

MONTHLY MONETARY ASSESSMENT : APRIL 1988

Summary Assessment

The indicators suggest some moderation in the growth of economic activity this month, though it remains to be seen if the expected deceleration of activity to more sustainable levels will take place. Sterling has edged higher, although higher oil prices will have largely offset the effect on inflation. Monetary growth, especially M0, has increased, and house prices continue to accelerate.

Main Points

The latest available data on economic activity is consistent with the Budget Forecast of a decline in money GDP growth in 1988-89, to 7½ per cent from 9¼ per cent in 1987-88. Inflation remains little changed. (Paras 12, 13, 16, 17)

Sterling has risen by about 1 per cent in effective terms since the end of March, and by 1½ per cent against the Mark. A rise in oil prices has left the oil adjusted exchange rate only marginally higher. (Paras 20, 22)

M0 grew by 6.2 per cent in the year to April, and the 12 month growth rate is expected to remain at about 6½ per cent in May and June. Thereafter, the rate is projected to fall to below 5 per cent after August as consumer spending slows. (Paras 25, 26)

March broad money and credit growth was relatively high. Building societies continued to benefit from the unpopularity of equities and unit trusts, allowing many societies to bid aggressively for lending market share. Bank lending was also boosted by high demand from companies in the wake of the stock market crash, as equity issues dried up. M4 grew by 16½ per cent in the year to March (16 per cent in the previous month). Bank and building society lending grew by 20½ per cent in the year to March (20 per cent in the previous month). (Paras 28-43)

House prices continue to accelerate, with the mix-adjusted Halifax index rising by 20½ per cent in the 12 months to April, compared to 17½ per cent in the year to Q1. (Para 15)

Annex: Company Finance Post-Crash.

MG2 Division  
6 May 1988

118 Prime Minister<sup>2</sup>  
A useful background commentary. REC 6.10.15  
R 9.15.

SECRET

**A. External Developments**

1. The strong rise in output in the second half of 1987 is continuing into 1988. In January industrial production was over 9 per cent higher than a year earlier in Japan, 7 per cent higher in Canada and 6 per cent higher in the US and France. US GNP grew at an annual rate of 2-2½ per cent in the first quarter.
2. Consumer price inflation in G5 fell to 2½ per cent in February from about 3 per cent throughout the second half of last year.
3. Narrow money (M1) growth slowed markedly over the past year in all the major countries, particularly in the US where there may have been some unwinding of the effects of previous innovations (eg interest bearing sight deposits). In contrast, the rate of growth of broad money in G5 has remained about constant at 8 to 9 per cent since 1984 (table 1). With the US economy remaining strong, the Federal Reserve seems, to judge from Greenspan's remarks to Congress, less concerned about recession and more concerned about inflation. In the event of renewed downward pressure on the dollar US interest rates would probably rise.
4. Short term interest rates are close to their levels at the beginning of the year. Falls in most countries in January were reversed in March and early April (table 2a).
5. The dollar effective exchange rate was broadly stable over the first three months of the year, but came under downward pressure when February's disappointing trade figures appeared in mid-April.

**Conditions in W Germany**

6. The high 12 month rate of increase in industrial production in December and January was somewhat inflated by last year's bad weather. The trade surplus has remained fairly constant in DM terms in 1987 and early 1988 (table 2c).
7. Inflation has remained at about one per cent since October. The new targeted aggregate (M3) has grown at an annual rate of 7½ per cent since 1987 Q4 - above its target range of 3-6 per cent. Any further decline in German interest rates seems most unlikely: they might rise.

## B. Activity and Inflation

8. Recent indicators of **activity and inflation** are summarised in table 4. **Indicators released this month suggest continued expansion in economic activity, but perhaps at a more modest rate than in 1987.** Inflation remains little changed, though producer input prices have been weak.

### Recent indicators of activity

9. Production figures for February provisionally show a fall of just over 3 per cent in **manufacturing output.** The 3 months to February saw manufacturing output around  $\frac{1}{2}$  per cent higher than a quarter earlier - well below the 2-2 $\frac{1}{2}$  per cent quarter-on-quarter growth rates experienced in mid 1987. The sharp fall in manufacturing production in February partly reflects the Ford dispute, and may also have reflected problems with correctly allowing for the leap year. However, the fall was broadly based across industries and market sectors, and has been matched by a fall in overtime worked (see paragraph 11). On balance, **manufacturing activity appears to have moderated in the opening months of 1988.** Despite this, CBI survey results remain relatively bullish, and do not suggest-as yet-any sharp downturn in activity. Responses on order books and output prospects, which rose on a seasonally adjusted basis through 1988, have levelled off and begun to edge slowly downwards, but still remain high by historical standards. However, while export order books also remain at a relatively high level, the April quarterly survey confirms the sharp fall in export optimism first reported in the January quarterly survey.

10. Private **housing starts** fell back in February from particularly high levels over the previous three months. But this series is notably erratic and despite the latest outturn the housing construction industry shows no evidence of a downturn. **Retail sales** are provisionally estimated to have fallen marginally in March - back to January levels after a small rise in February. Sales volumes are estimated to have risen by around 1 $\frac{1}{4}$  per cent in both the last quarter of 1987 and first quarter of 1988 - below the 2 $\frac{1}{2}$  per cent quarter-on-quarter increases seen in 1987 Q2 and

*Final  
figure  
shows  
no  
change.*

Pl6.

Q3. Consumer spending may thus have moderated since mid 1987, though it remains too early to assess whether spending will regain momentum following the Budget tax cuts and the latest fall in interest rates. The preliminary estimate of first quarter consumer spending, published on 22 April, was in line with expectations at Budget time.

11. Labour market indicators released this month remain bullish, but are consistent with the message from other indicators - namely that the rate of economic expansion may be somewhat lower than in 1987. Unemployment fell further in March (28 thousand on a seasonally adjusted basis, excluding school leavers) but this reduction fell short of the average monthly fall of nearly 40 thousand over the preceding three months. Vacancies remain high but have continued to edge downwards from peak end 1987 levels: in March vacancies fell 2 thousand. Overtime working in manufacturing also remains at a high level but fell back to end 1987 levels in February after a sharp rise in January.

#### Inflation

12. Retail price inflation rose from 3.3 to 3.5 per cent between February and March. Excluding mortgage interest payments, inflation rose from 3.6 to 3.8 per cent. This increase was slightly higher than expected. RPI inflation will rise further in April - to perhaps a little under 4 per cent - reflecting the Budget measures and scheduled increases in local authority rents and rates.

13. Producer output prices (excluding food, drink and tobacco) rose 5.0 per cent in the year to March, a slight increase from the 4.9 per cent February outturn. The April CBI survey of manufacturers - adjusted for seasonal variation - showed inflation expectations back to recent levels after a sharp fall in March. Producer input prices (also excluding FDT) rose 4.0 per cent in the year to March, down from the 5.2 per cent February outturn. Input prices (including FDT) fell by  $\frac{1}{4}$  per cent on a seasonally adjusted basis in March, and have fallen by almost 2 per cent on the same basis over the latest six month period.

14. Underlying growth in average earnings remained at  $8\frac{1}{2}$  per cent for the third consecutive month in February. Underlying earnings rose at similar rates in both manufacturing ( $8\frac{1}{4}$  per cent) and the service sector ( $8\frac{1}{4}$  per cent) over the year to February. Private sector settlements in the 1987-88 pay round to date have averaged  $5\frac{1}{4}$  per cent, around 1 per cent above the outturn a year earlier, but only  $\frac{1}{2}$  per cent higher than the outturn for the 1986-87 pay round as a whole.

15. Latest figures for house prices generally show continuing acceleration, with the percentage change on a year ago on the mix-adjusted Halifax index of 17.3% for Q1 and 20.3% for April (compared to 15.5% for the year to December 1987). On the non-mix adjusted DOE series, the annual increase for Q1 was 24% on approvals (compared to 21% to end 1987). Only the mix-adjusted Nationwide-Anglia index shows a deceleration to 14% in Q1, from 16% at end 1987. (This latter index has been volatile in the past and might have some residual bias towards the South-East and towards cheaper properties.) Regional house price indices and the Royal Institute of Chartered Surveyors Report point to a strengthening of the trend evident since last summer of a wave of price rises spreading out from London: the West Midlands, the South West and Lincolnshire have all had recent sharp rises in prices, while inflation has declined in Greater London and there are signs of reduced pressure on prices in the South East and even in East Anglia. The level of real earnings provides the potential for substantial further increases in house prices in the provinces, while the growth of real disposable incomes and, if they are sustained, lower interest rates will also tend to push up house prices nationally. House-price inflation for 1988 for the UK as a whole is likely to be well over 10% and perhaps close to 1987 levels, though there could be some moderation thereafter as house price-earnings ratios in the provinces move towards those in London.

#### Projections for money GDP

16. The Budget forecast showed a  $9\frac{1}{4}$  per cent increase in money GDP in 1987-88, with deceleration to  $7\frac{1}{2}$  per cent in 1988-89. The forecast slowdown in money GDP growth is primarily associated with

more modest real output growth (3 per cent in 1988-89 after 4½ per cent in 1987-88), but also benefits from slightly slower growth in the GDP deflator (down from 5 to 4½ per cent). Information available so far for the first quarter shows consumer spending in line with the Budget forecast, but the contribution from the net trade balance somewhat lower than expected, largely because of the sharp recorded fall in exports of goods. (Imports of goods were also lower than expected, but to a lesser extent.) All in all, and allowing both for the tendency for upward revision to early estimates of activity, and the uncertainty surrounding the recent export figures, developments have been consistent with the deceleration in activity foreshadowed in the Budget forecast. (The Bank too forecast a slowdown in activity this year, but place more emphasis on the prospects for a deterioration in the balance on net trade rather than a slowdown in consumer spending growth.)

17. Following the recent appreciation of sterling, the sterling index now stands 4 per cent higher than assumed in the Budget profile. (The Budget Forecast assumed the ERI rises from about 75 to 76 during 1988-89, reflecting dollar weakness, and a sterling-D Mark rate of 3 DM throughout 1988-89.) Against this, base rates are currently one per cent lower - although 3 month interbank rates are currently only ½ per cent lower - than assumed in the Budget Forecast. If sustained, the combination of a higher exchange rate and lower interest rates is likely to constitute some net tightening of monetary conditions. Calculation of the likely economic impact is uncertain, but other things being equal money GDP growth during 1988-89 may be around ¼ per cent lower as a consequence, largely on account of an improved prospect for inflation. Real activity should, on balance, be less affected - higher consumer spending is likely to largely offset a lower contribution from net trade. (We understand that the Bank model would suggest somewhat more downward pressure on money GDP growth in 1988-89 - of the order of ½ per cent - primarily because of lower activity.) The improved outlook for inflation following the rise in sterling may have contributed to the March fall in producer input prices but does not - as yet - appear to have fed through to output prices or, to any great extent, price expectations. Evidence is mixed as to whether lower competitiveness has had any significant influence on export prospects. CBI survey results

show export order books still relatively buoyant despite some downward drift since end 1987. Export optimism, on the other hand, was low in the April quarterly survey - as in the January survey taken prior to the latest rise in sterling. Those indicators will need to be monitored carefully over the coming months.

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

18. Table 5 gives the main indicators of the **fiscal stance**. The first provisional estimate of the PSBR in 1987-88 was a net repayment of £3.6 billion. Privatisation proceeds were £5.1 billion. This compares with a 1987 FSBR forecast for 1987-88 of a borrowing requirement of £3.9 billion. Of the difference compared to the 1987 FSBR forecast, central government own account borrowing is £7.1 billion less than forecast - Table 6 gives details. The main explanation of the undershoot on central government borrowing is higher than expected receipts, particularly of Inland Revenue taxes.

19. The provisional outturn for the PSBR in 1987-88 is only slightly further into surplus than the central estimate used in last month's exercise (which was a surplus of £3.3 billion) and there is no obvious reason to change the assessment made then of fiscal stance in 1987-88.

### D. UK Exchange Rate and External Accounts

20. **Sterling** was strong over most of April - despite worse than expected February trade figures and a fall in base rates - although it has weakened slightly in May so far as oil prices have fallen and the dollar has recovered a little. There have been rises of  $1\frac{1}{2}$  per cent and  $\frac{1}{2}$  per cent against the mark and dollar respectively since 28 March whilst the ERI has increased by 1 per cent. (Since sterling was uncapped on 7 March, it has risen by  $4\frac{1}{4}$  per cent and  $5\frac{1}{4}$  per cent against the mark and dollar.) The main factors behind sterling's appreciation are probably:

- (i) slightly higher oil prices (see para 22);
- (ii) high UK real interest rates, despite the cut in base rates of April 8;
- (iii) acceptance by the market that bearing down on inflation continued to be the primary policy objective, following the TCSC evidence of the Chancellor and the Governor;
- (iv) a weaker dollar after bad US trade figures and uncertainty about the stance of the Fed's policy.

Publication of an underlying rise in reserves for March of \$2½ billion underlined sterling's strength. Market intervention for April was \$740 million.

21. **UK 3 month interest rates**, which were around 8½ per cent at the end of March, fell by ¼ per cent on the Bank dealing rate cut and now stand at just under 8½ per cent. Euro-dollar rates have risen above 7 per cent, thereby narrowing differentials to about 1½ per cent. The interest differential against the DM has narrowed to about 2 per cent, reflecting the fall in UK rates.

22. The Brent oil price, which began the period at \$15.35, rose on Gulf tensions to over \$17 towards the end of April but has since fallen back to \$16 on the failure of OPEC to agree to cuts in production. But with oil prices still slightly higher since the end of March, the counterinflationary thrust of sterling's appreciation has been offset somewhat. The oil adjusted ERI has risen by ½ per cent since the end of March.

23. The March **trade figures**, published on 29 April, showed a current account deficit of £254 million compared with a deficit of 720 million in February. This was rather better than City expectations, reflecting a 3½ per cent rise in export volumes recorded, a 1 per cent fall in import volumes and a ½ per cent improvement in the terms of trade. The weakening in export volumes during the first quarter has been far greater than would have been expected given evidence from the CBI April survey and the loss in competitiveness.



24. There is increasing evidence that the pattern of the monthly export figures since December has been distorted by the changes in Customs' procedures introduced on 1 January. The proportion of goods shipped in December that were recorded during the December month of account was the highest ever, suggesting that firms wished to complete documentation before the introduction of the new forms. In January, however, the average delay between shipment and the receipt of documents increased sharply. Partial information on February - less so on March - suggests little distortion. There is little evidence of any distortion to imports.

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

(see Tables 10 to 27)

##### Narrow Money

25. **M0** continued to grow strongly in April, the seasonally adjusted 12 month growth rate rising to 6.2 per cent, from 5.8 per cent in March. But the 12 month growth rate of notes and coin fell slightly to 6.1 per cent, from 6.4 per cent in March. Annualised six month growth of notes and coin has been falling steadily during 1988, from 8 per cent in December to 4 $\frac{3}{4}$  per cent in April.

26. The **forecast** has the 12 month growth rate of M0 little changed, at about 6 $\frac{1}{4}$  per cent, in May and June. Thereafter, M0 growth is projected to fall back steadily, to under 5 per cent after August. The slowdown in M0 growth mainly reflects the expected slowdown in the growth of consumer spending during 1988.

27. The annual growth rate of **M1** increased by  $\frac{1}{4}$  per cent in March, to 20 $\frac{1}{4}$  per cent, the large one month rise of 6 per cent most likely reflecting a build-up of bank deposits by the private sector in the face of large seasonal underfunding (see paragraph 44) and also probably includes a boost due to the redemption of 2% Index-Linked stock which returned £1.2 billion to holders (largely small private investors) at the end of March. The annual rate of M1 growth in 1988 so far has been below the rates of 22-23 per cent seen throughout 1987.

Broad Money

28. Twelve month growth rates of broad money rose in March, the main influence within the counterparts being the substantial underfund. There is little evidence of unwinding of recent months' bill arbitrage, and much of this is expected to unwind in April. Building society retail deposits continued to grow strongly and the 12 month growth rate of M4 rose by  $\frac{3}{4}$  percentage point, to a record  $16\frac{3}{4}$  per cent. The rise in bank and building society lending was exceptionally high, with the 12 month growth rate rising to  $20\frac{3}{4}$  per cent from the norm of 19-20 per cent prevailing since mid 1986. There is now more evidence that the acceleration of lending in recent months owes something to the substitution of bank lending by companies which are no longer issuing equities (see paragraph 38 and Annex).

29. M4 grew by £10.1 billion (3.3 per cent) in March and at an annual rate of  $16\frac{3}{4}$  per cent, compared to 16 per cent in February. M3 rose by £9.1 billion (4.9 per cent) and the annual rate rose to 21 per cent, from  $20\frac{1}{2}$  per cent in February.

30. Within the M4 components, holdings of M3 by the non-building society private sector rose by £8.6 billion. Retail inflows to building societies, at £1.1 billion (plus £0.4 billion interest credited), continued their strong showing, evident since November. Wholesale funding of the building societies by the private sector was negligible.

31. The sectoral analysis of M4 growth in Q1 shows a very marked slowdown in financial (excluding building society) companies' deposits, some moderation in deposits of industrial and commercial companies (ICC's), and an acceleration in personal sector deposits. Overall, the year on year growth rate of M4 continued to rise, to  $16\frac{3}{4}$  per cent in Q1 from  $16\frac{1}{4}$  per cent in Q4 1987 and 14 per cent in the first half of 1987. Financial companies' sterling deposits grew by 3.1 per cent in the latest quarter, compared with 7 per cent in Q4 1987 and an average of 9 per cent per quarter last year. ICCs sterling deposits grew by 1.9 per cent in Q1, compared with  $7\frac{1}{4}$  per cent in Q4, but the annual rate rose to  $27\frac{1}{2}$  per cent, from

around 26 per cent throughout most of 1987. Personal sector deposits rose by 4.5 per cent in Q1 compared with average growth of 2.8 per cent during 1987, bringing the annual rate of growth to  $13\frac{1}{4}$  per cent, from  $11\frac{1}{4}$  per cent in Q4.

32. Within the **M3 components** in March, retail bank deposits rose by £2.8 billion and wholesale deposits by £5.2 billion, both figures being boosted by seasonal underfunding.

33. In addition to **building societies'** strong retail inflows in March, **net wholesale inflows**, at £0.3 billion, are beginning to show the effects of the large borrowing programmes announced so far this year. There is some evidence however that the new Euro- and syndicated credit facilities are being used in part to repay existing wholesale deposits. Building societies have not yet announced reductions in retail deposit rates to match the reductions in mortgage rates which will take effect for existing borrowers from 1 May, but most societies have ample liquidity and may if anything want to increase their margins. Thus, their retail deposit rates are likely to be reduced by about  $\frac{1}{2}\%$ , in line with the most recent reductions in base rates, leading to a roughly unchanged competitiveness position vis-a-vis the banks.

#### Credit

34. **Bank and building society lending** rose by £7.8 billion (2.3 per cent) in March, the percentage increase being  $\frac{1}{4}$  per cent higher than the average of the three previous interest charging months. The 12 month growth rate rose to a record  $20\frac{1}{4}$  per cent, from 20 per cent in February. Annual growth is still thought to be inflated by bill arbitrage undertaken in January, which is expected to unwind in April.

35. **Sterling bank lending** grew by 2.7 per cent in March, a growth rate similar to the previous three interest charging months. But the annual rate increased to  $25\frac{1}{4}$  per cent, from  $24\frac{1}{4}$  per cent in February. It is unlikely that March's rise was affected by unwinding bill arbitrage from December or January since the total of commercial

bills outstanding was unchanged. But the recorded lending figure was depressed by an increase of £½ billion in bills held by the private sector.

36. Clearing banks (CLSB) figures - which covered about 75 per cent of the total increase in advances in March - show a sharp increase in borrowing by ICC's of £2.4 billion, compared with an average of £1.8 billion in September and December. Within this, lending to property companies and to 'other services' (mostly small businesses) remained very strong.

37. The latest quarterly sectoral analysis of sterling bank lending also shows an acceleration in borrowing by ICCs, which accounted for 53 per cent of the total increase in lending in Q1 1988 compared with 37 per cent in Q4 1987 and 33 per cent in Q3. Annual growth of lending to ICCs jumped to 24½ per cent, from 15½ per cent in Q4.

38. It is likely that some of this acceleration in company borrowing is due to substitution by companies from equity borrowing since the crash, as substantial syndicated bank credit facilities have been announced since October. It is not possible to quantify this effect however because the syndicates include overseas banks, and the amount and timing of drawn-down of the facilities is not known.

39. Of the remainder of CLSB banks' lending in March, there was a rise of only £0.1 billion in lending to financial companies. In Q1 as a whole, sterling lending to financial companies continued its steady decline, growing by 4.2 per cent compared with an average of 6.4 per cent in 1987 and 10.2 per cent in 1986.

40. CLSB lending to persons for house purchase in March rose by £1.0 billion and their lending to persons for consumption rose by £0.6 billion, both of these figures being similar to the increases in previous interest charging months. In Q1 as a whole, bank lending for house purchase eased slightly from the very high levels seen in 1987, but this slowdown reflects loss of market share to building societies, whose lending recovered sharply in Q1 (see paragraph 42). In total, bank and building society lending for house purchase

accelerated in Q1, growing by 4.6 per cent compared with 4.2 per cent in the previous two quarters. The annual rate rose to 18 per cent, from 17½ per cent in Q4, but this is still below the rates of 19-20 per cent prevailing before the second half of 1987. Figures for other mortgage lenders in Q1 1988 are not yet known.

41. It is not likely that the ending of tax relief on house improvement loans announced in the Budget boosted mortgage lending in March, since only a commitment rather than a draw down of borrowing was needed before 5 April to qualify for relief. Furthermore, buoyant lending was already evident in the first half of March before the change was announced.

42. **Building Societies' mortgage lending** in March was a record £2.3 billion. (The monthly average in 1987 was £1.2 billion and in 1986 £1.6 billion.) The March figure may be exceptional following February's dip below trend, but mortgage commitment figures are high, and building society mortgage lending is forecast to continue at just over £2.0 billion a month. Compared with the 1987 situation, this represents in part a recapture of market share from the banks and new mortgage lenders, but also indicates an increase in total mortgage demand. Interest rate changes announced by building societies point to a reduction in mortgage interest rates from an average of 10.25% to about 9.7%. This cut has been fully matched by the banks and new mortgage lenders', and there is some evidence of a price war developing in mortgages, with some building societies following the other lenders' in offering Libor-related mortgages and lower rates for large mortgages.

43. Bank lending to the private sector in foreign currency also rose strongly in March, by £2.2 billion, compared with falls averaging about £0.1 billion per month over the previous six months (although currency borrowing has fluctuated erratically over the period). In the quarter as a whole, foreign currency borrowing rose by £2.0 billion and this was entirely accounted for by ICCs.

#### Funding

44. There was a £5.6 billion underfund in March, mainly reflecting the PSBR of £3.8 billion, intervention of £1.1 billion and gilt

redemptions of £0.7 billion to the private sector (largely reflecting the redemption of the Index Linked gilt). This gives an overfund of £0.1 billion in 1987-88 as a whole, or an underfund of £0.2 billion allowing for the 1986-87 underfund. On the basis of the funding rule for 1988-89 - which is based on funding with respect to the M4 private sector - underfunding was £5.3 billion in March, giving an M4 overfund of £1.4 billion in 1987-88 as a whole.

45. The **external counterparts** to M4 were £1.3 billion in March, mainly reflecting an increase of £1.5 billion in the public externals due to intervention of over £1 billion in early March (prior to sterling exceeding DM3 on 7 March). Banks and building societies' external transactions were minus £0.2 billion, within which the banks switched into sterling assets (net of sterling liabilities) by £1.3 billion, and the overseas sector increased its net sterling borrowing by £1.1 billion.

46. Broad money growth is **forecast** to drop back significantly in April, with annual growth of M4 falling from 16½ per cent to 15½ per cent and M3 growth from 20½ per cent to 18½ per cent. The main factors (shown in Table 24) behind the slowdown are the expected unwinding of bill arbitrage undertaken in January, and overfunding of about £1 billion, reflecting the forecast PSBR surplus. Building society retail inflows are expected to remain high, benefitting from continued very low unit trust inflows, although the third call on British Gas shares may have a small downward effect.

47. Bank and building society lending is forecast to rise strongly again in April with annual growth remaining at about 20½ per cent. Annual growth of bank lending is expected to remain at 25½ per cent. There are some large offsetting factors underlying the forecast (shown in Table 25). Unwinding bill arbitrage - against both sterling deposit and foreign currency - is expected to have a depressing effect. But there will also be a boost from continued strong borrowing by companies, perhaps in substitution for equity borrowing, accompanied by further steady growth in mortgage

borrowing, as recent very high commitments figures feed through and the temporary impetus from joint borrowers ahead of the 1 August tax relief deadline begins to be felt.

#### Money Markets and Interest Rates

48. **Money market rates** began April ranging from 8.6 per cent at one and three months to 9.1 per cent at 12 months. The cut in base rates to 8 per cent on 8 April steepened the yield curve, which was accentuated by fading hopes of a further cut following the release of the money figures, and a slight easing of sterling. Rates currently range from 7.9 per cent at one month to 9.3 per cent at 12 months.

49. The stock of **money market assistance** fell by £3½ billion during March to £9¼ billion, largely reflecting March's underfund (see Table 27), but rose to £10 billion at the end of April. It is projected to fall to about £9 billion in May and £8 billion in June.

#### Gilts

50. **Gilts** began April with the index at 91.0 and 5,10 and 20 year par yields at 8.7, 9.1 and 9.0 respectively. The market rose slightly during the first half of the month, but has fallen back on the money figures and a slight easing of the exchange rate. The cut in interest rates had little impact. The index currently stands at 89.8, with par yields at 9.1, 9.5 and 9.3 respectively.

51. Real yields on **index-linked stock** began April at around 3.8 (3.6 at the very long end) and remained steady around this level throughout the month. Break-even inflation rates for index-linked Treasury 1990 and 2006 are currently 4.0 and 5.5 respectively compared with 4.4 and 5.2 at the end of March. The **equity dividend yield** (based on the all share index) stands at 4.2, down from 4.4 at the start of April.

*Gives an interesting perspective of on  
the market view of medium term  
inflation trends.*

*ALC*

Capital Markets and Corporate Finance

52. The annex looks at the implications of the crash for company finance. It concludes that, with the drying up of equity issues, companies may rely increasingly on their stocks of liquid assets and bank borrowing (resulting in further increases in credit growth) during 1988. In addition, companies may turn more to the bond markets - although issues may be limited to the larger companies.

53. **Equity prices** have risen by 3 per cent since the end of March, mostly reflecting the base rate cut on 8 April and the strength of world stock markets over this period. The all share index currently stands at 925, 18 per cent above its post-crash trough in November and 25 per cent down on its July peak. New issues (and the equity queue) remain depressed, while **eurosterling issues** continue to strengthen - although most issues in April have been by overseas companies.

54. There were net inflows into **unit trusts** of £58 million in March, which continues the depressed level of inflows post-crash. (Before the crash, inflows were averaging £660 million per month during 1987.) **Sterling commercial paper** outstanding rose again in March to £2.9 billion, having risen steadily from £2 billion at the end of December. Within the total, ICC's paper rose by £0.2 billion to £2.1 billion. Monetary sector holdings were unchanged at £0.7 billion.

**MG2 Division**

**6 May 1988**



## Monetary developments since last month's report

Latest outturns available at time of:

	Oct Report	Mar Report	Apr Report
Monetary aggregates (12 month % growth)	(Sept)	(Feb)	(Mar)
M0 (sa)	4.9	5.3	5.8 (6.2) <sup>+</sup>
M3	19.6	20.4	20.9
M4	15.0	16.0	16.8
M5	14.4	15.6	16.7
Bank lending	23.6	24.3	25.2
Bank & building society lending	20.0	19.9	20.8
Interest rates (%)	2 Nov	28 Mar	4 May
3 month interbank	9.3	8.8	8.4
20 year gilt-edged (par yield)	9.3	9.2	9.3
Yield gap	0.0	-0.4	-0.9
UK real 3 month interbank	4.9	4.7	4.3
Equity dividend yield (all-share)	3.3	4.4	4.2
IG yield (2001) assuming 5% inflation	4.5	3.9	3.8
3 month UK interest differential with:			
Germany	5.2	5.4	5.0
US	1.6	1.9	1.2
World basket	2.6	2.5	2.1
Exchange rate			
DM/£	2.98	3.09	3.13
ERI	74.6	77.1	77.9
Oil adjusted ERI	102.1	108.7	109.3
(Oil-adjusted reference index)	(73.1)	(70.9)	(71.3)
Asset prices			
FT-A Index (% pa)	8.0	-10.5	-11.1
FT-A Level (July peak: 1239)	876	899	925
Halifax house index (% pa)*	14.5	18.2	20.3

<sup>+</sup> April outturn

\* figures are for October, March and April.

COMPANY FINANCE POST-CRASH

This annex looks at the implications of the stock market crash for company finance and, in particular, for liquidity and credit.

Company finance, pre-crash

2. Table 1 shows the various sources of external finance of UK industrial and commercial companies since 1980. The table shows that total external finance has risen from around £10 billion in 1980 to £35 billion in 1987, an increase of about 260 per cent (130 per cent in real terms). Over the same period, internal finance rose from £18½ billion to an estimated £42 billion, a rate of increase of around half that of external finance.

3. Table 1(b) shows that since 1980, companies' bank borrowing has declined as a percentage of total external finance, from an average of 64 per cent between 1980 and 1984 to 38 per cent in 1987. In contrast, over the same period domestic equity issues have risen from about 15 per cent to 38 per cent of total external finance. Other sources - largely overseas investment which includes overseas banks (see footnote to table) - have remained roughly constant, at just over 20 per cent.

4. Several factors underlie this shift towards securitisation:

- First the downgrading of banks' credit ratings in the light of their exposure to LDC debt has left many of them with no comparative advantage over commercial companies in raising finance.
- Second investment banks and securities houses have gained competitiveness against the commercial banks in the corporate finance market.
- Finally, the acceleration of UK equity prices during the 1980's - reducing dividend yields to around 3 per cent in the first half of 1987 - will have encouraged companies to increase their equity finance relative to other sources, including bank borrowing.

5. Table 2 shows the growth of ICC's liquid assets - which are held mainly as bank deposits - since 1980. The table shows that the rapid growth of companies' demand for funds (see para 2) has been matched by comparable growth of their liquid assets, which have risen by 180 per cent between 1980 and 1987 compared to the growth of companies' internal and external sources of finance of 170 per cent.

Company finance, post-crash

6. Table 1(a) shows that since the stock market crash in October. Institutions' appetite for equities has diminished, though the fall in equity values caused by the crash itself reduced their portfolio proportions. For example, between Q3 and Q4 1987, the proportion of life assurance and pension funds' portfolios held in UK equities is estimated to have fallen from 58 to 52 per cent, whilst the share of gilts rose from 13 to 17 per cent (together with a small increase in their liquidity ratios to just over 4 per cent). The funds that they have provided have been largely limited to calls on obligations entered into before the crash.

7. With a much lower level of gilt sales projected in 1988-89 (the Budget Forecast had gross sales of about £2-3 billion, compared to £13½ billion in 1987-88), institutional demand may shift from public sector, to private sector, debt. If so, the upward trend in companies' eurosterling issues - which has continued during 1988 so far (see table 3) - could gather momentum during the current financial year, as companies substitute debt for equity finance. But generally only larger well-known companies are able to make use of these markets. Smaller companies often do not have the credit standing to be able to do so.

8. In contrast to equity issues, bank borrowing by UK ICC's has risen sharply in Q1 1988, to around 84 per cent of total external finance, from 38 per cent in 1987. While the contribution of bank borrowing in Q1 is unlikely to be sustained at such a high level in the rest of 1988, there are several reasons why company borrowing can be expected to remain well above 1987 levels:-

(a) Despite a Budget Forecast of slower output growth this year, business investment is expected to grow strongly with a continued high level of takeover and merger activity expected in 1988. Until equity issues recover, bank borrowing is likely to remain the primary source of external finance.

(b) Announcements of syndicated bank credits, which seem to have inflated bank borrowing during Q1 (see para 38 of main report), have grown rapidly in 1987 and 1988 so far. Whilst announcements of credit facilities may not always be taken up subsequently, and syndicates will normally include overseas (ie non-monetary sector) banks, facilities arranged by UK companies in the international capital markets have increased from a negligible amount in 1986 to \$7½ billion per quarter in 1987 and Q1 1988.

9. Finally, table 2 shows that - as yet - the crash does not seem to have reduced the growth of companies' liquid assets, which would be expected if companies were increasingly financing their activities from their stocks of liquidity.

#### Conclusion

10. The crash is likely to have significant effects on the sources of company finance, at least in the short-term, which has already begun to be reflected in the credit figures. Assuming that new issues on the Stock Exchange remain at much lower levels than before the crash and that investment remains buoyant:

(i) companies may turn increasingly to internal sources of finance, running down their liquid assets. This may produce a slower recorded growth of broad money but no great comfort would derive from this since the quantum of willingly held liquidity would correspondingly have fallen;

SECRET

(ii) companies could turn to the bond market again. But only a small proportion of companies - the larger ones - are probably able to make issues. Despite the intense activity in the eurosterling market recently, funds raised by UK industrial companies from this source remain quite low;

(iii) banks are likely to increase their share of new company finance. This re-intermediation will put upward pressure on recorded credit growth.

TABLE 1: SOURCES OF NEW COMPANY FINANCE (external)

(a) £ billion

	TOTAL	BANK			CAPITAL ISSUES			OTHER <sup>(3)</sup>
		Total	£	Fc	UK Ord	Other <sup>(1)</sup>	O'seas <sup>(2)</sup>	
1980	9.8	6.3	5.1	1.2	0.9	0.5	-	2.1
1981	10.0	5.8	3.2	2.6	1.7	0.7	-	1.8
1982	10.0	6.6	5.7	0.9	1.0	0.2	-	2.2
1983	6.5	1.6	1.1	0.5	1.9	0.6	-	2.4
1984	6.8	7.4	7.0	0.4	1.1	0.2	0.3	- 2.2
1985	13.2	7.8	5.2	2.6	3.4	0.9	0.8	0.3
1986	21.3	10.0	8.7	1.3	5.6	0.7	1.5	3.5
1987	35.8	13.4	10.0	3.4	13.4	0.7	3.9	4.4
1986 Q1	4.8	3.9	3.8	0.1	0.5	0.1	0.3	-
Q2	3.1	- 0.2	- 0.3	0.1	1.4	0.3	1.0	0.6
Q3	3.0	1.1	-	1.1	1.4	0.3	-	0.2
Q4	9.7	5.2	5.2	-	2.3	-	0.2	2.0
1987 Q1	5.0	3.2	1.2	2.0	1.5	- 0.8	0.8	0.3
Q2	6.8	1.5	0.7	0.8	2.3	0.4	1.7	0.9
Q3	12.8	3.6	3.7	- 0.1	5.9	0.8	0.7	1.8
Q4	11.2	5.1	4.4	0.7	3.7	0.3	0.7	1.4
1988 Q1	11.0*	9.3	7.1	2.2	0.3	- 0.1	n/a	n/a

**Notes**

- (1) preference shares and loan capital raised in the UK  
(2) foreign currency issues  
(3) mostly overseas investment, including borrowing from overseas banks, etc.

\* estimate

Source: Financial Statistics, table 8.2, and Bank of England

TABLE 1: SOURCES OF NEW COMPANY FINANCE (external)

(b) % of total finance

	TOTAL	BANK	UK ORD SHARES	OTHER
1980	100	64	9	27
1981	100	58	17	25
1982	100	66	10	24
1983	100	25	29	46
1984	100	109	16	- 25
1985	100	59	26	15
1986	100	47	26	27
1987	100	38	38	24
1986 H1	100	47	24	29
H2	100	50	29	21
1987 H1	100	40	32	28
H2	100	36	40	24
1988 Q1	100	84	3	13*

\* estimate

TABLE 2: LIQUID ASSETS OF INDUSTRIAL AND COMMERCIAL COMPANIES

	Bank and building society deposits			Other liquid assets	Total	£ billion (increase, % pa)
	Total	£	Fc			
1980	17.4	13.9	3.5	4.0	21.4	
1981	23.6	18.0	5.6	3.0	26.6	(24)
1982	26.4	18.6	7.8	4.3	30.7	(15)
1983	32.8	22.4	10.4	4.5	37.3	(21)
1984	36.3	25.3	11.0	4.7	41.1	(10)
1985	38.8	28.3	10.5	4.8	43.6	( 6)
1986	47.8	37.1	10.7	4.4	52.2	(20)
1987	55.4	47.1	8.3	4.0	59.4	(14)
1986 Q1	40.3	29.8	10.5	4.2	44.5	(9)
Q2	43.8	32.4	11.4	4.2	48.0	(18)
Q3	47.0	36.0	11.0	4.4	51.4	(20)
Q4	47.8	37.1	10.7	4.4	52.2	(20)
1987 Q1	48.7	37.7	11.0	3.7	52.4	(18)
Q2	50.7	40.7	9.8	3.5	54.3	(13)
Q3	53.4	44.5	8.9	4.1	57.5	(12)
Q4	55.4	47.1	8.3	4.0	59.4	(14)
1988 Q1	56.6	48.2	8.4	4.0*	60.6	(16)

\* estimate

Source: Financial Statistics, table 8.4



TABLE 3: EUROSTERLING ISSUES (Fixed and Floating Rate)

		£ billion			
		UK ICC's	Other UK <sup>*</sup>	Overseas	Total
1980		-	-	0.3	0.3
1981		-	-	0.1	0.1
1982		-	-	0.5	0.5
1983		0.1	-	1.3	1.4
1984		0.2	0.3	2.5	3.0
1985		0.6	1.4	2.6	4.6
1986		1.4	4.6	1.6	7.6
1987		2.7	2.3	4.3	9.3
1986	Q1	0.7	1.1	0.5	2.3
	Q2	0.4	1.7	0.7	2.8
	Q3	0.1	1.7	0.2	2.0
	Q4	0.2	0.1	0.2	0.5
1987	Q1	1.2	0.6	1.7	3.5
	Q2	0.7	0.5	1.3	2.5
	Q3	0.6	0.5	0.5	1.6
	Q4	0.2	0.7	0.8	1.7
1988	Q1	0.9	1.8	1.3	4.0
	April	0.2	0.5	1.1	1.8

\* most

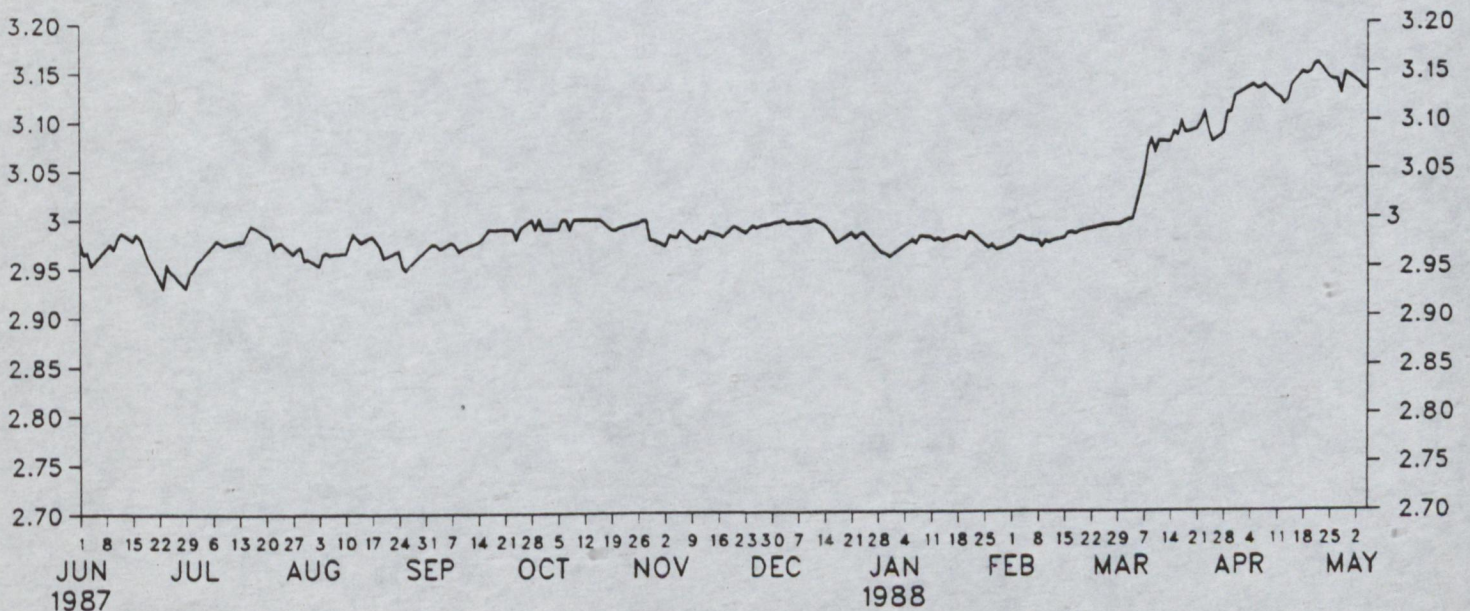
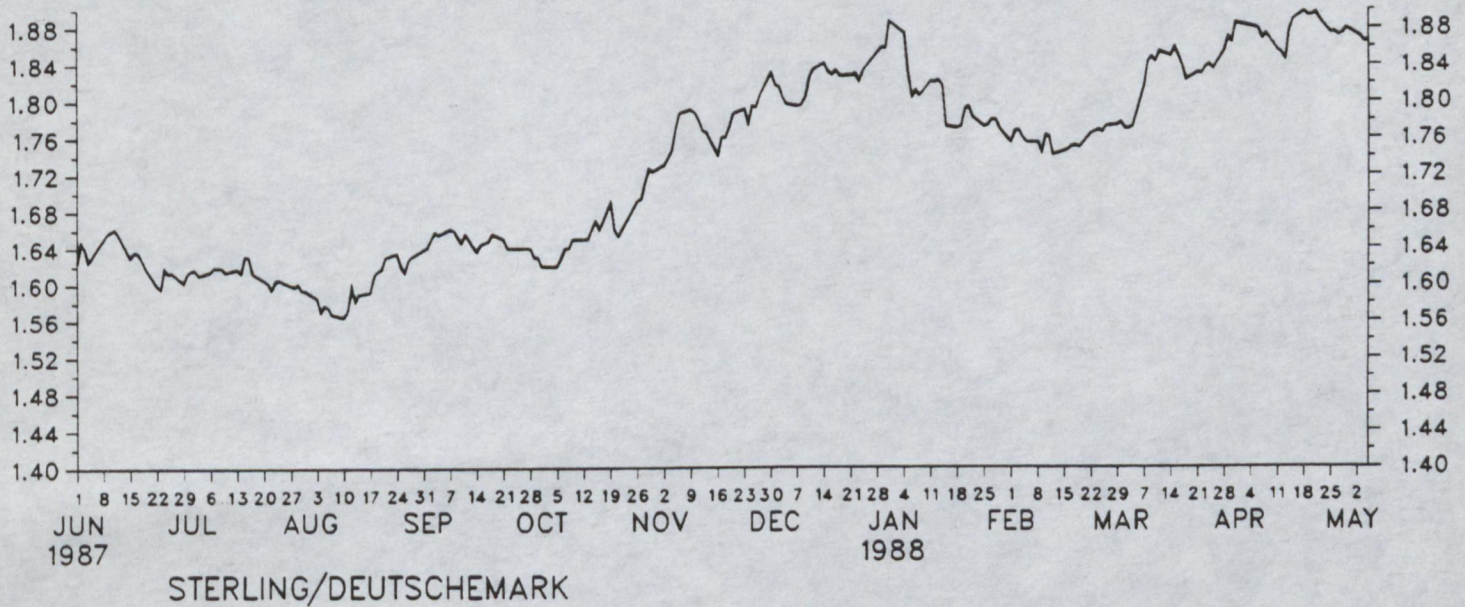
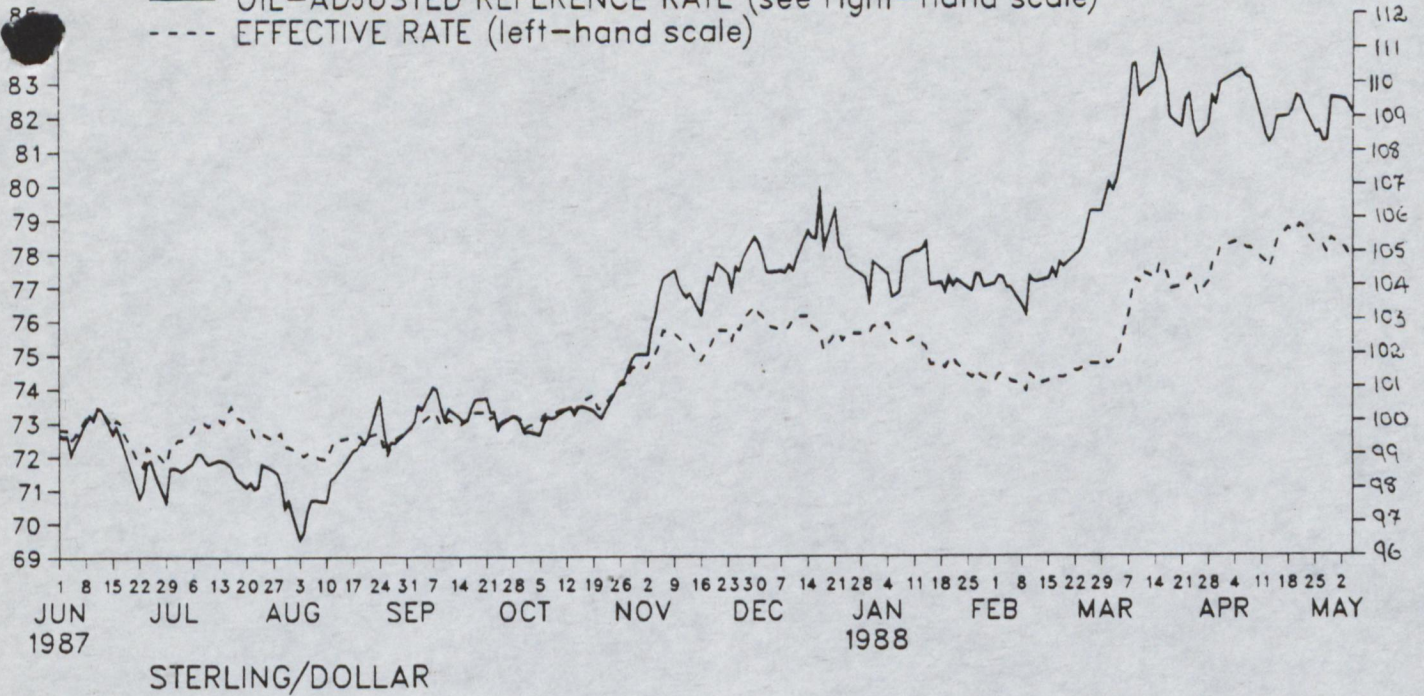
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MONTHLY MONETARY REPORT : CHARTS

- I Exchange Rate Short Term
- II UK/US interest rate differential
- III Narrow money growth
- IV Broad money growth
- V Real M0 growth
- VII FSBR budget profile M0
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- X Retail Deposits
- XI Bank and Building Society Lending
- XII £ Corporate bond issues
- XIII Money Market Assistance
- XIV Nominal Interest Rates
- XV Yield Curve
- XVI Real Yields
- XVII House prices 1
- XVIII House prices 2
- XIX Capital Markets

# CHART I: EXCHANGE RATE

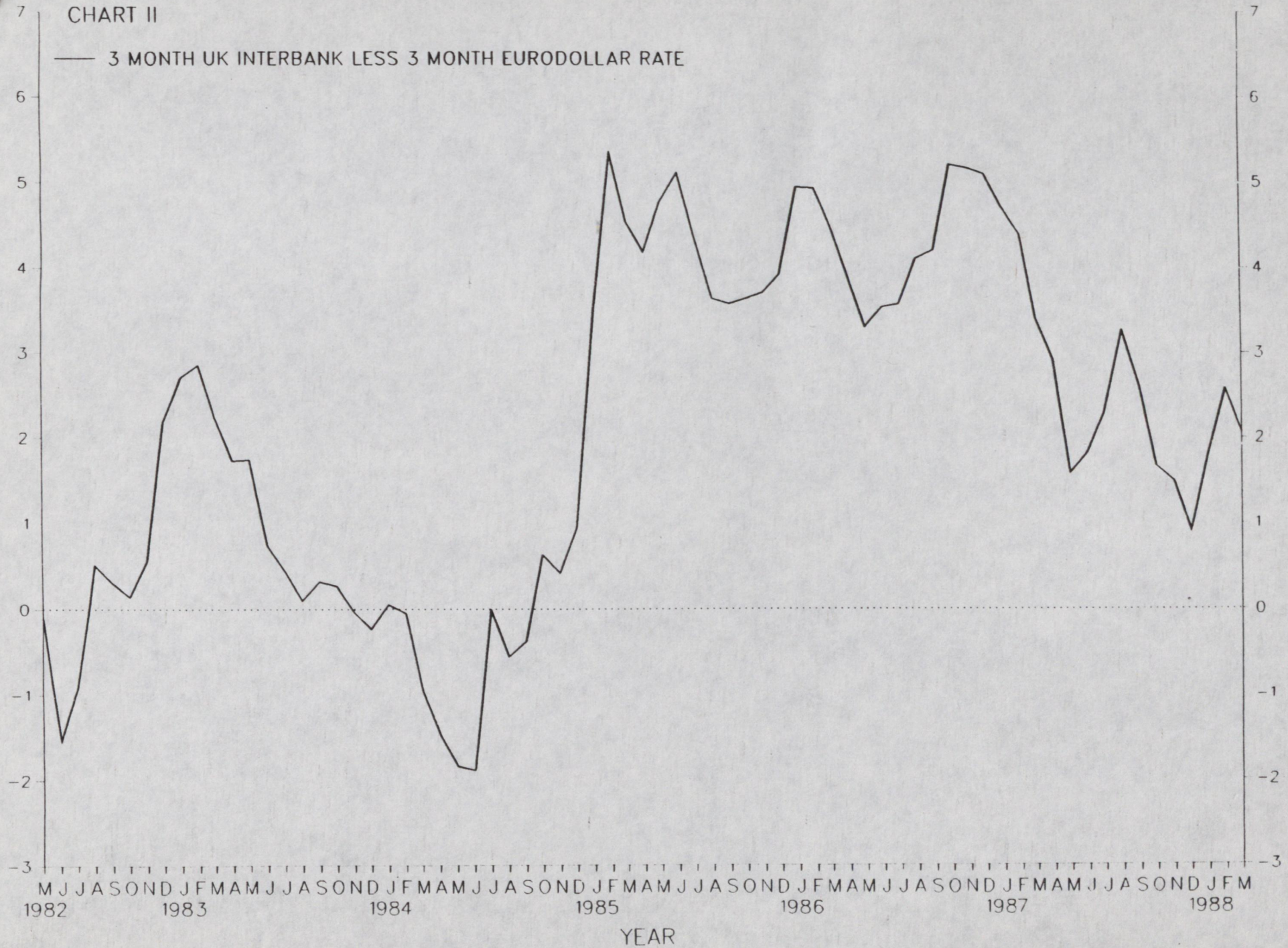
— OIL-ADJUSTED REFERENCE RATE (see right-hand scale)  
 - - - EFFECTIVE RATE (left-hand scale)



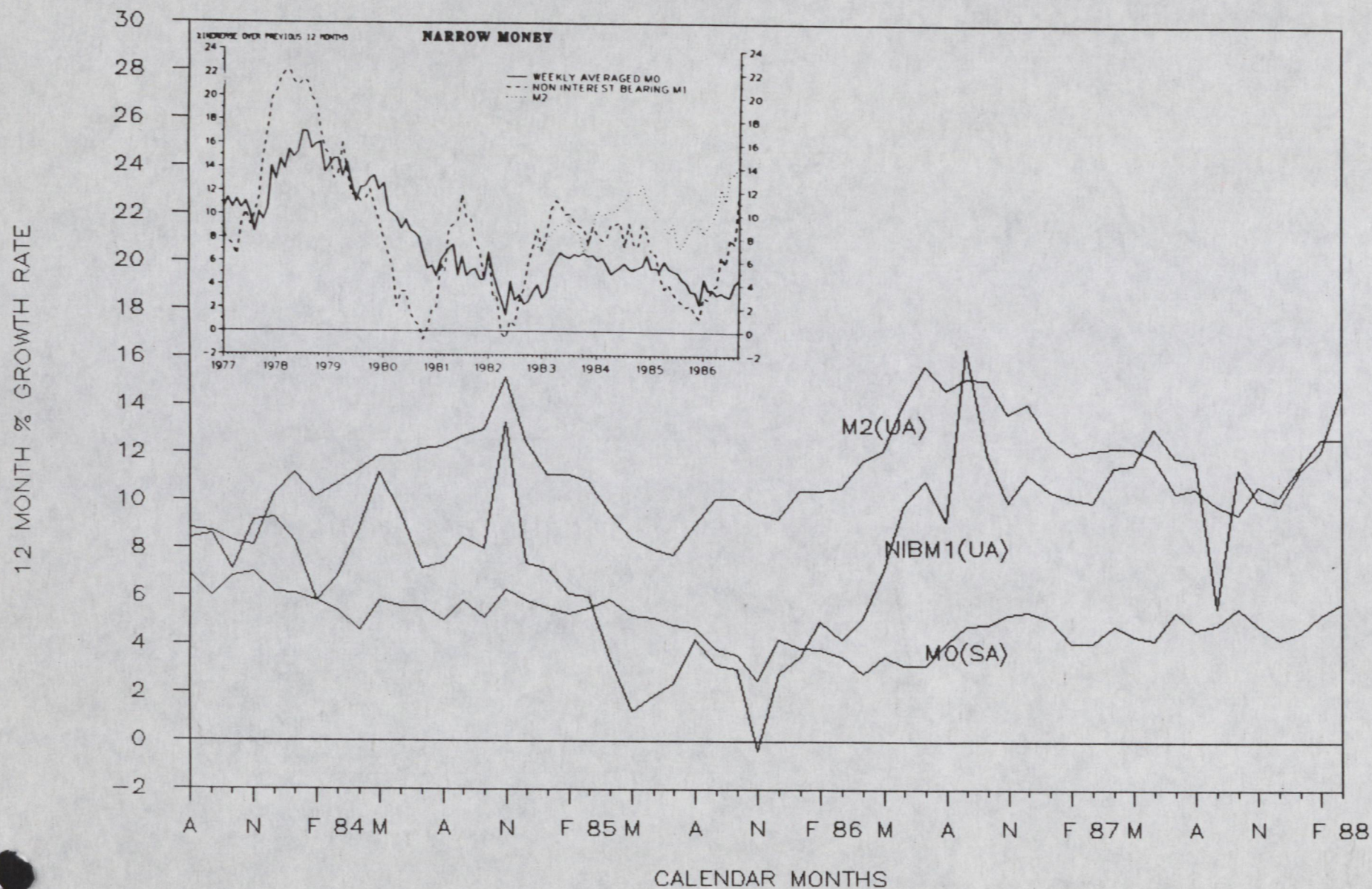
# UK/US INTEREST RATE DIFFERENTIAL

CHART II

— 3 MONTH UK INTERBANK LESS 3 MONTH EURODOLLAR RATE

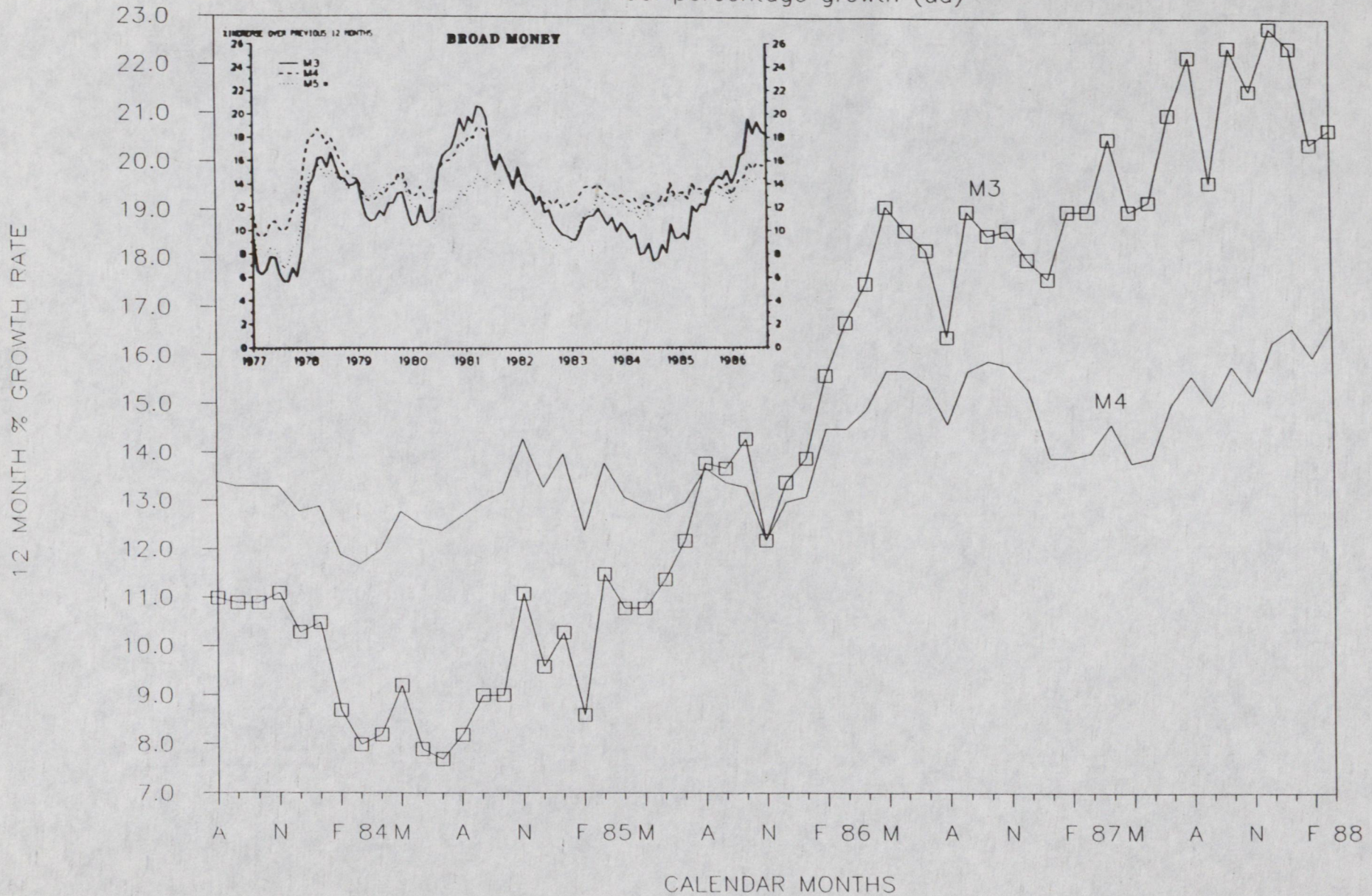


# CHART III NARROW MONEY



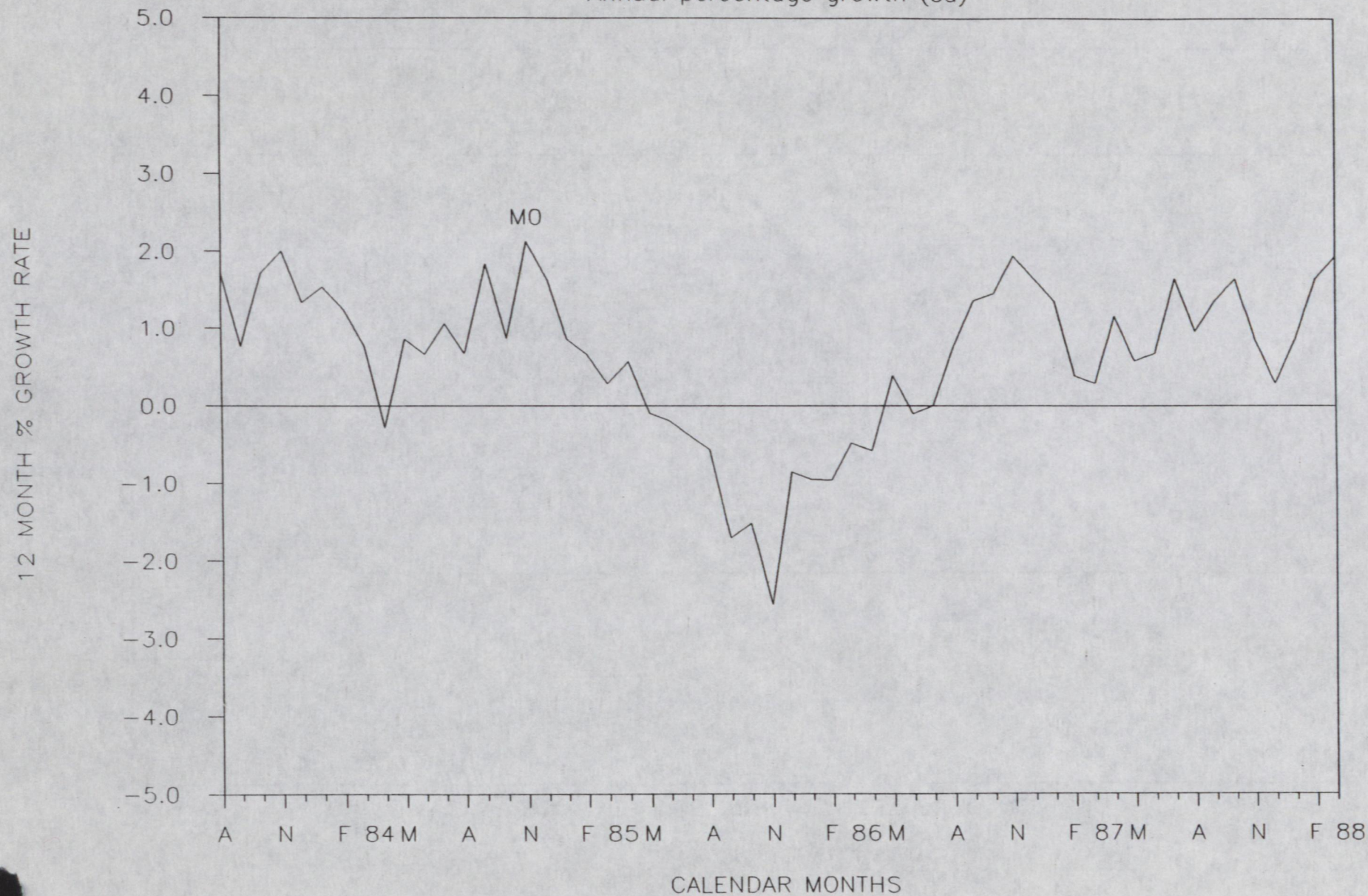
# CHART IV BROAD MONEY

Annual percentage growth (ua)



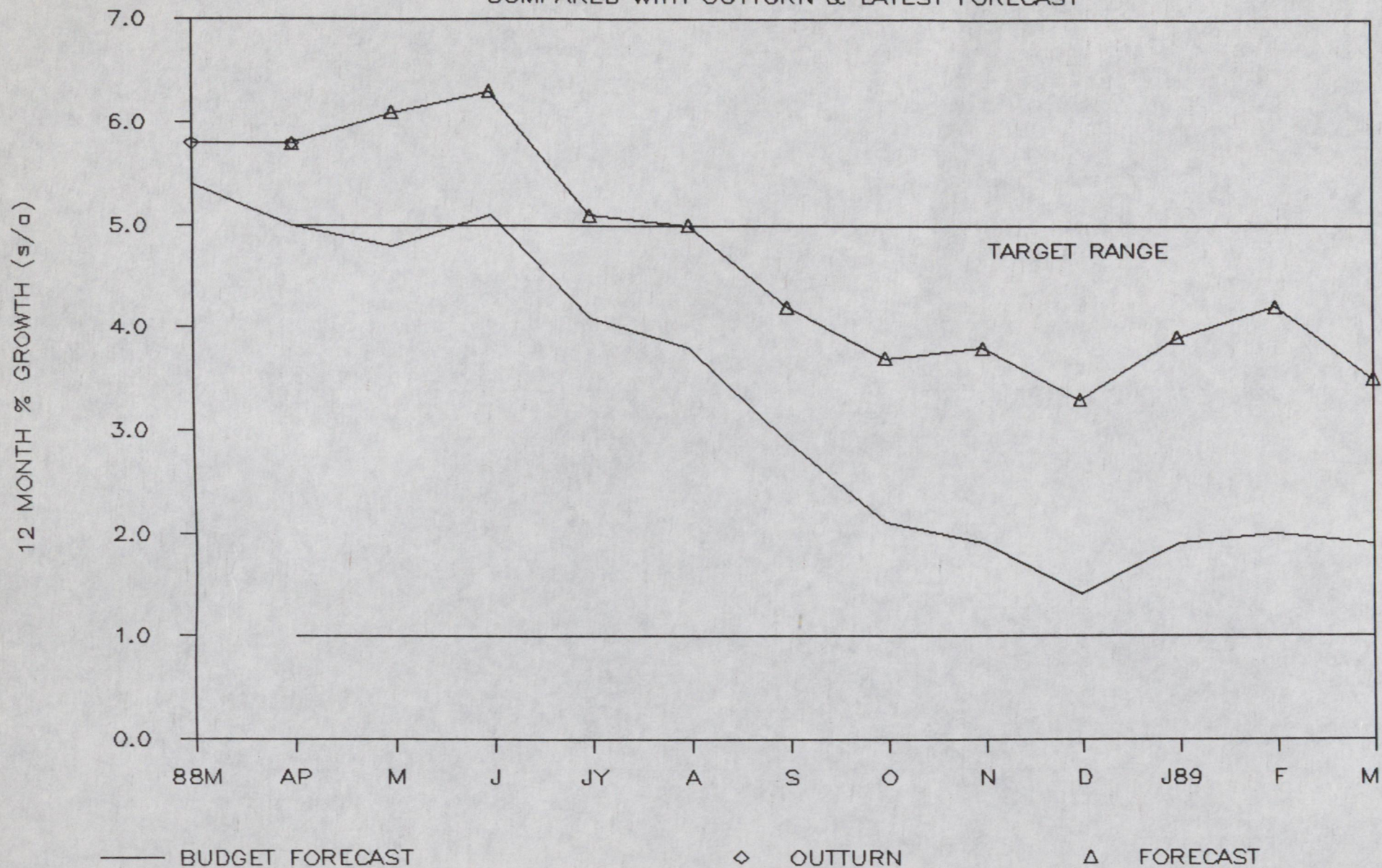
# CHART V REAL MO

Annual percentage growth (sa)



# Chart VII MO : 1988 BUDGET FORECAST

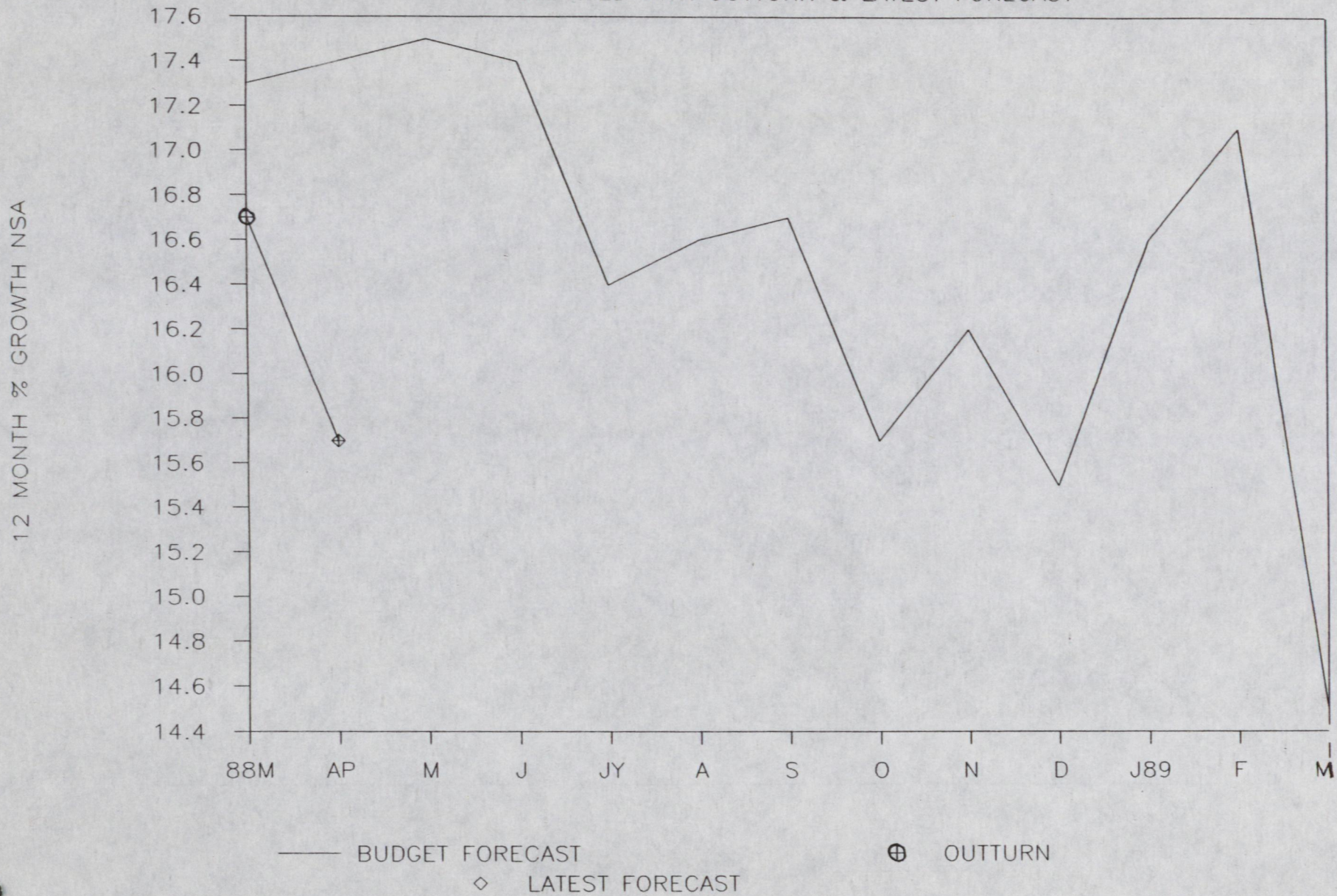
COMPARED WITH OUTTURN & LATEST FORECAST



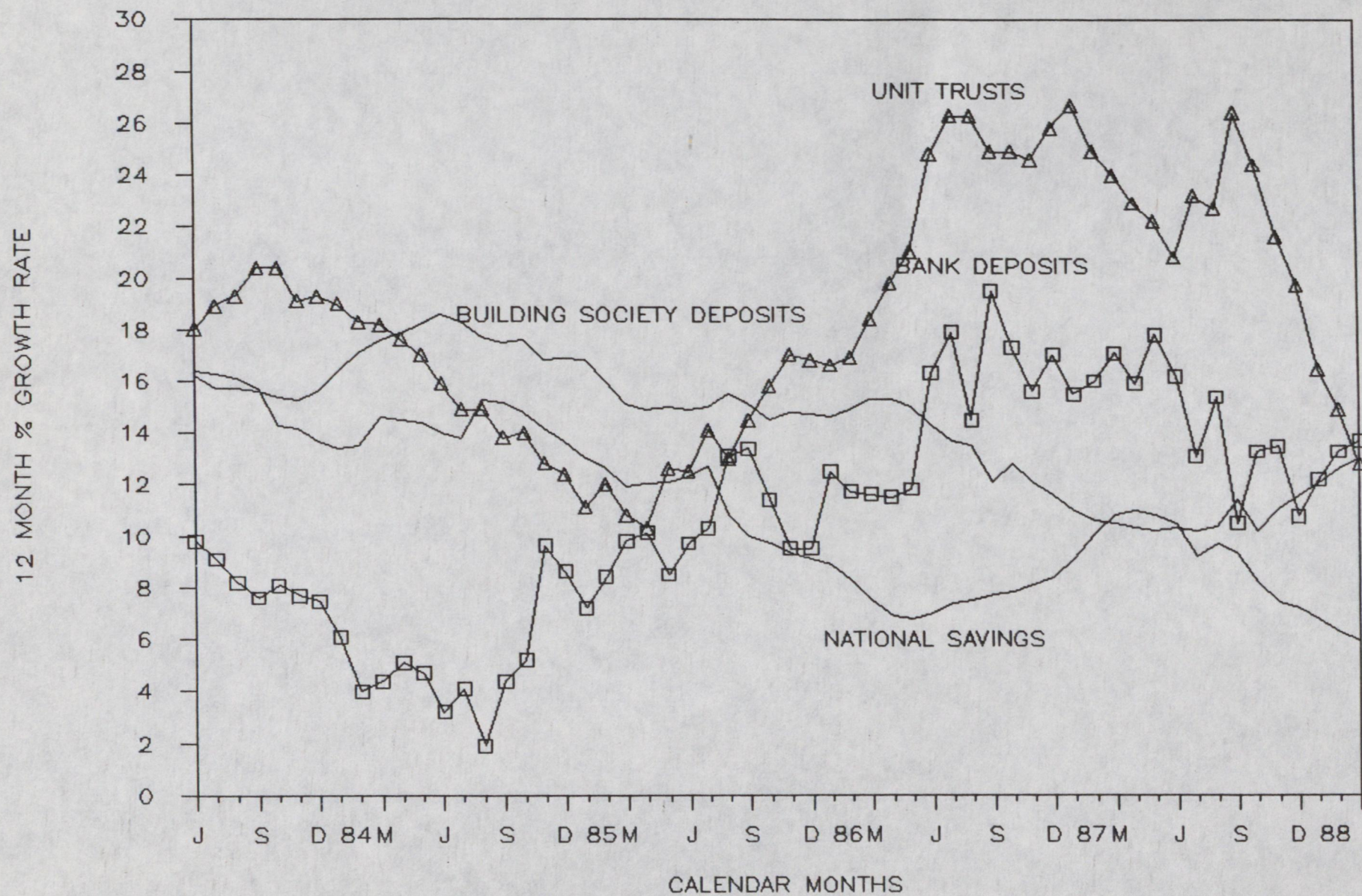


# Chart IX M4 : 1988 BUDGET FORECAST

COMPARED WITH OUTTURN & LATEST FORECAST

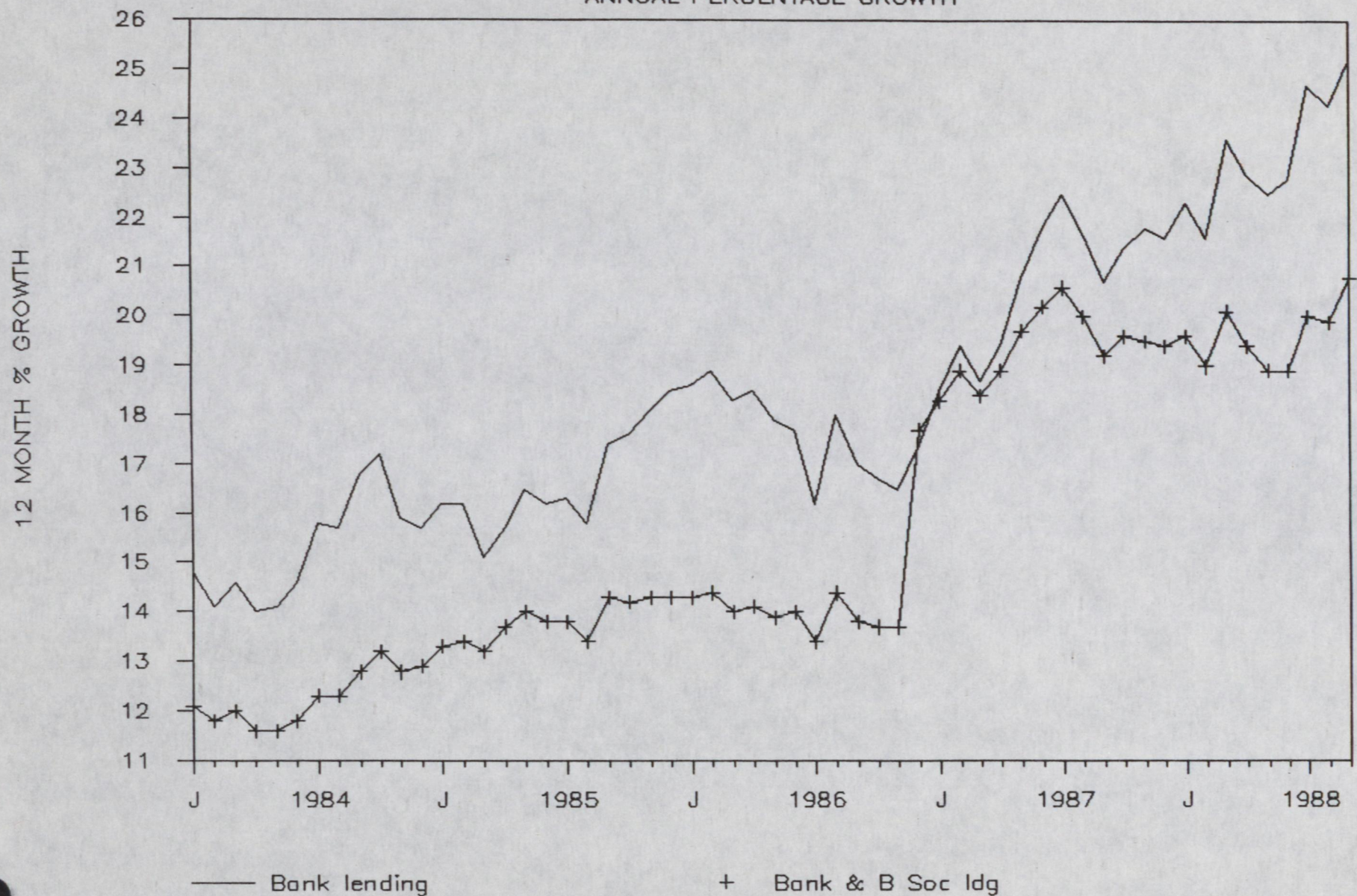


# CHART X RETAIL DEPOSITS



## BANK AND BUILDING SOCIETY LENDING

ANNUAL PERCENTAGE GROWTH



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

CHART XII

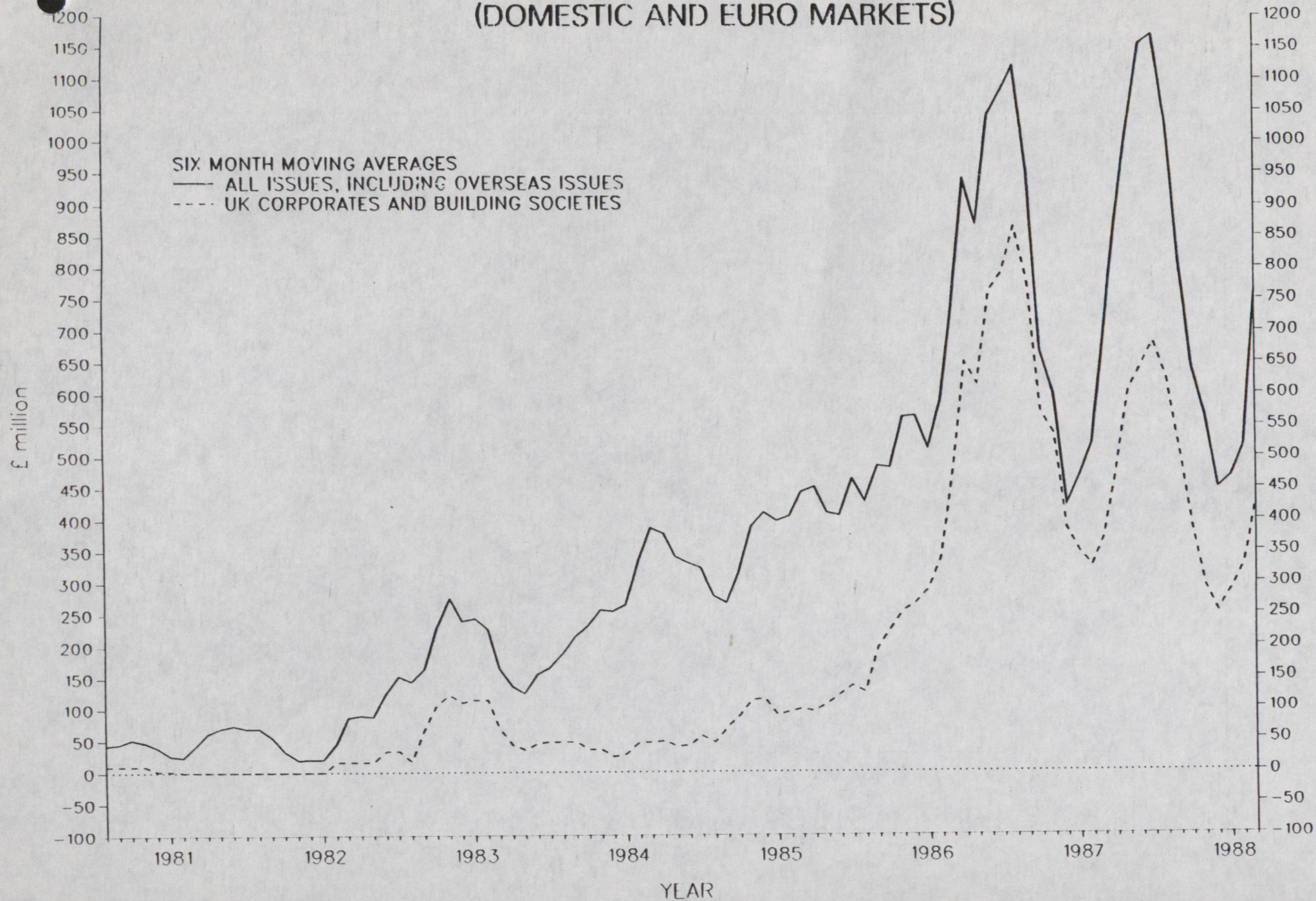
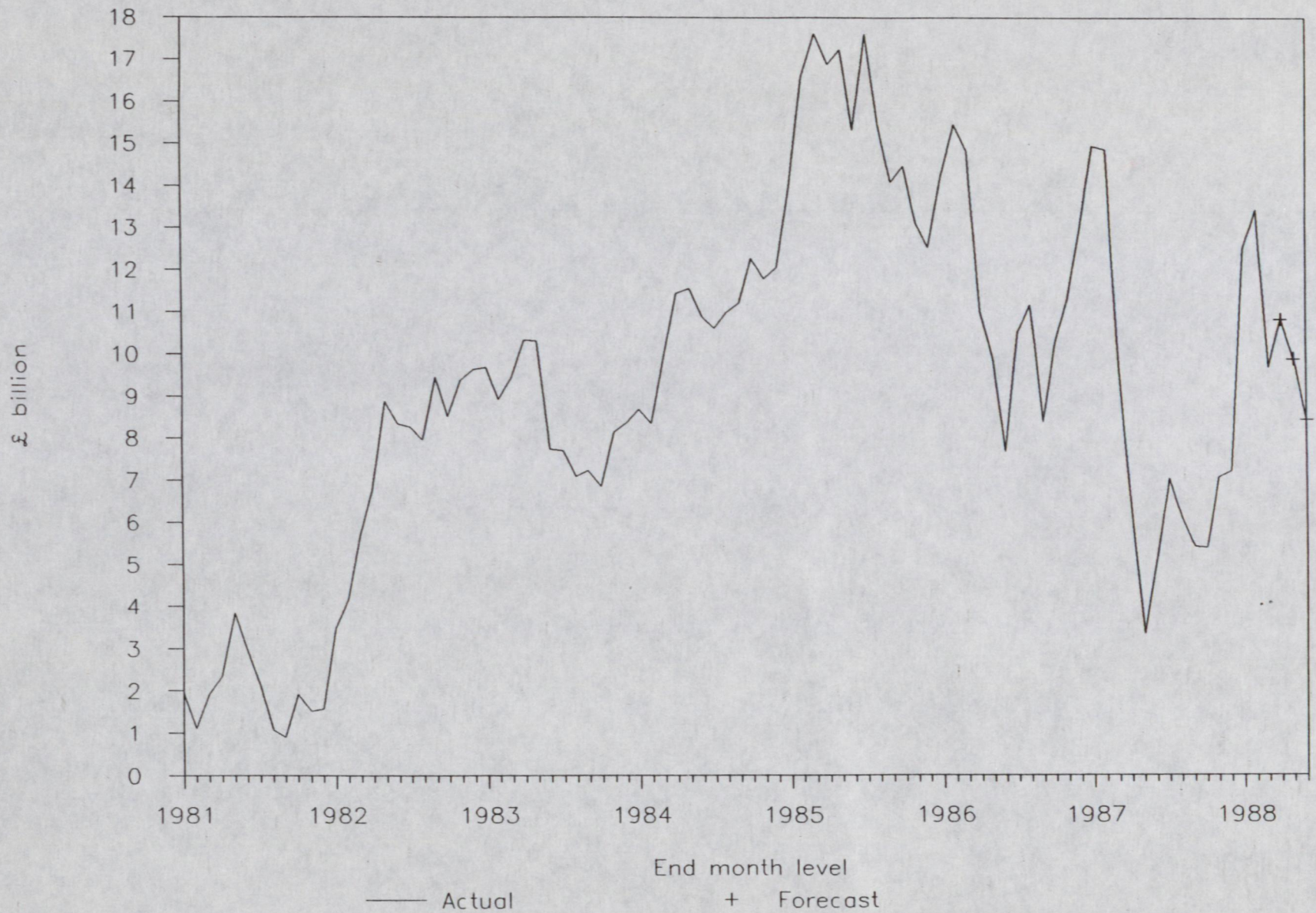
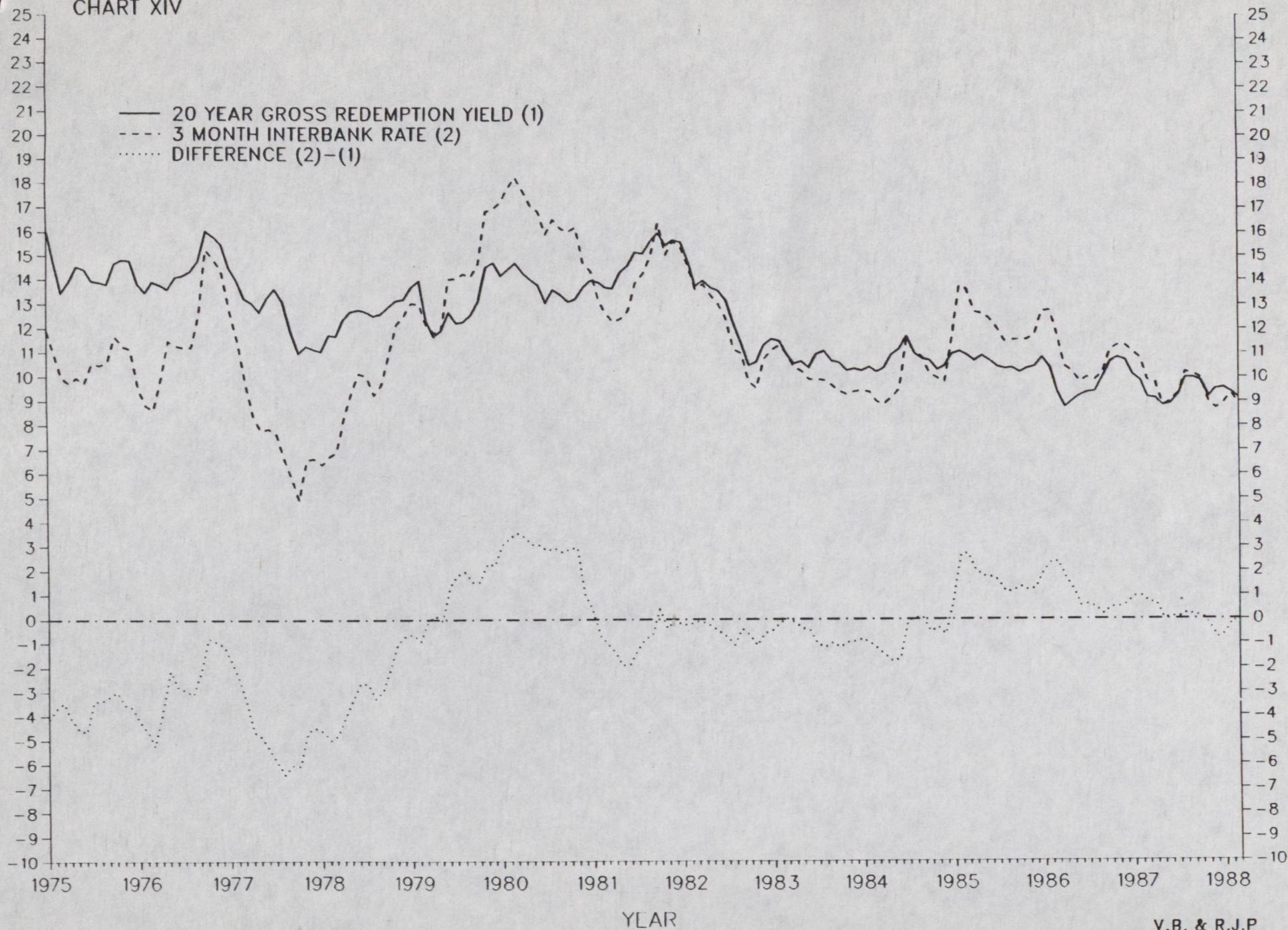


CHART XIII — MONEY MARKET ASSISTANCE



# NOMINAL INTEREST RATES

CHART XIV



# CHART XV

Per cent Time / Yield Curves of British Government Stocks

25th April 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 4.22

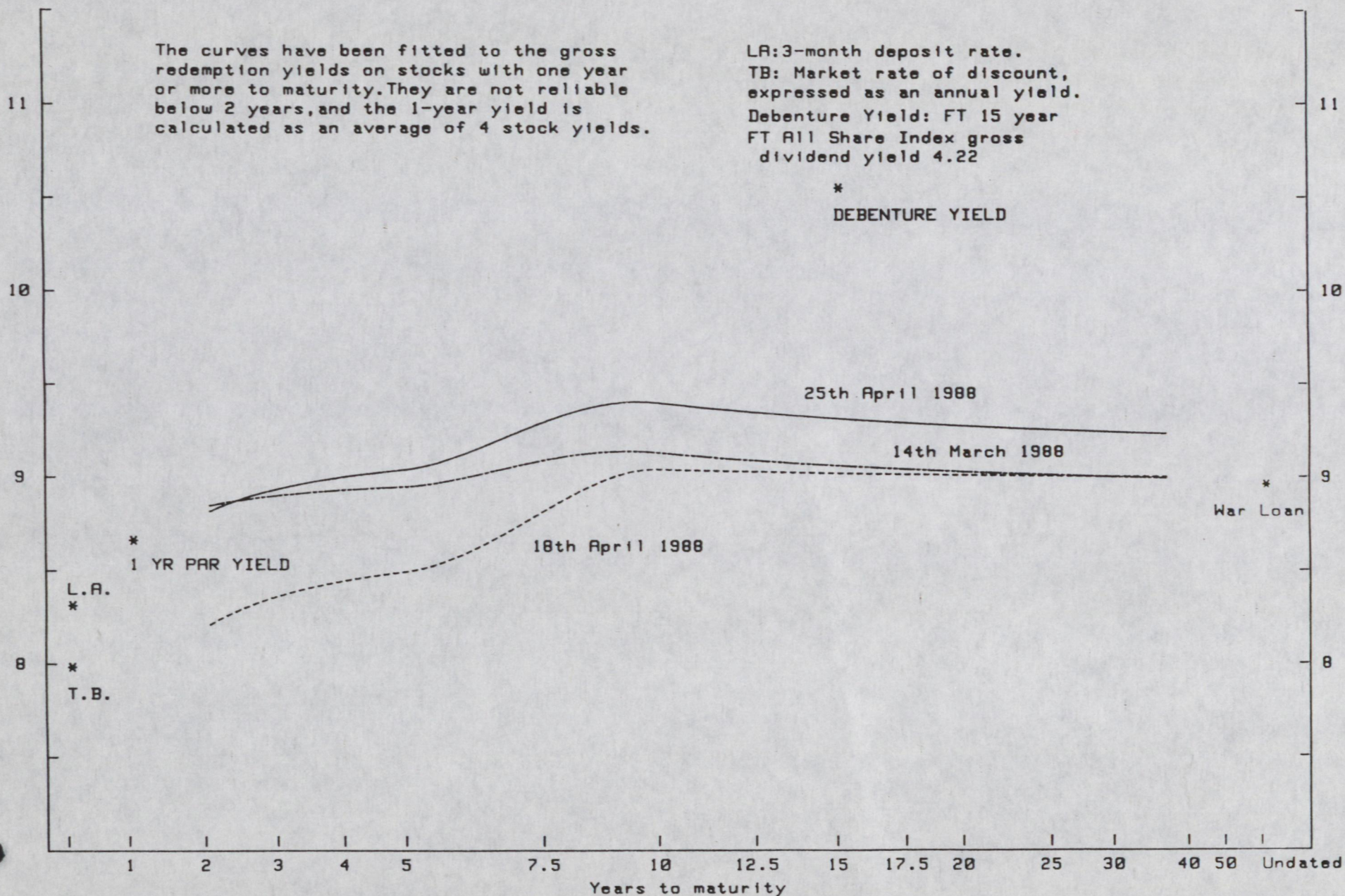
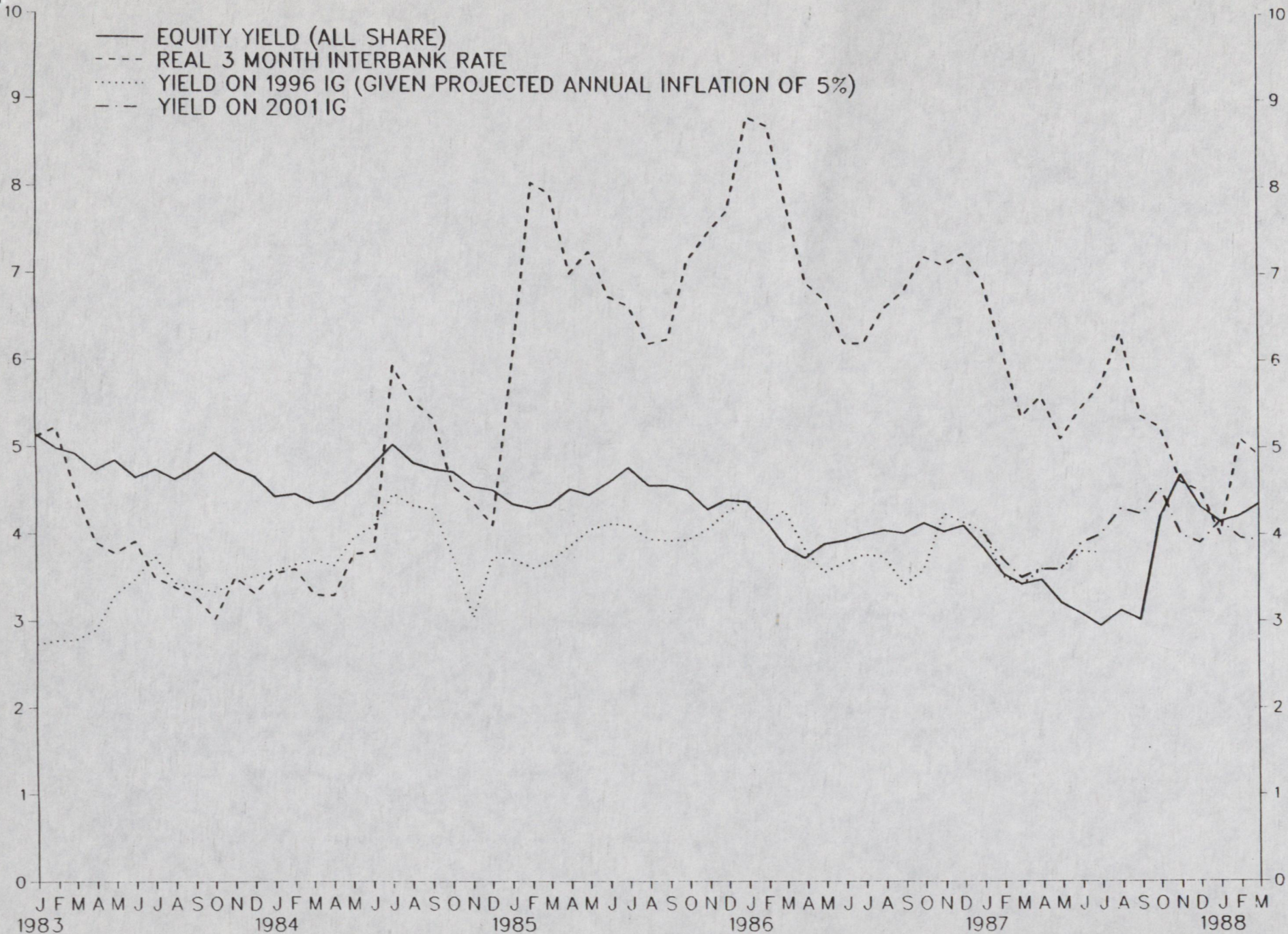


CHART XVI

# REAL YIELDS



YEAR

V.B & R.J.P



# ANNUAL HOUSE PRICE INFLATION:1

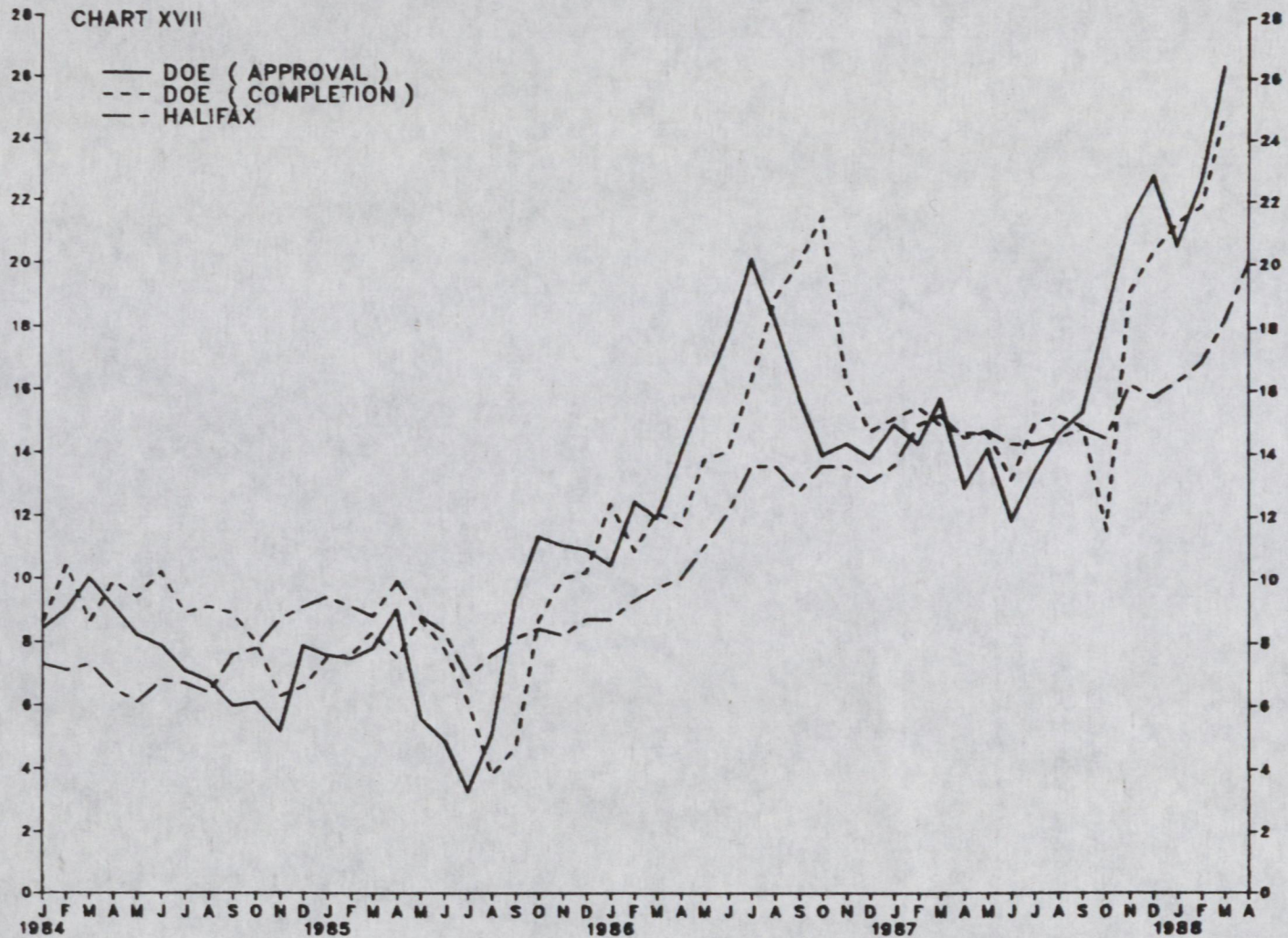
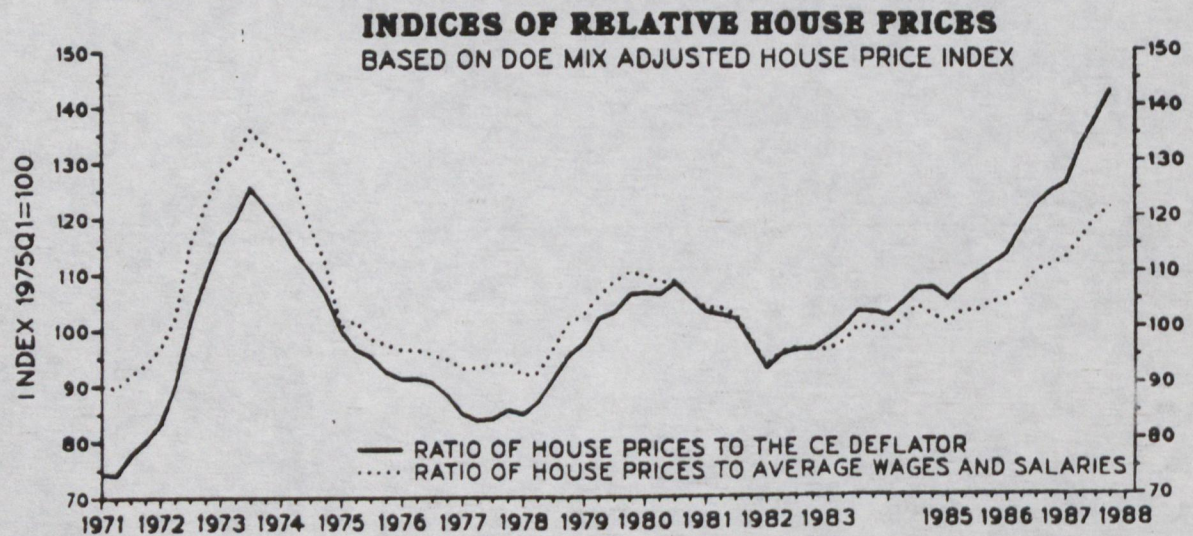
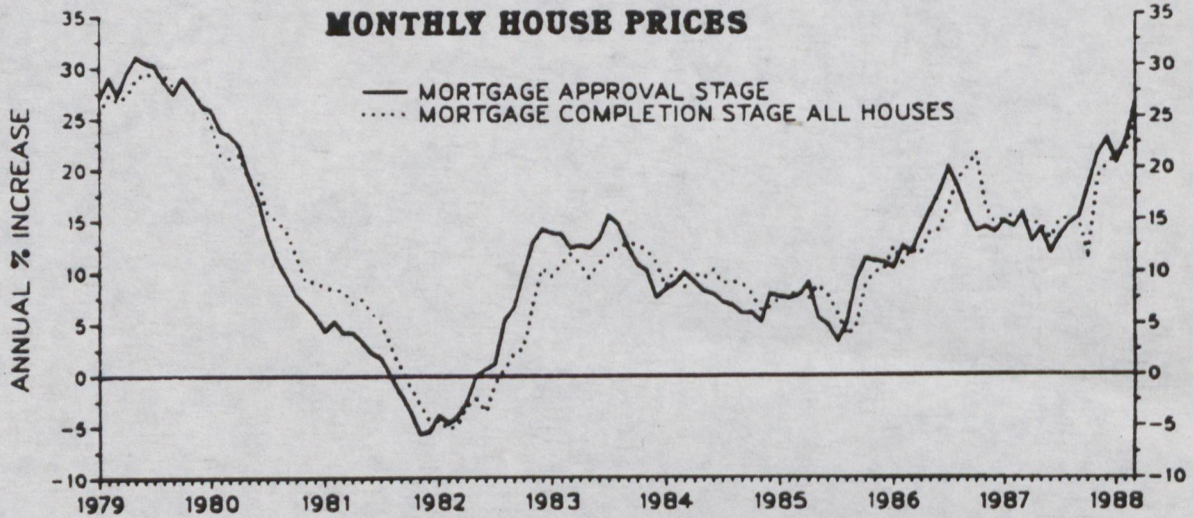
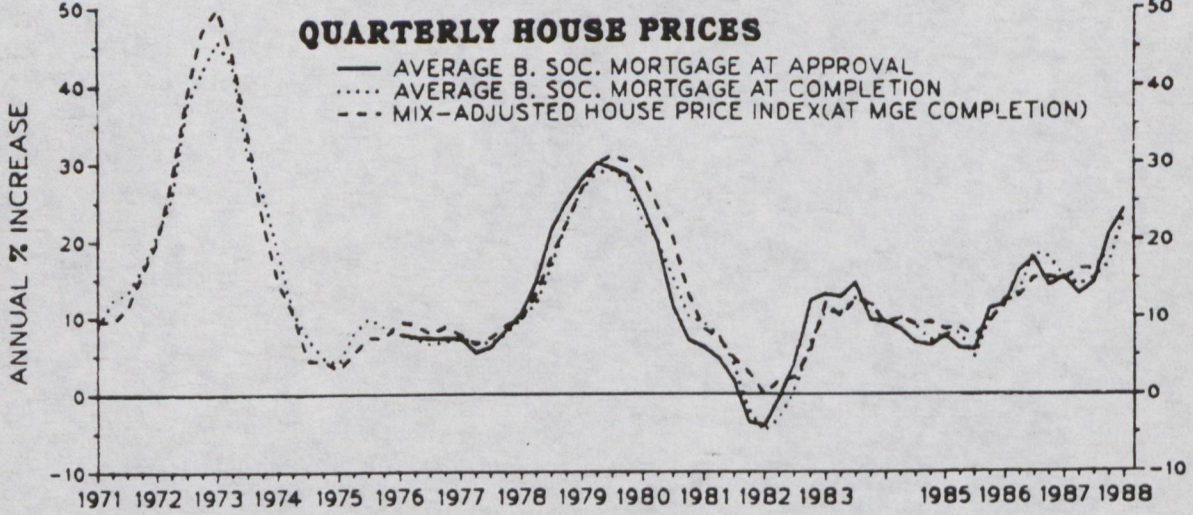


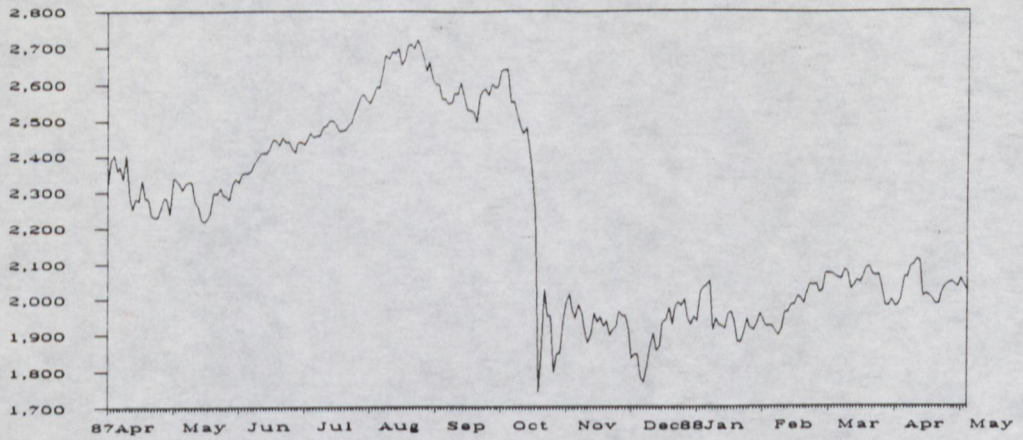
CHART XVIII

**HOUSE PRICES 2**

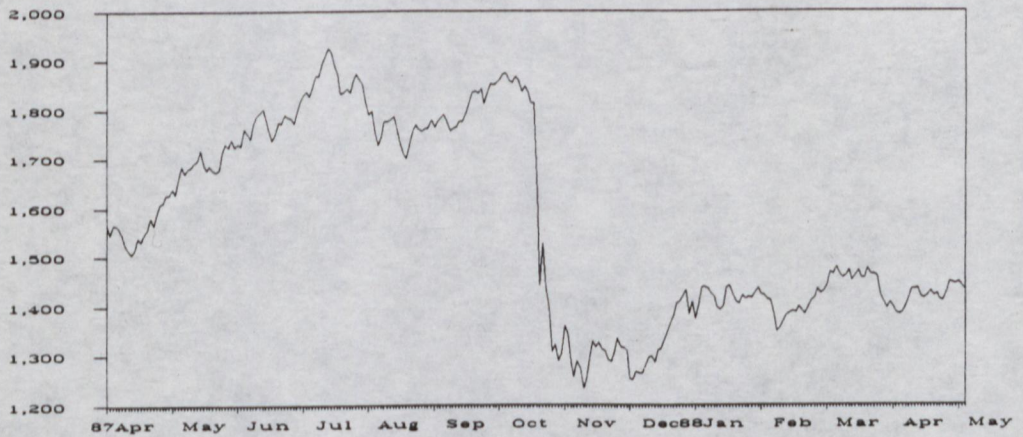


# CHART XIX

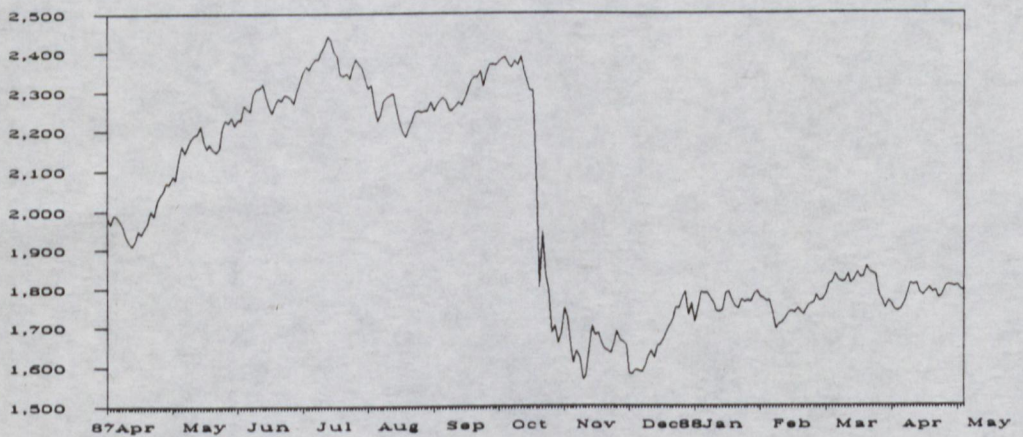
## Dow Jones Industrial Average



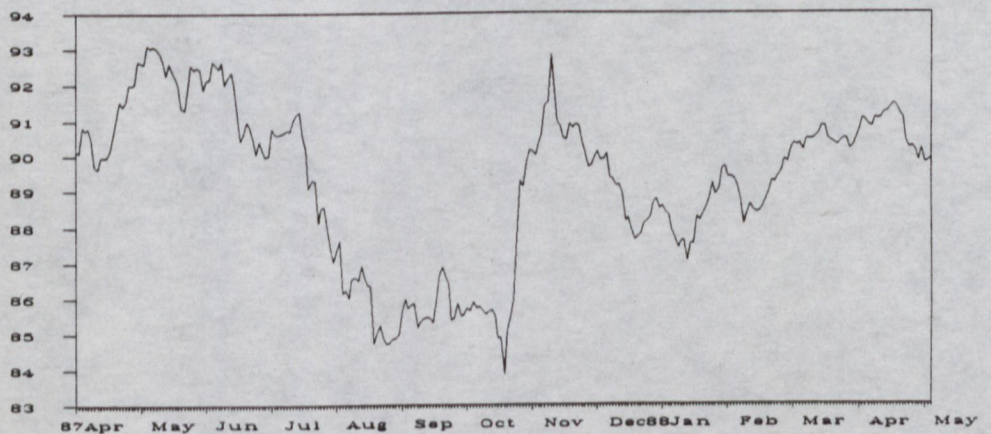
## FT Ordinary Index



## FTSE 100



## Gilt Index



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MONTHLY MONETARY REPORT : TABLES

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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	0.9	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	8.3	-1.7	2.9	2.2
Q4	6.3	3.7	5.4	8.0	8.5	-	3.0	2.5
1987 Jul			2.8	10.6	8.5		2.6	
Aug			4.2	10.4	8.4		3.0	
Sep			4.0	9.4	8.1		2.9	
Oct			5.0	10.0	8.7		3.1	
Nov			5.7	8.2	8.5		3.0	
Dec			5.8	5.9	8.2		3.0	
1988 Jan			6.3	6.4+	8.3+		2.7	
Feb			-	-	-		2.6	

\* Percentage changes on a year before.

+ Partly estimated.

Table 2

## GERMANY: KEY FIGURES

	INDUSTRIAL PRODUCTION		CONSUMER PRICES	TRADE SURPLUS*	MONEY SUPPLY (M3)
	%pa	index	%pa	\$bn	%pa
1984	3.4		2.4	1.7	3.3
1985	5.4		2.2	2.2	3.8
1986	2.1		- 0.2	4.5	4.2
1987	0.2		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	3.6	109	1.0	6.8 (5.5)	5.8
J	4.9	109	0.7	6.5 (5.6)	5.8
F			0.9		6.1
M			1.0		

\* 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	9.1	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	6.7	3.8	3.4	8.0	8.8
April	6.9	3.8	3.4	8.1	8.3
May 4	7.2	3.8	3.5	8.4	8.4

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

TABLE 3b

## 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
1988 Q1	94.2	240.2	149.6	71.9	75.3	128.0	1.68
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	71.1	72.8	150.0	1.85
Aug	103.3	218.2	146.0	71.1	72.3	147.6	1.86
Sept	100.8	222.1	146.7	71.1	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	1.60
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	93.6	241.6	149.3	71.5	76.8	127.1	1.68
April	92.7	245.0	148.9	71.3	78.2	124.9	1.67
May 4	92.8	245.3	148.7	71.1	77.9	124.9	1.68
% Change since dollar peak (Feb 85)	- 41	+ 56	+ 27	+ 14½	+ 11	- 52	- 51
% Change since Plaza (Sept 85)	- 33½	+ 56½	+ 18½	+ 6	- 5	- 48	- 41
% Change since Louvre Accord (Feb 87)	- 11	+ 17½	+ ½	- 1½	+ 13	- 19	- 8
% Change since Stock market crash (16 Oct 1987)	- 7½	+ 10½	+ 1	- ½	+ 6	- 12½	- 6½



TABLE 3C  
Economist Commodity Price Indices

1985=100

Annual	All items indices				SDR indices		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	104.4	133.7	74.0	115.6	96.7	106.2	118.6
1981	99.3	115.2	73.5	105.3	93.7	104.7	106.2
1982	91.8	99.9	73.4	94.3	89.3	96.0	93.8
1983	107.2	112.7	95.7	110.4	102.0	116.6	110.1
1984	110.3	111.5	107.2	113.1	112.3	111.6	106.2
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	89.8	103.7	90.6	86.4	92.8	90.0	85.4
1987	87.4	111.5	87.1	82.3	101.7	103.2	100.5
<u>Quarterly</u>							
1986 Q2	93.5	106.8	90.8	90.6	97.7	92.1	87.3
Q3	84.6	100.2	86.2	81.8	85.1	85.5	83.1
Q4	84.2	100.1	89.5	80.2	82.2	91.0	82.8
1987 Q1	81.0	100.8	83.5	76.5	73.2	95.2	84.3
Q2	84.9	108.2	84.4	80.0	73.2	102.6	92.1
Q3	90.2	113.4	90.0	85.3	70.7	111.9	108.0
Q4	93.4	123.7	90.3	87.0	74.7	103.3	117.9
1988 Q1	99.8	134.6	95.9	93.3	77.6	105.5	133.4
<u>Monthly</u>							
May	85.0	109.3	84.0		74.5	101.5	91.1
June	86.7	109.7	86.3		73.4	105.9	95.7
July	89.3	111.5	88.9		71.9	109.4	104.4
August	91.4	114.2	91.8		69.6	115.0	111.7
September	90.1	114.5	89.3		70.7	111.4	107.9
October	93.5	119.3	92.3		74.2	106.8	117.0
November	91.3	121.3	88.1		74.2	101.4	113.3
December	94.8	129.1	90.5		75.6	102.1	122.4
January	97.4	132.2	94.1		78.1	102.7	126.6
February	98.2	131.2	95.6		78.0	106.5	126.7
March	103.8	140.3	98.0		76.8	107.3	147.0
April	106.4	144.9	99.1		77.3	110.5	152.8
<u>Weekly</u>							
February 9	97.1	129.4	95.0		77.2	106.2	124.3
16	99.8	133.2	97.7		78.2	106.6	131.6
23	100.1	133.4	96.8		79.0	107.3	130.8
March 1	99.8	133.8	96.5		77.2	107.0	133.0
8	101.3	136.9	95.2		76.9	106.3	139.0
15	100.5	136.7	94.5		75.7	106.7	138.2
22	107.5	144.7	101.4		76.6	108.0	159.5
29	109.8	149.6	102.5		77.6	108.6	165.4
April 5	110.9	151.6	103.4		77.0	109.2	169.6
12	106.6	144.3	99.9		77.6	110.4	153.3
19	103.1	140.8	95.3		76.9	110.6	142.0
26	105.0	143.0	97.8		77.6	111.8	146.5
May 3 (prev)	104.8	142.5	97.6		77.0	110.9	147.7

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

\*\* Non-food agriculturals.

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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					
		GDP	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	8.7	6.4
3	6.6	2	2.2	- 1.3	2.8	3.3	4.3	-12.4	6.9	6.8
4	7.0	3	3.5	0.8	2.6	3.3	4.0	-13.0	3.7	4.7
1987 1	7.3	4	3.9	3.8	3.4	3.4	4.0	- 5.6	1.4	5.1
2	8.9	1987 1	4.3	4.4	3.9	3.7	4.1	- 1.7	0.8	4.0
3	10.6	2	4.4	5.1	4.2	3.6	4.5	4.6	0.8	4.3
4	9.8	3	5.1	6.7	4.3	3.6	4.7	12.9	0.7	3.8
1988 1*	10.1	4	5.2	5.5	4.1	4.0	4.7	6.2	2.1	4.3
1987-88*	9.8	1988 1	-	-	3.4	3.7	4.9	4.6	-	-
1988-89*	7.6									
		1987 March		5.2	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		8.4	4.4	3.7	4.7	14.5	1.0	
		September		6.2	4.2	3.5	4.7	10.8	0.7	
		October		5.6	4.5	3.9	4.7	7.6	0.8	
		November		5.3	4.1	4.0	4.8	4.8	1.8	
		December		5.5	3.7	4.0	4.9	5.0	2.1	
		1988 January		8.9 <sup>1</sup>	3.3	3.7	4.8	4.6	1.1	
		February		2.7	3.3	3.6	4.9	5.2	2.0	
		March		-	3.5	3.8	5.0	4.0	-	

<sup>1</sup> Figure 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.

- Not yet available.

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
	March	3.5	3.8	4.1

TABLE 5 : INDICATORS OF FISCAL STANCE

## (a) Annual data

	PSBR		PSBR EXCLUDING PRIVATISATION PROCEEDS		PSFD (1)	
	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	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*	5.7	1.6	8.5	2.3	8.1	2.2
1986-87	3.4	0.9	7.8	2.0	9.4	2.4
1987-88	-3.6	-0.8	1.5	0.3	2.8	0.7
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(O) 1987-88 Comparison with 1987 Budget Profile

£ billion

Receipts

Inland Revenue	+ 3.4
Customs and Excise	+ 1.0
National Insurance contributions	+ 0.6
Privatisation proceeds	+ 0.1
Interest and dividends	+ 0.2
Other receipts	+ 0.5
<b>Total receipts</b>	<b>+ 5.9</b>

Expenditure

Interest payments	- 0.3
Departmental expenditure (1)	- 0.9
<b>Total expenditure</b>	<b>- 1.2</b>
<u><b>Net effect on CGBR(O)</b></u>	<u><b>- 7.1</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	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	16.7
		February	74.3	94.1	1.047	1.75	2.98	83.7	+2.6	15.6
March		76.5	97.9	1.087	1.82	3.06	86.4	+2.1	14.8	
April		78.4	na	1.097	1.88	3.14	88.3	+1.2	16.4	
May 5th		77.9	na	1.091	1.87	3.13	88.3	+1.0	16.3	

-/ 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	8.9	6.8	8.5	9.1	3.9	4.8	2.2	3.9	3.9
	April	8.4	7.2	8.0	9.1	na	na	1.7	3.8	3.8
	May 5th	8.3	7.3	8.0	9.3	na	na	2.1	3.7	3.8

\* Unweighted average of forecasts by Phillips and Drew, National Institute and the London Business School; the expected rate of inflation for a given month is the change in the price level between six months earlier and six months ahead. This is assumed to approximate roughly to average inflation expectations over the three months immediately ahead. Average of yields calculated for each Friday of month 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	4480
1983	-0.6	10.1	-0.7	3753
1984	9.5	11.0	-2.0	2009
1985	6.8	4.1	1.8	3276
1986	2.3	5.8	-0.7	46
1987	7.3	8.8	+1.1	-1679
1986 Q3	2.9	7.5	-2.4	-747
Q4	8.6	8.6	-4.9	-556
1987 Q1	10.0	3.8	-1.3	799
Q2	6.0	9.2	+1.9	-300
Q3	8.9	11.5	+1.2	-896
Q4	4.7	9.7	+3.0	-1282
1988 Q1	-0.4	12.6	+4.8	-1818
1987 Jan	6.5	4.5	-2.7	73
Feb	16.3	6.0	-2.0	430
Mar	7.1	0.7	+0.6	296
April	9.8	9.6	+1.7	208
May	5.3	13.8	-0.1	-387
June	4.3	5.1	+2.0	-121
July	7.6	10.6	+0.2	-253
Aug	8.7	13.4	+0.6	-687
Sep	10.8	10.5	+3.2	43
Oct	4.0	10.7	+1.8	-353
Nov	3.6	7.4	+3.5	-488
Dec	6.4	11.1	+3.8	-441
1988 Jan	3.7	16.3	+5.9	-844
Feb	-7.9	10.8	+4.7	-720
March	3.5	10.9	+3.8	-254

\* excluding oil and erratics.



## SECRET

TABLE 10

Key Monetary Indicators

	1986-87					1987-88							
	<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>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
<u>MONETARY AGGREGATES</u>													
12 month % change (ua)													
MO	3.5	5.3	4.4	4.2	5.3	4.5	5.2	5.5	4.9	4.2	4.8	5.3	6.4
M3	19.0	20.5	19.0	19.2	21.0	22.2	19.6	22.4	21.5	22.8	22.4	20.4	20.9
M4	14.0	14.6	13.8	13.9	15.0	15.6	15.0	15.8	15.2	16.3	16.6	16.0	16.8
M5	13.5	14.1	13.4	13.5	14.4	15.0	14.4	15.2	14.7	15.8	16.3	15.6	16.7
<u>STERLING LENDING</u>													
12 month % change (ua)													
Banks	20.7	21.4	21.8	21.6	22.3	21.6	23.6	22.9	22.5	22.8	24.7	24.3	25.2
Banks and building societies	19.1	19.5	19.4	19.3	19.5	18.8	20.0	19.3	19.0	18.8	20.0	19.9	20.8
<u>OVER(-)/UNDER (+) FUNDING</u>													
financial year to date:£mm													
	395	3,216	5,160	2,371	1,912	2,215	2,010	3,790	1,183	2,408	-4171	-5688	-106
<u>MONEY MARKET ASSISTANCE/</u>													
Level outstanding £mn													
	9,742	6,126	3,340	5,132	7,078	6,114	5,421	5,403	7,073	7,221	12507	13425	9673
<u>INTEREST RATES</u>													
3 months*	9.9	9.8	8.8	9.0	9.3	10.2	10.1	10.0	8.9	8.7	8.9	9.3	8.9
20 year $\phi$	9.1	9.2	8.8	8.9	9.3	10.0	10.0	9.8	9.2	9.5	9.6	9.4	9.1
<u>EFFECTIVE EXCHANGE</u>													
RATE													
	71.9	72.3	73.3	72.7	72.8	72.3	73.1	73.6	75.4	75.7	74.8	74.3	76.5

\* Inter bank

 $\phi$  par yield

/ banking months until August thereafter end calendar months

TABLE 11

S E C R E T

£ million

## GROWTH RATES OF MONETARY AGGREGATES

			1987 MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC 1988	JAN	FEB	MAR
M0 -	Monthly change	sa	68	24	189	39	120	99	49	139	-46	-18	133
	Monthly % change	nsa	0.3	-0.6	2.8	0.1	0.1	-0.2	0.3	7.0	-6.0	-1.0	1.8
	Monthly % change	sa	0.4	0.2	1.2	0.3	0.8	0.6	0.3	0.9	-0.3	-0.1	0.8
	6-month annualised % change	sa	2.9	0.2	4.0	6.2	7.0	7.3	7.0	8.5	5.3	4.5	4.6
	Annual % change	sa	4.4	4.2	5.4	4.7	4.9	5.6	4.9	4.3	4.6	5.3	5.8
M3 -	Monthly change	nsa	3298	1907	4262	2220	1670	5690	1256	2580	-2137	568	9059
	Monthly % change	nsa	2.0	1.1	2.5	1.3	1.0	3.2	0.7	1.4	-1.1	0.3	4.9
	Monthly % change	sa	1.5	1.4	2.2	1.4	1.4	3.6	0.0	1.4	0.5	0.4	3.2
	6-month annualised % change	sa	22.0	24.2	26.5	25.2	21.9	25.5	21.8	21.7	17.8	15.6	19.7
	Annual % change	nsa	18.7	19.0	21.0	21.8	19.9	23.2	22.0	23.0	22.0	20.3	20.8
M4 -	Monthly change	nsa	3490	4042	5347	2679	2992	5367	1577	4899	322	1280	10069
	Monthly % change	nsa	1.3	1.5	1.9	0.9	1.0	1.8	0.5	1.6	0.1	0.4	3.3
	Monthly % change	sa	0.9	1.5	1.6	1.3	1.2	2.2	0.3	1.3	0.3	1.0	2.3
	6-month annualised % change	sa	13.7	15.8	18.9	18.4	17.2	18.8	17.3	16.8	13.9	13.1	15.6
	Annual % change	nsa	13.8	13.9	15.0	15.6	15.0	15.8	15.2	16.3	16.6	16.0	16.8
M5 -	Monthly change	nsa	4106	4126	5481	2793	3055	5500	1531	5209	30	999	11115
	Monthly % change	nsa	1.4	1.4	1.8	0.9	1.0	1.8	0.5	1.7	0.0	0.3	3.5
	Monthly % change	sa	1.2	1.5	1.5	1.3	1.2	2.1	0.3	1.3	0.3	0.9	2.4
	6-month annualised % change	sa	13.2	15.2	18.5	17.9	17.0	18.9	16.7	16.3	13.7	12.7	15.5
	Annual % change	nsa	13.5	13.5	14.4	15.0	14.4	15.2	14.7	15.8	16.3	15.6	16.7
NIBM1 -	Monthly change	nsa	1148	1444	82	-93	384	184	493	391	-1523	874	2321
	Monthly % change	nsa	2.8	3.4	0.2	-0.2	0.9	0.4	1.1	0.9	-3.3	2.0	5.2
	Monthly % change	sa	2.1	4.2	0.2	0.3	0.7	3.4	-2.2	-0.2	3.3	1.5	1.5
	6-month annualised % change	sa	7.9	15.3	9.9	9.7	13.3	24.1	13.8	4.3	10.8	13.3	15.2
	Annual % change	nsa	13.1	13.1	11.9	11.8	5.6	11.4	10.1	9.9	11.4	12.2	15.0
M1 -	Monthly change	nsa	2949	2102	1083	1104	1579	2864	508	-258	-1106	-416	5494
	Monthly % change	nsa	3.7	2.5	1.3	1.3	1.8	3.2	0.6	-0.3	-1.2	-0.5	6.0
	Monthly % change	sa	3.4	2.8	1.3	1.6	1.6	4.8	-1.0	-1.0	2.2	-0.6	4.0
	6-month annualised % change	sa	20.0	30.4	24.4	28.2	23.0	36.0	24.7	15.6	17.5	12.5	17.8
	Annual % change	nsa	23.5	23.6	22.6	23.7	20.4	24.7	21.7	22.7	21.7	20.5	20.8
WIDER £ AGGREGATE	Monthly change	nsa	5047	531	5243	1448	1791	7690	3	3506	529	197	8635
	Monthly % change	nsa	2.7	0.3	2.7	0.7	0.9	3.8	0.0	1.7	0.2	0.1	4.0
	Monthly % change	sa	2.2	0.5	2.4	0.8	1.3	4.1	-0.6	1.6	1.7	0.2	2.6
	6-month annualised % change	sa	23.5	22.4	23.5	21.9	20.2	24.9	18.2	20.9	19.2	17.8	20.8
	Annual % change	nsa					18.6	22.3	20.4	21.5	21.6	19.9	20.6

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	14.6	9.8	9.3
12 MONTH % CHANGES (ua except M0)					
1987 MARCH	3.8	0.3	14.6	9.8	9.3
APRIL	3.6	1.2	16.3	10.6	10.1
MAY	3.8	0.6	14.6	9.6	9.3
JUNE	3.5	0.7	15.2	10.0	9.7
JULY	3.7	1.6	16.7	10.9	10.3
AUGUST	3.7	1.0	17.8	11.5	10.9
SEPTEMBER	3.5	1.4	15.6	11.1	10.5
OCTOBER	3.9	1.6	17.8	11.5	10.9
NOVEMBER	4.0	0.9	16.8	10.8	10.3
1988 DECEMBER	4.0	0.3	18.1	11.8	11.3
JANUARY	3.7	0.9	18.0	12.4	12.2
FEBRUARY	3.6	1.6	16.2	12.0	11.6
MARCH	3.8	1.9	16.5	12.5	12.4

## CONFIDENTIAL

## M0 : THE WIDE MONETARY BASE

Monthly data	Level £ million (Change in brackets)						Percentage change on previous month		6 month % growth annualised		Percentage change on previous year				
	Notes and Coin (nsa) (sa)		Bankers' Deposits	M0 (nsa)	M0 (sa)	Notes(sa) and Coin	M0 (sa)	Notes & Coin (sa)	M0 (sa)	Notes and Coin (nsa) (sa)		M0 (nsa)	M0 (sa)		
1987 September	15349	15376	( 118 )	185	15534	15561	( 121 )	0.8	0.8	7.8	7.0	5.3	5.0	5.2	4.9
October	15299	15456	( 80 )	203	15501	15659	( 98 )	0.5	0.6	7.4	7.3	5.1	5.2	5.5	5.6
November	15365	15525	( 69 )	183	15548	15707	( 48 )	0.4	0.3	7.4	7.0	4.8	4.8	4.9	4.9
December	16447	15661	( 136 )	186	16633	15846	( 139 )	0.9	0.9	7.9	8.5	4.7	4.8	4.2	4.3
1988 January	15458	15620	( -41 )	181	15638	15801	( -45 )	-0.3	-0.3	6.1	5.3	4.7	4.5	4.8	4.6
February	15353	15659	( 39 )	124	15477	15783	( -18 )	0.2	-0.1	5.3	4.5	5.7	5.7	5.3	5.3
March	15588	15753	( 94 )	162	15750	15916	( 133 )	0.6	0.8	5.0	4.6	6.9	6.4	6.4	5.8
April	15797	15826	( 73 )	229	16026	16055	( 139 )	0.5	0.9	4.8	5.1	5.8	6.1	5.9	6.2
May (1/4) a	15947	15948	( 122 )	160	16107	16108	( 53 )	0.8	0.3	5.5	5.2	6.5	6.4	6.1	6.1
Latest 4 weeks a	15756	15855	( 59 )	203	15959	16058	( 77 )	0.4	0.5	5.0	5.1	4.7	5.9	4.5	5.7

Weekly data	Level £ million (Change in brackets)			Percentage change on previous week		
	Notes(sa) and Coin	Bankers' Deposits	M0 (sa)	M0 (sa)		
April						
6th	15832	( 5 )	263	16095	( 87 )	0.5
13th	15775	( -57 )	97	15872	( -223 )	-1.4
20th	15834	( 59 )	259	16093	( 221 )	1.4
27th	15862	( 28 )	297	16159	( 66 )	0.4
May						
4th	15948	( 86 )	160	16108	( -51 )	-0.3

a 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.

TABLE 14

S E C R E T

## 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 *	1621	1235	343 ( 16.9 )	43	634	570	281	136
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*	2069	1306	734 ( 16.9 )	29	1028	785	299	-43
1988 Q1*	1666	1696	-80 ( 16.5 )	50	1026	625	172	-157
Jan	1152	1526	-424 ( 16.5 )	50	895	1373	68	-1184
Feb	1743	1297	396 ( 16.6 )	50	1094	109	102	438
Mar	2368	2265	53 ( 16.4 )	50	1090	394	347	537
Forecast								
1988 Apr	2620	1977	593 ( 16.5 )	50	1323	275	300	722

\* 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 APRIL	6.2	14.1	17.4	28.0	20.5
MAY	3.3	15.9	19.3	23.1	19.0
JUNE	3.6	17.5	15.7	25.4	19.2
JULY	6.0	14.8	12.5	32.6	21.0
AUGUST	4.0	15.7	15.6	33.0	22.2
SEPTEMBER	5.7	5.5	14.7	32.1	19.6
OCTOBER	4.5	14.7	12.9	35.3	22.4
NOVEMBER	1.3	14.3	13.5	33.5	21.5
DECEMBER	5.8	11.9	10.7	38.5	22.8
1988 JANUARY	5.1	14.5	11.1	35.8	22.4
FEBRUARY	2.5	16.9	10.9	30.9	20.4
MARCH	13.7	15.6	12.4	29.2	20.9
Over 6 months (sa)					
1987 OCTOBER	6.8	32.7	12.2	34.3	25.5
NOVEMBER	7.0	16.9	13.6	31.1	21.8
DECEMBER	11.3	1.4	8.3	40.4	21.7
1988 JANUARY	7.6	12.2	9.4	26.5	17.8
FEBRUARY	6.3	16.4	7.2	21.6	15.6
MARCH	12.4	16.5	11.0	27.1	19.7
<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 OCTOBER	253	1239	179	4728	6399
NOVEMBER	-71	-939	612	329	-69
DECEMBER	217	-311	-611	3224	2519
1988 JANUARY	82	1384	936	-1464	938
FEBRUARY	-69	736	95	3	765
MARCH	383	323	1335	3968	6009

<sup>1</sup> March on March

## 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 APRIL	20.5	16.1		50.3	14.6		4.4	14.1
MAY	19.0	17.9		54.7	13.8		8.0	13.5
JUNE	19.2	16.4		63.7	13.9		7.3	13.5
JULY	21.0	13.4		64.2	15.0		4.6	14.4
AUGUST	22.2	15.6		63.2	15.6		4.1	15.0
SEPTEMBER	19.6	10.8		58.1	15.0		5.0	14.4
OCTOBER	22.4	13.6		58.3	15.8		5.8	15.2
NOVEMBER	21.5	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		11.3	16.3
FEBRUARY	20.4	13.2		47.8	16.0		7.9	15.6
MARCH	20.9	13.6		39.5	16.8		13.6	16.7
<b>Over 6 months (sa)</b>								
1987 OCTOBER	25.5	9.7		23.4	18.8		19.2	18.9
NOVEMBER	21.8	11.6		21.0	17.3		6.1	16.7
DECEMBER	21.7	11.2		31.3	16.8		6.5	16.3
1988 JANUARY	17.8	11.3		39.5	13.9		10.1	13.7
FEBRUARY	15.6	11.4		31.9	13.1		6.3	12.7
MARCH	19.7	13.9		35.2	15.6		13.8	15.5
<b>CHANGES IN 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 OCTOBER	6399	720	0	-618	6501		68	6569
NOVEMBER	-69	2080	-355	-796	860		33	893
DECEMBER	2519	1221	325	-248	3817		249	4066
1988 JANUARY	938	1124	50	-1298	814		223	1037
FEBRUARY	765	1557	12	596	2930		-189	2741
MARCH	6009	1805	-34	-630	7150		617	7767

<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 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	6.8	10.9
FEBRUARY	13.2	12.6	6.3	11.2
MARCH	13.6	13.0	5.9	11.3
<b>Over 6 months (sa)</b>				
1987 OCTOBER	19.8	9.7	5.3	10.8
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	4.4	9.3
MARCH	13.1	13.9	4.7	11.2
<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 OCTOBER	1418	720	-63	2075
NOVEMBER	-327	2080	69	1822
DECEMBER	-922	1221	262	561
1988 JANUARY	2320	1124	307	3751
FEBRUARY	831	1557	207	2595
MARCH	1658	1805	197	3660

## 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

		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>Monthly changes</u>							
1987	March	4643	-1969	339	420	3433	2529
	April	1726	-420	210	-398	1118	2190
	May	3622	-2068	295	497	2346	2560
	June	5144	771	3	-1206	4712	4009
	July	2139	1627	-57	890	599	4486
	August	2847	-1544	119	-288	1134	2633
	September	5460	12	-19	66	5519	4329
	October	2507	-489	139	804	2961	2920
	November	2309	819	235	-62	3301	3274
	December	3955	1544	120	-165	5454	4986
1988	January	2569	2485	-220	254	5088	5585
	February	2077	392	-32	63	2500	2595
	March	<b>5627</b>	<b>-525</b>	<b>241</b>	<b>508</b>	<b>5894</b>	<b>4779</b>

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

TABLE 19

FUNDING : FINANCIAL YEAR OUTTURN 1987/88

26/4/88

£ million

	APRIL 87 - FEB 88	MARCH 88	FINANCIAL YEAR 1987/88
	-----	-----	-----
<b>PSBR AND FUNDING TARGET</b>			
1 PSBR excl asset sales	-2251	3820	1569
2 Asset sales (sales-)	-5117	-1	-5118
	-----	-----	-----
3 PSBR	-7368	3819	-3549
4 Adjustment for 1986/87 underfund			314
<b>FINANCED BY:</b>			
5 OPS debt sales to nbps (sales-)	1289	-165	1124
6 National Savings (sales-)	-1847	-189	-2036
7 CTDs (sales-)	41	14	55
8 Treasury bills etc (sales-)	-73	-57	-130
9 Intervention (reserves inc+)	10031	1111	11142
10 Public sector externals excl intervention and gilts (inc-)	463	234	697
	-----	-----	-----
11 NET GILT SALES TO NBPS & OVERSEAS NEEDED FOR FULL FUND (sales+)	2536	4767	7617
<b>GILT SALES:</b>			
12 Net purchases by nbps and overseas (purchases+)	8222	-813	7409
13 Net purchases by monetary and other public sector (purchases+)	-535	129	-406
14 Maturities	5476	976	6452
	-----	-----	-----
15 GROSS OFFICIAL SALES	13163	292	13455
16 OVER(-)/UNDER(+) FUNDING	-5686	5580	208

Relationship between lines:

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

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	Ordinary Shares	Pref & Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL	
<b>Change in Quarter</b>												
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	0	471	209	350	1030	12328	2362	14690
	Q2	5465	5083	10548	0	1369	344	325	2038	12586	1575	14161
	Q3	5764	5592	11356	69	1431	290	231	2021	13377	3688	17065
	Q4	10433	4667	15100	65	2338	-52	281	2632	17732	591	18323
1987	Q1	7119	3619	10738	368	1553	-782	1231	2370	13108	7152	20260
	Q2	8692	4240	12932	651	2259	352	655	3917	16849	4717	21566
	Q3	10855	3889	14744	298	5950	732	570	7550	22294	-1191	21103
	Q4	10884	3746	14630	-89	3735	423	105	4174	18804	-128	18676
1988	Q1	13182	4948	18130	722	325	-115	915	1847	19977	1914	21891
<b>Average per quarter</b>												
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		9388	3874	13261	307	3374	181	640	4503	17764	2638	20401
1988		13182	4948	18130	722	325	-115	915	1847	19977	1914	21891
<b>Change in Month</b>												
1987	APRIL	1258	1590	2848	192	828	110	355	1485	4333	1234	5567
	MAY	2316	1295	3611	171	415	184	150	920	4531	2703	7234
	JUNE	5118	1355	6473	288	1016	58	150	1512	7985	780	8765
	JULY	4403	1302	5705	131	1840	182	210	2363	8068	-2234	5834
	AUGUS	1023	1269	2292	9	2090	390	150	2639	4931	1023	5954
	SEPT	5429	1318	6747	158	2020	160	210	2548	9295	20	9315
	OCTOB	2517	1510	4027	165	2535	195	45	2940	6967	3459	10426
	NOVEM	3209	1266	4475	-16	975	55	60	1074	5549	-1529	4020
	DECEM	5158	970	6128	-238	225	173	0	160	6288	-2058	4230
1988	JANUA	4980	1466	6446	212	48	41	450	751	7197	735	7932
	FEBRU	2547	1385	3932	339	219	123	355	1036	4968	-956	4012
	MARCH	5655	2097	7752	171	58	-279	110	60	7812	2135	9947

\*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				OTHER BORROWING					ALL BORROWING		
Sterling		Foreign	TOTAL	Sterling Commercial Paper	Ordinary Shares	Pref & Bonds	Euro-Sterling(*)		TOTAL	TOTAL	
ICC's	BSOC's	Currency					ICC's	BSOC's			
<b>Change in Quarter</b>											
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	5223	390	-21	5592	65	2338	-52	281	2632	5264	10856
1987											
Q1	1185	353	2008	2294	368	1553	-782	1231	290	2660	4954
Q2	710	-516	756	100	651	2259	352	655	50	3967	4067
Q3	3747	397	-94	4826	298	5950	732	570	100	7650	12476
Q4	4379	832	682	5211	-89	3735	423	105	0	4174	9385
1988											
Q1	7148	257	2169	7405	722	325	-115	915	625	2472	
<b>Average per quarter</b>											
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	2176	745	331	3251	34	1402	198	297	1554	3485	6735
1987	2505	267	838	3610	307	3374	181	640	147	4649	8259
1988	7148	257	2169	7405	722	325	-115	915	625	2472	9877
<b>Change in Month</b>											
1987											
	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	2648	
	OCTOBER			165		2535	195	45	0	2940	
	NOVEMBER			-16		975	55	60	0	1074	
	DECEMBER			-238		225	173	0	0	160	
1988											
	JANUARY			212		48	41	450	50	801	
	FEBRUARY			339		219	123	355	150	1186	
	MARCH			171		58	-279	110	425	485	

\* 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' figures.

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Table 23

## M0 FORECAST, 1988-89

Seasonally adjusted

	Levels	6 month growth rate		12 month growth rate		
	(£ million)	(&)		(&)		
	Notes and Coin	M0	Notes and Coin	M0	Notes and Coin	M0
<b>Actual</b>						
1988 January	15 620	15 801	6.1	5.3	4.5	4.6
February	15 659	15 783	5.3	4.5	5.7	5.3
March	15 753	15 916	5.0	4.6	6.4	5.8
1987-88 <sup>1</sup>	15 371	15 553	n/a	n/a	5.0	4.9
April	15 825	16 054	4.8	5.1	6.1	6.2
<b>Forecast</b>						
May	15 920	16 110	5.2	5.2	6.2	6.1
June	15 975	16 165	4.1	4.1	6.0	6.3
July	15 995	16 185	4.9	4.9	5.5	5.1
August	16 015	16 205	4.6	5.4	5.0	5.0
September	16 030	16 220	3.5	3.9	4.3	4.2
October	16 060	16 250	3.0	2.5	3.9	3.8
November	16 110	16 300	2.4	2.4	3.8	3.8
December	16 180	16 370	2.6	2.5	3.3	3.3
1989 January	16 230	16 420	3.0	2.9	3.9	3.9
February	16 255	16 445	3.0	3.0	3.8	4.2
March	16 280	16 470	3.2	3.1	3.4	3.5
1988-89 <sup>1</sup>	16 073	16 266	n/a	n/a	4.6	4.6

<sup>1</sup>average of 12 months

Table 24

Broad Money forecast

	OUTTURN 1988 MARCH		FORECAST	APRIL
	M3	M4	M3	M4
(i) Underlying increase	3509	4519	2000	2550
(ii) <u>Estimated Special Factors</u>	5550	5550	- 1500	- 1300
Arbitrage: bills against deposits	-	-	- 500	- 500
Over(-)/Under(+)funding	5550	5300	- 1000	- 1050
Liquidity rundown to replace equity issues	- 250	- 250	- 250	- 250
Low unit trust inflows	250	500	250	500
(iii) Total Increase	9059	10069	500	1250
Monthly % change	4.9	3.2	0.3	0.4
Annual % change	20.9	16.8	18.9	15.8
Annual % change expected at 1988 Budget time	22.5	17.3	22.0	17.4
Line (iii)=(i)+(ii)				

Table 25

Lending forecasts

	OUTTURN 1988 MARCH			FORECAST APRIL		
	Bank lending	B Soc lending	M4 Counterpart	Bank lending	B Soc lending	M4 Counterpart
(i) Underlying increase (sa)	5799	1618	6631	3645	1550	5095
(ii) Estimated Special factors	- 430	450	20	- 300	450	150
Arbitrage: bills against deposits	-	-	-	- 500		- 500
bills against foreign currencies	- 200	-	- 200	- 250		- 250
PSBR offset	- 400	-	- 400	-	-	-
Bill leak	- 530	-	- 530	-	-	-
Bank borrowing to replace equity issues	750	-	750	500	-	500
Bank/building society competition	- 150	150	-	- 150	150	-
Buoyant housing market	100	300	400	100	300	400
(iii) Lending increase (sa)	4779	2068	6651	3345	2000	5245
Lending increase (nsa)	5894	2097	7795	1625	1975	3500
Annual % change (nsa)	25.2	13.9	20.8	25.3	14.1	20.8
Annual % change expected at Budget time	24.9	13.6	20.4	26.0	13.4	20.9

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

## SECRET

TABLE 26 : BROAD AGGREGATES COUNTERPARTS AND FORECAST

£ million

OUTTURN: MARCH 1988	M3	M4
-----	-----	-----
PSBR	3819	3819
LA and PC debt sales to NBPS (-)	-165	-64
CG debt sales to NBPS (-)	402	43
o/w     Gilts	( 634 )	( 427 )
Treasury bills etc	( -57 )	( -56 )
National Savings	( -189 )	( -188 )
CTDs	( 14 )	( -140 )
Public sector external & fc finance (-)	1524	1524
OVER(-)/UNDER(+) FUNDING	5580	5322
Sterling lending to NBPS (seasonally adjusted)	5894 (4779)	7795 (6651)
Banks' /B socs' externals	-218	-193
Banks' /B socs' fNNDLs	-2197	-2855
TOTAL	9059	10069
Monthly % growth nsa	4.9	3.3
sa	3.2	2.3
Annual % growth nsa	20.9	16.8
FORECAST: APRIL 1988		
-----		
PSBR	-475	-475
LA and PC debt sales to NBPS (-)	0	-50
CG debt sales to NBPS (-)	-400	-400
o/w     Gilts	( -250 )	( -250 )
Treasury bills etc	( 0 )	( 0 )
National Savings	( -200 )	( -200 )
CTDs	( 50 )	( 50 )
Public sector external & fc finance (-)	-125	-125
OVER(-)/UNDER(+) FUNDING	-1000	-1050
Sterling lending to NBPS (seasonally adjusted)	1625 (3345)	3500 (5245)
Banks' /B socs' externals & fNNDLs	-125	-1200
TOTAL	500	1250
Monthly % growth nsa	0.3	0.4
sa	1.1	0.9
Annual % growth nsa	18.9	15.8
Annual % growth sa	19.6	15.7
BUILDING SOCIETIES: Retail inflows		1325
Interest credited		100
Wholesale inflows from NBPS		0
Holdings of M3 (-)		-675



## SECRET

TABLE 27: MONEY MARKET ASSISTANCE

£ million

	Outturn		Forecast	
	1988 MAR	APR	MAY	JUN
<b>A. Money market influences</b>				
(i) CGBR excl bank deposits (+)	3649	-829	750	1475
(ii) Reserves etc (+)	1044	184	-75	-75
(iii) Notes and coin (-)	-1062	234	50	0
(iv) National Savings (-)	-188	-180	-100	-125
(v) CTDs (-)	-2	47	0	50
(vi) Gilts (-)	683	-200	325	100
(vii) Other Exchequer items etc	-278	314	0	0
<b>A. TOTAL MONEY MARKET INFLUENCES</b> (Market surplus + / shortage -)	----- 3846 -----	----- -430 -----	----- 950 -----	----- 1425 -----
<b>B. Money market operations</b>				
(i) Commercial bills (purchase +):				
Issue Department - outright	-4079	-1609		
- repos	1753	1797		
Banking Department	132	-266		
(ii) LA bills (purchase +)				
Issue Department	-86	120		
Banking Department	-30	-24		
(iii) Treasury bills (purchase +)	-232	53		
(iv) Market advances	-131	362		
(v) Treasury bill Repos	0	21		
(vi) Export Credit/Shipbuilding Repos	-979	0		
(vii) Gilt Repos	-332	0		
<b>B. TOTAL MONEY MARKET OPERATIONS</b>	----- -3984 -----	----- 454 -----	----- -950 -----	----- -1425 -----
<b>C. Change in bankers balances</b> = A + B	-138			
<b>D. TOTAL ASSISTANCE OUTSTANDING</b>	9673	10074	9125	7700
of which commercial bills	9529	9448		

TABLE 28

SECRET

GOVERNMENT SHARE SALES TIMING

1988/89

Gas debt	11 April
BGC III	19 April
BT Prefs	10 May
BAA II	19 May
BP II	30 August
BSC I	Proposed 22 November

1989/90

BP III	27 April
BSC II	Undecided