

PA

PRIME MINISTER

mt

MONTHLY MONETARY ASSESSMENT

You may find it helpful to glance at the attached regular monthly Treasury note.

It does not reveal anything very new about developments in the real economy. But the section on domestic monetary and financial market developments (paragraphs 32-56 plus Annex I and Table 23) is worth looking at. This provides a good analysis of the factors that may have been behind the continuing uncomfortably high rate of monetary expansion. Particular points to come out are:

- With MO growth continuing higher than expected, the forecast drop into the target range has been postponed until the late Summer/Autumn (see Table 23). But I doubt if much confidence can be placed on this prediction.
- Paragraph 40 reveals that a half per cent rise in mortgage rates is likely in the Spring. For most people there will be a long lag before it affects annual payments but the impact on the RPI is immediate. This is one of the reasons why the latest Treasury forecast, which you discussed at the recent seminar, is currently suggesting an April RPI of some 7.9 per cent.
- Annex I, summarising what is known about the extent of annual review schemes for mortgage payments is worth looking at.

Recg.

PAUL GRAY

13 February 1990

A:\ECONOMIC\MONETARY.DAS