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The Governor may wish to discuss the policy implications of this, and the recently completed Bank, forecasts.

SUMMER NIF FINANCIAL FORECAST

Introduction and Assumptions

The Summer National Income Forecast is to be circulated to senior officials by late today, and to Ministers by early next week. This note describes and comments on the financial forecast and gives some very brief details on the real side of the forecast. Although the real economy figures are final there may be some small changes to the financial variables within the next few days. A more detailed analysis of the real economy outlook will be prepared by the Economic Forecasting Group in due course.

Short-term interest rates are set in the forecast to ensure that the average growth rates of the main monetary aggregates are within the MTFS ranges of 8-12% for the current year, 7-11% for 1983-84 and 6-10% for 1984-85. In fact, a weighted average of the main monetary aggregates has also been used as an arithmetical basis for the MTFS objective with a 10% weight for M0, a 40% weight for M1, and 25% weights for £M3 and PSL2. The other main guidance which has been observed in the forecast is that exchange rate changes are limited to a maximum of 5% in any one year, and that overfunding on any substantial scale is to be avoided.

Financial climate

Briefly the forecast of the real economy shows a recovery in activity over the next few years broadly similar but slightly weaker to that in the budget forecast. The expansionary influences within 1982 are still seen as the turnround in stocks and an upturn in fixed investment. The average level of wage settlements for the current round is put at

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7%, the same as in the last forecast, and the RPI falls to 7 3/4% by the first quarter of 1983. The current account balance deteriorates steadily throughout 1982 and 1983 from the record surplus of last year and the effective exchange rate declines gently throughout the forecast period. The main features of the real economy forecast are set out overleaf:

	1981	1982	1983	1984
Private sector - average earnings (% change Q3 on same quarter in previous year)	+12.5	+ 9.0	+ 8.0	+10.0
Retail prices (% change: Q4 on same quarter in previous year)	+11.9	+ 7.7	+ 7.8	+ 8.5
Effective exchange rate (December 1975=100 Average Q4 rates	89.7	88.9	84.8	83.2
Labour cost competitiveness (increase=worse competitiveness 1975=100 Q4 figures)	133.3	135.7	129.8	130.0
Current balance (£ billion)	7.1	2.0	0.4	2.5
GDP volume (% change on previous year)	- 2.2	1.0	2.0	2.1
GDP nominal (% change on previous year)	9.8	9.5	9.3	10.5
Unemployment (millions, excl school leavers)	2.5	2.9	3.1	3.2

Interest rates

World interest rates are now slightly lower through most of the forecast period than in the MTFS - largely because of lower than expected US rates over the last few months. In addition to this, the forecasters have been influenced by the authorities' desire to reduce rates quickly. With these two factors in mind, domestic interest rates have been set somewhat lower than in the post budget forecast. Even so, the growth of the monetary aggregates is slightly less fast in the present year than previously forecast largely reflecting the experience of recent months. In the later years, the narrow aggregates show some acceleration because of the interest rate fall but the growth in the wider aggregates continues to moderate. The assumed interest

rate path is set out below - with comparable post budget forecast figures in brackets.

	3 month interbank	3 month eurodollar	20 year gilt yields	TFE deflator
1982 Q1	14.4 (14.3)	15.0 (15.0)	14.6 (14.9)	9.3 (10.3)
Q2	13.4 (13.6)	15.0 (16.2)	13.7 (14.4)	8.2 (9.8)
Q3	12.0 (13.5)	16.0 (17.0)	13.1 (14.1)	7.6 (8.3)
Q4	12.0 (13.5)	16.0 (17.5)	12.9 (13.9)	6.6 (7.1)
1983 Q1	12.0 (13.5)	16.0 (17.0)	12.7 (13.8)	7.2 (7.1)
1983/84	10.9 (11.9)	13.6 (14.7)	11.8 (12.6)	8.1 (7.2)

Monetary aggregates

The HMT model equation for sterling M3 remains an unsatisfactory base for forecasting purposes and, as on other recent occasions, wider evidence has been used for the latest exercise. This includes a gilts equation and a new sterling M3 equation which incorporates the change in bank lending as an explanatory variable. The determinants of the demand for £M3 are set out below (post budget figures in brackets):

% changes	Real TFE	TFE deflator	Gross wealth	Short rates	£M3 growth
1982/83	2.3 (1.6)	7.2 (7.1)	13.4 (14.9)	12.0 (13.5)	10.1 (11.1)
1983/84	2.6 (3.0)	8.1 (7.2)	11.1 (11.7)	10.9 (11.9)	8.7 (8.9)

The growth of PSL2 is expected to be slower than that of sterling M3 at 9.7% in the current financial year, and 8.6% in 1983-84. Building society shares and deposits are expected to be somewhat higher than in the FSBR, largely because recent falls in discretionary savings (vis a vis the overall ratio) do not appear to have led to any slowing in the growth of shares and deposits. The fairly buoyant growth of the first few months is thus forecast to continue - although at a more modest rate after the summer, when some decline in rates is expected and when national savings sales are expected to be strong. Some 50% of the increase in shares and deposits is forecast to be in accounts such as term shares, classified outside PSL2 although this figure declines towards the end of the forecast period.

The new M1 equation used for the forecast relates to activity prices and interest rates and no longer gives an explicit role to financial

wealth. However, in view of the very slow growth of M1 in recent months, and because of the increasing proportion of interest bearing deposits within it, the average responsiveness of the aggregate to interest rates has been shaded down for the forecast period. On this basis, the forecast puts M1 growth in the current year at 9.9% at the centre of the target range. In each of the following two years, the growth is put at just over 12% as the effect of falling interest rates offsets the lower inflation impact.

Private sector cash holdings are forecast to rise by only 5.6% this year, rather less than in the post-budget forecast. In part, this reflects

the very slow growth of the monetary base in the recent past, as well as the IBRO survey results which suggest a sizeable shift in the means of payment of wages in the last few years. The forecasts for the various aggregates and the comparable FSBR figures (in brackets) are given below:

	% change in MO	% change in M1	% change in £M3	% change in PSL2
1981/82	+4.2 (3.9)	+ 7.1 (29.3)	+14.1 (15.5)	+11.1 (13.3)
1982/83	+5.7 (8.6)	+ 9.9 (10.8)	+10.1 (11.6)	+ 9.7 (9.2)
1983/84	+6.2 (9.9)	+12.4 (13.4)	+ 8.7 (9.2)	+ 8.6 (8.1)

Counterparts to monetary growth and the sectoral position

The usual counterparts to monetary growth are set out in the table below and show the extent to which the banking system finances the various sectors:

£ billion	1981/82	1982/83			1983/84
		H1	H2	Year	
PSBR	+ 8.6	+ 4.0	+ 5.2	+ 9.2	+ 8.4
Gilts	- 6.8	- 2.9	- 2.8	- 5.7	- 4.9
National Savings	- 4.3	- 0.9	- 1.9	- 2.8	- 1.6
Other debt	+ 0.0	-	- 0.4	- 0.4	- 0.5
Sterling lending to:					
companies	+ 7.0	+ 3.5	+ 2.2	+ 5.7	+ 4.3
persons	+ 7.3	+ 3.2	+ 3.1	+ 6.3	+ 5.7
other	+ 0.4	+ 0.4	+ 0.2	+ 0.5	+ 0.4
Externals	- 0.8	- 1.6	- 1.2	- 2.8	- 1.7
Net non deposit and residual	- 1.5	- 0.4	- 0.9	- 1.3	- 1.7
Sterling M3	+ 9.9	+ 5.3	+ 3.6	+ 8.9	+ 8.4
% change	+14.1			+10.1	+ 8.7

The public sector borrowing requirement is now put at £8.8 billion for the current financial year, or about 3.2% of GDP - slightly less than in the post-budget forecast. In the following year, 1983/84, the PSBR is expected to fall back to £8.4 billion, or 2.8% of GDP. The figures assume asset sales of some £0.7 billion in each year. For the current year, the PSBR is held down in addition by the final part of the recovery of taxes following the civil service strike in 1981-82: this accounts for about £1.5 billion.

Debt sales to the non-banks amount to £8.9 billion in 1982/83 and £7.0 billion in 1983/84. The national savings figures of £2.8 billion and £1.6 billion are by assumption, while the forecast of gilts is equation based. Of the total gilt sales to the non banks of £5.7 billion for the current year, some 75% are forecast to be purchased by life assurance and pension funds and other financial institutions, and the remainder by the personal sector.

Personal sector financial transactions have proved difficult to assess in the recent past, and, in the face of a squeeze on real incomes, persons have turned more to bank borrowing than historic experience would suggest. This would, however, be more consistent with US practice in recent years, where consumption appears to be maintained by bank borrowing in times of recession.

The background to personal sector financial transactions in the forecast remains much the same as in the post-budget exercise. RPDI falls slightly in 1982/83 and rises by a small amount in 1983/84. The savings ratio falls from 13.3 in 1981/82 to 12.2 in the current year and to 11.1 in 1983/84 - and the net acquisition of financial assets continues to decline, if more modestly than last year.

The rapid growth in bank lending to persons has, in large part, been associated with a change in the behaviour of the banking system; this is expected to continue, but at a less rapid rate. Lending for consumption is projected to show some slowdown as the current wage round and high nominal and real interest rates begin to have an effect. The broad profile of lending for house purchase in the post-budget NIF is little changed as the banks consolidate their market share. Lending to unincorporated businesses is expected to reflect

the behaviour of all companies - discussed in more detail below. The forecast of bank borrowing by persons is set out below:

£ bn

	Bank lending for house purchase		Bank lending for consumption		Unincorporated businesses		Total	
1981/2	+3.0		+2.0		+2.4		+7.3	
1982/3	+3.0	+47.5%	+1.6	+15.0%	+1.6	+14.0%	+6.3	+23.0%
1983/4	+2.7	+28.4%	+1.6	+13.0%	+1.4	+11.3%	+5.7	+16.9%

Transactions between the company sector and the banking system have also proved difficult to interpret in the recent past. In the post-budget forecast, the view was taken that bank borrowing would fall back from the very high levels - which could not be adequately explained - but, in the event, there has been little deceleration, at least until the last month or so. The high net borrowing requirement of recent quarters is only a partial explanation as companies have continued to maintain or improve their liquidity. The suggestion that the build up of company liquidity results from arbitrage is not seen as consistent with the available evidence, but the relative cheapness of bill finance and additional liquidity may have encouraged the holding of liquid assets.

Bank borrowing by companies is thus forecast to be slightly higher than in the post-budget forecast, although we still expect a deceleration in the remainder of the current financial year. This is based on the view that the company sector financial position is expected to improve and that a more normal borrowing relationship commensurate with needs is re-established. Even so, the forecast is for rather higher borrowing than past relationships would dictate and allows for some further improvement in gross liquidity as a proportion of turnover.

The way in which the company sector is financed is described below:

£ billion	1981/82	1982/83	1983/84
ICCs' financial deficit	0.1	1.2	0.8
Investment in securities	2.7	2.9	2.8
Accruals etc	-1.0	0.3	-1.1
Direct overseas investment	1.6	0.9	0.6
Other (including unidentified)	3.7	0.2	-0.3
Net borrowing requirement	7.1	5.5	2.7
Bank borrowing (including bills)	6.8	5.7	4.3
Other borrowing (including foreign currency bank borrowing)	3.1	0.7	0.2
Capital issues	1.8	2.1	2.3
Miscellaneous inward investments	1.0	0.3	0.0
Bank deposits (-)	-3.1	-2.1	-3.1
Other liquid assets (-)	-2.5	-1.1	-1.0
Total	7.1	5.5	2.7
Gross liquidity as a % of TFE	9.1	9.4	9.5
Net liquidity as a % of TFE	-7.6	-7.6	-7.1

External factors are expected to continue to have a contractionary effect on the wide monetary aggregates (at -£2.7 billion in 1982/83 and £-1.7 billion in 1983/84), resulting from the declining current account surplus in the current year and continued strong capital outflows. The outflows reflect the adverse interest rate differentials as well as continued post exchange control adjustments by UK residents in general and LAPFs in particular.

Overfunding and money market assistance

The forecast indicates full funding in the current year followed by underfunding in the following year of about £1 1/2 billion. These figures, taken together with the forecast of the note circulation and the change in reserves, suggest that money market assistance could increase modestly - perhaps by about £1/2 billion over the present financial year. In 1983/84, the forecast is for some fallback in the amount of assistance outstanding. The improved forecast for both years largely reflects the sizeable shift in the financing of local authorities from banks to the central government which has been assumed.

Overfunding

	(1) PSBR	(2) Gilts	(3) Nat Savings	(4) Other debt	(5) Overfunding(-)
1981/82	8.9	-6.7	-4.3	-0.1	-2.2
1982/83	8.8	-5.7	-2.8	-0.4	-
1983/84	8.4	-4.9	-1.6	-0.5	1.4

Assessment

There are several conclusions to be drawn from the record of financial forecasting in recent years. Firstly, the relationship between money and nominal incomes has tended to turn out quite differently from the forecasters' expectations. At least part of the shift appears to be associated with the banks own (as well as their customers') behaviour, following the ending of controls on the banks balance sheet in 1980 and the ending of exchange control in 1979. The erosion of longstanding practices and the number of forms of financial innovation in the years since then suggest that it would be unwise to place undue reliance on the forecasts of monetary aggregates. Not only have the wide aggregates been affected - as has been noted on a number of occasions in the last two years or so - but the narrow aggregates are also susceptible to such changes. Thus, the IBRO data on means of payment suggest rather low growth for the growth of notes in circulation, but the payment of interest on current accounts could lead to a more rapid growth in M1.

Associated with the above subject of financial innovation are the uncertainties on bank lending. These are twofold. The rapid encroachment of the banks in the traditional market of the building societies and the consequent ending of mortgage rationing raise questions about the housing market beyond the scope of the NIF. But the continuation of market penetration is likely to put further pressure on the wide aggregates as well as adding more uncertainty to the forecast. Lending to companies has also increased far more rapidly than past experience would dictate and, without any greater understanding of why this has happened, we could not put forward our present forecasts without the usual strong caveats on them being subject to wide margins of error.

Finally, the interest rate uncertainties should also be mentioned. The proposed declining path of interest rates is subject to both domestic and external constraints, which may become increasingly

evident. The path of US interest rates and general exchange rate vulnerability are well discussed aspects of external constraints which may put a brake on the decline in UK domestic short rates. Domestically the continued high demand for credit and the ramifications for both the general economy via, say, house prices, as well as the implied upward pressure on the monetary aggregates, may also constitute a further constraint on the authorities' freedom of manoeuvre within the remainder of this financial year.

Economics Division
25 June 1982

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FINAL PSBR/MTFS FORECAST

TABLE 2 SUMMARY

	1 GDP AT CONSTANT PRICES 1975=100	2 UK UNEMP NARROW ADJ(1)	3 CYC.PRIV EARNINGS % CHANGE OVER PREV.YR.	4 RPI % CHANGE OVER PREV. YEAR	5 PSBR(2)	6 PSBR(2) /NOMINAL GDP	7 CURRENT BALANCE	8 ICC'S NAFA	9 PERSONAL NAFA	10 EFFECTIVE EXCHANGE RATE	11 INTEREST RATES 3-MONTH INTER BANK	12 20-YEAR GILTS	13 SM3 % CHANGE OVER PREV. YEAR
1980	107.6	1647	22.1	18.0	12163	5.38	3133	-1786	17768	96.10	16.63	13.79	15.8
1981	105.2	2539	14.2	11.9	11225	4.52	7074	1383	15670	94.87	13.92	14.71	15.4
1982	106.3	2903	9.6	9.2	5189	1.91	1982	-1684	13667	89.92	12.93	13.61	12.0
1983	108.5	3095	8.3	7.6	9469	3.19	402	-615	12434	86.17	11.19	12.06	9.4
1984	110.7	3177	9.6	8.3	6615	2.01	2914	-937	12602	83.51	10.42	11.26	8.0
1985	113.0	3259	10.0	7.6	7832	2.17	601	-3235	14802	80.18	9.73	10.79	7.2
1980/81	106.4	1877	21.6	16.3	13197	5.70	5600	-362	19036	98.20	15.55	13.61	16.8
1981/82	105.3	2673	12.4	11.5	8875	3.49	5057	-179	14997	92.31	14.18	14.92	14.5
1982/83	106.8	2958	9.0	8.4	8845	3.18	1647	-1198	13140	89.19	12.34	13.12	11.2
1983/84	109.0	3130	8.4	7.6	8358	2.75	606	-784	12149	85.17	10.86	11.77	9.0
1984/85	111.3	3192	9.9	8.3	6768	2.01	2722	-687	12964	82.96	10.18	11.11	7.7
1985/86	113.4	3278	10.0	7.6	7368	1.99	58	-4331	15223	79.38	9.92	10.81	6.8
1980 QTR 1	110.3	1561	20.4	19.1	350	0.65	103	-437	3216	93.00	17.66	14.48	13.2
QTR 2	106.0	1493	23.6	21.5	3771	6.76	127	-983	4488	94.50	17.16	14.05	15.1
QTR 3	106.6	1719	24.2	16.4	4161	7.24	979	-573	4997	96.70	16.11	13.33	16.8
QTR 4	105.7	2015	20.3	15.3	3881	6.62	1924	207	5067	100.20	15.60	13.30	18.1
1981 QTR 1	105.2	2381	18.7	12.7	1324	2.32	2570	987	4484	101.40	13.33	13.78	17.1
QTR 2	104.6	2482	14.4	11.7	6409	10.49	2466	746	4181	97.80	12.47	14.18	15.8
QTR 3	105.3	2641	12.5	11.2	3110	4.93	681	287	3705	90.60	14.22	15.20	15.7
QTR 4	105.7	2751	11.3	11.9	322	0.50	1357	-637	3300	89.70	15.65	15.67	13.2
1982 QTR 1	105.5	2817	11.0	11.1	-966	-1.47	553	-575	3811	91.14	14.38	14.64	13.6
QTR 2	105.6	2877	9.8	9.4	1518	2.26	599	-953	3397	90.30	13.36	13.74	12.8
QTR 3	106.6	2957	9.0	8.9	2415	3.50	421	-77	3418	89.34	12.00	13.14	11.0
QTR 4	107.3	2963	8.7	7.7	2222	3.17	409	-79	3041	88.89	12.00	12.91	10.9
1983 QTR 1	107.3	3036	8.5	7.7	2690	3.76	218	-89	3284	88.23	12.00	12.66	10.1
QTR 2	108.1	3087	8.2	7.3	2451	3.34	122	-152	3262	86.02	11.00	12.09	9.6
QTR 3	109.0	3116	8.0	7.5	2473	3.22	8	-81	3107	85.61	11.00	11.88	9.7
QTR 4	109.5	3143	8.5	7.8	1895	2.47	54	-293	2781	84.81	10.75	11.63	8.2
1984 QTR 1	109.6	3176	9.0	7.9	1579	2.01	422	-258	2999	84.24	10.68	11.47	8.7
QTR 2	110.7	3165	9.5	8.3	2047	2.52	540	-528	3323	82.98	10.54	11.33	8.6
QTR 3	111.2	3184	10.0	8.5	1508	1.80	785	-54	3305	83.67	10.45	11.22	7.1
QTR 4	111.4	3181	10.0	8.5	1481	1.75	767	-97	2975	83.15	10.03	11.03	7.5
1985 QTR 1	111.9	3236	10.0	8.0	1732	1.99	630	-8	3361	82.02	9.71	10.86	7.5
QTR 2	112.3	3260	10.0	7.7	2498	2.78	33	-952	3927	80.00	9.50	10.74	7.1
QTR 3	113.4	3274	10.0	7.5	2225	2.42	-95	-951	3852	79.58	9.65	10.74	7.6
QTR 4	113.5	3267	10.0	7.4	1377	1.48	33	-1324	3662	79.12	10.05	10.82	6.7
1986 QTR 1	113.5	3310	10.0	7.8	1268	1.34	87	-1104	3782	78.83	10.50	10.93	5.9

FINAL FSBR/MTFS FORECAST

TABLE 72A MONETARY AGGREGATES - % CHANGE ON YEAR EARLIER

£ MILLION, SEASONALLY ADJUSTED, STOCK OUTSTANDING AT END-PERIOD

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	NOTES AND COIN	MO(1)	PRIVATE SECT £ DEPOSITS SIGHT	PRIVATE SECT £ DEPOSITS TIME	M1	M2	PRIVATE SECTOR £ CD'S	PUBLIC SECTOR £ DEPOSITS	£ M3	FOREIGN CURRENCY DEPOSITS	TOTAL M3		BUILDING SOCIETY DEPOSITS	PSL1	PSL2
1980 QTR 1	6.7	9.0	6.3	24.7	5.8	14.4	-12.6	-7.1	13.2	32.9	14.4		15.4	14.1	12.1
QTR 2	7.9	9.3	6.2	26.2	6.1	15.6	19.0	6.3	15.1	22.4	15.5		15.6	15.5	12.5
QTR 3	5.7	7.2	1.6	32.7	2.7	16.9	68.1	13.2	16.8	34.8	17.8		16.0	15.3	12.7
QTR 4	7.3	3.3	2.5	32.6	3.8	17.7	145.0	31.1	18.1	32.5	19.1		16.7	16.2	13.5
1981 QTR 1	6.2	6.1	9.7	26.1	8.2	17.1	70.3	36.9	17.1	56.5	19.9		17.4	14.4	13.5
QTR 2	5.9	5.5	12.6	21.2	9.6	15.6	84.1	33.5	15.8	96.8	21.1		17.6	12.9	13.5
QTR 3	6.7	4.6	14.7	21.6	11.4	16.9	22.9	15.7	15.7	120.5	22.9		16.4	14.1	13.9
QTR 4	3.1	5.8	12.1	18.4	8.3	13.8	11.9	2.9	13.2	76.0	17.9		14.1	11.5	11.3
1982 QTR 1	5.0	4.2	9.1	20.4	7.1	14.3	37.5	-13.7	13.6	42.5	16.2		13.6	13.1	11.1
QTR 2	6.0	5.7	5.3	20.2	5.3	13.4	-0.5	-11.1	12.8	20.2	13.5		13.5	12.0	9.9
QTR 3	5.7	7.4	7.9	13.9	6.8	10.7	13.7	-3.4	11.0	0.4	9.7		13.3	10.1	9.1
QTR 4	5.6	4.6	11.5	11.5	9.8	10.7	44.3	-10.8	10.9	18.0	11.6		14.1	10.7	10.3
1983 QTR 1	5.6	5.7	11.6	9.8	9.9	9.8	22.6	5.7	10.1	13.1	10.5		13.2	10.3	9.7
QTR 2	5.0	5.2	14.2	7.8	11.5	9.3	27.3	5.6	9.6	10.7	9.7		12.1	10.0	9.6
QTR 3	5.5	5.6	14.8	7.2	12.1	9.3	26.1	5.6	9.7	8.4	9.5		11.7	9.9	9.6
QTR 4	6.4	6.4	14.6	5.0	12.3	8.1	12.7	5.5	8.2	8.3	8.2		11.0	8.5	8.5
1984 QTR 1	6.1	6.2	14.8	5.8	12.4	8.6	15.0	5.4	8.7	7.5	8.6		10.8	8.8	8.6
QTR 2	5.5	5.7	14.7	5.8	12.2	8.6	11.8	5.3	8.6	7.2	8.4		10.7	8.6	8.5
QTR 3	5.4	5.6	14.9	3.4	12.3	7.3	0.9	5.3	7.1	7.1	7.1		10.6	7.1	7.6
QTR 4	5.3	5.5	14.8	4.0	12.2	7.7	4.1	5.2	7.5	5.0	7.3		10.7	7.6	8.0
1985 QTR 1	6.1	6.2	14.4	3.9	12.2	7.6	4.1	5.1	7.5	6.0	7.3		10.6	7.6	8.0
QTR 2	6.1	6.1	14.9	3.0	12.6	7.3	1.3	5.1	7.1	6.4	7.0		10.7	7.2	7.9
QTR 3	6.2	6.2	15.2	3.2	12.9	7.6	6.8	5.0	7.6	6.4	7.4		10.7	7.5	8.2
QTR 4	5.9	5.9	14.4	2.2	12.3	6.9	2.3	4.9	6.7	7.4	6.8		10.6	6.7	7.7
1986 QTR 1	5.2	5.3	12.9	1.9	11.0	6.1	-2.8	4.9	5.9	7.3	6.0		10.3	5.7	7.1

COL 3 = COLS 1+2, COL 6 = COLS 4+5, COL 9 = COLS 6+7+8, COL 11 = COLS 9+10

(1) BROADLY DEFINED MONETARY BASE

PROPORTION OF THE YEAR AGO LEVEL OF £M3.

FINAL FSBR/MTFS FORECAST

TABLE 73 MONEY SUPPLY COUNTERPARTS TABLE

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
		SALES OF PUB. SECTOR DEBT TO NON BANKS			BANK LENDING								VELOCITY OF £M3			
	PSBR	GILTS	NATSAV	OTHER	PRIV. SECTOR	DOM C.PARTS	NET EXTE-RNALS	NON -DEP LIABS	RES.	INCR. IN £M3	GDP BASED	GNP BASED	%CHG GDP BASED	%CHG GNP BASED	M1 VELO-CITY	%CHG
1980	12210	7428	1229	660	10025	12918	-560	1361	651	11648	3.19	3.68	0.76	1.17	7.03	11.62
1981	10641	7559	4189	-753	11063	10710	222	1604	691	10019	3.04	3.46	-4.80	-6.23	7.06	0.43
1982	5681	5762	3142	-208	15267	12252	-2921	1779	1847	9399	2.97	3.37	-2.28	-2.41	7.20	2.06
1983	9519	5300	2290	635	10129	11423	-1865	1720	1	7839	2.97	3.36	-0.07	-0.27	7.06	-1.92
1984	6665	7613	1403	436	9424	10637	-1094	1760	2	7785	3.03	3.44	2.35	2.26	6.95	-1.57
1985	7832	4352	1680	249	9901	11502	-2198	1840	-2	7462	3.11	3.52	2.64	2.38	6.80	-2.18
1980/81	12995	8267	2093	307	8932	11260	720	1127	404	11257	3.14	3.62	-2.67	-2.55	7.05	8.06
1981/82	8644	6675	4283	-328	14374	12388	-2013	1736	1846	10485	3.01	3.41	-4.11	-5.95	7.10	0.68
1982/83	9231	5717	2750	359	12469	12874	-2775	1814	589.8	8874	2.96	3.36	-1.76	-1.36	7.19	1.17
1983/84	8408	4885	1640	457	10387	11813	-1673	1700	1	8441	2.97	3.37	0.46	0.35	7.02	-2.25
1984/85	6818	7605	1453	421	9462	10801	-1156	1780	-1	7864	3.06	3.46	2.78	2.59	6.93	-1.39
1985/86	7418	4549	1722	87	9908	10968	-2480	1860	0	6628	3.14	3.54	2.72	2.35	6.78	-2.18
1980 QTR 1	502	1793	419	-301	3155	1746	105	517	351	1685	3.29	3.81	8.34	8.86	6.87	15.93
QTR 2	3596	1644	176	357	2428	3647	-393	260	440	3434	3.22	3.77	2.01	3.86	6.94	10.62
QTR 3	4144	2236	202	352	2696	4050	-641	331	-3	3075	3.17	3.62	-1.31	-2.43	7.17	12.17
QTR 4	3968	1555	432	252	1746	3475	369	253	-137	3454	3.09	3.54	-4.69	-5.09	7.12	8.45
1981 QTR 1	1287	2632	1283	-654	2062	88	1385	283	104	1294	3.09	3.57	-6.02	-6.30	6.99	1.73
QTR 2	6079	2097	1352	350	797	3077	-109	466	660	3162	3.04	3.46	-5.56	-8.33	6.93	-0.19
QTR 3	3007	905	873	-415	3059	4903	-683	618	-162	3440	3.01	3.39	-5.07	-6.32	7.07	-1.44
QTR 4	268	1925	880	-34	5145	2642	-371	237	89	2123	3.01	3.40	-2.74	-3.85	7.23	1.64
1982 QTR 1	-710	1748	1378	-229	5373	1766	-850	415	1259	1760	2.99	3.39	-3.18	-5.16	7.17	2.66
QTR 2	1567	1360	314	-136	3915	3944	-1233	464	673	2920	2.97	3.39	-2.37	-1.89	7.24	4.51
QTR 3	2441	1491	550	141	3096	3355	-392	450	-85	2428	2.97	3.37	-1.33	-0.53	7.25	2.57
QTR 4	2333	1163	900	16	2683	3187	-446	450	0	2291	2.94	3.34	-2.33	-1.91	7.14	-1.29
1983 QTR 1	2840	1703	936	338	2575	2388	-704	450	1	1235	2.96	3.35	-1.04	-1.09	7.12	-0.80
QTR 2	2501	1101	438	125	2468	3195	-39	420	0	2736	2.96	3.37	-0.39	-0.69	7.09	-2.07
QTR 3	2333	1147	452	63	3176	3847	-687	420	0	2740	2.97	3.37	-0.19	0.04	7.08	-2.34
QTR 4	1845	1349	364	49	1910	1993	-435	430	0	1128	2.97	3.36	1.28	0.67	6.97	-2.39
1984 QTR 1	1729	1298	336	160	2833	2778	-512	430	1	1837	2.99	3.40	1.09	1.40	6.96	-2.18
QTR 2	2097	1069	374	101	2578	3131	145	440	1	2837	3.01	3.43	1.91	1.90	7.00	-1.33
QTR 3	1406	755	387	89	2129	2306	-460	440	0	1406	3.07	3.47	3.43	2.71	6.99	-1.37
QTR 4	1431	371	306	86	1884	2422	-267	450	0	1705	3.06	3.46	2.89	3.03	6.87	-1.42
1985 QTR 1	1292	1230	386	145	2871	2942	-574	450	-2	1916	3.08	3.49	2.88	2.72	6.86	-1.46
QTR 2	2543	1163	443	78	2290	3154	-41	460	1	2654	3.11	3.52	3.10	2.70	6.86	-1.94
QTR 3	2128	975	435	12	2673	3376	-920	460	0	1996	3.13	3.54	2.02	2.04	6.79	-2.76
QTR 4	1327	934	416	14	2067	2030	-663	470	-1	896	3.14	3.53	2.59	2.05	6.70	-2.49
1986 QTR 1	1418	1477	428	-17	2873	2408	-856	470	0	1083	3.18	3.58	3.18	2.58	6.75	-1.5[illegible]

TABLE 74 U.K. INTEREST RATES

	1	2	3	4	5	6	7	8	9	10	11	12	13
	TREAS .UPY BILLS	BUILDING SHARES (GROSS)	SOCIETY SHARES (NET)	RATES MORTG -AGES	MLR	BANKS DEP RATE	BASE RATE	LENDING TO PERSONS RATE	3 MONTH INTER -BANK	20 YEAR GILTS	YIELD GAP (COL 10 -COL 9)	EXPECT. CAPITAL GAINS	POST TAX YIELD ON GILTS REL TO SM3
1980	15.28	15.00	10.50	14.94	16.31	14.29	16.31	19.81	16.63	13.79	-2.84	14.00	19.13
1981	13.46	12.41	8.69	13.58	13.20	10.71	13.26	16.76	13.92	14.71	0.79	2.50	9.85
1982	12.56	12.41	8.69	13.37	12.64	9.60	12.66	16.17	12.93	13.61	0.67	13.60	20.34
1983	10.89	10.77	7.54	11.83	11.10	7.69	11.19	14.69	11.19	12.06	0.88	20.75	27.15
1984	10.12	10.12	7.08	11.16	10.38	6.92	10.42	13.92	10.42	11.26	0.84	18.90	25.04
1985	9.43	9.29	6.50	10.38	9.71	6.23	9.73	13.23	9.73	10.79	1.06	19.00	25.17
1980/81	14.25	14.46	10.12	14.69	15.44	13.30	15.44	18.94	15.55	13.61	-1.93	9.00	14.35
1981/82	13.79	12.68	8.87	13.74	13.27	10.78	13.32	16.83	14.18	14.92	0.74	6.25	13.65
1982/83	12.00	11.79	8.25	12.83	12.16	8.89	12.22	15.72	12.34	13.12	0.78	16.54	23.20
1983/84	10.56	10.49	7.34	11.54	10.79	7.36	10.86	14.36	10.86	11.77	0.91	19.88	26.19
1984/85	9.88	9.94	6.96	10.99	10.14	6.68	10.18	13.68	10.18	11.11	0.93	18.16	24.31
1985/86	9.62	9.27	6.49	10.36	9.90	6.42	9.92	13.42	9.92	10.81	0.89	20.65	26.75
1980 QTR 1	16.72	15.00	10.50	15.00	17.00	15.00	17.00	20.50	17.66	14.48	-3.18	20.00	25.67
QTR 2	16.64	15.00	10.50	15.00	17.00	15.00	17.00	20.50	17.16	14.05	-3.11	20.00	25.12
QTR 3	14.54	15.00	10.50	15.00	16.00	14.05	16.04	19.54	16.11	13.33	-2.78	10.00	14.67
QTR 4	13.23	15.00	10.50	14.77	15.23	13.12	15.21	18.71	15.60	13.30	-2.30	6.00	11.04
1981 QTR 1	12.58	12.86	9.00	14.00	13.54	11.05	13.52	17.02	13.33	13.78	0.45	0.00	6.58
QTR 2	11.94	11.79	8.25	13.00	12.00	9.00	12.00	15.50	12.47	14.18	1.71	0.00	7.88
QTR 3	14.00	11.79	8.25	13.00	12.33	9.39	12.34	15.84	14.22	15.20	0.98	0.00	8.32
QTR 4	15.32	13.21	9.25	14.33	14.95	13.42	15.19	18.69	15.65	15.67	0.02	10.00	16.62
1982 QTR 1	13.91	13.93	9.75	14.65	13.80	11.33	13.77	17.30	14.38	14.64	0.26	15.00	21.76
QTR 2	12.92	12.50	8.75	13.50	13.02	10.08	12.88	16.38	13.36	13.74	0.38	15.00	21.59
QTR 3	11.70	11.79	8.25	12.83	11.87	8.50	12.00	15.50	12.00	13.14	1.14	9.92	16.81
QTR 4	11.70	11.43	8.00	12.50	11.87	8.50	12.00	15.50	12.00	12.91	0.91	14.49	21.17
1983 QTR 1	11.70	11.43	8.00	12.50	11.87	8.50	12.00	15.50	12.00	12.66	0.66	26.75	33.24
QTR 2	10.70	10.76	7.53	11.83	10.92	7.50	11.00	14.50	11.00	12.09	1.09	20.43	26.94
QTR 3	10.70	10.43	7.30	11.50	10.92	7.50	11.00	14.50	11.00	11.88	0.88	16.16	22.47
QTR 4	10.45	10.46	7.32	11.47	10.68	7.25	10.75	14.25	10.75	11.63	0.88	19.68	25.94
1984 QTR 1	10.38	10.32	7.22	11.34	10.62	7.18	10.68	14.18	10.68	11.47	0.79	23.25	29.42
QTR 2	10.24	10.18	7.13	11.21	10.49	7.04	10.54	14.04	10.54	11.33	0.79	18.65	24.77
QTR 3	10.15	10.07	7.05	11.11	10.40	6.95	10.45	13.95	10.45	11.22	0.77	13.71	19.82
QTR 4	9.73	9.90	6.93	10.95	10.00	6.53	10.03	13.53	10.03	11.03	1.00	19.99	26.17
1985 QTR 1	9.41	9.60	6.72	10.67	9.69	6.21	9.71	13.21	9.71	10.86	1.15	20.27	26.48
QTR 2	9.20	9.27	6.49	10.36	9.49	6.00	9.50	13.00	9.50	10.74	1.24	14.86	21.09
QTR 3	9.35	9.10	6.37	10.20	9.64	6.15	9.65	13.15	9.65	10.74	1.09	16.52	22.69
QTR 4	9.73	9.19	6.43	10.29	10.02	6.55	10.05	13.55	10.05	10.82	0.77	24.36	30.43
1986 QTR 1	10.20	9.53	6.67	10.60	10.45	7.00	10.50	14.00	10.50	10.93	0.43	26.84	32.78

TABLE 75 OVERSEAS INTEREST RATES AND INTEREST RATE DIFFERENTIALS

	1	2	3	4	5	6	7	8	9
					UNCOVERED DIFFERENTIALS				
	3 MONTH EURO-DOLLAR	US TREASURY BILLS	EURO-BONDS	WORLD BASKET SHORT RATE	UK 3 MTH EURO-DOLLAR	UK GILT EURO-BOND	UK 3 MTH WLD BSKT SHT RATE	COST OF FORWARD COVER	COVERED DIFFERENTIAL (AGAINST WORLD BASKET)
1980	14.06	11.61	11.94	12.31	2.57	1.85	4.32	4.32	-0.00
1981	16.82	14.08	14.17	13.91	-2.90	0.54	0.01	0.01	-0.00
1982	15.50	13.20	14.70	12.96	-2.57	-1.09	-0.03	-0.03	-0.00
1983	14.50	12.50	14.25	11.27	-3.31	-2.19	-0.09	-0.09	-0.00
1984	11.75	9.75	12.80	9.77	-1.33	-1.54	0.65	0.65	-0.00
1985	11.75	9.75	12.85	9.75	-2.02	-2.06	-0.02	-0.02	-0.00
1980/81	14.01	11.84	12.19	12.35	1.54	1.42	3.19	3.20	-0.00
1981/82	16.35	13.71	14.61	13.85	-2.17	0.31	0.33	0.33	-0.00
1982/83	15.75	13.47	14.71	12.85	-3.41	-1.60	-0.51	-0.51	-0.00
1983/84	13.62	11.62	13.80	10.65	-2.77	-2.03	0.21	0.21	-0.00
1984/85	11.45	9.45	12.62	9.67	-1.27	-1.52	0.51	0.51	-0.00
1985/86	12.05	10.05	13.10	9.85	-2.12	-2.29	0.07	0.08	-0.00
1980 QTR 1	17.11	13.46	12.14	13.00	0.55	2.34	4.66	4.66	-0.00
QTR 2	11.83	10.05	11.20	12.14	5.33	2.85	5.02	5.02	0.00
QTR 3	10.77	9.24	11.58	11.13	5.34	1.75	4.98	4.98	0.00
QTR 4	16.55	15.71	12.83	12.97	-0.95	0.47	2.63	2.63	0.00
1981 QTR 1	16.90	14.37	13.16	13.18	-3.57	0.62	0.15	0.15	-0.00
QTR 2	17.69	14.83	13.99	14.55	-5.22	0.20	-2.08	-2.08	-0.00
QTR 3	18.32	15.09	14.92	15.02	-4.16	0.28	-0.80	-0.80	-0.00
QTR 4	14.32	12.02	14.62	12.88	1.33	1.05	2.77	2.77	-0.00
1982 QTR 1	15.01	12.92	14.94	12.95	-0.63	-0.30	1.43	1.43	0.00
QTR 2	15.00	12.39	14.35	12.70	-1.64	-0.61	0.66	0.66	0.00
QTR 3	16.00	13.50	14.50	13.30	-4.00	-1.36	-1.30	-1.30	0.00
QTR 4	16.00	14.00	15.00	12.90	-4.00	-2.09	-0.90	-0.90	-0.00
1983 QTR 1	16.00	14.00	15.00	12.50	-4.00	-2.34	-0.50	-0.50	-0.00
QTR 2	15.00	13.00	14.50	11.60	-4.00	-2.41	-0.60	-0.60	0.00
QTR 3	14.00	12.00	14.00	10.80	-3.00	-2.12	0.20	0.20	0.00
QTR 4	13.00	11.00	13.50	10.20	-2.25	-1.87	0.55	0.55	-0.00
1984 QTR 1	12.50	10.50	13.20	10.00	-1.82	-1.73	0.68	0.68	-0.00
QTR 2	12.00	10.00	13.00	9.90	-1.46	-1.67	0.64	0.64	-0.00
QTR 3	11.50	9.50	12.50	9.70	-1.05	-1.28	0.75	0.75	-0.00
QTR 4	11.00	9.00	12.50	9.50	-0.97	-1.47	0.53	0.53	-0.00
1985 QTR 1	11.30	9.30	12.50	9.60	-1.59	-1.64	0.11	0.11	0.00
QTR 2	11.60	9.60	12.70	9.70	-2.10	-1.96	-0.20	-0.20	-0.00
QTR 3	11.90	9.90	13.00	9.80	-2.25	-2.26	-0.15	-0.15	0.00
QTR 4	12.20	10.20	13.20	9.90	-2.15	-2.38	0.15	0.15	-0.00
1986 QTR 1	12.50	10.50	13.50	10.00	-2.00	-2.57	0.50	0.50	0.00

MATRIX MODEL....HEAT 36 RUN 23/06/82 22.58.10

FINANCIAL MATRIX . 1982/83 .

	CENTRAL GOVERNMENT	LOCAL AUTHS	PUBLIC CORPS	OVERSEAS	PERSONS	I & C COMPANIES	BANKS	OTHER FIS	UNALL-OCATED
CAPITAL ACCOUNT									
1. SAVING	-2816	3117	5818	-1646	23124	19136	0	5885	
2. CAPITAL TRANSFERS	-1424	-35	746	0	378	684	0	-349	
3. FIXED INVESTMENT	2225	2536	8126	0	9861	16603	0	6745	
4. STOCKBUILDING	336	0	536	0	504	4414	0	0	
5. SURPLUS/DEFICIT	-6801	546	-2098	-1646	13137	-1198	1466	-2674	-731
FINANCIAL TRANSACTIONS									
6. ACCRUALS ADJUSTMENT	-851	2	-12	0	156	366	0	339	
7. GOVERNMENT LENDING	4248	-706	-3223	125	-20	-424	0	0	
8. PC LENDING	0	0	265	-171	0	-94	0	0	
9. PC TRADE CREDIT	0	0	30	0	-129	100	0	0	
10. RETAIL CREDIT	0	0	0	0	-133	133	0	0	
11. LOANS FOR HOUSES	0	559	39	0	-7507	0	0	6909	
12. OTHER OFI LOANS	0	0	0	0	-100	-53	0	153	
13. BANK LENDING FC	0	0	0	498	-79	-516	217	-111	
14. BANK LENDING $	0	0	0	-2263	-6263	-5661	14731	-544	
15. LAPFS	-40	0	0	0	13707	0	0	-13667	
16. UNIT TRUSTS	0	0	0	0	42	0	0	-42	
17. CAPITAL ISSUES	0	0	0	0	0	-2100	-448	-250	
18. UK COMPANY SECURITIES	-705	0	57	1294	-2300	1138	100	3214	
19. OVERSEAS SECURITIES	0	0	0	-7105	0	1801	1000	4304	
20. OUTWARD DIRECT	0	0	0	-3554	0	3404	0	150	
21. INWARD DIRECT	0	0	0	3362	0	-3327	0	-38	
22. OFI DEPOSITS	0	0	0	0	7788	0	0	-7788	
23. BANK DEPOSITS FC	0	0	0	0	200	838	-1388	350	
24. BANK DEPOSITS $ SIGHT	0	0	0	0	0	0	0	0	
25. BANK DEPOSITS OTHER	0	0	0	3497	3951	2131	-11676	2104	
26. SUBTOTAL	2652	-146	-2844	-4317	9313	-2274	2536	-4927	
27. UI	499	641	76	1412	-260	687	0	-2324	-731
28. PSBR	-9952	50	670	1259	4084	389	-1070	4577	
29. NOTES AND COIN	-598	0	0	0	539	60	0	0	
30. MARKET TREASURY BILLS	-64	0	0	48	0	0	0	16	
31. BGS INDEXED	-2000	0	0	261	720	0	0	1019	
32. BGS OTHER	-4150	0	0	461	150	59	0	3480	
33. NATIONAL SAVINGS	-2750	0	0	0	2695	30	0	35	
34. OTHER CG DEBT	-294	0	0	0	0	252	0	42	
35. DIRECT BORROWING	-17	0	0	17	0	0	0	0	
36. RESERVES	-283	0	0	283	0	0	0	0	
37. LATD	0	-153	0	139	-10	-12	0	-15	
38. PSBR FINANCE	-10156	-153	0	0	0	0	0	0	
39. BANK LENDING TO PS	204	203	670	0	0	0	-1070	0	

CHANGE IN $M3	=	3777
NET EXTERNAL	=	-2664
LIQUID ASSETS OF PERSONS	=	16046
LIQUID ASSETS OF ICCS	=	3760

FINANCIAL MATRIX - 1983/84 -

	CENTRAL GOVERNMENT	LOCAL AUTHS	PUBLIC CORPS	OVERSEAS	PERSONS	I & C COMPANIES	BANKS	OTHER FIS	UNALL-OCATED
CAPITAL ACCOUNT									
1. SAVING	-3708	3410	6430	-607	22952	23687	0	5413	
2. CAPITAL TRANSFERS	-1630	124	802	0	352	586	0	-234	
3. FIXED INVESTMENT	2348	3059	9052	0	10440	19367	0	7690	
4. STOCKBUILDING	383	0	655	0	716	5691	0	0	
5. SURPLUS/DEFICIT	-5482	475	-2475	-607	12148	-784	1449	-3960	-764
FINANCIAL TRANSACTIONS									
6. ACCRUALS ADJUSTMENT	954	-105	-89	0	-193	-959	0	392	
7. GOVERNMENT LENDING	4846	-1826	-2920	28	-20	-108	0	0	
8. PC LENDING	0	0	154	-147	0	-7	0	0	
9. PC TRADE CREDIT	0	0	104	0	-103	0	0	0	
10. RETAIL CREDIT	0	0	0	0	-278	278	0	0	
11. LOANS FOR HOUSES	0	365	-75	0	-6785	0	0	6496	
12. OTHER OFI LOANS	0	0	0	0	-100	-58	0	158	
13. BANK LENDING FC	0	0	0	219	-128	-530	659	-220	
14. BANK LENDING $	0	0	0	-2606	-5674	-4320	12993	-393	
15. LAPFS	-40	0	0	0	14281	0	0	-14241	
16. UNIT TRUSTS	0	0	0	0	49	0	0	-49	
17. CAPITAL ISSUES	0	0	0	0	0	-2300	-251	-200	
18. UK COMPANY SECURITIES	-735	0	11	1393	-2800	1207	0	3676	
19. OVERSEAS SECURITIES	0	0	0	-7598	266	1609	1369	4354	
20. OUTWARD DIRECT	0	0	0	-3600	0	3450	0	150	
21. INWARD DIRECT	0	0	0	3865	0	-3839	0	-26	
22. OFI DEPOSITS	0	0	0	0	7246	0	0	-7246	
23. BANK DEPOSITS FC	0	0	0	0	245	281	-1041	515	
24. BANK DEPOSITS $ SIGHT	0	0	0	0	0	0	0	0	
25. BANK DEPOSITS OTHER	0	0	0	3729	2729	3144	-11477	1873	
26. SUBTOTAL	5025	-1566	-2815	-4717	8735	-2152	2252	-4761	
27. UI	-79	641	20	2574	266	621	0	-2980	-764
28. PSBR	-10 28	1400	320	1536	3147	747	-803	3781	
29. NOTES AND COIN	-694	0	0	0	625	69	0	0	
30. MARKET TREASURY BILLS	-558	0	0	518	0	0	0	40	
31. BGS INDEXED	-1900	0	0	394	760	0	0	746	
32. BGS OTHER	-3772	0	0	394	132	247	0	2999	
33. NATIONAL SAVINGS	-1639	0	0	0	1639	0	0	0	
34. OTHER CG DEBT	-598	0	0	0	0	453	0	145	
35. DIRECT BORROWING	-72	0	0	72	0	0	0	0	
36. RESERVES	72	0	0	-72	0	0	0	0	
37. LAID	0	-50	0	230	-9	-22	0	-149	
38. PSBR FINANCE	-1161	-50	0	0	0	0	0	0	
39. BANK LENDING TO PS	-967	1450	320	0	0	0	-803	0	

CHANGE IN SM3 = 8. 1
NET EXTERNAL = -1
LIQUID ASSETS OF PERSONS = 13160
LIQUID ASSETS OF ICCS = 5028