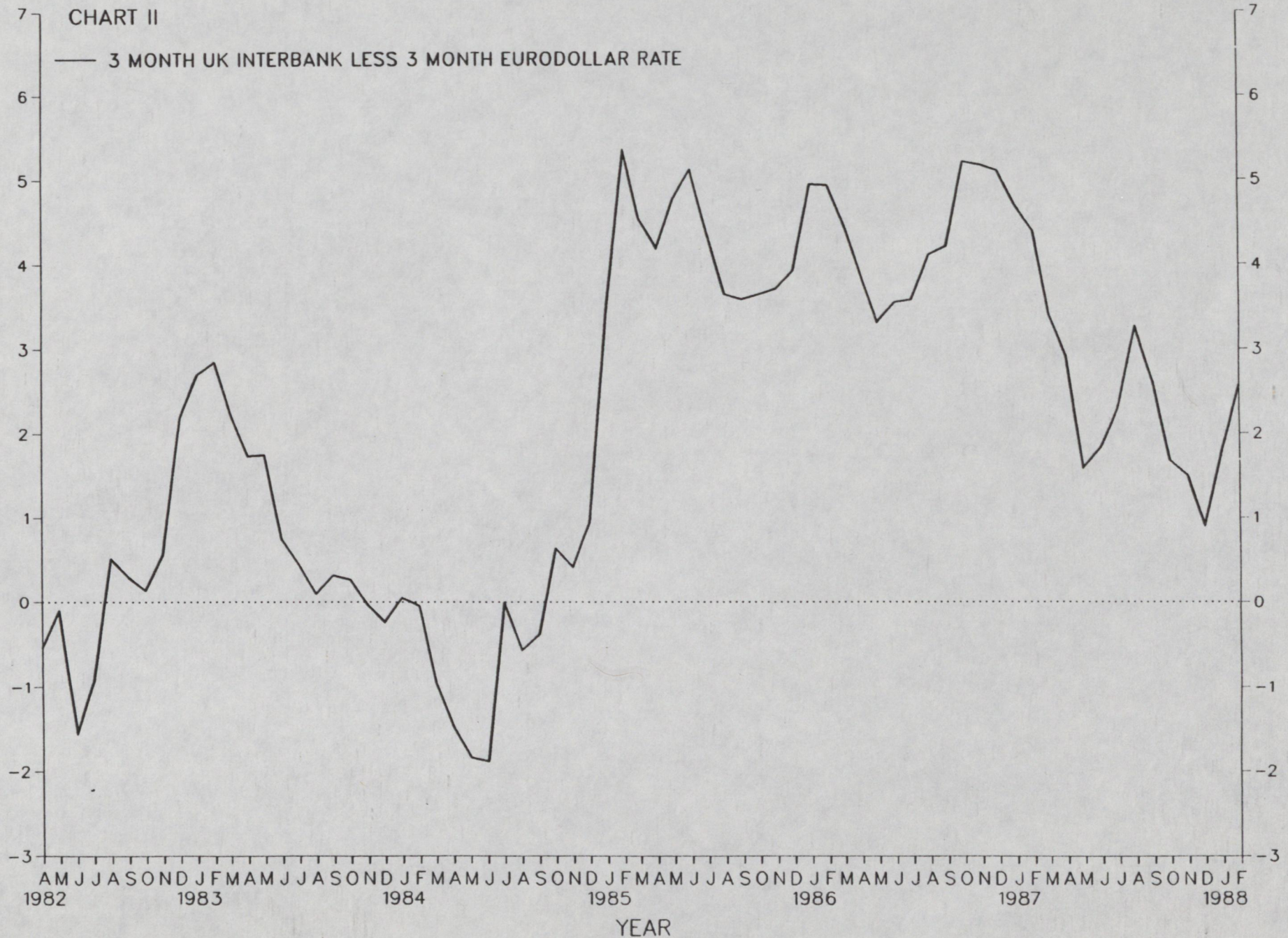
- I Exchange Rate Short Term
- II UK/US interest rate differential
- III Narrow money growth
- IV Broad money growth
- V Real M0 growth
- VII FSBR budget profile M0
- IX FSBR budget profile M4
- X Retail Deposits
- XI Bank and Building Society Lending
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- XV Yield Curve
- XVI Real Yields
- XVII House prices 1
- XVIII House prices 2
- XIX Capital Markets

# CHART I: EXCHANGE RATE

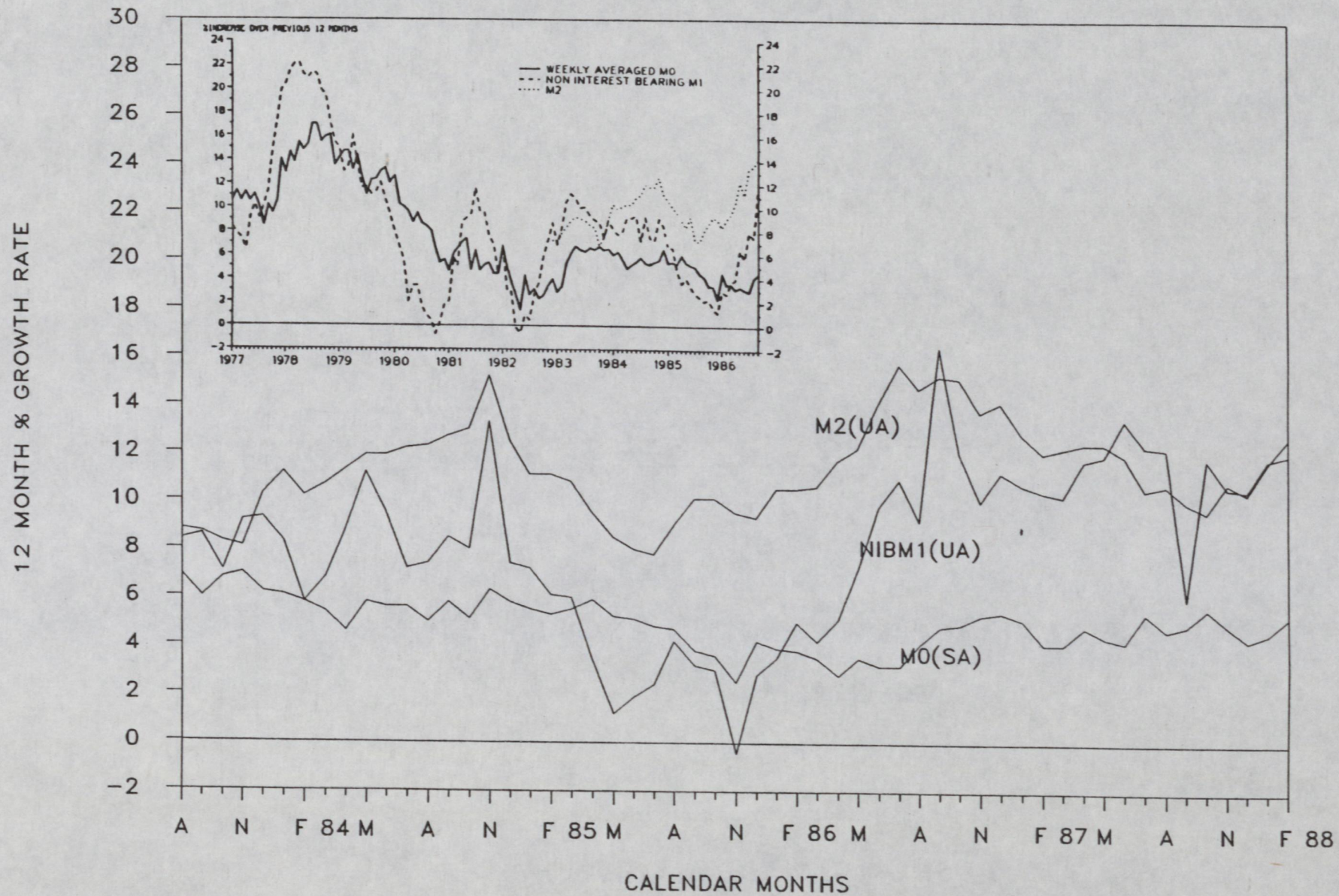




# UK/US INTEREST RATE DIFFERENTIAL



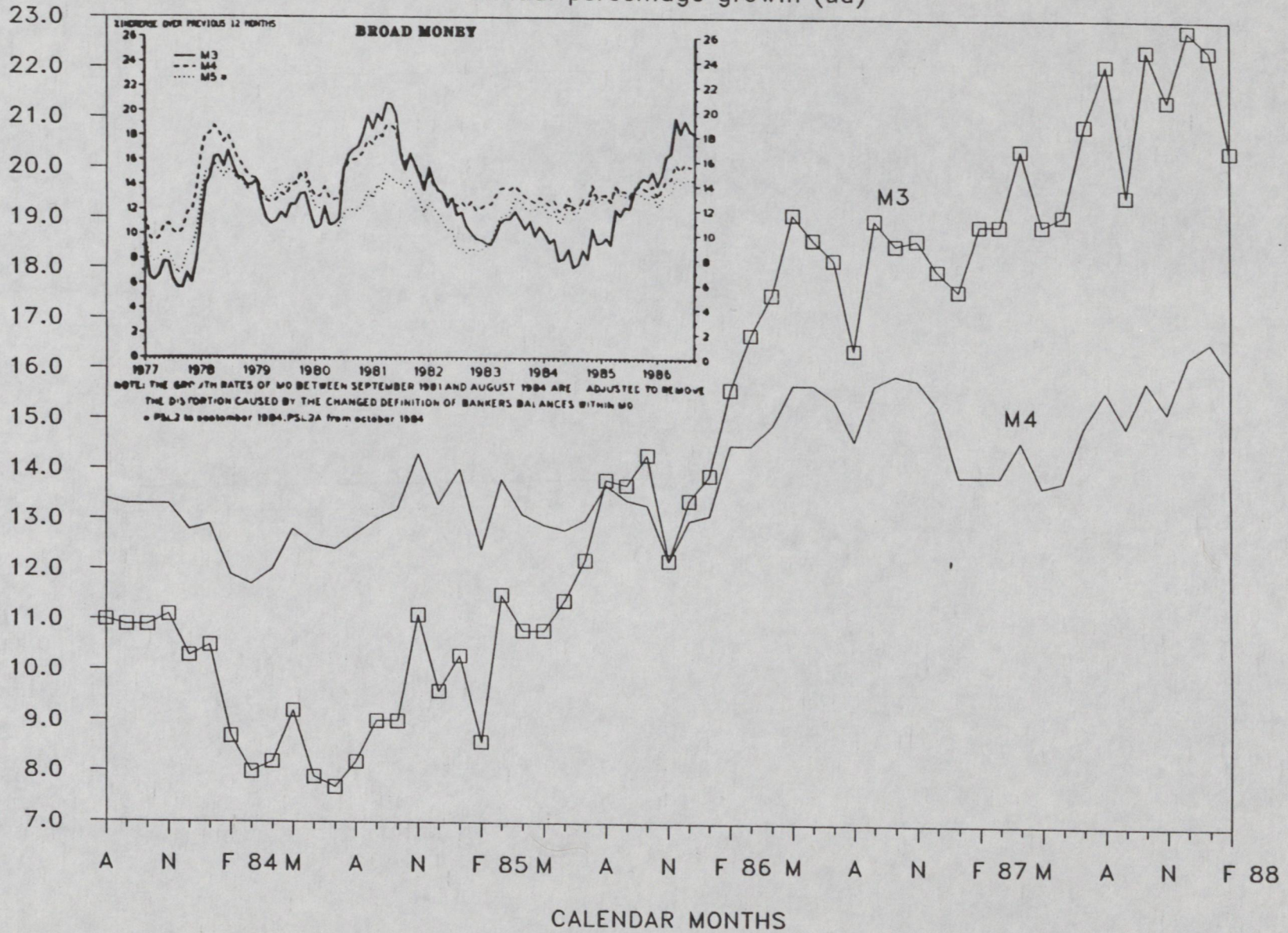
# CHART III NARROW MONEY



# CHART IV BROAD MONEY

Annual percentage growth (ua)

12 MONTH % GROWTH RATE



# CHART V REAL MO

Annual percentage growth (sa)

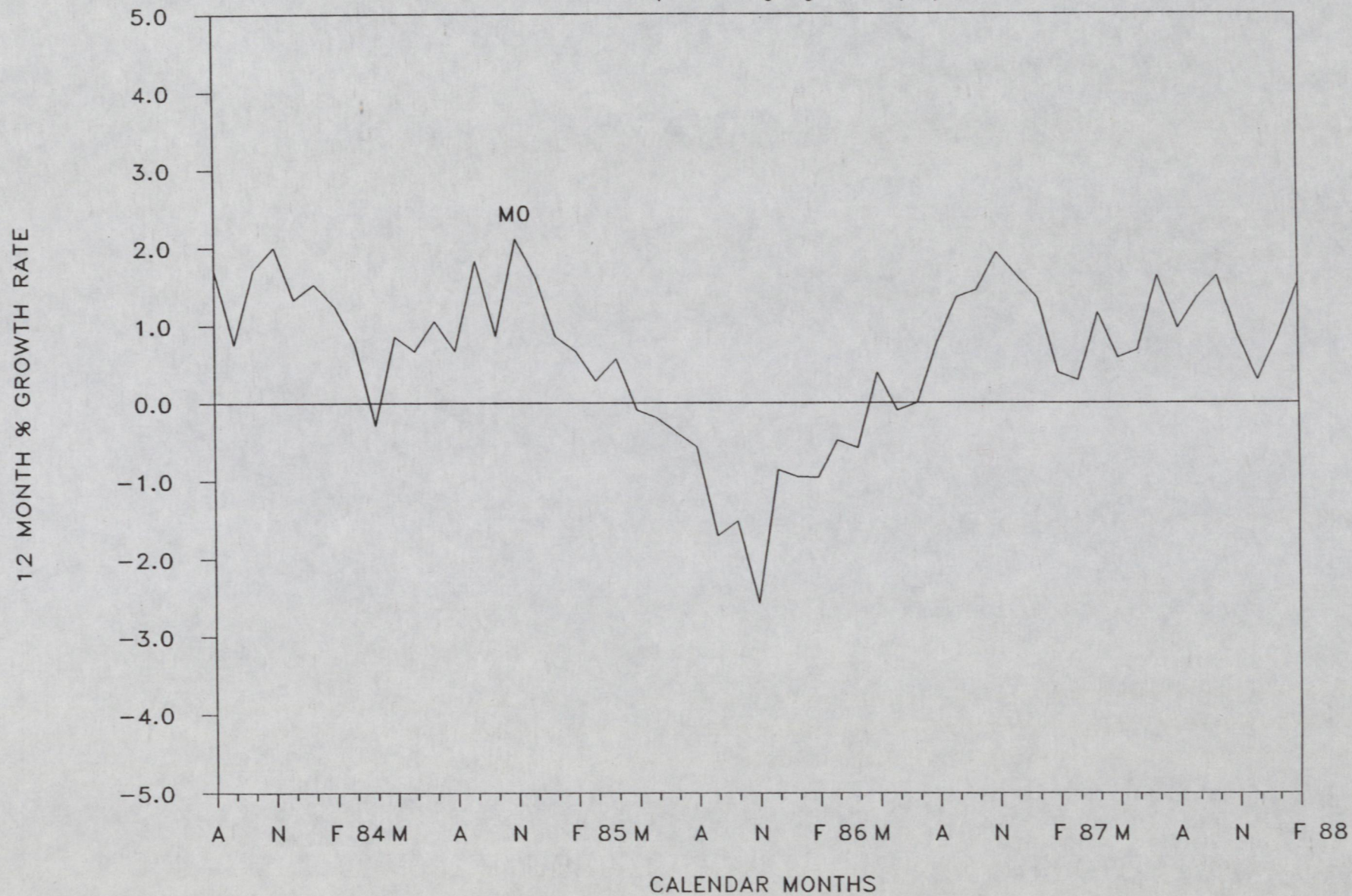


CHART VII

### COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR MO

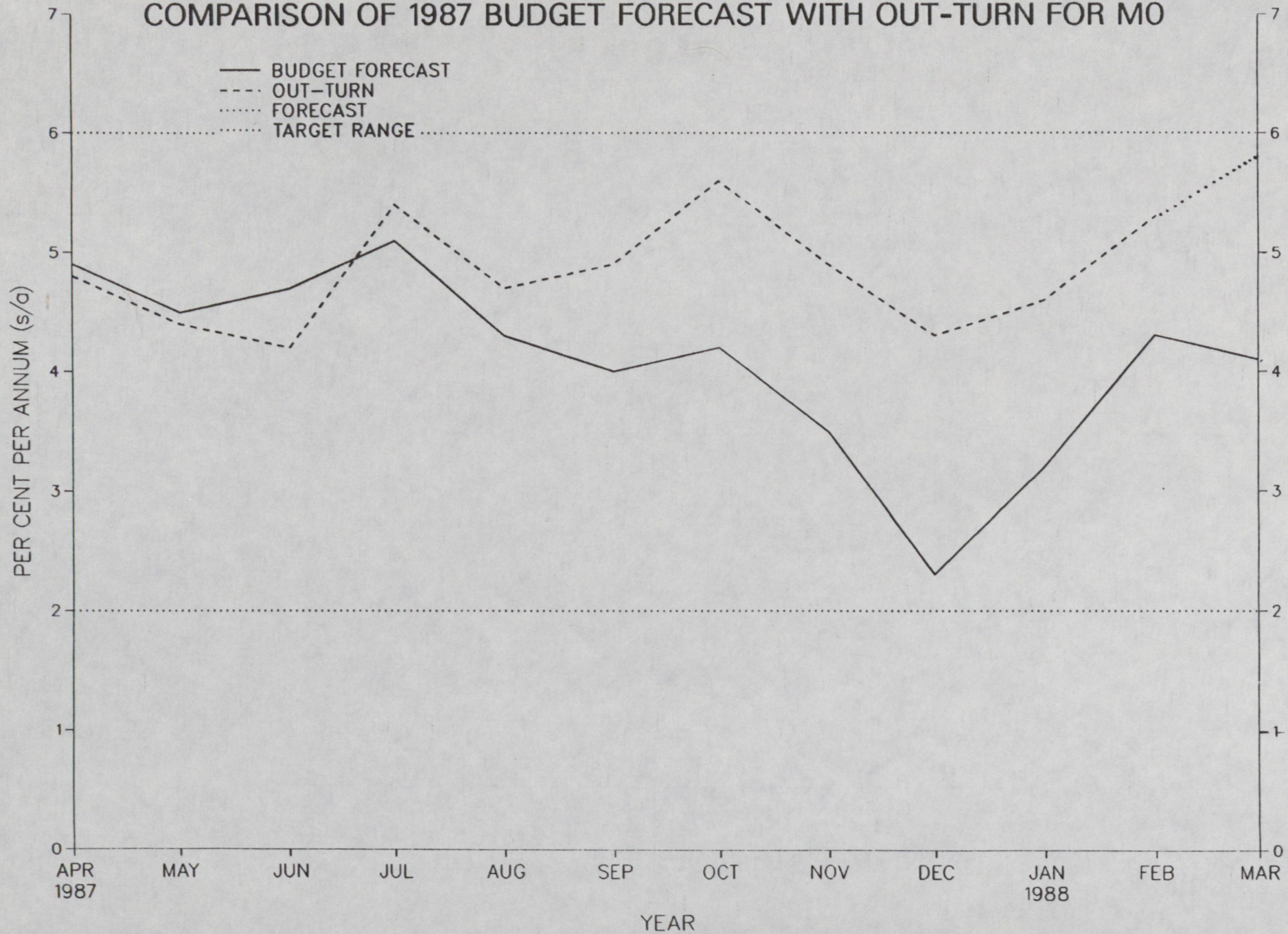
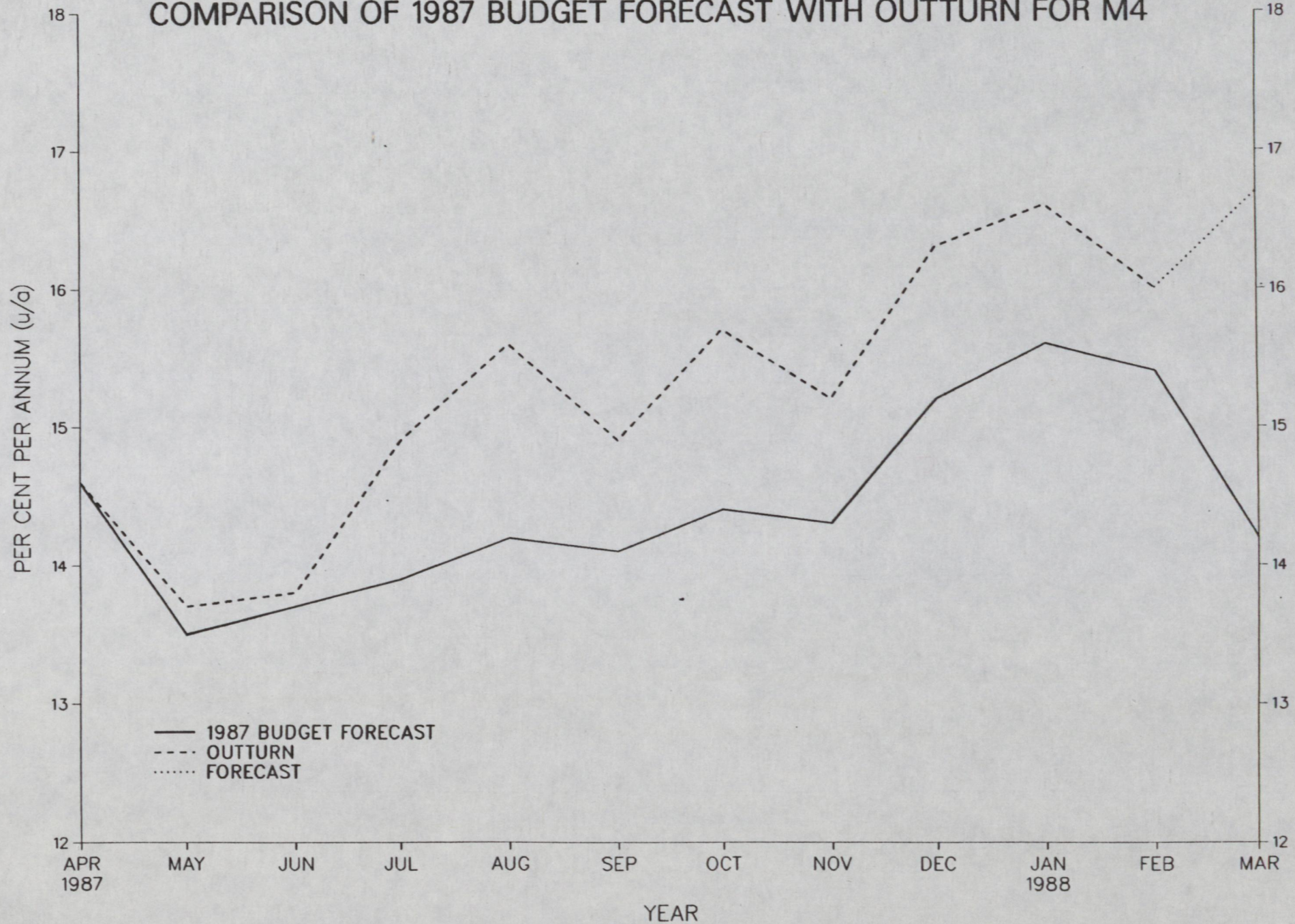


CHART IX

# COMPARISON OF 1987 BUDGET FORECAST WITH OUTTURN FOR M4



# CHART X RETAIL DEPOSITS

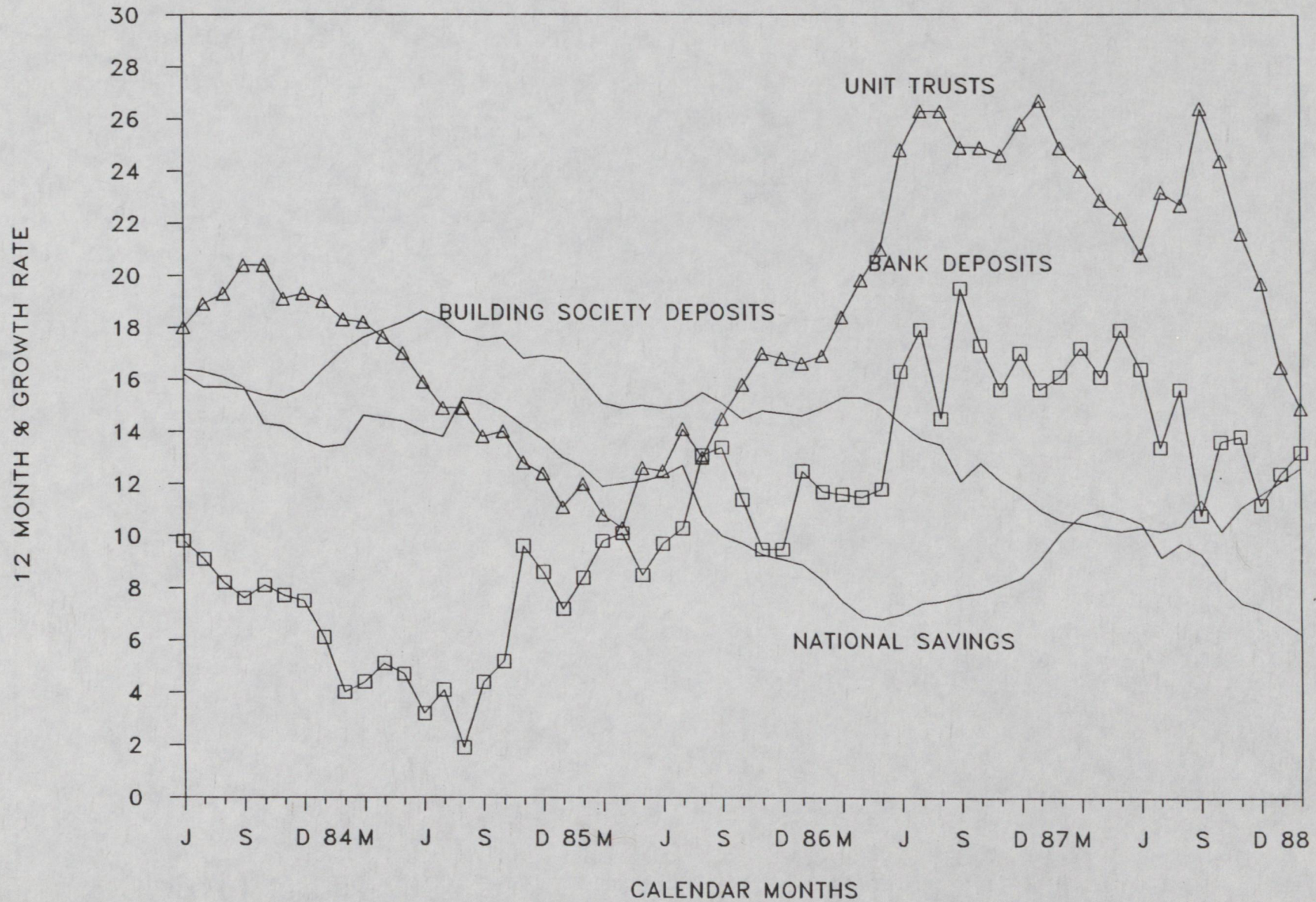
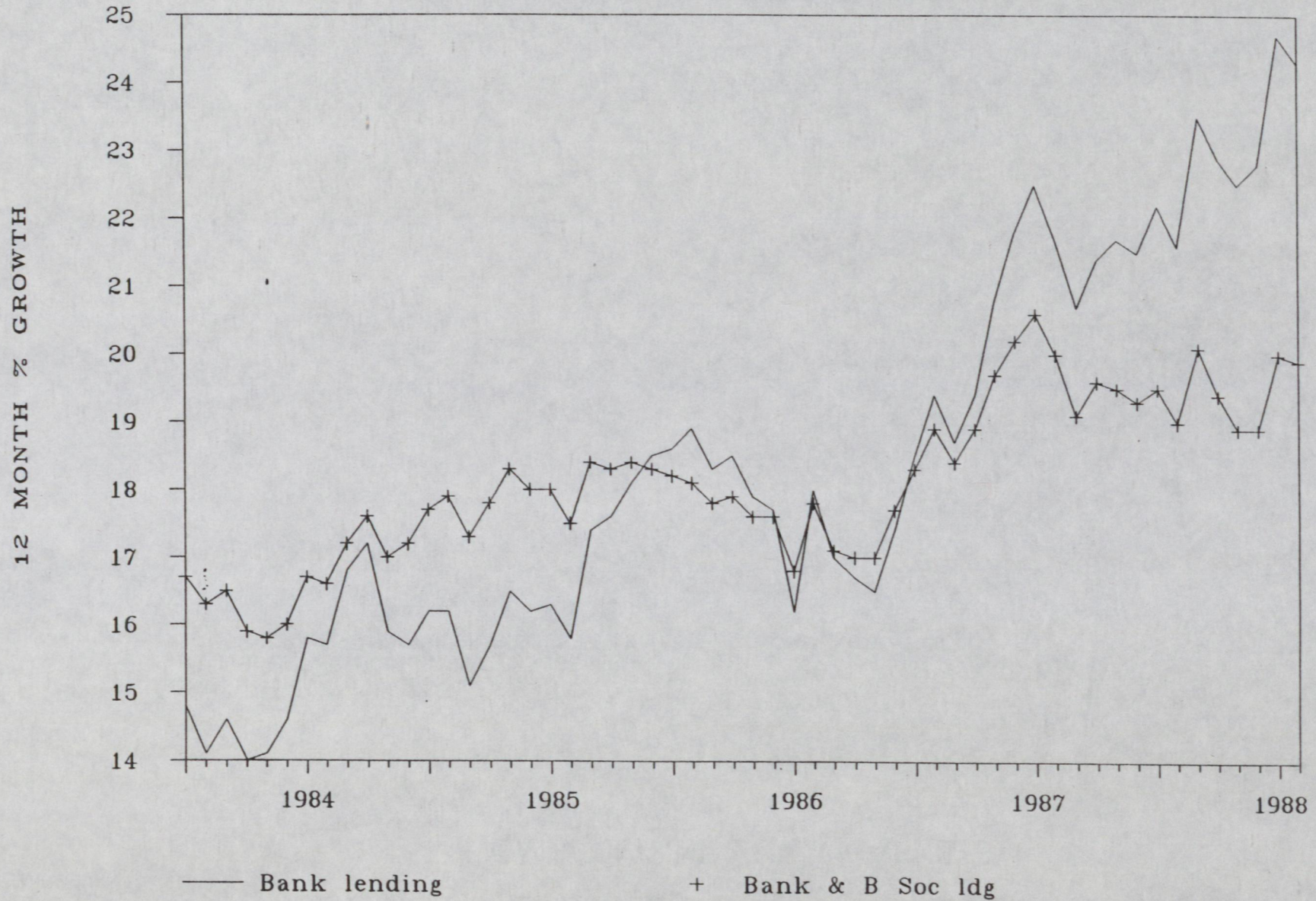


CHART XI BANK AND BUILDING SOCIETY LENDING

ANNUAL PERCENTAGE GROWTH





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

CHART XII

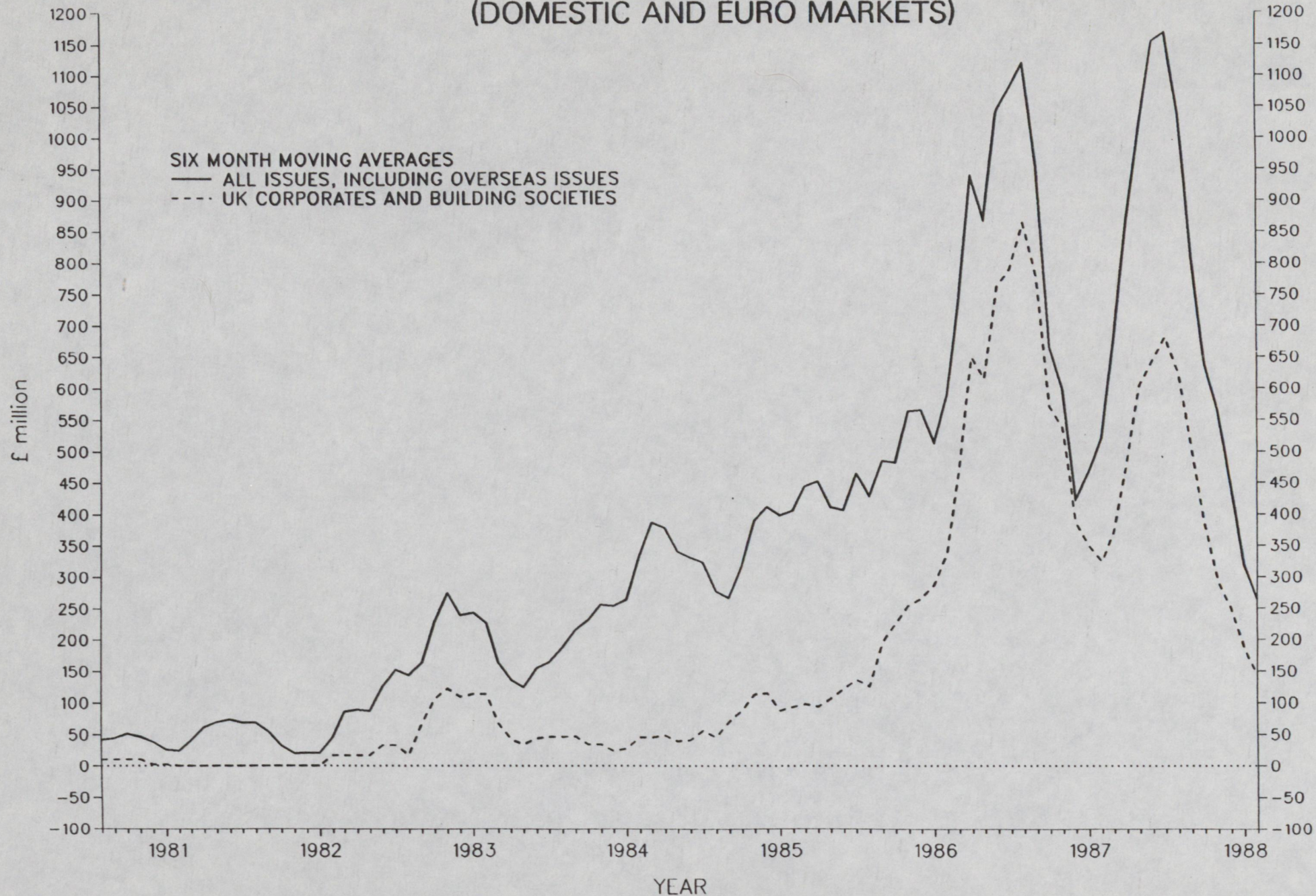
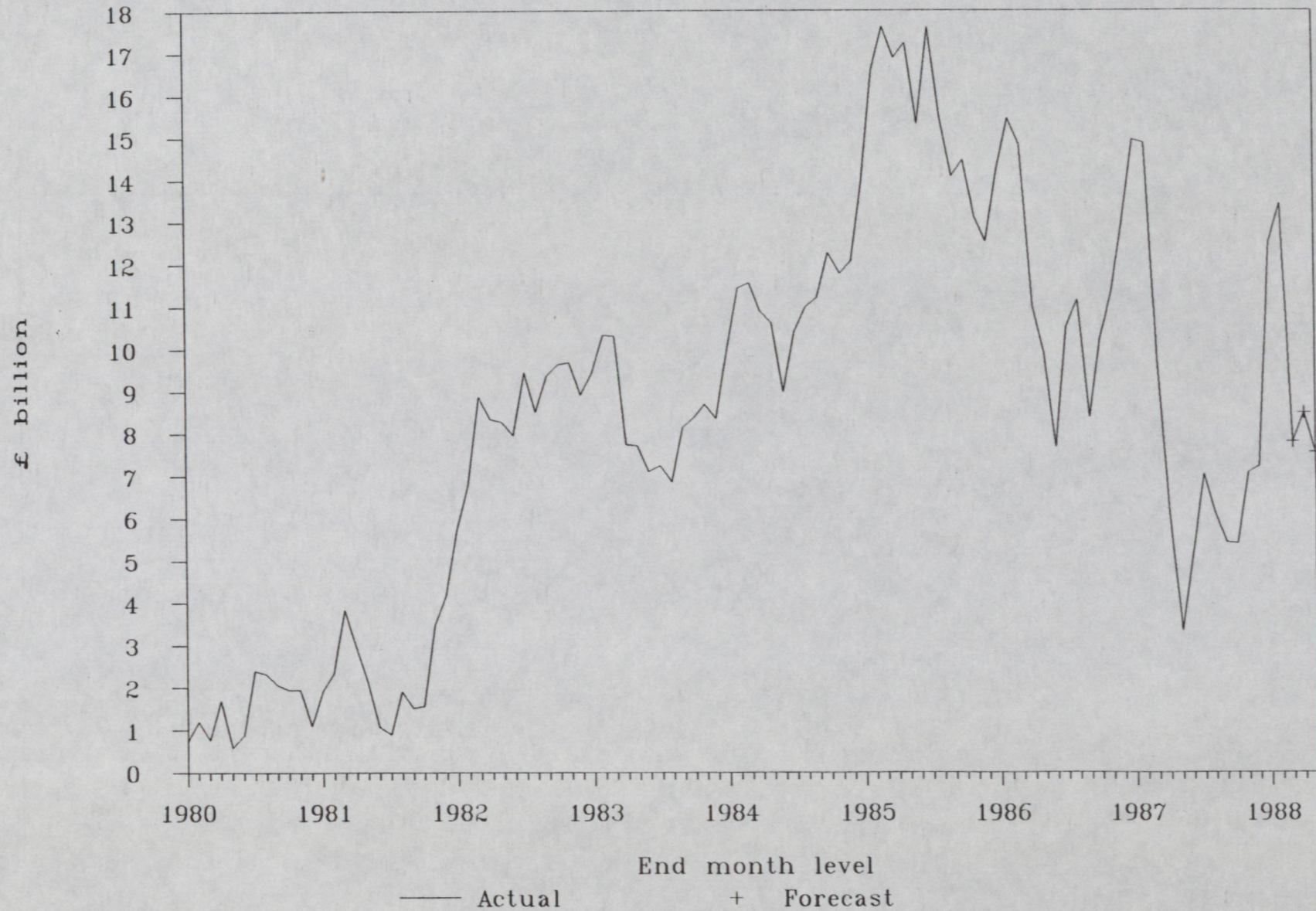
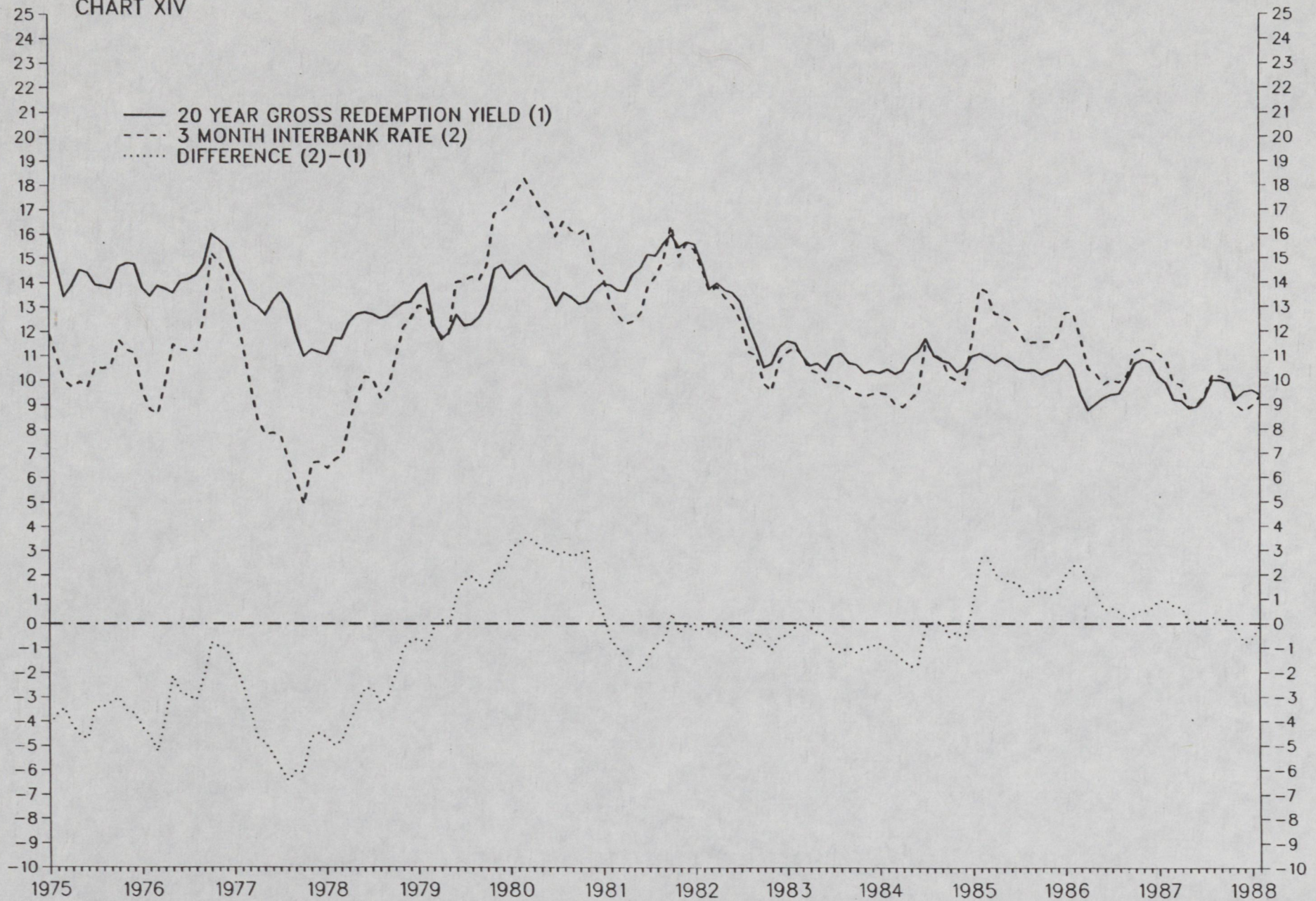


CHART XIII - MONEY MARKET ASSISTANCE



# NOMINAL INTEREST RATES

CHART XIV



YEAR

V.B. & R.J.P

# CHART XV

Per cent Time / Yield Curves of British Government Stocks

21st March 1988

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 4.11

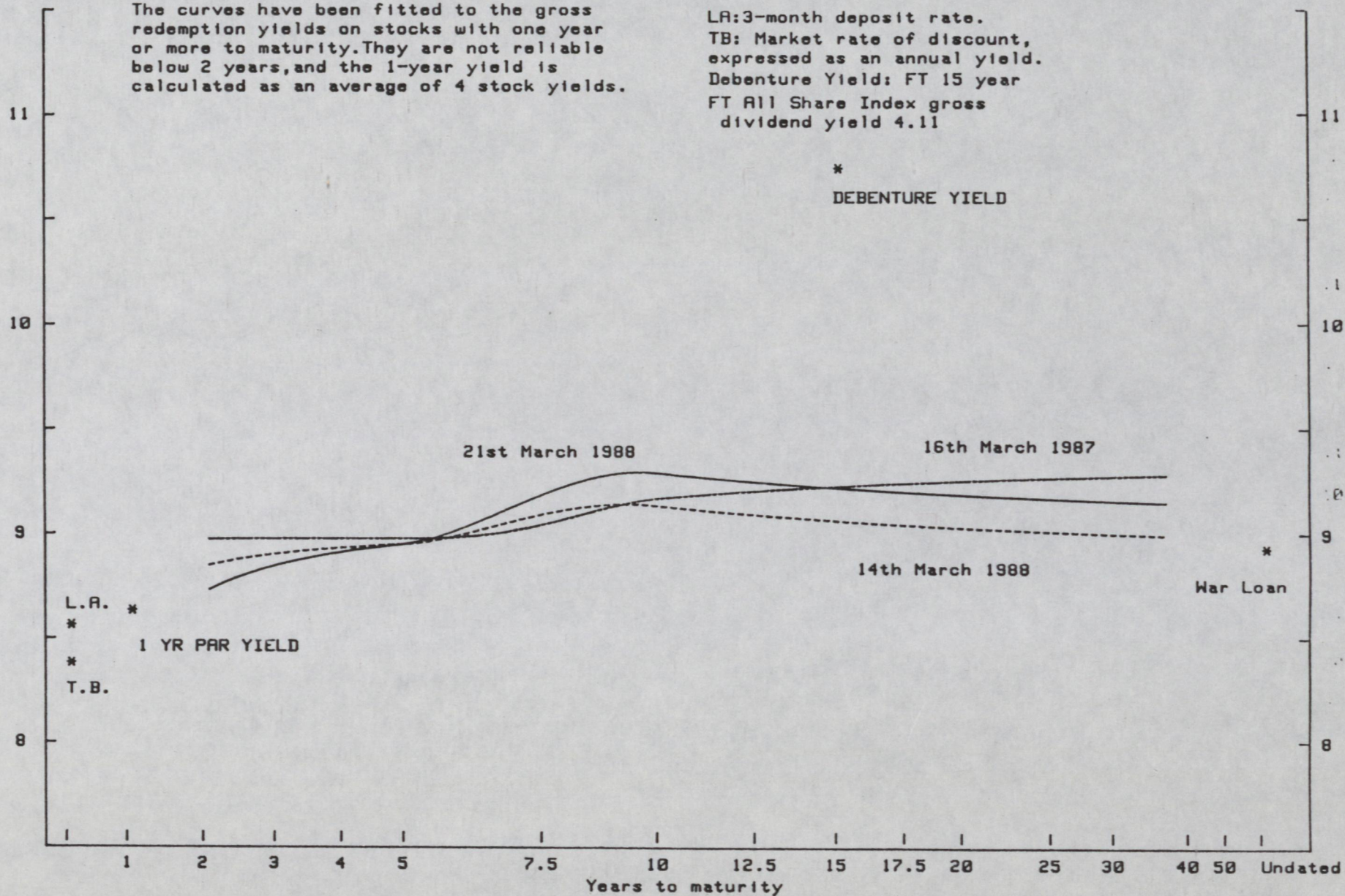
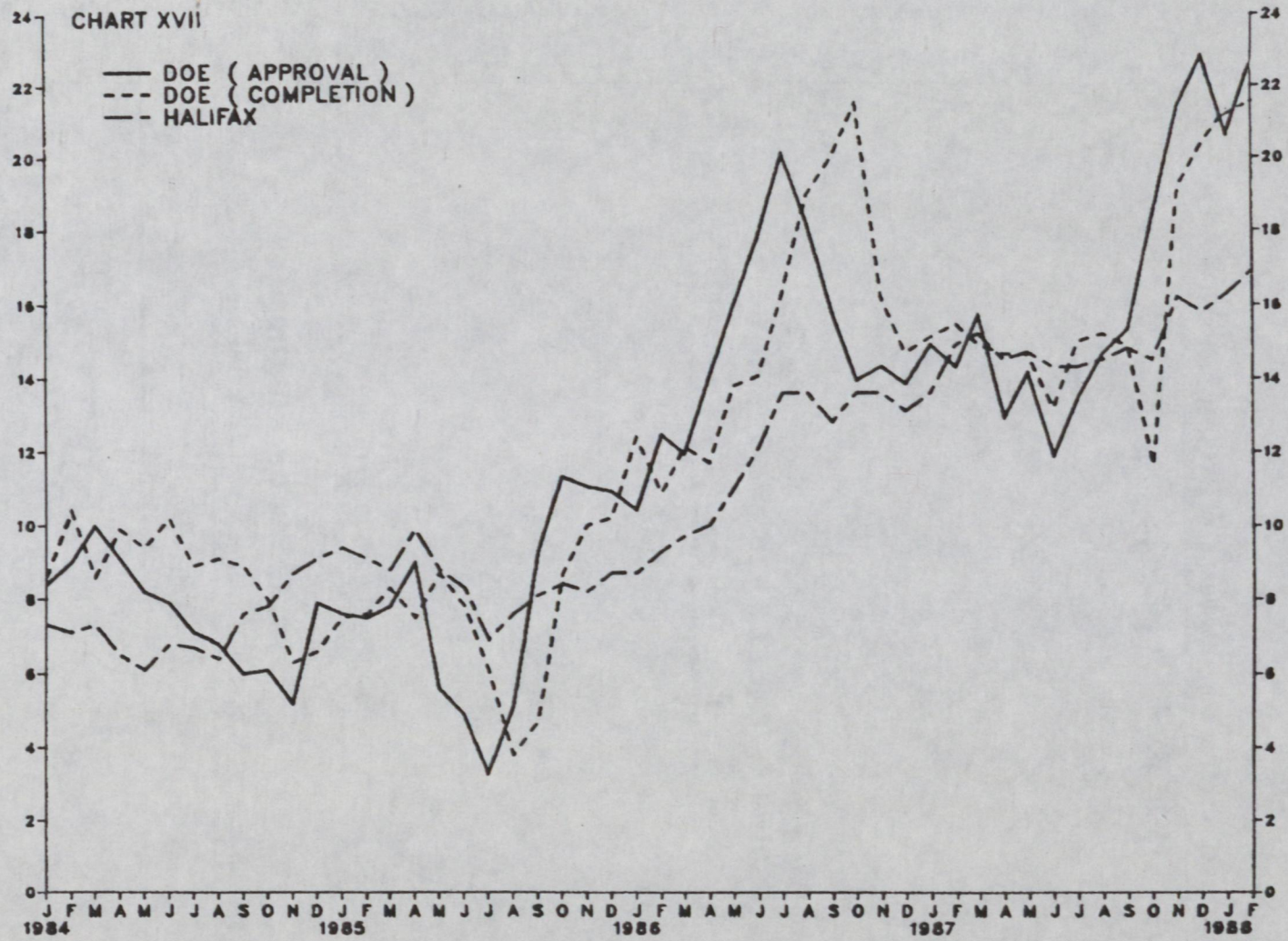




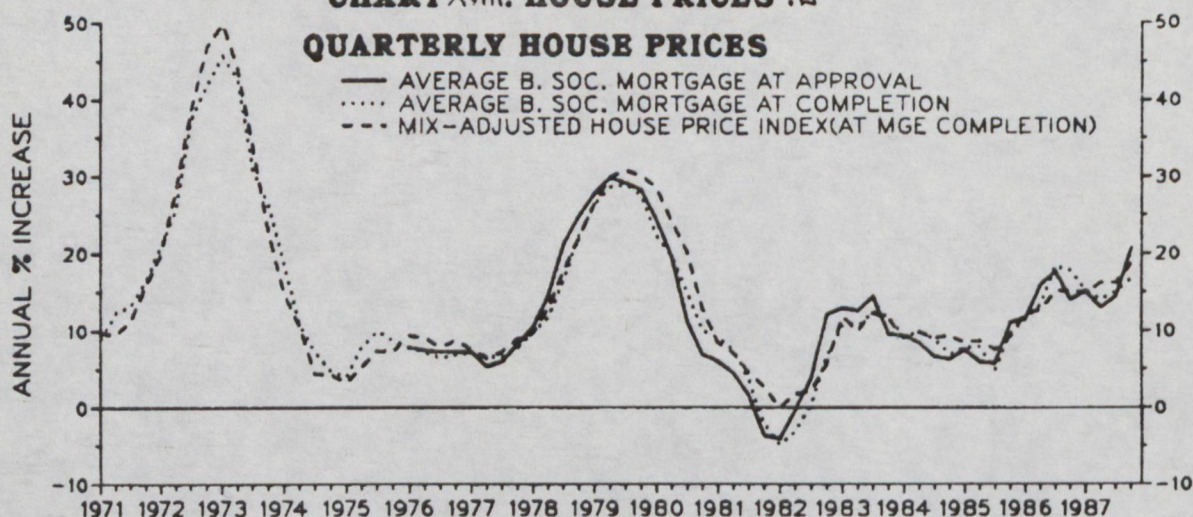
CHART XVII

ANNUAL HOUSE PRICE INFLATION : I

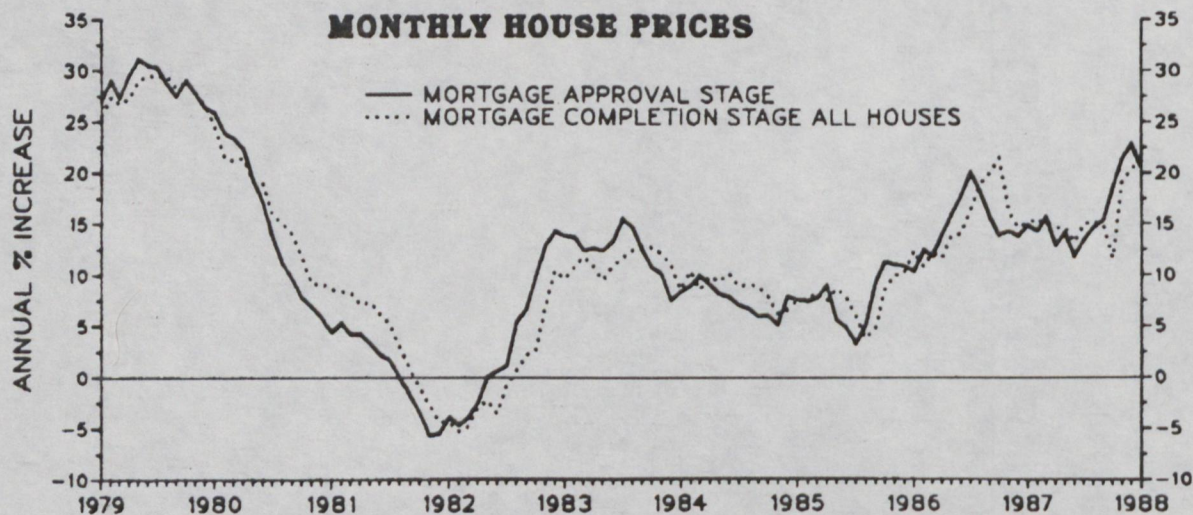


**CHART XVIII: HOUSE PRICES :2**

**QUARTERLY HOUSE PRICES**

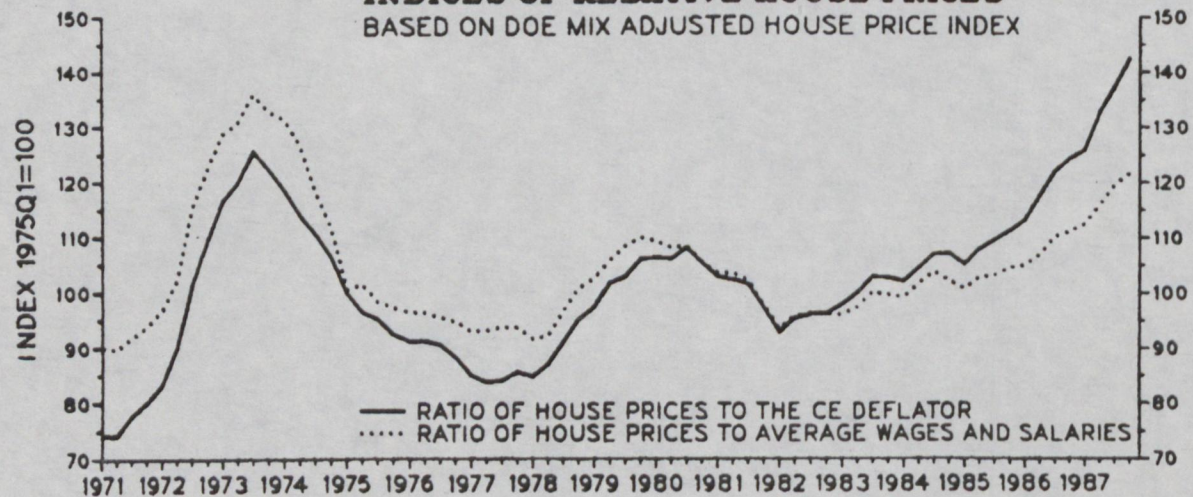


**MONTHLY HOUSE PRICES**

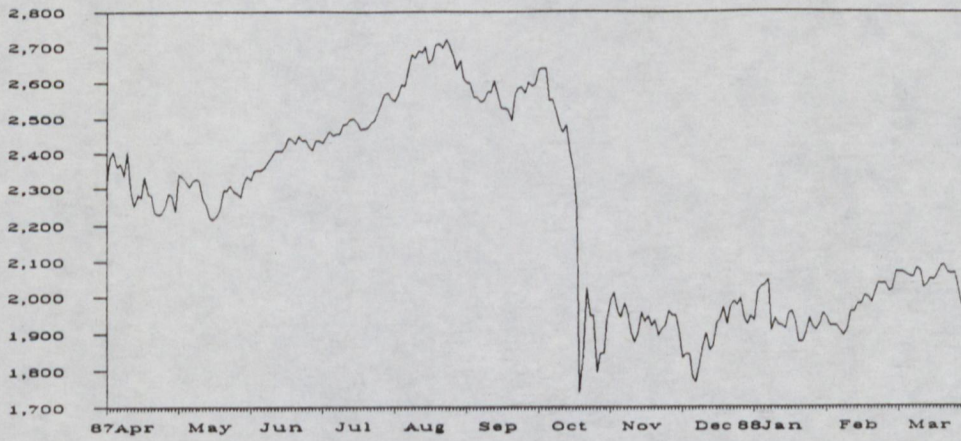


**INDICES OF RELATIVE HOUSE PRICES**

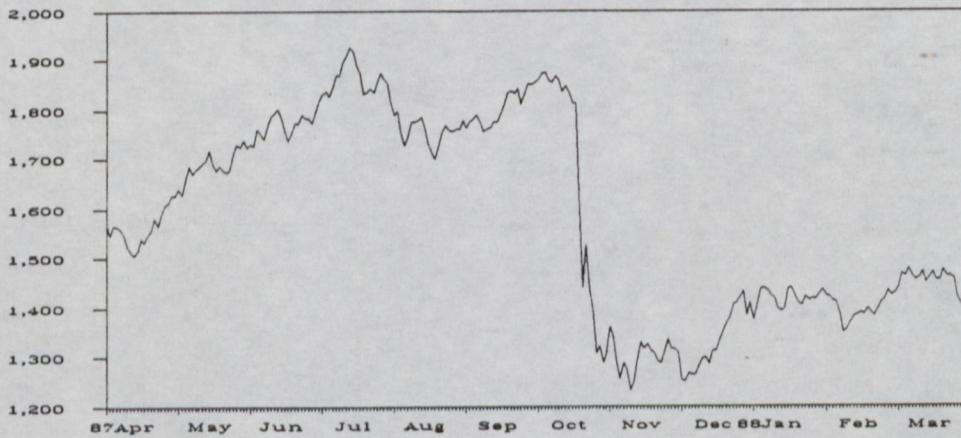
BASED ON DOE MIX ADJUSTED HOUSE PRICE INDEX



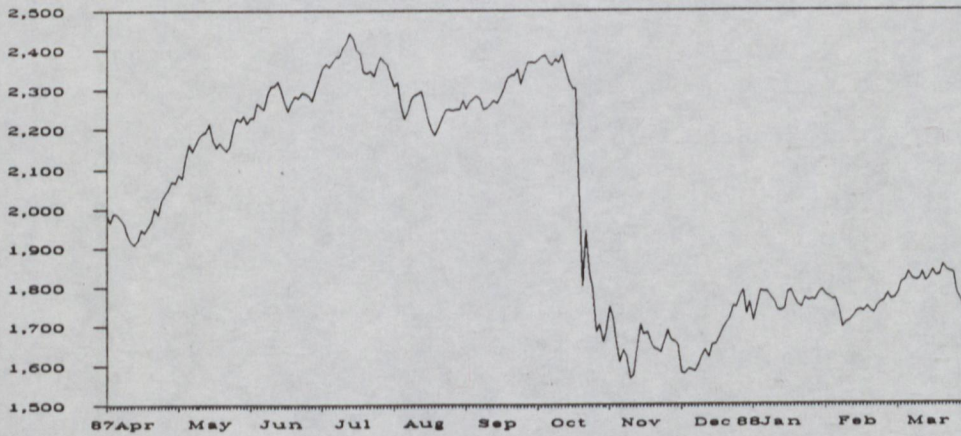
Dow Jones Industrial Average



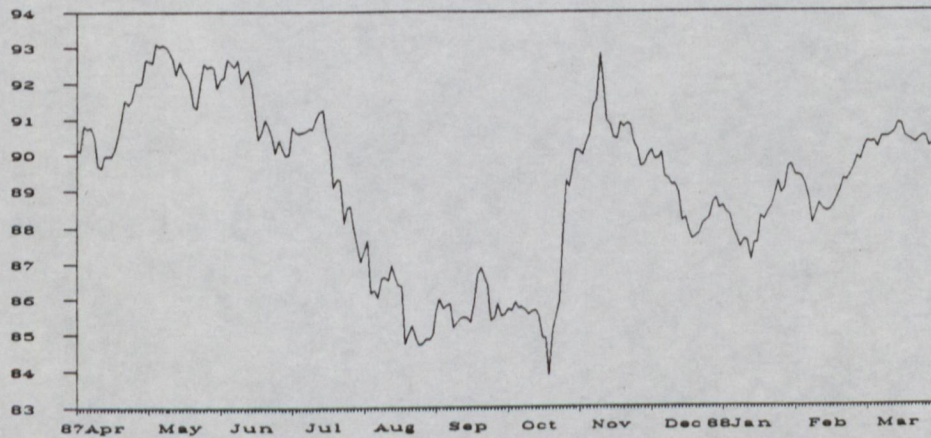
FT Ordinary Index



FTSE 100



Gilt Index





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MONTHLY MONETARY REPORT : TABLES

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- Table 3(a) - Interest rates in G5
- Table 3(b) - Exchange rates in G5
- Table 3(c) - Commodity Prices

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Table 1: Developments in the G5 (including UK)\*

	Activity			Money supply		Costs and prices		
	Nominal GNP	Real GNP	Industrial production	M1	M2/M3	Unit labour costs	Consumer prices	GNP deflator
1984	8.6	4.9	8.1	6.6	8.6	-0.8	4.1	3.6
1985	6.6	3.2	3.0	8.2	8.4	0.5	3.5	3.3
1986	5.6	2.7	1.0	11.5	8.1	1.0	1.5	2.9
1987	5.4	2.9	3.0	11.1+	8.7+	-	2.5	2.4
1987 Q1	5.0	2.5	0.9	13.7	8.9	0.1	1.5	2.4
Q2	4.7	2.3	2.0	12.5	9.0	-0.6	2.5	2.5
Q3	5.6	3.2	3.7	10.1	8.4	-1.7	2.9	2.2
Q4	6.3	3.7	5.4	8.1+	8.5+	-	3.0	2.5
1987 Jul			2.9	10.6	8.5		2.6	
Aug			4.2	10.4	8.5		3.0	
Sep			4.0	9.4	8.2		2.9	
Oct			5.1	10.0	8.8		3.1	
Nov			5.6	8.2	8.5		3.0	
Dec			5.6	6.2+	8.3+		3.0	
1988 Jan			-	6.8+	8.4+		2.7	

\* Percentage changes on a year before.

+ Partly estimated.

Table 2

## GERMANY: KEY FIGURES

Percentage changes on a year earlier unless otherwise stated

	INDUSTRIAL PRODUCTION index (1980=100)	CONSUMER PRICES	TRADE SURPLUS* \$bn	MONEY SUPPLY (M3)	
1984	3.4	100	2.4	1.7	3.3
1985	5.4	105	2.2	2.2	3.8
1986	2.1	107	- 0.2	4.5	4.2
1987	0.2	107	0.3	5.5	6.7
1987J	-1.9	104	- 0.8	4.8 (4.5)	6.7
F	0.0	106	- 0.5	6.1 (4.7)	7.1
M	-0.9	106	- 0.2	4.8 (4.9)	6.6
A	-0.9	107	0.1	5.3 (5.0)	7.9
M	2.9	108	0.2	6.0 (5.2)	8.5
J	-0.9	107	0.2	4.6 (5.1)	7.4
J	-2.8	106	0.7	5.6 (5.1)	6.7
A	2.8	110	0.8	4.9 (5.1)	6.5
S	0.9	108	0.4	5.8 (5.2)	5.8
O	0.9	108	0.9	4.8 (5.2)	5.8
N	0.9	108	1.0	6.1 (5.3)	5.5
D	3.4	109	1.0	6.8 (5.5)	5.8
1988J	4.9	109	0.7	-	5.8
F	-	-	0.9	-	6.1

\* Yearly figures are monthly averages. Monthly figures in brackets are average of past 12 months.

TABLE 3A

## THREE MONTH INTEREST RATES IN THE G5 COUNTRIES\*

	United States	Japan	Germany	France	UK
1983	91	6.5	5.8	12.5	10.1
1984	10.1	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
1987	6.9	3.9	4.0	8.2	9.7
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	7.4	3.8	4.0	7.9	10.1
Oct	8.2	3.9	4.8	8.2	9.9
Nov	7.4	3.9	3.9	8.6	9.0
Dec	7.8	3.9	3.6	8.7	8.7
1988 Jan	7.0	3.9	3.4	8.3	8.9
Feb	6.6	3.8	3.4	7.6	9.2
March 28	6.6	3.8	3.4	8.3	8.9

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

## EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK	YEN/\$	DM/\$
1980	93.7	126.4	128.8	94.4	96.0	225.8	1.82
1981	105.6	142.9	119.2	84.3	94.8	219.5	2.25
1982	118.0	134.6	124.4	76.6	90.4	248.8	2.43
1983	124.8	148.4	127.1	70.0	83.2	237.4	2.55
1984	134.6	156.7	123.8	65.7	78.6	237.5	2.85
1985	140.7	160.5	123.6	66.3	78.2	238.4	2.94
1986	114.8	203.1	137.3	70.1	72.8	168.3	2.17
1987	101.2	219.6	147.6	71.8	72.7	144.7	1.80
1986 Q1	121.2	186.8	133.1	71.0	75.1	187.8	2.35
Q2	116.0	202.8	134.7	69.0	76.0	169.9	2.24
Q3	111.4	214.8	138.6	69.5	71.9	155.9	2.09
Q4	110.5	208.0	142.6	70.8	68.3	160.4	2.01
1987 Q1	104.2	210.1	147.7	71.9	70.2	155.2	1.84
Q2	101.1	222.9	146.9	71.6	72.7	142.6	1.81
Q3	102.5	218.0	146.4	71.4	72.7	147.0	1.84
Q4	97.0	227.4	149.4	72.3	75.2	134.0	1.71
1987 Jan	105.5	209.4	147.5	71.8	68.9	154.6	1.86
Feb	103.9	209.3	148.4	72.3	69.0	153.4	1.82
Mar	103.3	211.7	147.1	71.8	71.9	157.5	1.84
Apr	101.0	222.7	146.6	71.6	72.3	142.9	1.81
May	100.4	225.3	147.2	71.7	73.3	140.6	1.79
June	101.8	220.8	146.8	71.5	72.6	144.4	1.82
July	103.3	213.7	146.6	71.6	72.8	150.2	1.85
Aug	103.3	218.2	146.0	71.1	72.3	147.6	1.86
Sept	100.8	222.1	146.7	71.4	73.0	143.1	1.81
Oct	100.6	221.4	147.1	71.5	73.6	143.3	1.80
Nov	96.5	228.4	150.9	72.3	75.4	135.3	1.68
Dec	93.9	232.4	150.2	73.1	76.6	123.4	1.65
1988 Jan	93.9	239.5	150.4	72.5	74.9	127.8	1.65
Feb	95.0	239.5	149.1	71.8	74.3	129.2	1.70
March 29	92.5	245.5	149.2	71.6	77.7	124.5	1.66
% Change since dollar peak (Feb 85)	- 41	+ 56	+ 27½	+ 15½	+ 10½	- 52	- 51½
% Change since Plaza (Sept 85)	- 33½	+ 57	+ 19	+ 6½	- 5	- 48	- 41½
% Change since Louvre Accord (Feb 87)	- 11	+ 17½	+ ½	- 1	+ 12½	- 19	- 9
% Change since Stock market crash (16 Oct 1987)	- 7½	+ 11½	+ 1½	0	+ 5½	- 13	- 8

TABLE 3C

## Economist Commodity Price Indices

1980=100

Annual	All items indices				SDR indices		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
1985	95.8	74.8	135.2	86.5	103.4	94.2	84.3
1986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
1987	88.8	88.4	125.2	73.7	84.4	98.8	82.1
<u>Quarterly</u>							
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	73.9	82.6	107.1	87.5
Q4	95.3	98.2	130.4	78.2	87.0	99.0	96.8
<u>Monthly</u>							
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
October	94.8	94.2	132.2		86.7	101.9	94.3
November	93.6	97.0	127.6		86.5	97.1	93.8
December	97.4	103.4	131.4		87.9	97.9	102.2
January	99.4	105.2	135.8		90.2	98.6	104.4
February (prov)	100.0	104.2	137.7		90.9	101.7	103.4
<u>Weekly</u>							
December 8	96.0	100.4	129.8		88.1	98.3	97.7
15	96.2	102.5	130.1		87.0	97.0	100.5
22	98.3	104.8	133.1		87.6	98.0	105.1
29	99.8	108.0	134.9		87.3	97.1	110.6
January 5	98.9	106.2	134.9		88.5	98.6	105.4
12	99.0	105.2	134.3		89.0	98.0	105.4
19	100.3	104.9	137.1		91.6	99.3	104.8
26	99.4	104.4	136.8		91.7	98.5	102.2
February 2	97.8	102.2	134.1		90.0	101.4	98.5
9	99.1	103.1	137.2		90.5	101.4	101.6
16	101.6	105.8	140.7		91.2	101.8	107.7
23(prov)	101.4	105.5	138.8		91.9	102.3	105.9

\* In relation to prices of manufactured exports. Recent figures are estimated.

\*\* Non-food agriculturals.

CONFIDENTIAL

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TABLE 4a

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

	MONEY		OUTPUT		PRICES AND UNIT LABOUR COSTS					
			Manufacturing		RPI	RPI excluding mortgage payments	Producer Prices***		Unit Wage Costs	
			GDP(O)	Output			Output	Input	Manufacturing	Whole economy
1985-86	9.7	1986	2.9	0.3	3.4	3.6	4.3	-10.8	4.7	5.4
1986-87	6.9	1987	4.8	5.5	4.1	3.7	4.5	5.3	n/a	n/a
1986 2	6.5	1986 1	2.2	- 1.7	4.9	4.6	5.0	-11.9	8.2	6.0
3	6.6	2	2.2	- 1.3	2.8	3.3	4.3	-12.4	6.2	6.2
4	7.0	3	3.5	0.8	2.6	3.3	4.0	-13.0	3.3	4.4
1987 1	7.3	4	3.9	3.8	3.4	3.4	4.0	- 5.6	1.2	5.0
2	8.9	1987 1	4.3	4.4	3.9	3.7	4.1	- 1.7	0.1	3.5
3	10.6	2	4.4	5.1	4.2	3.6	4.5	4.6	0.8	4.1
4	9.8	3	5.1	6.7	4.3	3.6	4.7	12.9	1.0	3.3
1988 1	10.1 *	4	5.2	5.5	4.1	4.0	4.7	6.2	1.3	
1987-88	9.8									
1988-89	7.6									
		1987 March		5.3	4.0	3.8	4.1	0.4	- 0.1**	
		April		4.4	4.2	3.6	4.3	3.0	- 0.4	
		May		5.8	4.1	3.8	4.5	3.4	0.0	
		June		5.1	4.2	3.5	4.5	7.2	0.8	
		July		5.8	4.4	3.7	4.7	13.4	1.2	
		August		8.3	4.4	3.7	4.7	14.5	1.0	
		September		6.3	4.2	3.5	4.7	10.8	0.8	
		October		5.6	4.5	3.9	4.7	7.6	0.6	
		November		5.4	4.1	4.0	4.8	4.8	1.4	
		December		5.6	3.7	4.0	4.9	5.0	2.0	
		1988 January		8.5 <sup>1</sup>	3.3	3.7	4.8	4.5		
		February			3.3	3.6	5.0	5.6		

<sup>1</sup> Figures boosted by around 3 per cent on account of low output level during exceptionally cold January of 1987.

\* 1988 FSBR forecast

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

\*\*\* Excluding food, drink and tobacco.

TABLE 4(b) UNDERLYING RETAIL PRICE INFLATION

		% change on a year earlier		
	RPI	RPI exc mortgages	RPI exc both mortgages and petrol	
1983	Q1	4.9	6.3	6.2
	Q2	3.8	4.6	4.4
	Q3	4.6	5.0	4.9
	Q4	5.0	4.6	4.6
1984	Q1	5.2	4.5	4.4
	Q2	5.2	4.9	5.0
	Q3	4.7	4.2	4.4
	Q4	4.8	4.1	4.1
1985	Q1	5.5	4.8	4.6
	Q2	7.0	5.3	4.9
	Q3	6.3	5.4	5.2
	Q4	5.5	5.2	5.3
1986	Q1	4.9	4.6	5.2
	Q2	2.8	3.3	4.8
	Q3	2.6	3.3	4.8
	Q4	3.4	3.4	4.5
1987	Q1	3.9	3.7	4.3
	Q2	4.2	3.6	3.6
	Q3	4.3	3.6	3.5
	Q4	4.1	4.0	4.1
1987	July	4.4	3.7	3.6
	Aug	4.4	3.7	3.5
	Sept	4.2	3.5	3.6
	Oct	4.5	3.9	4.0
	Nov	4.1	4.0	4.2
	Dec	3.7	4.0	4.1
1988	Jan	3.3	3.7	3.8
	Feb	3.3	3.6	3.9



TABLE 5 : INDICATORS OF FISCAL STANCE

(a) Annual data

	PSBR		PSBR EXCLUDING PRIVATISATION PROCEEDS		PSFD	
	Cash	Ratio to	Cash	Ratio to	Cash	Ratio to
	£ billion	GDP (per cent)	£ billion	GDP (per cent)	£ billion	GDP (per cent)
1970-71	0.8	1.5	0.8	1.5	-0.2	-0.4
1971-72	1.0	1.6	1.0	1.6	0.7	1.1
1972-73	2.4	3.6	2.4	3.6	2.0	3.0
1973-74	4.3	5.8	4.3	5.8	3.5	4.6
1974-75	8.0	9.0	8.0	9.0	6.0	6.7
1975-76	10.3	9.3	10.3	9.3	8.1	7.3
1976-77	8.3	6.4	8.3	6.4	7.5	5.7
1977-78	5.4	3.6	5.9	3.9	6.6	4.4
1978-79	9.2	5.3	9.2	5.3	8.3	4.8
1979-80	10.0	4.8	10.4	5.0	8.0	3.9
1980-81	12.7	5.4	13.1	5.5	11.7	5.0
1981-82	8.6	3.3	9.1	3.5	5.2	2.0
1982-83	8.8	3.1	9.3	3.3	8.3	2.9
1983-84	9.7	3.2	10.9	3.5	11.5	3.7
1984-85*	10.2	3.1	12.3	3.7	13.1	4.0
1985-86*	5.8	1.6	8.5	2.3	8.2	2.3
1986-87	3.4	0.9	7.8	2.0	9.2	2.4
1987-88	-3.1	-3/4	1.9	1/2	2.8	3/4

Budget  
forecast  
1988-89 -3.1 -3/4 1.8 1/2 1.4 1/4

\*If adjusted for coal strike, PSBR and PSFD ratios to GDP  
roughly 0.9 per cent lower in 1984-85 and 0.2 per cent lower in 1985-86

(b) Quarterly Data

	£ billion	PSBR		PSBR excluding privatisation		PSFD	
		sa*	ua	sa*	ua	sa*	ua
1985	Q2	1.2	2.6	2.5	3.9	2.9	4.6
	Q3	1.9	2.9	2.4	3.4	1.5	1.9
	Q4	1.5	2.1	2.1	2.6	2.1	0.7
1986	Q1	1.1	-1.9	1.5	-1.5	2.0	1.0
	Q2	2.1	2.3	3.2	3.4	2.2	3.6
	Q3	2.1	3.6	2.1	3.6	3.0	4.2
	Q4	-1.3	-1.6	0.9	0.5	1.5	0.0
1987	Q1	0.5	-0.8	2.8	1.6	2.5	1.9
	Q2	0.0	1.0	1.6	2.6	1.5	3.2
	Q3	-0.1	0.4	1.1	1.5	0.8	1.7

\*financial year - constrained

+calendar year - constrained

Table 6: CGBR(0) April-February Comparison with Budget Profile

£ billion

Receipts

Inland Revenue	+ 2.8
Customs and Excise	+ 0.7
National Insurance contributions	+ 0.4
Privatisation proceeds	+ 0.1
Interest and dividends	+ 0.2
Other receipts	+ 0.4
<b>Total receipts</b>	<b>+ 4.7</b>

Expenditure

Interest payments	- 0.3
Departmental expenditure (1)	- 1.9
<b>Total expenditure</b>	<b>- 2.1</b>
<u><b>Net effect on CGBR(0)</b></u>	<u><b>- 6.8</b></u>

(1) on a cash basis, net of certain receipts and on-lending

+ = higher receipts, higher borrowing and higher expenditure

- = lower receipts, lower borrowing and lower expenditure

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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)
1985	(1)	72.1	80.1	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	88.9	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	93.3	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	91.6	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	88.3	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	92.1	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	88.2	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	84.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	86.9	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	90.9	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	90.7	0.992	1.62	2.97	83.0	+2.8	19.0
	(4)	74.9	94.0	1.030	1.76	2.99	83.8	+1.2	18.1
1987	February	69.0	85.7	0.960	1.53	2.78	77.4	+4.4	17.2
	March	71.9	89.4	0.991	1.59	2.92	81.2	+3.4	18.0
	April	72.3	90.3	0.994	1.63	2.95	82.1	+2.9	18.2
	May	73.3	91.7	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	89.8	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	90.7	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	90.0	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	91.2	1.004	1.65	2.98	83.2	+2.6	18.3
	October	73.6	92.0	1.006	1.66	2.99	83.5	+1.7	18.8
	November	75.4	94.6	1.040	1.78	2.99	83.9	+1.0	17.8
	December	75.7	95.2	1.045	1.83	2.98	84.0	+0.9	17.7
	1988	January	74.8	94.7	1.038	1.78	2.98	83.5	+1.8
February		74.3	94.1	1.047	1.75	2.98	83.7	+2.6	15.6
March 28		77.1	na	1.087	1.85	3.09	87.4	+2.0	15.6

† 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

@ Figures for latest months are tentative forecasts based on extrapolated producer price indices

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
	(3)	9.9	7.1	9.7	9.8	3.7	6.0	2.6	4.2	3.9
	(4)	9.2	7.8	9.0	9.5	4.0	4.7	2.4	4.1	3.8
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	6.1	2.6	4.3	4.0
	September	10.1	7.5	10.0	10.0	4.0	5.9	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.2	5.6	3.1	4.5	4.3
	November	8.9	7.4	9.0	9.2	3.8	4.9	1.9	4.0	3.3
	December	8.7	7.8	8.5	9.5	3.9	4.6	2.3	3.9	3.9
1988	January	8.9	7.1	8.5	9.6	4.1	4.6	2.3	4.2	4.1
	February	9.3	6.7	9.0	9.4	4.2	4.9	2.2	4.0	3.9
	March 28th	8.8	6.8	8.5	9.2	na	na	2.1	3.9	3.9

\* 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 fmn
1982	0.7	8.9	0.6	4027
1983	-0.6	10.1	-0.7	3308
1984	9.5	11.0	-2.0	1461
1985	6.8	4.1	1.8	2877
1986	2.3	5.8	-0.7	-944
1987	7.3	8.8	+1.1	-2493
1986 Q3	2.9	7.5	-2.4	-874
Q4	8.6	8.6	-4.9	-818
1987 Q1	10.0	3.8	-1.3	496
Q2	6.0	9.2	+1.9	-594
Q3	8.9	11.5	+1.2	-1207
Q4	4.7	9.7	+3.0	-1188
1987 Jan	6.5	4.5	-2.7	-28
Feb	16.3	6.0	-2.0	329
Mar	7.1	0.7	+0.6	195
April	9.8	9.6	+1.7	110
May	5.3	12.8	-0.1	-485
June	4.3	5.1	+2.0	-219
July	7.6	10.6	+0.2	-357
Aug	8.7	13.4	+0.6	-790
Sep	10.8	10.5	+3.2	-61
Oct	4.0	10.7	+1.8	-322
Nov	3.6	7.4	+3.5	-456
Dec	6.4	11.1	+3.8	-410
1988 Jan	3.3	19.0	+5.2	-844
Feb	-8.0	11.0	+3.9	-720

\* excluding oil and erratics.

TABLE 10

Key Monetary Indicators

	1986-87						1987-88						
	<u>Feb</u>	<u>Mar</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	Jan	Feb
<u>MONETARY AGGREGATES</u>													
<u>12 month % change (ua)</u>													
MO	4.1	3.5	5.3	4.4	4.2	5.3	4.5	5.2	5.5	4.9	4.2	4.8	5.3
M3	18.9	20.4	20.4	18.9	19.1	20.9	22.1	19.5	22.4	21.4	22.8	22.4	20.4
M4	13.9	13.9	14.6	13.7	13.8	14.9	15.6	14.9	15.7	15.2	16.3	16.6	16.0
M5	13.3	13.5	14.1	13.4	13.5	14.4	14.9	14.4	15.2	14.7	15.8	16.3	15.5
<u>STERLING LENDING</u>													
<u>12 month % change (ua)</u>													
Banks	21.7	20.7	21.4	21.7	21.5	22.2	21.6	23.5	22.9	22.5	22.8	24.7	24.3
Banks and building societies	19.8	19.1	19.5	19.4	19.3	19.5	18.8	20.0	19.3	19.0	18.8	20.0	19.9
<u>OVER(-)/UNDER (+) FUNDING</u>													
<u>financial year to date: fmm</u>													
	-3,969	395	3,216	5,162	2,373	1,916	2,221	2,021	3,796	1,187	2,422	-4131	-5693
<u>MONEY MARKET ASSISTANCE/</u>													
<u>Level outstanding fmm</u>													
	14,873	9,742	6,126	3,340	5,132	7,078	6,114	5,421	5,403	7,073	7,221	12507	13425
<u>INTEREST RATES</u>													
3 months*	10.8	9.9	9.8	8.8	9.0	9.3	10.2	10.1	10.0	8.9	8.7	8.9	9.3
20 year $\phi$	9.8	9.1	9.2	8.8	8.9	9.3	10.0	10.0	9.8	9.2	9.5	9.6	9.4
<u>EFFECTIVE EXCHANGE</u>													
<u>RATE</u>													
	69.0	71.9	72.3	73.3	72.7	72.8	72.3	73.1	73.6	75.4	75.7	74.8	74.3

\* Inter bank

 $\phi$  par yield

/ banking months until August thereafter end calendar months

TABLE 11

£ million

## GROWTH RATES OF MONETARY AGGREGATES

			1987 MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC 1988	JAN	FEB
M0 -	Monthly change	sa	68	24	189	39	120	99	49	139	-46	-18
	Monthly % change	nsa	0.3	-0.6	2.8	0.1	0.1	-0.2	0.3	7.0	-6.0	-1.0
	Monthly % change	sa	0.4	0.2	1.2	0.3	0.8	0.6	0.3	0.9	-0.3	-0.1
	6-month annualised % change	sa	2.9	0.2	4	6.2	7	7.3	7	8.5	5.3	4.5
	Annual % change	sa	4.4	4.2	5.4	4.7	4.9	5.6	4.9	4.3	4.6	5.3
M3 -	Monthly change	sa	2331	2304	3116	2323	2479	6468	-50	2532	915	717
	Monthly % change	nsa	2.0	1.1	2.6	1.3	1.0	3.3	0.7	1.4	-1.2	0.3
	Monthly % change	sa	1.4	1.4	2.2	1.4	1.4	3.7	0.0	1.4	0.5	0.4
	6-month annualised % change	sa	21.8	24	26.4	25.1	21.9	25.5	22	22	17.9	15.6
	Annual % change	sa	18.6	18.9	20.9	21.8	19.9	23.1	21.9	23.0	22.1	20.3
M4 -	Monthly change	sa	2550	4050	4419	3792	3458	6570	879	3830	791	2882
	Monthly % change	nsa	1.3	1.4	1.9	0.9	1.0	1.9	0.5	1.6	0.1	0.4
	Monthly % change	sa	0.9	1.5	1.6	1.3	1.2	2.2	0.3	1.3	0.3	0.9
	6-month annualised % change	sa	13.6	15.7	18.8	18.4	17.2	18.9	17.4	17	14	13.1
	Annual % change	sa	13.7	13.8	14.9	15.6	14.9	15.8	15.2	16.3	16.6	16.0
M5 -	Monthly change	sa	3464	4286	4331	3847	3535	6565	911	4080	1002	2682
	Monthly % change	nsa	1.4	1.4	1.9	0.9	1.0	1.8	0.5	1.7	0.0	0.3
	Monthly % change	sa	1.2	1.5	1.5	1.3	1.2	2.1	0.3	1.3	0.3	0.8
	6-month annualised % change	sa	13.2	15.2	18.5	17.9	17	18.8	16.7	16.3	13.7	12.7
	Annual % change	sa	13.4	13.5	14.4	14.9	14.4	15.2	14.7	15.8	16.3	15.5
NIBM1 -	Monthly change	sa	881	1770	119	163	312	1498	-987	-73	1480	417
	Monthly % change	nsa	2.8	3.4	0.2	-0.2	0.9	0.4	1.1	0.9	-3.3	1.4
	Monthly % change	sa	2.2	4.2	0.3	0.4	0.7	3.4	-2.2	-0.2	3.3	0.9
	6-month annualised % change	sa	8.5	16	10.3	10.2	13.7	24.5	14.2	4.8	11.3	12.5
	Annual % change	sa	13.4	13.4	12.3	12.2	6.0	11.8	10.6	10.5	11.8	12.0
M1 -	Monthly change	sa	2950	2092	1087	1099	1571	2861	524	-250	-1107	-424
	Monthly % change	nsa	3.7	2.5	1.3	1.3	1.8	3.2	0.6	-0.3	-1.2	-0.5
	Monthly % change	sa	3.4	2.8	1.3	1.6	1.6	4.8	-1.0	-1.0	2.2	-0.6
	6-month annualised % change	sa	20	30.4	24.4	28.2	23	35.9	24.7	15.6	17.5	12.5
	Annual % change	sa	23.5	23.6	22.6	23.7	20.3	24.7	21.7	22.7	21.7	20.5
WIDER £ AGGREGATE	Monthly change	sa	4992	500	5295	1467	1778	7758	23	3520	485	170
	Monthly % change	nsa	2.6	0.3	2.7	0.7	0.9	3.8	0.0	1.7	0.2	0.1
	Monthly % change	sa	2.2	0.5	2.4	0.8	1.3	4.2	-0.6	1.6	1.7	0.2
	6-month annualised % change	sa	23.3	22.1	23.4	21.8	20.2	25.0	18.3	21.1	19.3	17.8
	Annual % change	sa					18.5	22.3	20.4	21.5	21.6	19.9

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	-0.5	12.2	10.1	9.1
1986-87	3.8	0.3	14.5	9.7	9.3
12 MONTH % CHANGES (ua except M0)					
1987 FEBRUARY	3.7	0.4	14.7	9.8	9.3
MARCH	3.8	0.3	14.5	9.7	9.3
APRIL	3.6	1.2	16.2	10.6	10.1
MAY	3.8	0.6	14.5	9.5	9.2
JUNE	3.5	0.7	15.1	10.0	9.7
JULY	3.7	1.6	16.6	10.8	10.3
AUGUST	3.7	1.0	17.7	11.5	10.8
SEPTEMBER	3.5	1.4	15.5	11.0	10.5
OCTOBER	3.9	1.6	17.8	11.5	10.9
NOVEMBER	4.0	0.9	16.7	10.8	10.3
DECEMBER	4.0	0.3	18.1	11.8	11.3
1988 JANUARY	3.7	0.9	18.0	12.4	12.2
FEBRUARY	3.6	1.6	16.2	12.0	11.5



TABLE 13

CONFIDENTIAL

M0 : THE WIDE MONETARY BASE

Monthly data	Level £ million (Change in brackets)					Percentage change previous month		Percentage change on previous year				6 month % growth annualised			
	Notes and Coin (nsa)	(sa)	Bankers' Deposits	M0 (nsa)	M0 (sa)	Notes(sa) and Coin	M0 (sa)	Notes and Coin (nsa)	(sa)	M0 (nsa)	(sa)	Notes & Coin (sa)	M0 (sa)		
1987 July	15271	15166	( 91 )	235	15506	15401	( 190 )	0.6	1.2	4.7	4.7	5.3	5.4	3.0	4.0
August	15337	15258	( 92 )	182	15519	15440	( 39 )	0.6	0.3	4.3	4.6	4.5	4.7	6.0	6.2
September	15349	15376	( 118 )	185	15534	15561	( 121 )	0.8	0.8	5.3	5.0	5.2	4.9	7.8	7.0
October	15299	15456	( 80 )	203	15501	15659	( 98 )	0.5	0.6	5.1	5.2	5.5	5.6	7.4	7.3
November	15365	15525	( 69 )	183	15548	15707	( 48 )	0.4	0.3	4.8	4.8	4.9	4.9	7.4	7.0
December	16447	15661	( 136 )	186	16633	15846	( 139 )	0.9	0.9	4.7	4.8	4.2	4.3	7.9	8.5
1988 January	15458	15620	( -41 )	181	15638	15801	( -45 )	-0.3	-0.3	4.7	4.5	4.8	4.6	6.1	5.3
February	15352	15658	( 38 )	122	15474	15780	( -21 )	0.2	-0.1	5.7	5.7	5.3	5.3	5.3	4.5
March (4/5)	15475	15730	( 72 )	156	15631	15886	( 106 )	0.5	0.7	6.2	6.2	5.6	5.6	4.7	4.2

	Level £ million (Change in brackets)			Percentage change on previous week		
	Notes(sa) and Coin	Bankers' Deposits	M0 (sa)	M0 (sa)		
February						
3rd	15629	( -11 )	45	15674	(-109 )	-0.7
10th	15661	( 32 )	174	15835	( 161 )	1.0
17th	15676	( 15 )	142	15818	( -17 )	-0.1
24th	15667	( -9 )	126	15793	( -25 )	-0.2
March						
2nd	15677	( 10 )	96	15773	( -20 )	-0.1
9th	15726	( 49 )	237	15963	( 190 )	1.2
16th	15733	( 7 )	131	15864	( -99 )	-0.6
23rd	15783	( 50 )	159	15942	( 78 )	0.5

Weekly data for the current month so far include estimates for the unbacked note issue. The latest week also includes an estimate for coin. The changes for the current month so far use as a base the previous full month and the full month a year ago. The latest four week changes use as a base the four week averaged level four weeks ago and a year ago.

TABLE 14

SECRET

## BUILDING SOCIETY BALANCE SHEET FLOWS

Unadjusted £ million

	Total Flow	Net Mortgage Advances & Unsecured Lending	A S S E T S		L I A B I L I T I E S			
			Liquid Assets	Fixed Assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)
1985 *	1497	1226	244 ( 18.0 )	27	621	497	205	174
1986 *	1593	1589	-19 ( 16.4 )	23	553	508	498	34
1987 *	1626	1235	343 ( 16.9 )	48	634	570	281	141
1986 Q1*	953	1271	-341 ( 17.5 )	23	740	461	167	-415
Q2*	1518	1645	-150 ( 16.6 )	23	478	521	321	198
Q3*	1740	1884	-165 ( 15.7 )	21	56	402	1099	183
Q4*	2160	1556	581 ( 16.4 )	23	938	647	403	172
1987 Q1*	1324	1120	126 ( 16.1 )	78	484	523	279	38
Q2*	1573	1240	313 ( 16.2 )	20	612	457	182	322
Q3*	1516	1272	200 ( 16.1 )	44	410	515	364	227
Q4*	2090	1306	734 ( 16.9 )	50	1028	785	299	-22
1988 Jan	1152	1526	-424 ( 16.5 )	50	890	927	68	-733
Feb	1743	1297	396 ( 16.6 )	50	1094	94	102	453
Forecast								
1988 Q1*	1488	1518	-80 ( 16.6 )	50	846	470	223	-51
Mar	1570	1732	-212 ( 16.3 )	50	555	388	500	127

\* Monthly averages

+ Estimated ; part data

Figures in ( ) are end period liquidity ratio, unadjusted

TABLE 15

## THE COMPONENTS OF M3

	BANK DEPOSITS				
	NOTES AND COINS	RETAIL		WHOLESALE	M3
		NIB	IB		
<b>% CHANGES</b>					
Financial years (ua)					
1984-85 <sup>1</sup>	5.2	6.5	7.7	19.1	11.5
1985-86 <sup>1</sup>	3.7	4.5	16.8	26.1	16.7
1986-87 <sup>1</sup>	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
1987 MARCH	-2.4	16.9	17.4	25.4	18.9
APRIL	6.2	14.5	17.1	27.9	20.4
MAY	3.3	16.4	19.0	23.1	18.9
JUNE	3.6	18.0	15.4	25.1	19.1
JULY	6.0	15.3	12.1	32.4	20.9
AUGUST	4.0	16.4	15.1	32.8	22.1
SEPTEMBER	5.7	6.1	14.2	32.0	19.5
OCTOBER	4.5	15.4	12.4	35.2	22.4
NOVEMBER	1.3	15.1	13.0	33.5	21.4
DECEMBER	5.8	12.8	10.1	38.5	22.8
1988 JANUARY	5.1	15.2	10.7	35.9	22.4
FEBRUARY	2.5	16.6	11.1	30.9	20.4
Over 6 months (sa)					
1987 SEPTEMBER	8.7	16.0	12.7	32.5	21.9
OCTOBER	6.8	33.3	11.7	34.5	25.5
NOVEMBER	7.0	17.6	13.2	31.5	22.0
DECEMBER	11.3	2.1	7.9	40.9	22.0
1988 JANUARY	7.6	12.9	9.0	26.8	17.9
FEBRUARY	6.4	15.1	8.0	21.8	15.6
<b>CHANGES £ MILLION</b>					
monthly average (sa)					
1984-85 <sup>1</sup>	42	56	238	683	1017
1985-86 <sup>1</sup>	17	90	161	556	1565
1986-87 <sup>1</sup>	4	359	538	1255	2157
Over 1 month (sa)					
1987 SEPTEMBER	1	311	434	1753	2499
OCTOBER	253	1245	170	4800	6468
NOVEMBER	-71	-916	600	337	-50
DECEMBER	217	-290	-630	3235	2532
1988 JANUARY	83	1397	927	-1492	915
FEBRUARY	-69	486	343	-43	717

<sup>1</sup> March on March

## THE COMPONENTS OF M4 AND M5

	BUILDING SOCIETIES				M4	MONEY MARKET INSTRUMENTS	M5
	M3	RETAIL <sup>1</sup>	WHOLESALE	HOLDINGS OF M3			
<b>% CHANGES</b>							
<b>Financial years (ua)</b>							
1984-85 <sup>3</sup>	11.5	15.1				13.8	13.8
1985-86 <sup>3</sup>	16.7	15.3	52.6	94	-0.1	13.5	14.5
1986-87 <sup>3</sup>	19.1	10.8	11.4	50	-15.6	13.5	12.9
<b>Over 12 months (ua)</b>							
1987 MARCH	18.9	17.2		52.2	13.9	5.3	13.5
APRIL	20.4	16.1		50.3	14.6	5.0	14.1
MAY	18.9	17.9		54.7	13.7	8.9	13.4
JUNE	19.1	16.4		63.7	13.8	8.4	13.5
JULY	20.9	13.4		64.2	14.9	5.3	14.4
AUGUST	22.1	15.6		63.2	15.6	4.5	14.9
SEPTEMBER	19.5	10.8		58.1	14.9	5.5	14.4
OCTOBER	22.4	13.6		58.3	15.8	5.8	15.2
NOVEMBER	21.4	13.8		66.0	15.2	5.3	14.7
DECEMBER	22.8	11.2		63.2	16.3	8.1	15.8
1988 JANUARY	22.4	12.4		57.0	16.6	10.8	16.3
FEBRUARY	20.4	13.2		47.8	16.0	7.5	15.5
<b>Over 6 months (sa)</b>							
1987 SEPTEMBER	21.9	10.8		25.2	17.2	13.0	17.0
OCTOBER	25.5	9.7		23.4	18.9	17.9	18.8
NOVEMBER	22.0	11.6		21.0	17.4	4.2	16.7
DECEMBER	22.0	11.2		31.3	17.0	4.3	16.3
1988 JANUARY	17.9	11.3		39.5	14.0	8.5	13.7
FEBRUARY	15.6	11.4		31.9	13.1	4.9	12.7
<b>CHANGES £ MILLION</b>							
<b>monthly average (sa)</b>							
1984-85 <sup>3</sup>	984	1034	42	-28	139	2221	2090
1985-86 <sup>3</sup>	1565	1207	50	-362	-118	2480	2557
1986-87 <sup>3</sup>	2157	938	17	-372	51	2791	2975
<b>Over 1 month (sa)</b>							
1987 SEPTEMBER	2499	295	457	207	3458	77	3535
OCTOBER	6468	720	0	-618	6570	-5	6565
NOVEMBER	-50	2080	-355	-796	879	32	911
DECEMBER	2532	1221	325	-248	3830	250	4080
1988 JANUARY	915	1124	50	-1298	791	211	1002
FEBRUARY	717	1557	12	596	2882	-200	2682

<sup>1</sup>Net in flow including Term shares and SAYE.<sup>2</sup>Treasury bills, bank bills, LA temporary debt, CID's and some national savings accounts.<sup>3</sup>March on March.

TABLE 17

## RETAIL DEPOSITS

	BANKS	BUILDING <sup>1</sup> SOCIETIES	NATIONAL SAVINGS <sup>2</sup>	TOTAL
<b>% CHANGES</b>				
<b>Financial years (ua)</b>				
1984-85 <sup>3</sup>	7.1	15.1	11.9	12.0
1985-86 <sup>3</sup>	11.6	15.3	7.5	12.9
1986-87 <sup>3</sup>	17.2	10.8	10.8	12.7
<b>Over 12 months (ua)</b>				
1987 MARCH	17.2	10.5	10.8	12.6
APRIL	16.1	10.3	11.0	12.2
MAY	17.9	10.2	10.8	12.6
JUNE	16.4	10.3	10.5	12.2
JULY	13.4	10.2	9.2	11.1
AUGUST	15.6	10.4	9.7	11.9
SEPTEMBER	10.8	11.4	9.3	10.7
OCTOBER	13.6	10.2	8.2	10.9
NOVEMBER	13.8	11.1	7.4	11.3
DECEMBER	11.2	11.6	7.2	10.5
1988 JANUARY	12.4	12.1	6.7	10.9
FEBRUARY	13.2	12.6	6.2	11.2
<b>Over 6 months (sa)</b>				
1987 SEPTEMBER	14	10.8	6.8	11.3
OCTOBER	19.8	9.7	5.3	10.7
NOVEMBER	14.9	11.6	4.4	10.8
DECEMBER	5.6	11.2	4	8.3
1988 JANUARY	10.5	11.3	4.5	8.2
FEBRUARY	10.8	11.4	4.3	9.3
<b>CHANGES IN MILLION</b>				
<b>monthly average (sa)</b>				
1984-85 <sup>3</sup>	42	1034	683	1759
1985-86 <sup>3</sup>	255	1207	1093	2555
1986-87 <sup>3</sup>	871	938	266	2075
<b>Over 1 month (sa)</b>				
1987 SEPTEMBER	745	295	83	1123
OCTOBER	1415	720	-62	2073
NOVEMBER	-316	2080	69	1833
DECEMBER	-920	1221	262	563
1988 JANUARY	2324	1124	296	3744
FEBRUARY	829	1557	207	2593

## NOTES

- 1 Total retail funds, including term 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 <sup>1</sup>	Other <sup>2</sup>	Total	Total s/a
<u>1984-1986</u>							
<u>% change<sup>3</sup></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 average<sup>3</sup></u>							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
<u>Contributions to annual bank lending growth<sup>4</sup></u>							
<u>Monthly changes</u>							
1987	February	2618	-426	69	345	2606	2705
	March	4643	-2026	339	420	3376	2472
	April	1726	-409	210	-398	1129	2201
	May	3622	-2125	295	497	2289	2503
	June	5144	751	3	-1206	4692	3989
	July	2133	1680	-59	890	4644	4531
	August	2841	-1518	117	-288	1152	2651
	September	5456	12	-20	66	5514	4324
	October	2512	-417	141	823	3059	3018
	November	2316	819	237	-56	3316	3289
	December	3944	1544	121	-155	5454	4986
1988	January	2537	2485	-220	250	5052	5549
	February	2107	393	-32	58	2526	2621

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.

## FUNDING : FINANCIAL YEAR POSITION 1987/88

30/3/88

£ million

	FORECAST	OUTTURN	RESIDUAL
	Financial	April 87	March 88
	Year 87/88	- Feb 88	
<b>PSBR AND FUNDING TARGET</b>			
1 PSBR excl asset sales	1770	-2321	4091
2 Asset sales (sales-)	-5070	-5078	8
3 PSBR	-3300	-7399	4099
<b>FINANCED BY:</b>			
4 OPS debt sales to nbps (sales-)	819	1294	-475
5 National Savings (sales-)	-2000	-1837	-163 * -163
6 CTDs (sales-)	66	41	25
7 Treasury bills etc (sales-)	-73	-73	0
8 Intervention (reserves inc+)	11405	10030	1375
9 Public sector externals excl intervention and gilts (inc-)	464	464	0
10 NET GILT SALES TO NBPS & OVERSEAS NEEDED FOR FULL FUND (sales+)	7381	2520	
11 Adjustment for 1986/87 underfund	318		
12 OVER(-)/UNDER(+)-FUNDING	-318	-5693	5375
<b>GILT SALES:</b>			
13 Net purchases by nbps and overseas (purchases+)	7699	8213	-514
14 Net purchases by monetary and other public sector (purchases+)	-432	-532	100
15 Maturities	6800	5460	1340
16 GROSS OFFICIAL SALES	14067	13141	926
MARCH GROSS GILT SALES TO DATE			307
EXPECTED UNDERFUND 1987/88			619
17 Monthly average gross gilt sales	1172	1195	

\* average per month

Relationship between lines:

$$\begin{aligned}
 3 &= 1 + 2 \\
 10 &= 3+4+5+6+7+8+9 \\
 12 &= 10 + 11 - 13 \\
 16 &= 13 + 14 + 15
 \end{aligned}$$

Table 20:- 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		163	44	25	232	8380	1102	9482	
Q2	2781	4076		429	75	0	504	7361	808	8169	
Q3	3285	4087		288	59	100	447	7819	1047	8866	
Q4	4535	3402		249	73	210	532	8469	1948	10417	
1985											
Q1	7093	3189		924	170	235	1329	11611	3225	14836	
Q2	4158	3748		1092	327	230	1649	9555	1382	10937	
Q3	4148	3560		873	274	130	1277	8985	-806	8179	
Q4	4803	4232		525	89	200	814	9849	939	10788	
1986											
Q1	7431	3867	0	471	209	350	1030	12328	2362	14690	
Q2	5465	5083	0	1369	344	325	2038	12586	1575	14161	
Q3	5764	5592	69	1431	290	231	2021	13377	3688	17065	
Q4	10433	4667	65	2338	-52	281	2632	17732	591	18323	
1987											
Q1	7062	3619	368	1553	-782	1231	2370	13051	7158	20209	
Q2	8626	4240	651	2259	352	655	3917	16783	4679	21462	
Q3	10913	3889	298	5950	732	570	7550	22352	-1196	21156	
Q4	10925	3746	-89	3730	343	105	4089	18760	-126	18634	
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	12076	34	1402	198	297	1930	14006	2054	16060
1987	9382	3874	13255	307	3373	161	640	4482	17737	2629	20365
1987											
JANUARY	1392	1459	2851	150	500	-67	110	693	3544	1375	4919
FEBRUARY	2604	980	3584	104	870	20	315	1309	4893	2402	7295
MARCH	3066	1180	4246	114	183	-735	806	368	4614	3381	7995
APRIL	1269	1590	2859	192	828	110	355	1485	4344	1238	5582
MAY	2259	1295	3554	171	415	184	150	920	4474	2686	7160
JUNE	5098	1355	6453	288	1016	58	150	1512	7965	755	8720
JULY	4448	1302	5750	131	1840	182	210	2363	8113	-2233	5880
AUGUST	1041	1269	2310	9	2090	390	150	2639	4949	1019	5968
SEPTEMBER	5424	1318	6742	158	2020	160	210	2548	9290	18	9308
OCTOBER	2574	1510	4084	165	2535	195	45	2940	7024	3459	10483
NOVEMBER	3236	1266	4502	-16	975	55	60	1074	5576	-1528	4048
DECEMBER	5115	970	6085	-238	225	173	0	160	6245	-2057	4188
1988											
JANUARY	4890	1466	6356	212	48	41	450	751	7107	794	7901
FEBRUARY	2573	1385	3958	339	150	100	355	944	4902	-973	3929

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



Table 21:- NET FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (£ million)

	BANK BORROWING			TOTAL	OTHER BORROWING					TOTAL	TOTAL	
	Sterling		Foreign		Sterling Commercial Paper	Equities	Bonds	Euro-Sterling(*)				TOTAL
	ICC's	BSOC's	Currency					ICC's	BSOC's			
1984												
Q1	2905	-86	-895	1924		163	44	25	0	232	2156	
Q2	559	-56	-193	310		429	75	0	0	504	814	
Q3	1219	533	-74	1678		288	59	100	0	447	2125	
Q4	2312	408	1433	4153		249	73	210	0	532	4685	
1985												
Q1	3386	6	-352	3040		924	170	235	0	1329	4369	
Q2	747	248	207	1202		1092	327	230	0	1649	2851	
Q3	229	161	1371	1761		873	274	130	600	1877	3638	
Q4	874	343	1377	2594		525	89	200	475	1289	3883	
1986												
Q1	3807	346	108	4261	0	471	209	350	935	1965	6226	
Q2	-356	442	108	194	0	1369	344	325	1075	3113	3307	
Q3	28	1800	1128	2956	69	1431	290	231	1575	3596	6552	
Q4	5275	390	-59	5606	65	2338	-52	281	2632	5264	10870	
1987												
Q1	1047	353	2102	3502	368	1553	-782	1231	290	2660	6162	
Q2	662	-508	739	893	651	2259	352	655	50	3967	4860	
Q3	3513	364	-90	3787	284	5950	732	570	100	7636	11423	
Q4	5305	769	718	6792	-168	3735	423	105	0	4095	10887	
Average per quarter												
1984	1749	200	68	2016	0	282	63	84	0	429	2445	
1985	1309	190	651	2149	0	854	215	199	269	1536	3685	
1986	2189	745	321	3254	34	1402	198	297	1554	3485	6739	
1987	2632	245	867	3744	284	3374	181	640	147	4626	8370	
1987:-												
	JANUARY			150		500	-67	110	0	693		
	FEBRUARY			104		870	20	315	140	1449		
	MARCH			114		183	-735	806	150	518		
	APRIL			192		828	110	355	0	1485		
	MAY			171		415	184	150	50	970		
	JUNE			288		1016	58	150	0	1512		
	JULY			131		1840	182	210	0	2363		
	AUGUST			9		2090	390	150	0	2639		
	SEPTEMBER			158		2020	160	210	100	2634		
	OCTOBER			165		2535	195	45	0	2897		
	NOVEMBER			-16		975	55	60	0	1047		
	DECEMBER			-238		225	173	0	0	151		
1988:-												
	JANUARY			212		48	41	450	50	801		
	FEBRUARY			339		150	100	355	150	1094		

\* Gross Issues announced by U.K. ICC's and Building Societies

NOTE/ Bank borrowing figures include monetary sector holdings of 'Other Borrowing' instruments, giving rise to some double counting in the 'All Borrowing' figure

## CONFIDENTIAL

## M0 FORECAST, 1988-89

Seasonally adjusted

	Levels	12 month growth rate		6 month growth rate		
	(£ million)	(% )		(annualised)		
	Notes and Coin	M0	Notes and Coin	M0	Notes and Coin	M0
<b>Actual</b>						
1988 January	15 620	15 801	4.5	4.6	6.1	5.3
February	15 659	15 783	5.7	5.3	5.3	4.5
<b>Forecast</b>						
March	15 760	15 920	6.4	5.8	5.1	4.7
April	15 800	15 990	5.9	5.8	4.5	4.3
May	15 830	16 020	5.6	5.5	4.0	4.0
June	15 850	16 040	5.1	5.4	2.4	2.5
July	15 870	16 060	4.6	4.3	3.2	3.3
August	15 890	16 080	4.1	4.1	3.0	3.8
September	15 910	16 100	3.5	3.5	1.9	2.3
October	15 930	16 120	3.1	2.9	1.7	1.6
November	15 960	16 150	2.8	2.8	1.6	1.6
December	16 000	16 190	2.2	2.2	1.9	1.9
1989 January	16 000	16 190	2.4	2.5	1.6	1.6
February	16 030	16 220	2.4	2.8	1.8	1.7
March	16 060	16 250	1.9	2.1	1.9	1.9

Table 24

Broad Money forecast

	OUTTURN 1988 FEBRUARY		FORECAST	MARCH
	M3	M4	M3	M4
(i) Underlying increase	2320	2732	2850	3600
(ii) <u>Estimated Special Factors</u>	- 1800	- 1500	5625	6000
Arbitrage: bills against deposits	- 250	- 250	- 350	- 350
Over(-)/Under(+)funding	- 1550	- 1500	5975	6100
Liquidity rundown to replace equity issues	- 250	- 250	- 250	- 250
Low unit trust inflows	250	500	250	500
(iii) Total Increase	520	1232	8475	9600
Monthly % change	0.3	0.4	4.6	3.1
Annual % change	20.4	16.0	20.6	16.7
Annual % change expected at Budget time	15.7	15.4	13.5	14.2

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

Table 25Lending forecasts

	OUTTURN 1988 FEBRUARY			FORECAST MARCH		
	Bank lending	B Soc lending	M4 Counterpart	Bank lending	B Soc lending	M4 Counterpar
(i) Underlying increase (sa)	2921	1420	4388	3475	1550	4775
(ii) Estimated Special factors	- 300	150	- 150	- 1150	150	- 1000
Arbitrage: bills against deposits	- 250	-	- 250	- 350	-	- 350
bills against foreign currencies	- 250	-	- 250	- 350	-	- 350
PSBR offset	-	-	-	- 350	-	- 350
Bill leak	100	-	100	- 200	-	- 200
Bank borrowing to replace equity issues	250	-	250	250	-	250
Bank/building society competition	- 150	150	-	- 150	150	-
(iii) Lending increase (sa)	2621	1570	4238	2325	1700	3775
Lending increase (nsa)	2526	1385	3958	3450	1725	4925
Annual % change (nsa)	24.3	13.3	19.9	23.9	13.6	19.8
Annual % change expected at Budget time	18.5	16.3	17.0	18.4	16.6	17.3

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

TABLE 26 : BROAD AGGREGATES COUNTERPARTS AND FORECAST

£ million

OUTTURN: FEBRUARY 1988	M3	M4
-----	-----	-----
PSBR	-483	-483
LA and PC debt sales to NBPS (-)	111	253
CG debt sales to NBPS (-)	-833	-911
o/w    Gilts	( -779 )	( -925 )
Treasury bills etc	( -21 )	( -26 )
National Savings	( -200 )	( -200 )
CTDs	( 167 )	( 240 )
Public sector external & fc finance (-)	-357	-357
-----	-----	-----
OVER(-)/UNDER(+) FUNDING	-1562	-1498
Sterling lending to private sector (seasonally adjusted)	2526 (2621)	3958 (4238)
Banks'/B socs' externals	-489	-536
Banks'/B socs' £NNDLs	45	-692
-----	-----	-----
TOTAL	520	1232
Monthly % growth nsa	0.3	0.4
sa	0.4	0.9
Annual % growth nsa	20.4	16.0
FORECAST: MARCH 1988		
-----		
PSBR	4100	4100
LA and PC debt sales to NBPS (-)	-475	-300
CG debt sales to NBPS (-)	775	725
o/w    Gilts	( 925 )	( 925 )
Treasury bills etc	( 0 )	( 0 )
National Savings	( -175 )	( -175 )
CTDs	( 25 )	( -25 )
Public sector external & fc finance (-)	1575	1575
-----	-----	-----
OVER(-)/UNDER(+) FUNDING	5975	6100
Sterling lending to private sector (seasonally adjusted)	3450 (2325)	4925 (3775)
Banks'/B socs' externals & £NNDLs	-950	-1425
-----	-----	-----
TOTAL	8475	9600
Monthly % growth nsa	4.6	3.1
sa	2.9	2.2
Annual % growth nsa	20.6	16.7
Memo: building societies'		
Retail inflows		550
Interest credited		250
Wholesale inflows from NBPS		200
Holdings of M3 (-)		100

## SECRET

TAB 27: MONEY MARKET ASSISTANCE

£ million

	Outturn	Forecast		
	1988 FEB	MAR	APR	MAY
<b>A. Money market influences</b>				
(i) CGBR excl bank deposits (+)	169	3575	-875	525
(ii) Reserves etc (+)	-106	1100	-100	-100
(iii) Notes and coin (-)	272	-925	250	50
(iv) National Savings (-)	-280	-175	-200	-200
(v) CTDs (-)	164	25	50	50
(vi) Gilts (-)	-1031	1025	-50	300
(vii) Other Exchequer items etc	187			
<b>A. TOTAL MONEY MARKET INFLUENCES</b> (Market surplus + / shortage -)	----- -643 -----	----- 4625 -----	----- -925 -----	----- 625 -----
<b>B. Money market operations</b>				
(i) Commercial bills (purchase +):				
Issue Department - outrig	953			
- repo t	0			
Banking Department	35			
(ii) LA bills (purchase +)				
Issue Department	41			
Banking Department	6			
(iii) Treasury bills (purchase +)	-156			
(iv) Market advances	-117			
(v) Treasury bill Repos	0			
(vi) Export Credit/Shipbuilding	0			
(vii) Gilt Repos	0			
<b>B. TOTAL MONEY MARKET OPERATIONS</b>	----- 762 -----	----- -4625 -----	----- 925 -----	----- -625 -----
<b>C. Change in bankers balances</b> = A + B	120			
<b>D. TOTAL ASSISTANCE OUTSTANDING</b>	13425	8800	9725	9100
of which commercial bills	11720			

## GOVERNMENT SHARE SALES TIMING

1988

Gas debt	11 April
BGC III	19 April
BT Prefs	10 May
BAA II	19 May
BP II	30 August

1989

BP III	27 April
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In addition, the timing of the British Steel privatisation remains to be decided. We are currently looking at the choice between target dates in the period October 1988 - January 1989. We expect payment in two instalments, with the second instalment being in 1989-90.

