



RA

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PRIME MINISTER

Eric Minks

not This is the note the Chancellor
handed over this evening.

BALANCE OF PAYMENTS FIGURES FOR 1989Q3

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As you know from our earlier discussion, estimates of the balance of payments in the third quarter of 1989 will be published tomorrow. These will include the first estimate of the invisibles balance for this period - the invisibles surplus of £300 million a month, published with the trade figures for July to October, was a CSO projection.

2. The estimate of the invisibles surplus in the third quarter is better than we feared when we spoke but is very disappointing, at just £204 million. This compares with the previous projection of £900 million, and means that the current account deficit for the third quarter will be revised up by around £0.7 billion, to £6.5 billion. The invisibles surplus of £0.2 billion in the third quarter compares with surpluses of £0.8 billion in the second quarter and £1.4 billion in the first quarter. These figures will not be well received although much of the reduction is due to higher net contributions to the EC (see below).

3. The CSO will be reconsidering their projection of the monthly invisibles surplus over the next few days. It is very likely that the invisibles projection that will be published with the November trade figures on 29 December will be below the £300 million surplus used previously. On the basis of the revised figures for the first three quarters, the deficit this year looks likely to be in the range



£21-22 billion, compared with £20 billion in the Autumn Statement forecast. And the projected improvement of £5 billion in the current account next year depends in part on a £2 billion rise in the invisibles surplus, from £4 billion to £6 billion. In view of the deterioration in invisibles through 1989, this forecast now looks less secure.

4. The attached Treasury briefing note discusses the figures in detail. The main points are:

(i) The sharp fall of £0.6 billion in the invisibles surplus in the latest quarter reflects mainly a rise in the deficit on transfers (£0.5 billion) most of which is due to a fall in receipts from the EC following large receipts from the agricultural fund in Q1 and the social fund in Q2. Our net EC contributions are not expected to fall back much in Q4 but they should be substantially lower in 1990.

(ii) Also the CSO and Bank have identified some additional capital flows for recent years which have the effect of reducing the balancing item and the estimate of net overseas assets.

5. The latest estimates clearly give rise to concern that the recent weakening of invisibles might continue and offset any improvement in the visible balance in the months ahead. Our best guess is that this is unlikely. But estimates of invisibles, particularly for the most recent quarters, are notoriously unreliable. It is possible that the third quarter estimate is erratic and the transfers deficit in particular is unusually large. Although I would not expect this to improve in the fourth quarter, a substantially smaller deficit is forecast for the first half of 1990. The underlying trend in the services surplus is also expected to continue

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upwards. The travel balance in particular should continue to respond to the tightening of monetary policy, which has caused consumers to cut back sharply on expenditure on overseas travel. However, we cannot be sure how fast the invisibles will improve and, even if they do, there is bound to be a lag of some months before this is reflected in the published figures.

J. M.

13 November 1989