

PO - CH/NL/0175

PART A

Part A.

SECRET

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begins: 30/6/87.

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PO -CH /NL/0175



PART A

Chancellor's (Lawson) Papers:

MONTHLY MONETARY
ASSESSMENTS

Disposal Direction: 25 years

6/9/95

PO -CH /NL/0175

PART A

SECRET

From: SIR PETER MIDDLETON

Date: 30 June 1987

CHANCELLOR

cc Financial Secretary
 Economic Secretary
 Sir T Burns
 Sir G Littler
 Mr Cassell

Mr E George - Bank of
 England

Ch
For discussion of the
strategy and
to be discussed at

Plan.
Noted.
MS.

MONTHLY MONETARY ASSESSMENT

I have sent forward our usual monthly assessment of monetary conditions. The discussion at my meeting with the Bank of England this month touched on some important issues, and I am giving this note a more restricted distribution.

2. We have recognised for some time that we would need to take stock of policy after the Election. We were concerned two months ago that we might have moved to a combination of exchange rate and interest rates which was delivering monetary conditions that were becoming too loose. It is difficult now to avoid the conclusion that the present stance of monetary policy is unlikely to deliver a declining path for inflation - and certainly not the manifesto commitment to zero inflation.

3. This raises the fundamental issue of what our objectives are for money GDP and inflation and what is the timescale in which they are set. You will wish to consider this further against the background of the forecast, and Sir T Burns' assessment.

4. But there is also a risk which is by no means negligible that inflation could drift upwards. I hope that whatever the answer to the first question we can take any opportunity which arises to minimise this risk.

SECRET

5. If the exchange rate were to come under significant downward pressure this points to resisting. First, through intervention, which would also help to tighten domestic conditions by draining some liquidity out of the system. At the same time we might look for a rise in short-term interest rates. This is the easier scenario.

6. Equally, if the exchange rate comes under sustained upward pressure, I hope it would be possible to allow some further appreciation, especially if this is necessary to avoid a further fall in interest rates.

7. Perhaps the most difficult scenario is what we should do if there is no strong pressure either way on the exchange rate, but there is continued evidence that monetary conditions should be tightened. Here you will have to balance the dangers of moving too late with the urgency you feel about making progress on your medium term objectives, which brings us back to the fundamental question in paragraph 3.

8. Funding is also important, and there will be an opportunity to discuss this on the basis of a paper which we have been considering with the Bank and which will be with Ministers shortly.



PP P E MIDDLETON



FROM: A C S ALLAN
DATE: 6 August 1987

MR PERETZ

cc: PS/EST
Sir P Middleton
Mr Cassell
Mr C W Kelly
Mr Grice

MO

At this morning's meeting, the Chancellor promised the Prime Minister a brief note on what determines the level of and the fluctuations in bankers balances at the Bank of England. He would be grateful for a draft.

ACSA

A C S ALLAN

SECRET AND PERSONAL

FROM: P H BROOK

DATE: 11 August 1987

CHANCELLOR-

cc Economic Secretary
 Sir P Middleton
 Sir T Burns o/r
 Mr Cassell
 Mr Peretz o/r
 Mr Grice o/r
 Mr Pike
 Mr Richardson

*Thanks. For the
 see a breakdown of X
 (Bank 1-2) for 6
 July 2 for 10:10 re
 make 6 for 10:10 re
 who is doing
 January*

MONEY SUPPLY IN JULY: "FIRST GUESS"

All figures are unadjusted unless specified otherwise)

This note summarises the Bank's "first guess" at M0 and M3 figures for July. As usual at this stage M3 figures may be subject to significant revision.

Table 1: Monetary Aggregates (per cent)

	M0 ¹	M3 ¹
Annual growth rate	5.3 (5.4)	20.1 - 21.1
Change in month	2.8 (1.2)	2.3 (2.1) ²
Target range	2 - 6	-

¹ Figures in brackets seasonally adjusted

² In 8 of the last 9 months the actual outturn has been within 0.4 per cent of the estimate based on the "first guess".

Special Factors

2. The recent spate of heavily oversubscribed share sales affected the banks' balance sheets at both the beginning and the end of July. At end-June the Caradon sale was in progress with £1.3 billion subscribed for £34 million worth of shares. The oversubscribed BAA sale took place in mid-July, but unsuccessful subscribers' cheques were not presented. Return cheques to partially successful subscribers were posted on 27 July, and many of these would have been presented by end-July. At end-July, bankers to the sale held some £0.5 billion of returnable suspense account monies (including

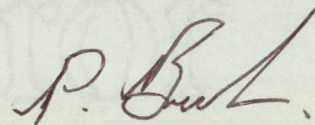
funds to meet return cheques which had been presented but not cleared). The Bank report that it is impossible to quantify the net effect, if any, on the change in M3 in July arising from these sales. They presume, however, that any effect is likely to be small.

M3 components and counterparts

3. Table 2 (attached) compares the "first guess" at changes in M3 components in July with the average monthly change over the previous 12 months. Table 3 (attached) provides a similar comparison for M3 counterparts.

Timetable

4. We expect to receive provisional July figures on Wednesday 19 August. They will be published on Thursday 20 August. Full money and banking figures for July will appear on Tuesday 1 September.



P H BROOK

cc: Mr Norgrove - No 10

TABLE 2: M3 COMPONENTS - JULY 1987

"First Guess" compared with average monthly change in the previous year.

		£ millions
	First Guess	Average monthly change in year to June
Notes and coins in circulation	736	41
Non-interest bearing sight	- 357	400
Interest bearing sight	988	933
Time deposits (including (CDs)	2074	876
	<hr/>	<hr/>
Change in £M3	3441	2250
	<hr/>	<hr/>

SECRET AND PERSONAL

TABLE 3 : M3 COUNTERPARTS - JULY 1987

"First guess compared with average monthly change in the previous year

£ millions

	First Guess	Average change in year to June
CGBR (O) (ex bank deposits)	-292	261
Other public sector:		
LABR)		
PCBR)	-21	84
OPS debt sales)		
Modified PSBR*	-313	345
CG debt: Gilts	776	-165
Treasury bills	7	-28
National Savings	-176	-276
CTD's etc.	86	108
Total CG debt sales (-)	693	-361
External and fc finance of public sector (-)	-812	111
Wide over(-)/under(+)funding	-432	96
X Sterling lending to nbps (incl Issue Dept commercial bills)	3562 #	2733
Net private externals **)	311	-579
Residual (includes NNDLS ** and reporting differences))		
Change in M3	3441	2250
(Monthly percentage change)	(2.3%)	(1.5%)
(12 month percentage change)	(20.6%)	(18.6%)

* Modified PSBR equals PSBR less OPS debt sales

** For the "first guess", Private Externals and NNDLS cannot be separately identified

£3858 million after seasonal adjustment. Evidence of the last 9 months suggest that the likely outturn will be in the range £4.6 - 5.6 billion.

SECRET AND PERSONAL



FROM: J M G TAYLOR
DATE: 12 AUGUST 1987

MR P H BROOK

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz - o/r
Mr Grice - o/r
Mr Pike
Mr Richardson

MONEY SUPPLY IN JULY: FIRST GUESS

The Chancellor was grateful for your minute of 11 August.

2. He has asked for a breakdown of the sterling lending to nbps figures, both for July and for the 6 months to July. This should show, in particular, who is doing the borrowing. I should be most grateful for a short note.

A handwritten signature in dark ink, appearing to be 'JMG' or similar initials.

J M G TAYLOR

SECRET AND PERSONAL

FROM: P H BROOK

DATE: 12 August 1987

CHANCELLOR

cc Economic Secretary
 Sir P Middleton
 Sir T Burns o/r
 Mr Cassell
 Mr Peretz o/r
 Mr Grice o/r
 Mr Pike
 Mr Richardson
 Ms Bronk

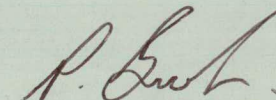
STERLING LENDING TO THE NON-BANK PRIVATE SECTOR

Your private secretary requested a sectoral breakdown of the bank lending figures reported in Table 3 of my minute of 11 August on the "first guess" at the money supply figures for July.

2. The "first guess" at bank lending has not been very accurate and does not include any estimate of sectoral breakdown. A breakdown of actual lending in July will be produced as part of the Bank's quarterly analysis of bank lending for 1987 Q3. This will not be available until around the end of October.

3. The Bank's analysis of lending broken down by lending to the personal sector, financial institutions, unincorporated businesses and industrial and commercial companies for 1987 Q1 and Q2 is given in Table 1 at Annex.

4. In addition to the Bank's quarterly analysis, the CLSB produces a monthly breakdown of advances by their members ^{mainly} to the private sector. This is summarised in a CLSB press statement released on the same day each month as the Bank publish provisional money supply figures. Table 2 at Annex provides a monthly breakdown of CLSB lending over the first six months of 1987. The CLSB analysis is not directly comparable with the Bank's because it excludes lending via certain instruments and it includes some lending to the public sector, for example, to nationalised industries. Q1 lending by members of the CLSB was equivalent to about 60 per cent of total bank lending compared with about 90 per cent in Q2.



P H BROOK

Notes:
 P.H. Brook
 advised for Q2
 'technical' on installation
 it had also to help
 thank to Q3
 on 8/24
 under the
 Oct.
 (if available possible)

do you still have page?

TABLE 1

QUARTERLY ANALYSIS OF STERLING LENDING TO PRIVATE SECTOR

£ million

	1987 Q1	1987 Q2
<u>TOTAL CHANGE</u>	<u>7353</u>	<u>8095*</u>
(PERCENTAGE CHANGE)	(4.3%)	(4.6%)
OF WHICH PERSONS:		
FOR HOUSE PURCHASE	1405	2426
FOR CONSUMPTION	561	1694
FINANCIAL INSTITUTIONS	2960	2916
UNINCORPORATED BUSINESSES	1376	493
INDUSTRIAL AND COMMERCIAL COMPANIES	1051	566*
	<u>7353</u>	<u>8095</u>

* May be understated for technical reasons connected with oversubscribed share sales in 1987 Q2.

TABLE 2

CLSB MONTHLY ANALYSIS OF STERLING LENDING TO UK RESIDENTS*

	1987							
	JAN	FEB	MAR	Q1	APRIL	MAY	JUNE	Q2
<u>TOTAL CHANGE</u>	<u>1118</u>	<u>1262</u>	<u>2103</u>	<u>4483</u>	<u>1263</u>	<u>1958</u>	<u>4195</u>	<u>7416</u>
(PERCENTAGE CHANGE)	(1.0%)	(1.2%)	(1.9%)	(4.1%)	(1.1%)	(1.7%)	(3.6%)	(6.6%)
OF WHICH PERSONS:								
FOR HOUSE PURCHASE	244	314	663	1221	471	544	985	2000
FOR CONSUMPTION	- 24	- 17	344	303	355	399	668	1422
FINANCIAL INSTITUTIONS	231	182	807	1220	- 84	643	1075	1634
OTHER:								
INCLUDING UNINCORPORATED BUSINESSES, INDUSTRIAL AND COMMERCIAL COMPANIES, AND SOME PUBLIC SECTOR BORROWING (EG. BY NATIONALISED INDUSTRIES)	667	783	289	1739	521	372	1467	2360

* Advances and Acceptances only

~~Papered P50~~
~~Box OIR~~

FROM: M G RICHARDSON

DATE: 13 August 1987

- 1. MR CASSELL
- 2. PPS

cc PS/EST
 Sir P Middleton
 Mr Peretz o/r
 Mr Kelly o/r
 Mr Grice o/r

MO

Your minute of 6 August requested a draft note on what determines the level of, and fluctuations in, bankers' balances at the Bank of England, following the Chancellor's meeting with the Prime Minister that morning.

2. I attach such a draft, which has been produced by Ms Bronk and cleared with the Bank. If the Chancellor is content, you might care to send it to David Norgrove.

M G Richardson

M G RICHARDSON

cc: Mr W Allen - B/E

CH
 Not v informative - and does raise question
 why we have bankers' balances in our monetary
 target.

*Not good enough. Needs to be
 redone for scratch (x cd be
 much better). Fails to explain
 why banks make such
 non-sterile loans & deposits
 @ all (does the Bank agree
 them to? What is the
 strategy for undepositing? And
 has to point out that such
 deposits are only a very small
 proportion of total MO.
 Wh. means that all relevant
 activities affect MO stats, &
 then only monthly.*

*OK for me to send to No 10 with v
 short covering letter?*

MA

SECRET

M0: BANKERS' BALANCES AT THE BANK OF ENGLAND

The annual growth rate of M0 rose to 5.4 per cent in July, from 4.2 per cent in June, mainly due to the high level of bankers' balances in July 1987 and the low level of bankers' balances a year ago. The annual growth rate of notes and coin was little changed in July at 4.7 per cent.

2. Bankers' [operational] balances at the Bank of England are non-interest-bearing deposits held chiefly by banks participating in the clearing system. The accounts are used for final daily settlements with the rest of the banking system and with the Bank of England. Each clearing bank declares to the Bank of England a target balance at which it will aim; the target is set at a level which that bank considers sufficient to avoid the risk of its account going into overdraft. The Bank aims to supply to the market (or withdraw from it) enough cash each day through its money market operations to enable the banks collectively to reach their target balance. The level of, and fluctuations in, bankers' balances therefore depend on the accuracy with which the banks and the Bank of England forecast their net positions at the end of each day.

3. The target level has changed little since the present money market arrangements began in 1981. It is currently £187 million. On average recorded balances are close to the target, but they are volatile (see Chart). Large fluctuations can occur if the Bank of England acts in the money markets on the basis of incorrect forecasts of Exchequer and other flows - for example, when there are large Corporation Tax payments, the size and timing of which are unpredictable. Large fluctuations may also arise when individual banks forecast their final positions incorrectly - for example, when a large transaction is not notified by a customer in advance, or simply through clerical mistakes. In addition, bankers' balances are inflated occasionally by technical problems in the 'CHAPS' money transmission system.

4. The low level in July 1986 and the high level in July this year seem to have been random fluctuations out of line with typical monthly variations.

↑
of bankers' balances

SECRET AND PERSONAL



FROM: CATHY RYDING
DATE: 13 AUGUST 1987

BIF
2/2/87
1/9/87

MR P H BROOK

cc Economic Secretary
Sir P Middleton
Sir T Burns o/r
Mr Cassell
Mr Peretz o/r
Mr Grice o/r
Mr Pike
Mr Richardson
Ms Bronk

STERLING LENDING TO THE NON-BANK PRIVATE SECTOR

The Chancellor was grateful for your minute of 12 August.

2. The Chancellor would be grateful to know revised figures for Q2, adjusting for the "technical" understatement. It would also be helpful to have the Q3 figures by September rather than October.

CR

CATHY RYDING

CONFIDENTIAL

Papers Pse
(True)

FROM: M G RICHARDSON

DATE: 28 August 1987

CHANCELLOR

cc: Economic Secretary
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Cassell
 Mr Peretz
 Mr Kelly
 Mr Grice
 Mr Brook
 Ms Bronk

Handwritten in red ink:
 3.
 [Signature]

STERLING LENDING TO THE NON-BANK PRIVATE SECTOR

You asked to see the Q2 figures for the sectoral analysis of sterling lending adjusted for oversubscribed share sales. (Mrs Ryding's minute of 13 August).

2. The revised figures are shown at annex, along with the figures published (and submitted under Mr Brook's minute of 12 August). The revisions reflect fuller information about the Caradon share sale at the end of June. Originally, the transit adjustment made in respect of the share sale resulted in a reduction of £400m in bank lending to industrial and commercial companies (ICCs). It is known, however, that share applications for Caradon were not made primarily by ICCs. The ICC lending figures have been adjusted accordingly, with offsetting reductions in lending to financial institutions and persons.

3. We shall let you have the Q3 figures as soon as they are available, but this cannot be before the middle of October.

Handwritten signature:
 M G Richardson

M G RICHARDSON

CONFIDENTIAL

TABLE 1QUARTERLY ANALYSIS OF STERLING LENDING TO PRIVATE SECTOR

	<u>1987 Q1</u>	<u>1987 Q2 published</u>	<u>1987 Q2 adjusted</u>
			<u>£ billion</u>
<u>TOTAL CHANGE</u>	<u>7.4</u>	<u>8.1</u>	<u>8.1</u>
<u>PERCENTAGE CHANGE</u>	(4.3%)	(4.6%)	(4.6%)
OF WHICH PERSONS: FOR HOUSE PURCHASE	1.4	2.4	2.4
FOR CONSUMPTION	0.6	1.7	1.6
FINANCIAL INSTITUTIONS	3.0	2.9	2.6
UNINCORPORATED BUSINESSES	1.4	0.5	0.5
INDUSTRIAL AND COMMERCIAL COMPANIES	1.0	0.6	1.0

CONFIDENTIAL



FROM: CATHY RYDING

DATE: 2 September 1987

MR M G RICHARDSON

STERLING LENDING TO THE NON-BANK PRIVATE SECTOR

The Chancellor was grateful for your minute of 28 August and notes in your paragraph 3 that you will let him have the Q3 figures as soon as they are available, but that this cannot be before the middle of October.

A handwritten signature in cursive script, appearing to be "CR".

CATHY RYDING

RESTRICTED



BF 7/9

FROM: A C S ALLAN

DATE: 4 September 1987

9/9

11/9

MR RICHARDSON

cc PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Kelly
Mr Grice

14/9

MO

The Chancellor has now had a chance to look at the draft note attached to your minute of 13 August. He feels it needs to be shortened, but in addition needs to explain why banks make such non-interest bearing deposits at all (does the Bank oblige them to? What is the penalty for under-depositing? And has it always been the same?). It also needs to point out that such deposits are only a very small proportion (5 per cent) of total MO, which means that only extreme fluctuations significantly affect the MO series, and then only momentarily.

2. I should be grateful for a revised draft, [redacted]

ACSA

A C S ALLAN

CONFIDENTIAL

FROM: T PIKE

DATE: 10 September 1987

1. MR. PERETZ *AWP 10/9*
2. ECONOMIC SECRETARY

cc PS/Chancellor
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Cassell
 Mr Scholar
 Mrs Lomax
 Mr C W Kelly
 Mr Grice (o/r)
 Mr Bottrill
 Mr Richardson
 Mr Westaway
 Ms Bronk (o/r)

MO FIGURES

The latest weekly figures for MO, covering the second week of September, are attached. They show that the twelve month growth rate of MO to the latest four week period is 5.0 per cent (5.0 per cent not seasonally adjusted). The annualised growth rate of MO (and of notes and coin) in the three months to the latest four week period remains at about 8½ per cent.

2. The figures for September so far (two weeks of five) are distorted upwards both by erratic movements in bankers' balances and by seasonal factors. The high non-seasonally adjusted twelve month growth rate of MO in September so far is likely to fall back as the month progresses.

T Pike

T PIKE

CONFIDENTIAL

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets)			% change on previous Month		% change on year earlier						
	Notes and coin (nsa)	(sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa) (sa)	MO (nsa)	MO (sa)		
1987												
Mar	14,577	14,808	(-3)	232	14,809	15,040 (+64)	-0.0	+0.4	+3.2	+3.8	+3.5	+4.1
Apr	14,931	14,903	(+95)	203	15,134	15,106 (+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,973	14,976	(+73)	203	15,176	15,179 (+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,947	15,071	(+95)	136	15,083	15,207 (+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,272	15,154	(+83)	234	15,506	15,388 (+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,338	15,259	(+105)	182	15,520	15,441 (+53)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
Sept [†] (2 of 5)	15,427	15,362	(+103)	269	15,696	15,631 (+190)	+0.7	+1.2	+5.8	+5.0	+6.3	+5.4
Latest 4 weeks [†]	15,389	15,328	(+139)	200	15,589	15,527 (+98)	+0.9	+0.6	+4.8	+4.9	+5.0	+5.0

Weekly data	Notes (sa) and coin	Bankers' deposits	MO (sa)	% change on previous week MO (sa)
-------------	------------------------	----------------------	------------	---

August

5th	15,202	(+43)	260	15,462	(-8)	-0.1
12th	15,245	(+43)	209	15,454	(-8)	-0.1
19th	15,270	(+25)	59	15,328	(-126)	-0.8
26th	15,317	(+47)	202	15,518	(+190)	+1.2

September[†]

2nd	15,379	(+62)	325	15,703	(+185)	+1.2
9th	15,346	(-33)	214	15,560	(-143)	-0.9

[†] Most recent data include estimates only for coin and unbacked note issues. The percentage changes for September so far use as their base the average for the full relevant month; for the latest 4 week period changes as based on the previous 4 week period and a comparable period a year ago.

SECRET AND PERSONAL

1 Alex
2C
pup

FROM: M G RICHARDSON

DATE: 10 September 1987

1. MR KELLY ^{CJK} 10.2
2. CHANCELLOR

cc: Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Cassell
 Mr Peretz
 Mr Grice
 Mr Pike
 Mr Brook o/r
 Ms Bronk

MONEY SUPPLY IN AUGUST: "FIRST GUESS"

(All figures are unadjusted unless specified otherwise)

This note summarises the Bank's "first guess" at M0 and M3 figures for August. As usual at this stage M3 figures may be subject to significant revision.

Table 1: Monetary Aggregates (per cent)

	<u>M0</u>	<u>M3**</u>
Annual growth rate*	4.5 (4.7)	22.0-23.0
Change in month*	0.1 (0.3)	1.2-2.0 (1.4-2.2)
Target range	2-6	-

* Figures in brackets seasonally adjusted

**The actual outturn has been within the range forecast by the "first guess" in 9 of the last 10 months.

2. Evidence thus far suggests that the increase in bank lending in August is likely to be in the range £450-1550 million (£500-2500 million seasonally adjusted).

3. The unusual features of the figures in their present state are the unexpectedly low level of bank lending and the other expansionary counterparts (externals and residual). The Bank are not aware of anything likely to shift the outturn in a particular direction;

SECRET AND PERSONAL

SECRET AND PERSONAL

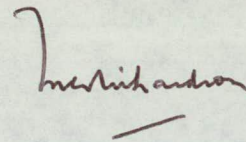
but it would not be surprising if revisions to the counterparts when the provisionals are available result in a higher sterling lending figure.

M3 components and counterparts

4. Table 2 (attached) compares the "first guess" at changes in M3 components in August with the average monthly change over the previous 12 months. Table 3 (attached) provides a similar comparison for M3 counterparts.

Timetable

5. We expect to receive provisional July figures on Thursday 17 September. They will be published on Friday 18 September. Full money and banking figures for July will appear on Tuesday 29 September.



M G RICHARDSON

cc: Mr Norgrove - No 10

SECRET AND PERSONAL

SECRET AND PERSONAL

TABLE 2: M3 COMPONENTS - AUGUST 1987

"First Guess" compared with average monthly change in the previous year.

	<u>£ millions</u>	
	<u>First Guess</u>	<u>Average monthly change in year to July</u>
Notes and coins in circulation	20	68
Non-interest bearing sight	266	342
Interest bearing sight	910	922
Time deposits (including (CDs)	<u>1787</u>	<u>1149</u>
Change in £M3	<u>2451</u>	<u>2481</u>

SECRET AND PERSONAL

TABLE 3 : M3 COUNTERPARTS - AUGUST 1987

"First guess compared with average monthly change in the previous year

£ millions

	First Guess	Average change in year to July
CGBR (O) (ex bank deposits)	924	231
Other public sector:		
LABR)		
PCBR)	382	132
OPS debt sales)		
Modified PSBR*	1306	363
CG debt: Gilts	40	-91
Treasury bills	33	-40
National Savings	-291	-267
CTD's etc.	25	127
Total CG debt sales (-)	-193	-271
External and fc finance of public sector (-)	-779	106
Wide over(-)/under(+)funding	334	198
Sterling lending to nbps (incl Issue Dept commercial bills)	-227 #	2868
Net private externals **)	2344	-585
Residual (includes NNDLS ** and reporting differences))		
Change in M3	2451	2481
(Monthly percentage change)	(1.6%)	(1.6%)
(12 month percentage change)	(22.5%)	(18.8%)

* Modified PSBR equals PSBR less OPS debt sales

** For the "first guess", Private Externals and NNDLS cannot be separately identified

£801 million after seasonal adjustment.

SECRET

FROM: C W KELLY

DATE: 11 September 1987

1. SIR PETER MIDDLETON
2. CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary
 Economic Secretary
 Sir T Burns
 Sir G Littler
 Mr Cassell
 Mr Lavelle
 Mr Monck
 Mrs Lomax
 Mr Odling-Smee
 Mr Peretz
 Mr Sedgwick
 Mr Bottrill
 Mr Culpin
 Mr S J Davies
 Mr Grice o/r
 Mr Riley
 Mr Pike
 Mr Richardson
 Mr Cropper
 Mr Tyrie
 Mr Call

This emphasises the need to maintain the Loure agreement in Washington. The present policy stance will be much easier to maintain if there is a further period of \$ stability

PM 14/9

Nigel Thanks +

N.M.

Mr George - B/E

Professor Griffiths-No 10

Mr Lankester-Washington

File: MAMC F1

MONTHLY MONETARY ASSESSMENT: AUGUST 1987

This note reports the discussion at Sir Peter Middleton's regular meeting on monetary conditions. Attached is the usual monthly assessment. On this occasion there is a special annex (Annex 1) setting out what we know about the possible reasons for the surge in bank lending.

Sir Peter Middleton's Meeting

2. Mr Peretz said that before the base rate rise on 6 August there had been general agreement that monetary conditions had become too loose. The question now was whether the 1 per cent rise had produced sufficient

ghtening. On that, the jury was still out, if only because this month's review was largely based on data relating to the period before the rise in interest rates, or to variables which we would expect to react to a rise in interest rates only with a lag:

- i. the summer forecast, which assumed a rise in interest rates (though with different timing) had **money GDP** and the GDP deflator above the MTF5 path both in 1987-88 and 1988-9;
- ii the **exchange rate** was the main indicator that might have reacted to the interest rate move already. In effective terms it had risen slightly from 72.1 on 5 August to around 73.0 currently. Taken together with a fall of about \$2 in the oil price over the same period, the **implication was of some tightening in conditions and downward pressure on prices**;
- iii. at the time of last month's assessment the twelve month growth rate in **M0** had just about reached the path expected at the time of the Budget. It was now clearly above, and projected to go further (with a particularly high figure in October because of the path of M0 in the previous year). The annualised three month growth rate in notes and coin (ie excluding erratic bankers' balances) had been above 6 per cent for each of the last 3 months. But, there was a 3-6 month lag before the impact of interest rate changes came through on M0. The current path may therefore be reflecting the cuts made around the time of the election, and would not yet have been affected by the August change;
- iv. there was a **special annex in the assessment on bank lending**. The **broad conclusion was that the July figures gave some cause for concern, but not as much as might be expected from the raw figures**. The **banks had been increasing their share of the mortgage market** (growth in bank and building society mortgage lending together had been fairly steady at around **19½%** for some months); and there was some evidence of switching

out of foreign currency borrowing into sterling borrowing (with an offset to sterling lending in the external counterpart). There was no great evidence of round tripping.

v. the implication was that the best indicator to look at was probably broad money as measured by M4, which washed out both the switch between building society and bank mortgage lending and the offset in the counterparts to the switch from foreign currency to sterling borrowing. The twelve month growth rate of M4 rose in July by about 1 per cent to 14.9 per cent, but was still below the 16 per cent figures of a year ago;

vi of the other evidence, the rate of increase in house prices was now levelling off, but still remained over 14 per cent; fiscal policy was tighter than projected at the time of the Budget; and while UK interest rates were higher, so too were the rates abroad.

3. His conclusion was that it was too early to tell whether conditions were now tight enough, but there was certainly no reason to suppose that they were currently too tight.

4. Mr George agreed broadly with this assessment. The evidence of over-heating in the real economy was not yet decisive. If anything recent indications had been encouraging. The direct evidence on inflation did not point unambiguously to an underlying upturn; and although the latest money figures were discomfoting, he agreed that there were some grounds for believing that their message was not as worrying as appeared at first sight. Having said that, he did not think that the risks were symmetrical. There was no obvious downward pressure on inflation; and there was probably a stronger possibility that it could go up than that it might go down. Were upward pressure on interest rates to emerge it would be wrong to resist for long.

5. Mr Cassell wondered why company borrowing from banks should be growing so fast at a time when capital market issues were also very

substantial. Mr George said that they did not yet have the data to clarify this. They did not, for example, yet know what had been happening to foreign currency borrowing from non-British banks, nor whether the switch from foreign currency to sterling borrowing had been primarily by financial institutions rather than industrial and commercial companies.

6. Sir Terence Burns said that, as ever, he found the evidence mixed. He had been pleasantly surprised and slightly reassured by the latest evidence on inflation. On the other hand, he thought it clear that we had been, or still were, in a period of quite rapid growth, possibly much more rapid than outside observers yet realised, even those who were worried about over-heating. There were, however, signs that rather slower growth could be expected next year. Like others, he found the narrow money figures slightly disturbing. He had no great difficulty, however, in living with the present pattern of interest rates for the time being, particularly given the current position of the exchange rate.

7. This lead on to some discussion of the possibility of a further fall in the dollar and the implications for policy of that. A modest fall in the dollar leaving sterling unchanged against the DM had some attractions as a way of tightening policy. But a dollar fall could have the effect of taking sterling down with it; and a substantial fall would be destabilising generally without helping the US trade balance very much. The balance of advantage was clearly in favour of continuing with the Louvre Agreement to seek to establish firmer expectations of continuing exchange rate stability.

8. Summing up, Sir Peter Middleton recorded general consensus that the present pattern of interest rates was sufficient for the time being, while noting that current conditions suggested no strong downward pressure

inflation. Indeed the risk seemed to be more the other way. There was certainly no case at all for contemplating any fall in interest rates in the immediate future.

CWK

C W KELLY

MONTHLY MONETARY ASSESSMENT: AUGUST 1987

Summary Assessment

Most but not all of the main indicators continue to suggest monetary conditions looser than would be required to meet the Government's objectives for money GDP. Of the monetary aggregates, it is perhaps M0 which is giving the clearest signal for concern, though the rise in growth of broad money and credit has attracted more attention in the markets. But the effect of the rise in base rates will not yet have come through, except on the exchange rate, which has been firm despite falling oil prices.

Main Points

M0 has grown by 4.7 per cent in the 12 months to August. Though this is below the 5.4 per cent in the year to July, M0 has now been growing at an annualised rate above 6 per cent for several months, and the twelve month rate is projected to reach 5½ per cent at the end of October (paras 19-22).

M4 grew by 14.9 per cent in the 12 months to July, 1 per cent more than in the year to June. M3 showed a similar acceleration: from 19.2 per cent to 20.9 per cent in the corresponding periods (para 25).

Bank lending. Sterling lending, at £4.6 billion in July, was some £2 billion higher than the average in the first half of the year. But this owes a good deal to a switch out of foreign currency borrowing by residents - the boost to sterling borrowing being offset within the external counterparts - and to banks improving their share of the mortgage market. Bank and building society lending together in July was not much above the average of recent months (paras 31-33).

The exchange rate has risen slightly since the end of July despite falling oil prices, but against the background of a weak dollar (paras 16,35).

Activity looks set to remain well above levels expected at Budget time but this has not yet manifested itself in higher than expected RPI inflation. The twelve month rate of growth in house prices remains around 14½ per cent, little changed in August and below the March peak (paras 3-11).

MG2 Division

11 September 1987

A. External Developments

1. Main developments in the G7 countries other than the UK are set out in tables 1-3. In particular:

- **GNP** grew more slowly in the US in the second quarter than in Q1. It picked up in France and Germany after a bad first quarter.
- After rising sharply earlier in the year, **consumer price inflation** in G7 has remained around 3 per cent since April.
- Non-oil commodity prices are currently about 15 per cent higher (in SDR terms) than a year ago; in particular, metal and non-food agricultural prices are both around 40 per cent higher. Oil spot prices are currently 20 per cent higher (in dollar terms) than a year ago but have weakened over the last month.
- **Short term interest rates** in the US have risen over the last four weeks, and the discount rate in Italy rose by $\frac{1}{2}$ per cent on 3 September. Short rates in Germany and Japan are little changed.
- The **dollar** has weakened since the beginning of August, falling by 6 per cent against the yen (to 142 Y/\$ on 10 September) and $3\frac{1}{2}$ per cent against the deutschemark (to 1.81 DM/\$). Since the Louvre Accord the dollar has fallen by 7 per cent against the yen and by 1 per cent against the DM.

B. Activity and Inflation

2. Table 4 summarises recent indicators of **activity and inflation**. The latest employment, unemployment, and overtime figures were all very strong, confirming the buoyancy of the economy in the first half of 1987, and as far as one can tell from the figures, manufacturing production remains on a strong upward trend. Retail sales are rising fast again. The latest RPI inflation figures have been broadly as anticipated.

Recent indicators of activity

3. Provisional figures for production industry output in June show a $\frac{1}{2}$ per cent rise in **manufacturing output** from May, to a level almost $5\frac{1}{2}$ per cent higher than a year earlier. The August CBI survey, published on 1 September, reported continued buoyancy in manufacturers' order books and output expectations.

4. **Retail sales** rose 1.4 per cent in July. Though the recent profile has been quite erratic the last two months figures suggest that the underlying trend is firmly upwards. The CSO's latest estimate of consumers' expenditure in the second quarter shows it to be up $4\frac{1}{4}$ per cent on a year earlier (the previous published estimate was a $3\frac{1}{2}$ per cent rise).

5. Provisional estimates of second quarter industrial spending on **stocks** and **fixed investments** were published on 20 August. Manufacturers are estimated to have increased stocks marginally, while stocks held by retailers rose more strongly. Industrial investment rose sharply in the second quarter - up $3\frac{1}{2}$ per cent on first quarter levels - with spending by manufacturers up by over $11\frac{1}{2}$ per cent. Private housing starts in July are provisionally estimated to have risen 8 per cent from June, but remain below the high level of starts seen in the first quarter.

6. **Unemployment** fell by 48,000 in July. The rate of decline has increased recently, even though special measures are contributing less than they were a few months ago. **Overtime working** rose in June: overtime per operative is now higher than at any other time in the 1980's. **Vacancies** rose a further 2,000 in July, following a similar increase in June. Further evidence of buoyant activity is provided by the latest figures for manufacturing employment which show an estimated increase of 10,000 in the second quarter, the largest quarterly rise since 1978.

Inflation

7. The outturn for **retail prices** in August was 4.4 per cent, unchanged from July. Although this was marginally higher than anticipated, underlying RPI inflation still seems little different from projections made at Budget time and, more recently, in June.

8. The twelve month increase in the **producer output price** index (excluding food, drink, and tobacco) in July was 4.6 per cent, compared with a (revised) estimate of 4.4 per cent for June. **CBI survey** responses relating to manufacturers' price expectations, having edged upwards over the first half of 1987, showed little change in August.

9. **Producer input prices** (also excluding FDT) rose by 12.8 per cent in the year to July, up from 7.2 per cent in the year to June. This acceleration reflects the diminishing influence of the large fall in input prices during the first half of 1986, together with a pick up in prices during the most recent month - most notably for metals and non food agricultural products. (See section A).

10. Underlying growth in **average earnings** in June remained unchanged at $7\frac{3}{4}$ per cent, despite the high overtime figure for June. Private sector settlements concluded during the 1986-87 pay round just ended averaged about $\frac{3}{4}$ per cent lower than the outturn for the previous round. Manufacturing settlements were down 1 per cent on the same comparison, but the latest CBI settlement data points to a small upward drift in manufacturing pay settlements since the end of 1986.

11. The annual rate of **house price inflation** (measured by the Halifax index) was 14.5 per cent in August, little changed from July and compared to a peak of 15.2 per cent in March. Figures for the DoE index show a rise of 15 per cent at completion stage and $13\frac{1}{2}$ per cent at approval in July, compared to $13\frac{1}{4}$ and 12 per cent respectively in June.

Projections for Money GDP

12. June forecast projections for **money GDP** in 1987-88 show an overshoot of over 1 per cent relative to the Budget forecast for $7\frac{1}{2}$ per cent growth. Real activity has been stronger than expected. The GDP deflator is also likely to be higher than in the Budget forecast, but mainly because of higher projected oil prices. It is too early to assess whether this implied improvement in supply performance can be expected to continue through 1987-88. Although demand is clearly buoyant there are, as yet, no convincing signs

of overheating: recent RPI inflation outturns have been broadly as anticipated. UK net trade performance proved better than expected in the first quarter of 1987, but worse in the second quarter.

C. Public Sector Finances and the Fiscal Stance

13. Table 5 gives the main indicators of the fiscal stance. The PSBR for 1987 Q2 has been revised up by £0.4 billion, largely reflecting a higher PCBR.

14. The PSBR in July was a surplus of £0.4 billion, compared with last month's forecast of zero borrowing. Excluding privatisation proceeds the PSBR in the first four months of 1987-88 was £3.7 billion, about £½ billion above the same period in 1986-87, but £1¼ billion below the Budget profile. Most of the difference from profile is accounted for by central government own account borrowing; table 6 analyses this difference. The June forecast was for a PSBR in 1987-88 of £1 billion, nearly £3 billion below the Budget forecast. The latest outturns and revisions do not significantly alter the prospects for the year as a whole.

15. This assessment implies no change since last month in the interpretation of the fiscal stance; the June forecast of the PSBR for the year as a whole points to a tighter fiscal stance than envisaged at Budget time even after taking account of the automatic tightening associated with higher output and higher oil prices.

D. Exchange Rates and External Accounts

16. The sterling index has firmed a little as the dollar has declined over the past month, following a period in late July when poor trade figures, declining short term interest rates and rising rates abroad were tending to depress the pound despite the strength of world oil prices. The pound remained nervous in the first part of August and appreciable support was given on 3 days before the June trade figures were announced. But the sharp rise in UK interest rates on 6 August, together with the announcement of better than anticipated trade figures for June on 11 August, helped sterling to recover to around 72½ despite oil prices falling back and a continuing slight rise in overseas interest rates. The interest

rate differential now stands at about 3½ per cent against the world basket and 2½ per cent against the dollar, compared to 3 per cent and 2¼ per cent at the end of July.

17. The fall in oil prices of over \$2 since the end of July reflects recent OPEC overproduction, and has occurred despite increased tension in the Gulf, which might otherwise be expected to push up oil prices and hence strengthen sterling. As a result, the oil-adjusted reference ratio has risen by about 1½ per cent since the end of July. In August spot and forward market intervention totalled minus \$0.5 billion - most of this occurring on a few days before the June trade figures - which has been partly unwound (by \$0.2 billion) in September so far. The cumulative build-up of reserves this year still stands at about \$10 billion.

18. The **July trade figures**, published on 1 September, showed a visible deficit of £910 million and a projected current account deficit of £310 million, rather worse than markets expected. Although smaller than the large May deficit the July deficit was £170 million larger than in June, reflecting a sharp rise in the volume of non oil imports which more than offset a recovery in export volumes. The current account is now estimated to have been in deficit by £400 million in the first seven months of 1987.

E. Domestic Monetary and Financial Market Developments

(see Tables 10 to 26)

Narrow Money

19. MO has begun to exhibit disturbing signs. Since June, annualised three month growth has been consistently around 6-8 per cent. Although the 12 month growth rate has been significantly lower, it is above what was expected at Budget time. Both higher activity and lower than projected interest rates have contributed to this faster growth. After the interest rate rises in August, these are now closer to what was assumed in the Budget projections. But activity looks set to remain more buoyant. Thus as Chart 7 shows, the 12 month growth rate is now projected to start rising

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up to October, compared to some decline forecast at Budget time. Although the annual growth rate is projected to fall back until December, thereafter it is projected to rise to the top of its target range during Q1 1988.

20. **M0** (seasonally adjusted) rose by 0.3 per cent in August while the annual growth rate fell back to 4.7 per cent, from 5.4 per cent in July. The lower annual growth rate of M0 in August mainly reflects erratic movements in bankers' balances - both between July and August 1987 and between the corresponding months a year ago. The annual growth rate of notes and coin was, at 4.6 per cent, little changed in August and has been consistently around $4\frac{3}{4}$ per cent since April. But this mainly reflects the brisk growth of notes and coin during 1986 - annualised growth of notes and coin in the three months to August rose to $7\frac{3}{4}$ per cent, from 7 per cent in the three months to July.

21. The upward trend of three month annualised notes and coin growth has continued in the first two weeks of September, with the annualised rate rising to $8\frac{1}{2}$ per cent. The **forecast** assumes that annualised three month growth continues at this rate during the rest of September and October, reflecting both the expected buoyancy of consumers' expenditure and the expectation that the August base rate increase will not have any immediate dampening effect on M0 growth. Thereafter, annualised M0 growth is expected to fall back steadily - partly reflecting the influence of the base rate increase - to around $3\frac{1}{2}$ per cent by the end of the financial year.

22. In terms of twelve month growth rates, M0 growth is forecast to rise to about $5\frac{1}{2}$ per cent in October (the figure being distorted upwards by abnormally low bankers' balances in October 1986). Thereafter, the annual growth rate is expected to fall back to about 4 per cent in December - reflecting the brisk growth of M0 towards the end of 1986 - before rising again to around 6 per cent at the end of the financial year as the lower levels of M0 in Q1 1987 drop out of the twelve month comparisons. The effect of the base rate increase in August is assumed to reduce the twelve month growth

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rate by $\frac{1}{3}$ percentage point in December, rising to about $\frac{2}{3}$ percentage point by March 1988.

23. **NIB M1** increased by £0.1 billion in July and its annual growth rate fell back to 12.5 per cent, from 13.5 per cent in June, as the effects of recent share issues may have begun to unwind. The underlying annual growth rate of NIB M1 seems to have risen during 1987-88.

Broad Money

24. Broad money continued to grow rapidly in July. Twelve month growth rates of all the broad aggregates rose. The very high sterling bank lending figure attracted much comment but needs to be considered with caution. Total bank and building society lending was not out of the ordinary and its twelve month growth rate is marginally below the average of the last few months. On the other hand, part of the explanation for the high sterling lending is that residents switched their borrowing from foreign currency to sterling. This suggests that residents are not wholly confident about the prospects for sterling though the absence of major pressure on the exchange rate implies that non-residents - who switched into sterling over the month - remain relatively optimistic.

25. **M4** rose by £5.3 billion (1.9 per cent) in July and its annual rate increased to 15 per cent, from 14 per cent in June. **M3** rose by £4.2 billion (2.5 per cent) and its annual rate increased to 21 per cent, from $19\frac{1}{4}$ per cent in June. The differential between the annual growth of M3 and M4 widened in July, to 6 percentage points. This may in part reflect the current buoyancy of equity issues by UK companies, the proceeds being held temporarily as bank deposits prior to deployment, which boosts M3 growth relative to M4 since M3 is a narrower aggregate. Individuals may also have partly financed their equity purchases (in particular of BAA) by running down their building society deposits. (See paras 28 and 42).

26. The **forecast** shows M4 annual growth rising to $15\frac{1}{2}$ per cent in August and M3 growth rising to 22 per cent, as lending (especially by banks) is expected to remain buoyant, although the twelve month

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growth rates are distorted upwards by low growth in August 1986. The differential between the annual growth of M3 and M4 is expected to widen further, to about 6½ percentage points, as building societies renew the build-up of their bank deposits. (See annex for further details of the forecast.)

27. With respect to the **M4 components**, holdings of M3 by the private sector (excluding building societies) rose by £4.0 billion (3 per cent) and private sector retail deposits with building societies rose by £1.1 billion (1 per cent). Within M3 holdings, NIB M1 increased by £0.1 billion, IB retail deposits increased by £0.4 billion and wholesale deposits increased by over £3.6 billion. Wholesale deposits grew by 24 per cent in the twelve months to July, reflecting both the current liquidity of UK companies and OFIs, and a competitive rate of return.

28. **Building society** retail inflows in July may have been reduced by the BAA privatisation although they were above the monthly average for 1987 so far. Hence the overall picture remains one of strong underlying inflows, reflecting the considerable competitive advantage enjoyed by societies in the retail market over banks and national savings. Building society wholesale funding is estimated at nearly £0.5 billion in July, one of the highest figures of the year, of which the private sector contributed an unusually high £0.3 billion to M4.

29. Societies increased their bank deposits by £250 million in July, following a large (£750 million) run down in bank deposits in June. Societies also bought £179 million of gilts in July, having bought £410 million in June. Some societies have indicated that they have now fully realigned their portfolios following the requirements on capital adequacy introduced earlier this year. Hence their behaviour in the gilts market in future is more likely to be governed by the growth of their portfolios and expected returns relative to competing assets.

30. **Bank deposits of the private sector** (excluding building societies) increased by a little over £7½ billion (5½ per cent) in the second quarter. After allowing for distortions arising

from oversubscribed share sales at end June, ICC's accounted for about £3 billion of this (an increase of 8 per cent); the personal sector £3½ billion (5 per cent); and OFI's, excluding building societies, about £1 billion (3 per cent). Bank deposits of ICC's are likely to have been boosted by the proceeds of equity issues (see para 25). In recent years OFI's holdings of bank deposits have been growing more rapidly than those of other sectors - by an average of 26 per cent per annum since end 1984 - probably reflecting the rapid expansion of their total portfolios. (Comparable figures for ICC's and the personal sector are 21 and 12 per cent respectively.) Personal holdings of building society deposits have been growing in line with their bank deposits, rising by an average of 12½ per cent per annum since end 1984.

Credit

31. **Bank and building society lending** rose by 1.9 per cent in July, compared with an average of 1.5 per cent over the previous twelve months. The annual growth rate of lending to the private sector in July was at 19½ per cent, little changed compared to June.

32. **Bank lending** grew by 2.5 per cent (2.6 per cent seasonally adjusted) in July following a 2.6 per cent increase in June and compared to an average of 1.6 per cent over the previous twelve months. Within bank lending, advances increased by £2.8 billion and lending via commercial bills increased by £1.7 billion. Other lending increased by £0.1 billion. Returns from the London and Scottish retail banks show that advances for house purchase were £0.8 billion, below the very high June figure but still well above the average of the previous six months. This may reflect seasonal factors as well as the widened differential between building society and bank lending rates in recent months. The annual growth rate rose to 22¼ per cent in July, from 21½ per cent in June. Compared to the monthly average of about £2½ billion in the first half of 1987, July's increase was some £2.1 billion higher. Annex 1 considers possible explanations for the current surge in bank lending. The main factors are described below.

(i) industrial company borrowing rose substantially. The available figures suggest an increase of about £1½-£2 billion in July against a monthly average of only £0.3 billion in the second quarter;

(ii) UK residents appear to have switched out of foreign currency borrowing into sterling borrowing. Foreign currency borrowing fell by some £2¼ billion in July after rising by £12 billion in the first half of the year. Much of this will have been converted to sterling and may account for some of the high figure for companies noted in (i) above;

(iii) the banks continued to increase their share of the mortgage market though the absolute amount advanced by the CLSB banks at £0.8 billion was below the £1.0 billion advanced in June.

(iv) there is weak evidence of round-tripping between bills and deposits on a few days. But the figures suggest that neither this nor Stock Exchange problems affected the bank lending figures to a significant extent.

33. **Building society mortgage lending** continued to be relatively subdued rising by 1.5 per cent in July and by 17.3 per cent over the past twelve months. Despite cuts in mortgage rates for new borrowers by the Halifax and the Abbey National, societies as a whole remained uncompetitive with respect to banks and miscellaneous financial institutions (MFI's).

Other Broad Money Counterparts

34. A surplus PSBR of £0.4 billion was overfunded by £0.5 billion, reflecting public sector debt repayments of £0.7 billion to the non-bank private sector and sales of £1.1 billion overseas, together with a £0.3 billion increase in the reserves. (So far in 1987-88, with the £4.8 billion increase in reserves, there has been cumulative underfunding of £1.9 billion.) Since the building societies made small purchases of gilts in July the **public sector contribution** to M4 is slightly less contractionary, at minus

£0.4 billion. Bank and building society externals were contractionary by £1.6 billion and £NNDLs were expansionary by £1.4 billion.

35. Public and private sector external transactions were contractionary by £2.4 billion in July, although the underlying externals were somewhat less contractionary (minus £1.4 billion) due to a bank switching its provision against its loans to Brazil from sterling to foreign currency, causing an offsetting reduction in £NNDL's. The negative externals are the result of the private sector reducing its foreign currency borrowing - which may reflect an unwinding of speculative positions built up over the previous six months (see para 32 ii) - the other side of the transactions being a take-up of gilts by non-residents and an increase in non-residents' sterling bank deposits. This suggests an asymmetry between domestic and overseas residents in their expected returns on sterling assets, with external outflows of the domestic private sector being matched by inflows from overseas residents (in contrast to previous months when the counterparty to external inflows was the EEA).

M5

36. M5 grew by £5.6 billion (1.9 per cent) in July and at an annual rate of 14½ per cent, compared to 13½ per cent in June. Among the M5 components, aside from the £5.3 billion increase in M4, there was a £0.3 billion increase in private sector holdings of bank bills and a modest rise in holdings of Treasury bills and national savings instruments, offset by a fall in CTDs.

Money Markets and Interest Rates

37. Money market rates realigned after the one percentage point rise in base rates on 6 August, as the one month interbank rate increased by over 100 basis points to 9.8 per cent whereas the twelve month rate increased by under 40 basis points to 10.3 per cent, leaving the yield curve much flatter than before. Rates increased again after the release of the money figures and currently range from 9.7 per cent at one month to 10.7 per cent at twelve months, so that the markets are if anything expecting the next move in base rates to be up rather than down.

38. The stock of money market assistance rose by £1.9 billion in July to £7.0 billion, the shortage reflecting both the overfunding and a £0.7 billion increase in notes and coin. (See Table 26). The Bank of England's purchase of bills will have put downward pressure on bill rates in July, making bill finance relatively attractive to UK corporates. (See para 30.) The stock of assistance fell by £0.9 billion, in August.

39. Gilts began the month with the index at 87½, and with 5, 10, and 20 year par yields at 9.6, 9.9 and 9.7 per cent respectively. The market suffered two falls of nearly 3 points at the longer end - following the 6 August base rate increase and the 20 August provisional money figures. The gilts index now stands at around 85½ (a fall of some 6½ per cent since mid July), and par yields range from 10.3 at 5 years to 10.1 at 20. Breakeven inflation rates of Treasury 1990 and 2006 indexed gilts against comparison stocks are currently 3.5 per cent and 6.0 per cent respectively, compared to 3.5 per cent and 5.5 per cent at the end of July. The equity dividend yield (based on the all-share index) fell to 2.9 per cent in mid-July but has since risen slightly, to 3.1 per cent.

40. The Halifax and Abbey National have reversed their mortgage rate cuts for new borrowers and joined the other societies with mortgage rates of 11.25 per cent. Share rates, which were not lowered by any societies, remain unchanged. Since the banks' deposit rates (and mortgage rates in the case of Natwest and Lloyds) have gone up in line with the rise in base rates, building societies have now lost their exceptional competitiveness on the deposit side, with the spread of top tier rates above those of the banks ranging from about 1.7 per cent net to a more normal 1 per cent. On the other hand, building societies as a whole will have regained competitiveness in the mortgage market, since with an increase in the cost of wholesale funding, the MFI's, like some of the banks, are raising interest rates.

Capital Markets and Corporate Finance

(see tables 20-21)

41. Equity prices (measured by the FT All Share Index) fell back after the base rate rise and remained weak thereafter, especially on the release of the money figures. Prices may also have been

affected by the volume of new issues and announcements during July and August. However, there has been some recovery in equities following a reassessment of the money figures and hence a less pessimistic outlook for interest rates. The index is currently 7 per cent below its mid-July record level.

42. UK commercial companies and building societies raised a total of £2.0 billion net sterling finance in July from the domestic capital and eurosterling markets, compared to a monthly average of £1.3 billion in the second quarter. Most new issues in July were on the stock market (£1.7 billion) as the sharp rise in share prices between May and July has made equity dividend yields increasingly attractive to corporate borrowers. This has continued in August, with net equity issues of £2.0 billion by UK companies. Announcements of future equity issues were over £1½ billion in August, well below the £2½ billion announced both in June and July but still slightly above the monthly average during 1987 so far. The volume of recent issues and announcements may have contributed to the current weakness in equity prices. In contrast, higher interest rates since the second half of June has depressed announcements of new issues in the fixed rate euromarkets, which have been very light between June and August. Building societies made no announcements in the euromarkets in August and have been largely absent from the market this year, having been very active in 1986.

43. The stock of **sterling commercial paper** (SCP) outstanding rose by £50 million in July, to £1¼ billion (comparable figures for net issues by UK commercial companies are £70 million and £1.1 billion respectively). Monetary sector holdings of SCP rose by £70 million to £½ billion. Although gross and net issues of SCP in July are down on the previous month, this may reflect the relative attractiveness of bill finance during July.

44. Net sales of **unit trusts** were a record £1.1 billion in July, compared to an average of £0.5 billion per month in the first half of 1987, which is consistent with the buoyancy of domestic equity prices at least in the first half of the month and hence the flood of corporate announcements of new equity issues during July.

45. The £3.6 billion raised by UK concerns in the second quarter compares with an increase in their bank borrowing of £0.8 billion, whereas comparable figures for the quarterly average of 1984 were £0.4 billion and £2.0 billion respectively. Table 20 shows that the trend towards securitisation since 1984 has been mainly via the UK equity and eurosterling markets, although the SCP market is also now making a significant contribution to corporate finance.

MG2 Division

11 September 1987

Monetary developments since last month's report

Latest outturns available at time of:

	Feb Report	July Report	August Report
Monetary aggregates (12 month % growth)	(Jan)	(June)	(July)
M0 (sa)	5.1	4.2	5.4(4.7) ⁺
M3	17.6	19.2	20.9
M4	13.9	13.9	14.9
M5	13.3	13.6	14.6
Bank lending	22.5	21.5	22.2
Bank & building society lending	20.9	19.5	19.6
Interest rates (%)	27 Feb	28 July	10 Sept
3 month interbank	10.8	9.3	10.2
20 year gilt-edged (par yield)	9.7	9.5	10.1
Yield gap	1.1	-0.2	0.1
3 month overseas basket	6.3	6.4	6.8
3 month interbank/euro dollar differential	4.4	2.4	2.7
Real 3 month interbank	6.7	5.7	6.1
Equity dividend yield (all-share)	3.4	3.0	3.1
IG yields (1996) assuming 5% inflation	3.6	3.7	3.9
Exchange rate			
ERI	69.9	72.6	72.9
Oil adjusted reference index*	71.3	73.8	72.9
ERI/reference rate ratio	98.0	98.4	100.0
Asset prices			
FT-A Index (% pa)	30.8	55.9	41.7
FT-A Level (July peak: 1239)	985	1199	1152
Halifax house index (% pa)**	13.6	14.3	14.3(14.5) ⁺

+ August Outturn

* indicates what ERI would be if exchange rate simply responded to oil prices in the ratio 1:4. In determining the reference rate the base taken is the Jan '83 - Nov '85 average for the ERI and oil price.

** figures are for January, June and July.

BANK LENDING

Bank lending in sterling increased by £4.6 billion (2.5 per cent) in July, having risen by £4.7 billion in June. Over the latest three months, sterling bank lending increased at an annualised rate of 28 per cent. Below we examine the possible reasons.

2. There are a number of possible explanations for the current surge in sterling bank lending:

(i) shifts in market share of total lending in favour of banks against other lenders;

(ii) switches in currency composition of borrowing by residents - out of foreign currency into sterling;

(iii) round-tripping - companies borrowing at rates below interbank rates and re-depositing the proceeds profitably - and arbitrage between domestic bills and US commercial paper;

(iv) heavy corporate demand for capital expenditure purposes;

(v) increased bank lending to security dealers, associated with the Stock Exchange settlement problem.

These are considered in turn.

Shifts in Banks' Market Share

3. The rapid growth of bank lending partially reflects the greater competitiveness of banks in the mortgage lending market (see para 30 of main report). Banks' mortgage lending increased by a record £0.8 billion per month in the second quarter, while building societies' new lending fell to £1.2 billion per month - the third successive decline (all figures seasonally adjusted). The banks' share of the mortgage lending market has risen to 36 per cent in Q2, from 19 per cent in Q2 1986, while the building societies' share has fallen to 51 per cent, from 77 per cent a year ago.

4. The shift in market share seems to have continued in July. CLSB banks' lending for house purchase was again strong (£0.8 billion, compared to an average of £0.7 billion per month in Q2) while building society lending remained subdued (£1.3 billion). The annual growth rate of total mortgage lending has been about 20 per cent throughout the past year, however, which does not indicate a recent surge in total personal sector borrowing for house purchase. Moreover, lending to persons for consumption seems to have been modest in July: the CLSB returns show lending for consumption of £0.2 billion, although the average monthly figure in the second quarter was, at £0.5 billion, relatively high.

Shifts in Currency Composition of Lending

5. The sterling lending figures also seem to have been affected by the private sector's switching between sterling and foreign currency borrowing. Prior to the Election, the private sector was building up its foreign currency borrowing, which increased by £12 billion in the first half of 1987 (see table 20). Much of this may have been in connection with planned foreign acquisitions by UK corporates, which would result in an increase in their physical foreign currency assets and a corresponding increase in financial foreign money liabilities without any major implications for monetary conditions. But some of the high foreign currency borrowing may have been speculative, in the anticipation of sterling appreciation after the Election, which would reduce the sterling value of foreign currency liabilities. In July, foreign currency borrowing fell by £2½ billion, suggesting weakening of domestic sentiment on sterling matched by a switch into sterling borrowing. The overseas sector, by contrast, appeared willing to increase its net sterling assets in July, increasing gilts holdings by £1.2 billion and net sterling bank deposits by £0.3 billion. The Exchange Equalisation Account sold sterling over the month but only in relatively modest amounts - less than £0.7 billion.

Round Tripping

6. The Bank of England was buying bills throughout the whole of July to meet market shortages, the average daily purchase being £500 million. This will have put downward pressure on bill rates, perhaps at times pushing them below deposit rates. While we have no direct evidence of round tripping induced by this, chart A1 shows that a window may have opened up between three month bill and interbank rates, after allowing for dealing costs, at sometime during the mornings of 1, 9, 16 and 17 July (however, at the times for which we have data, there were no occasions when round-tripping was profitable). Moreover, wholesale bank deposits rose by over £3 billion in July, compared to an average of less than £1 billion in the previous twelve months, and this would also be consistent with the existence of round tripping activity (although part of the rise in wholesale deposits is probably due to high capital issues by ICCs). Anecdotal evidence from a merchant bank further suggests there were opportunities for bill arbitrage throughout the first week of July though this seems to be an isolated source of such anecdotes.

7. It is also possible that the downward pressure on bill rates induced companies to switch from borrowing via the US commercial paper (CP) market to borrowing via bills, which would be consistent with the reduction in foreign currency borrowing in July (see above). Chart A3 suggests that there may have been arbitrage opportunities in favour of domestic bill finance relative to US CP (with forward cover) for one month maturities in the first half of July.

Corporate Borrowing

8. Provisional estimates of manufacturing investment show an increase of £0.2 billion (11½ per cent) in the second quarter, while the level of stocks held by manufacturers, wholesalers and retailers increased by over £0.3 billion (both figures seasonally adjusted). There is no data yet available for July but business confidence appears to have remained strong and it seems reasonable that, with the clarification of political prospects after the General

Election, companies will have proceeded with capital expenditure programmes waiting on the outcome. Certainly, industrial and commercial companies' appetite for non-bank finance was substantial; they raised £2.1 billion net in domestic capital markets in July (mainly from equity issues), compared with a monthly average of £1.3 billion in the second quarter.

9. Banks lent nearly £1.7 billion to companies in July by way of commercial bills and it seems likely that little if any of this was used to repay advances. A sectoral breakdown of total bank lending is not available for July but the returns for the CLSB banks show virtually no change in advances to companies. So if total bank lending to companies was of the order of £1½-2 billion, this will have represented a sharp increase from the monthly average of only £0.3 billion in the second quarter.

Stock Exchange Settlement Problems

10. Press reports have suggested that bank lending was boosted in both June and July by settlement problems on the Stock Exchange (SE). Since June, the settlement backlog has increased by up to £1 billion, to about £3½ billion, and the Bank of England now requires brokers to have higher collateral against loans of stock. Both factors might be expected to increase bank lending, but there is no evidence of this in the latest banking statistics. For example, while lending to OFI's (excluding building societies) increased by over £3 billion in the second quarter, their bank deposits rose by only £0.2 billion: if SE firms had been borrowing to provide collateral against stock loans then deposits would be expected to have risen correspondingly. In addition, there was a small fall in lending by the clearing banks to securities dealers in June and a larger (£225 million) reduction in July. Nor have the Bank of England's normal statistical enquiries with the banks produced any evidence of large loans to SE firms.

Conclusion

11. There is no shortage of explanations for the high bank lending figure in July. The two most important factors quantitatively seem to have been (i) the switch out of foreign currency borrowing into sterling borrowing by residents and (ii) the surge in corporate borrowing from banks, despite their continued heavy demands on the capital markets as well. In addition, banks continued to increase their share of mortgage lending at the expense of the building societies. Conditions may also have existed to allow round-tripping but the fact that this has not been widely reported suggests that in fact it has not been on a significant scale. Finally, whilst the Stock Exchange settlement problems might have been expected to add to bank lending, the figures themselves do not lend much support to this thesis.

CHART A1

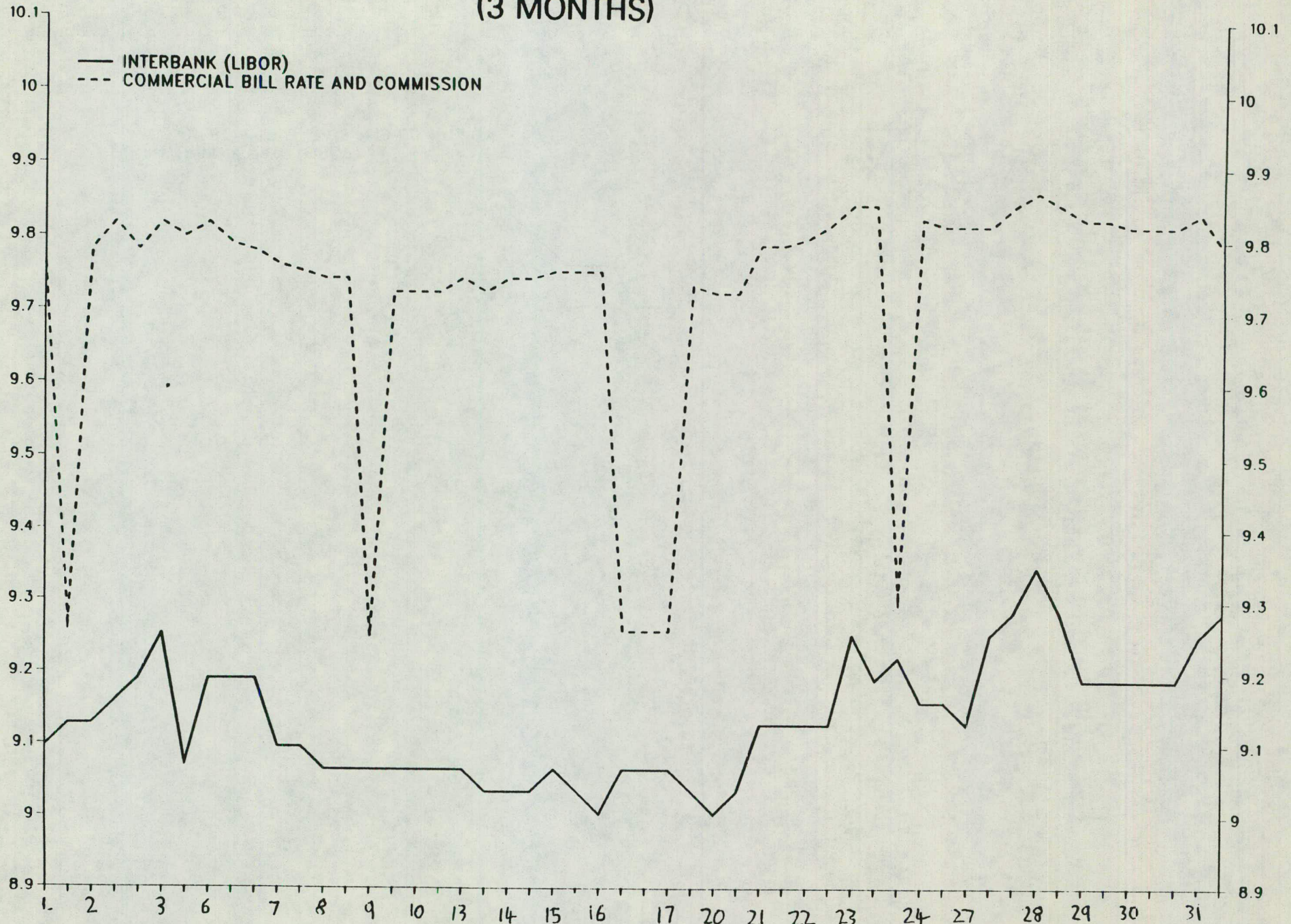
COMMERCIAL BILL AND INTERBANK RATES
(3 MONTHS)

CHART A2

COMMERCIAL BILL AND INTERBANK RATES (1 MONTH)

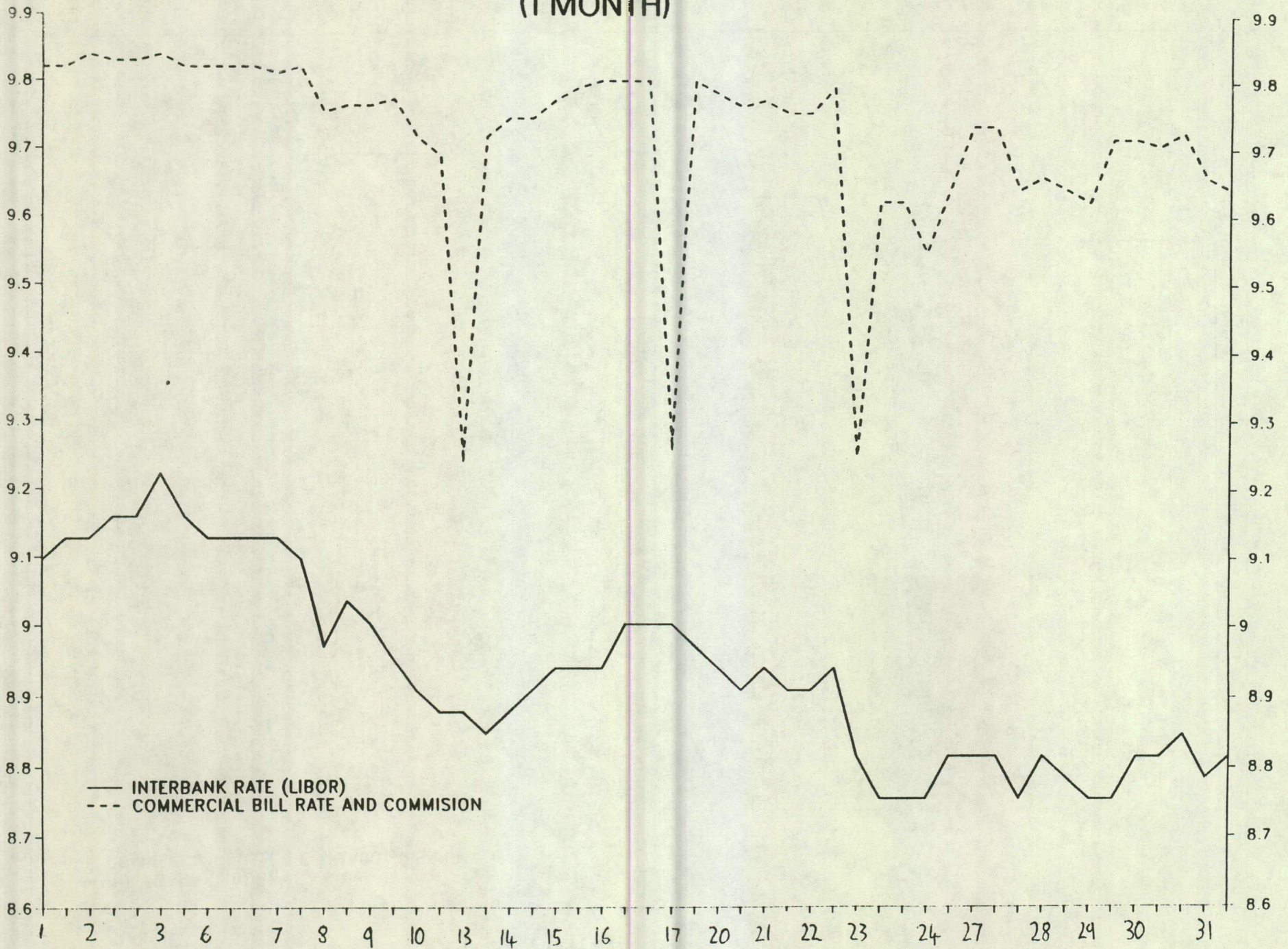
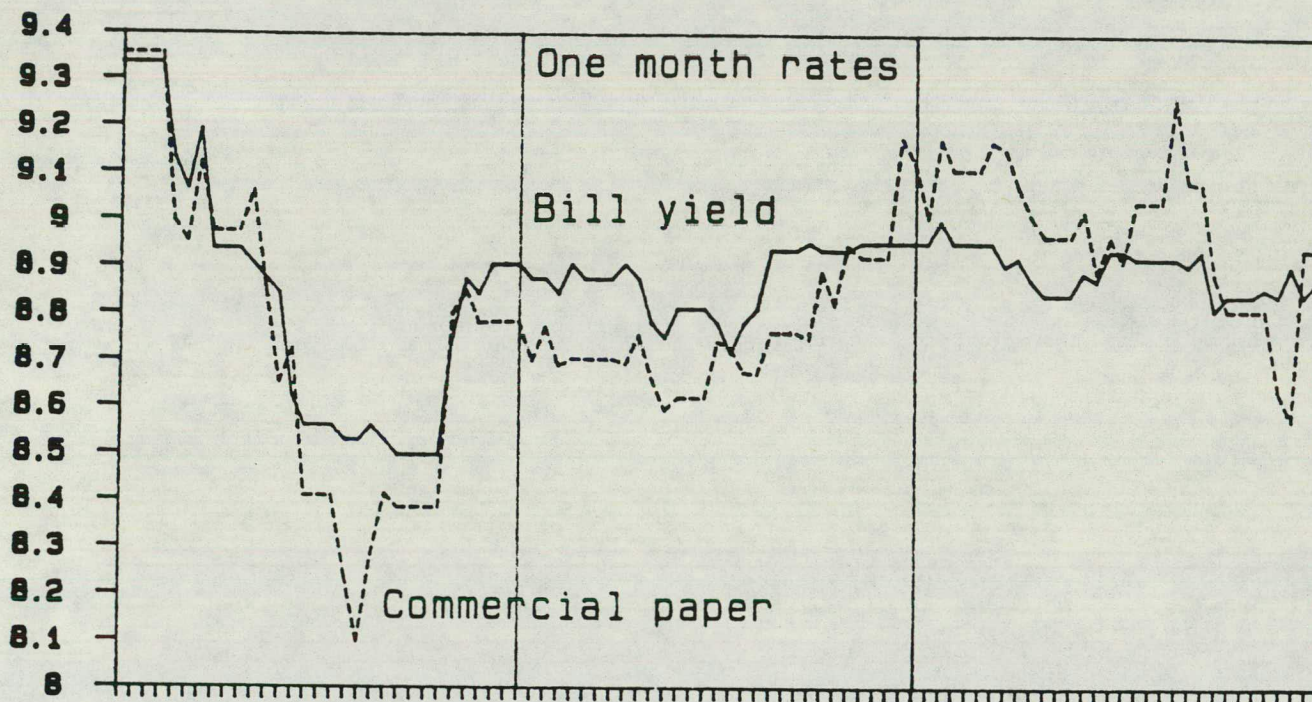
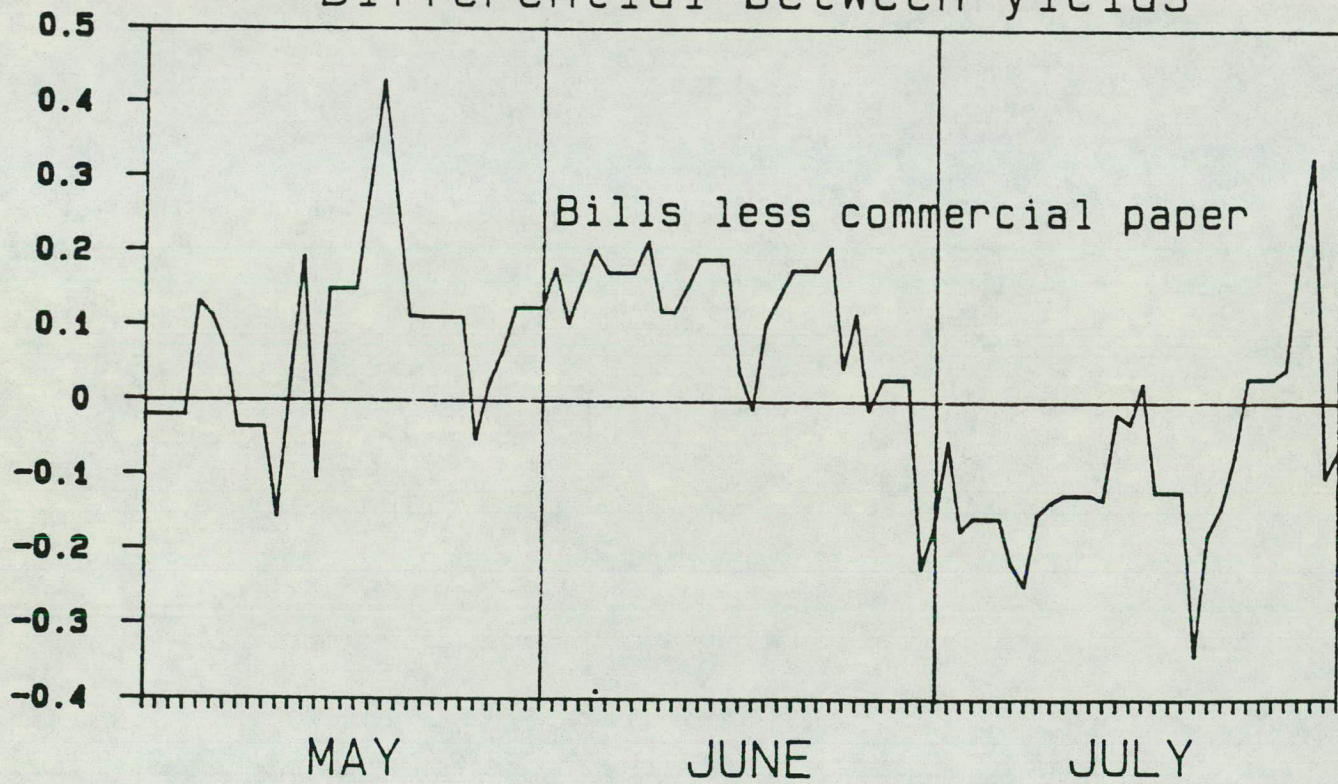


CHART A3

Yield on bank bills and US commercial paper
(adjusted for forward rates)



Differential between yields



BROAD MONEY FORECAST

1A. The forecast shows broad money growing in August at close to the average monthly rate during the past year - about $1\frac{1}{2}$ per cent a month for M4 and about $1\frac{1}{2}$ per cent for M3 - and growing more slowly in September and October. The annual rates are, however, affected by the pattern of growth a year ago, namely exceptionally low growth in August 1986 and very high growth in September 1986 associated with the TSB share sale. This causes the forecast twelve month growth rates to rise in August, with M4, at $15\frac{1}{2}\%$, over 15% for the first time since November 1986 and M3 growth, at 22% , more than one per cent higher than July's high figure. The annual rates fall back in September and October to about $14\frac{1}{2}$ per cent for M4 and about $19\frac{3}{4}$ per cent for M3, a little lower than July's rates but still some $\frac{3}{4}$ per cent above the rates in the first six months of 1987.

2A. Special factors affecting the forecast are set out in Table 1. They have little effect on broad money growth in August and October, and are contractionary in September by £600 million, largely due to the Midland Bank rights issue. In October, proceeds of £0.7 billion from the BP sale contribute to an overfund of £1.8 billion, but the sale also has offsetting expansionary effects of £0.2 billion on lending and £0.2 billion on the externals. Midland Bank's sale of subsidiaries to an Australian bank is contractionary by £350 million via NNDL's in October.

3A. The lending forecast assumes that underlying seasonally adjusted bank lending grows by 1.6 per cent (about £3 billion), and building society lending by 1.0 per cent (about $1\frac{1}{2}$ billion), per month. These underlying flows incorporate the effect of increased bank mortgage lending at the expense of building societies. Special factors superimposed on the underlying forecast as set out in Table 2: ^{they} increase lending by 100 in August, have no net effect in September and increase bank lending by 500 (and total lending by 300) in October. Lending is boosted by 100 in August due to exceptionally large capital issues by ICCs and also by 200 by a known bridging transaction which will unwind in September. Privatisations increase bank lending by 200 in September (Rolls Royce and TSB Second calls) and by 200 in October (BP).

4A. With the building societies' loss of competitiveness in the retail deposit market (albeit from an exceptionally strong base) following the rise in base rates, societies' underlying retail inflows are estimated to fall over the next three months by approximately £50m per month. The monthly profile is affected by privatisations with increased inflows in August (BAA return funds) and decreased inflows in September (Rolls Royce and TSB), and October (BP). With mortgage lending increasing due to improved competitiveness, societies are forecast to increase wholesale funding and, where this is impracticable, to run down liquidity ratios. Despite a heavy tax call in September, balance sheet expansion means that total liquid assets in the form of bank deposits and gilts are forecast to rise. The forecast does not make any allowance for possible tax rebates (up to £500m) related to the societies' dispute with the inland revenue.

5A. The stock of money market assistance is forecast to fall by about £1 billion in each of the next two months, to about £6 billion in August and £5 billion in September, before rising again in October to about the present level of £7 billion. The main features of the forecast (shown in Table 24) are the return in August of £750 million oversubscribed for BAA shares (reducing the need for assistance); in September fairly low net gilt sales of £375 million, in spite of the auction, because of buying in of £625 million; and in October a large market surplus mainly due to overfunding. It is assumed that the weekly Treasury bill tender, which has been 400 since the end of May, will fall to 300 in August, 200 in September, and 100 in October: this will reduce the need for commercial bill purchases by about £350 million per month.

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ANNEX TABLE 1

Broad Money Forecasts

£ million not seasonally adjusted

	AUGUST		SEPTEMBER		OCTOBER	
	M4	M3	M4	M3	M4	M3
(1) Underlying Increase*	2550	2300	2975	2075	2325	2175
Special Factors:						
Privatisations	- 50	- 50	-200	-200	200	200
Bank/Building Society Lending	150	150	200	200	100	100
Midland issue and sale of banks	-	-	-600	-600	-350	-350
Intervention	-200	-200	-	-	-	-
(ii) Total	-100	-100	-600	-600	- 50	- 50
(iii) Projected Increase	2450	2200	2375	1475	2275	2125
% Change of Previous month	0.9	1.3	0.8	0.8	0.8	1.2
% Change on previous year	15.5	22.1	14.6	19.4	14.3	19.8
<u>Memo</u>						
Underlying % Change on previous year	15.5	20.1	14.9	17.8	14.6	18.3
% Change expected at Budget time	14.2	17.3	14.1	15.3	14.4	16.0
[Line (iii) = Line (i) + Line (ii)]						

* Based on the following assumptions:

(a) Underlying bank lending rises by £3.0 billion per month and building society lending rises by £1.2 billion per month, both seasonally adjusted.

(b) The public sector contribution to M4 and M3 is as follows:

	August	September	October
M4	750	600	-1675
M3	700	500	-1775

ANNEX TABLE 2

Lending Forecasts

£ million

	AUGUST			SEPTEMBER			OCTOBER		
	Bank Lending	Building Society Lending	Lending Counter-Part To M4*	Bank Lending	Building Society Lending	Lending Counter-Part To M4*	Bank Lending	Building Society Lending	Lending Counter-Part To M4*
(i) Underlying Increase	2900	1200	3950	2950	1200	4000	3000	1200	4100
Special Factors:									
PSBR offset	-50	-	-50	-	-	-	100	-	100
Bill leak	-100	-	-100	-100	-	-100	200	-	200
Privatisations	-50	-	-50	200	-	200	200	-	-
Capital issues	300	-	300	-100	-	-100	-	-	-
(ii) Total	100	-	100	-	-	-	500	-	300
(iii) Projected Increase (seasonally adjusted)	3000	1200	4050	2950	1200	4000	3500	1200	4400
Projected Increase (nsa)	2050	1275	3175	3950	1050	4850	3350	1300	4350
% change on previous	22.1	16.8	19.2	23.0	16.2	19.6	22.6	16.2	12.9
<u>Memo</u>									
Underlying % Change on previous year	20.9	16.2	19.2	21.8	15.7	19.6	21.1	15.3	18.9
% Change expected at Budget time	20.4	16.8	18.4	21.3	16.3	18.9	20.3	15.9	18.1

*Excludes bank lending to building societies (which is included under Bank Lending)

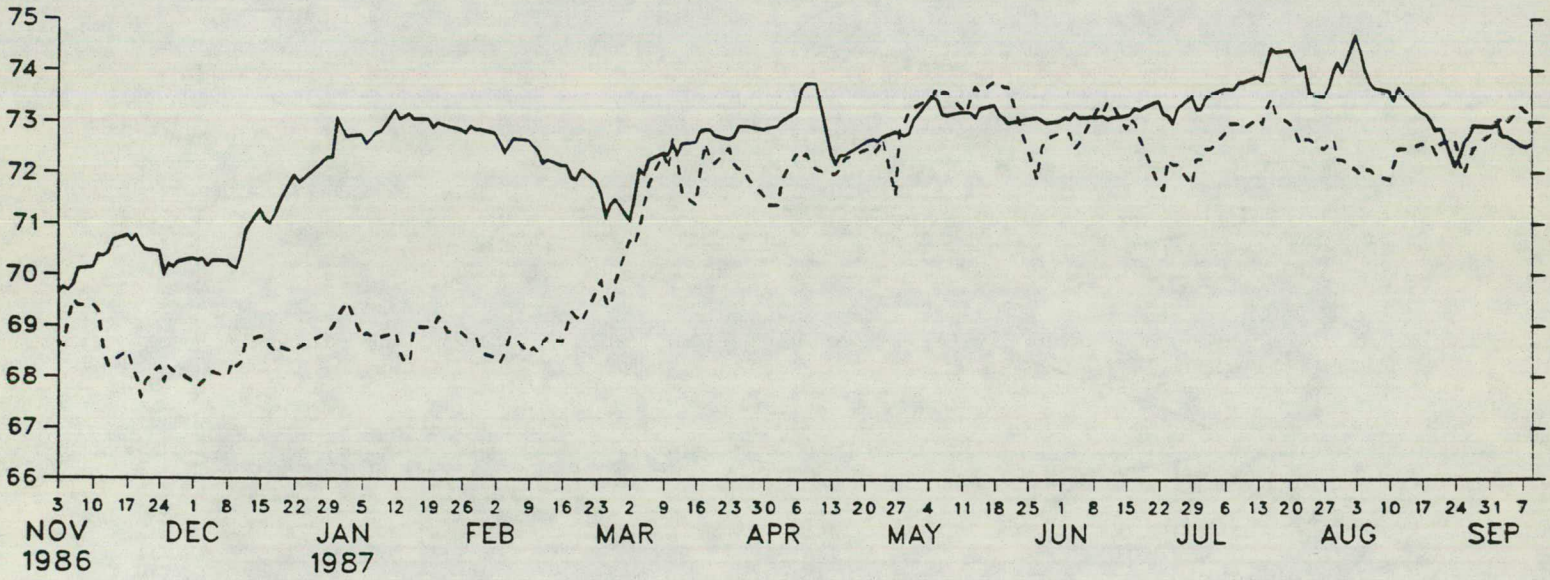
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MONTHLY MONETARY REPORT : CHARTS

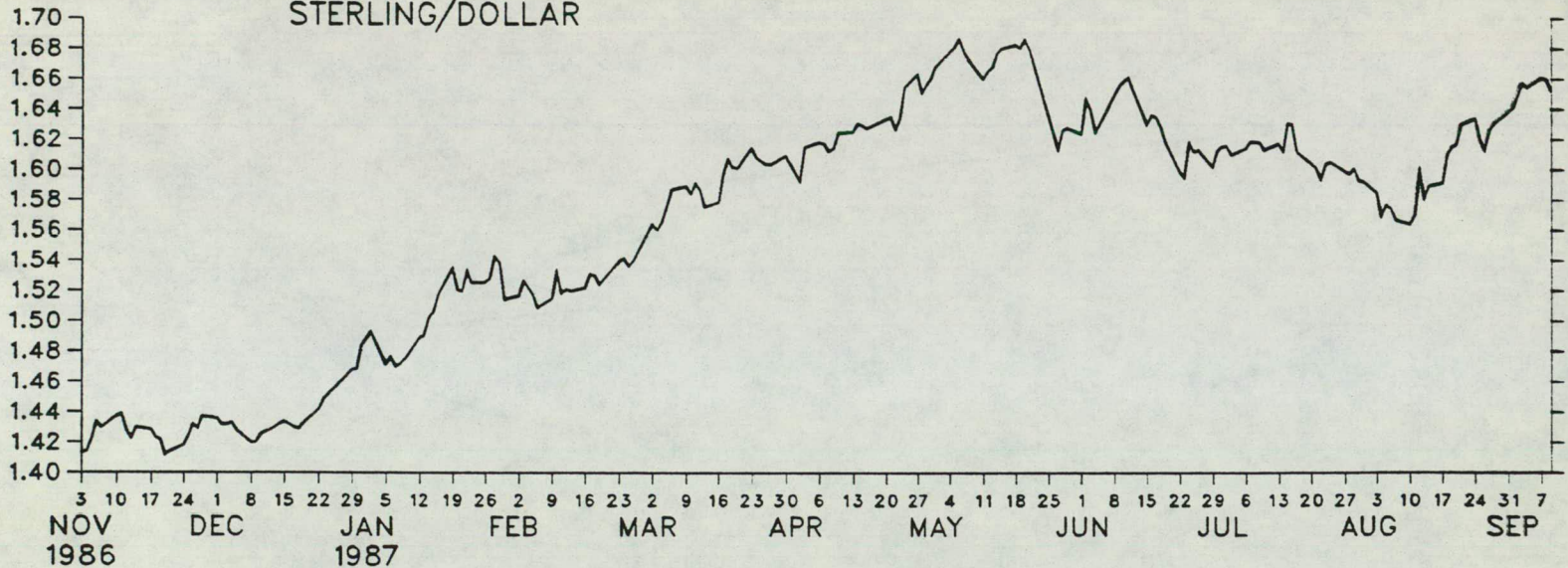
- I Exchange Rate Short Term**
- II UK/US interest rate differential**
- III Narrow money growth**
- IV Broad money growth**
- V Real M0 growth**
- VI Real Broad money**
- VII FSBR budget profile M0**
- VIII FSBR budget profile M3**
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- X Retail Deposits**
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- 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

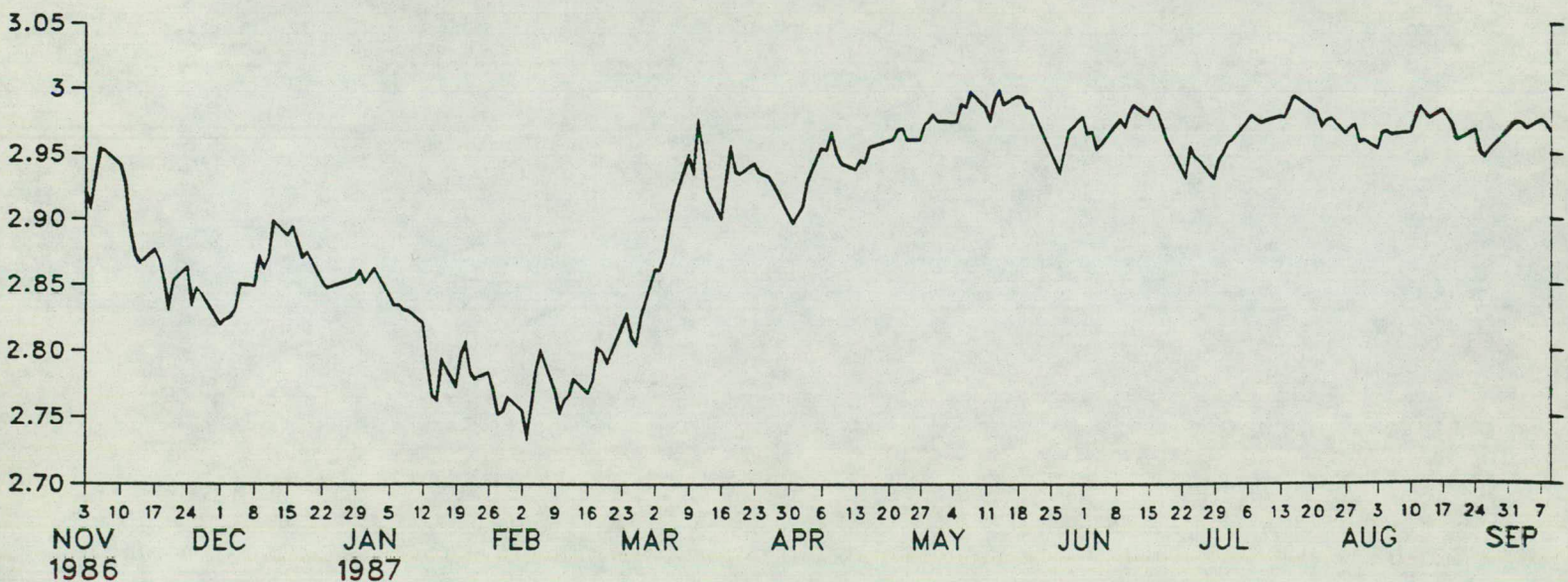
— OIL-ADJUSTED REFERENCE RATE
- - - EFFECTIVE RATE



STERLING/DOLLAR



STERLING/DEUTSCHEMARK



UK/US INTEREST RATE DIFFERENTIAL

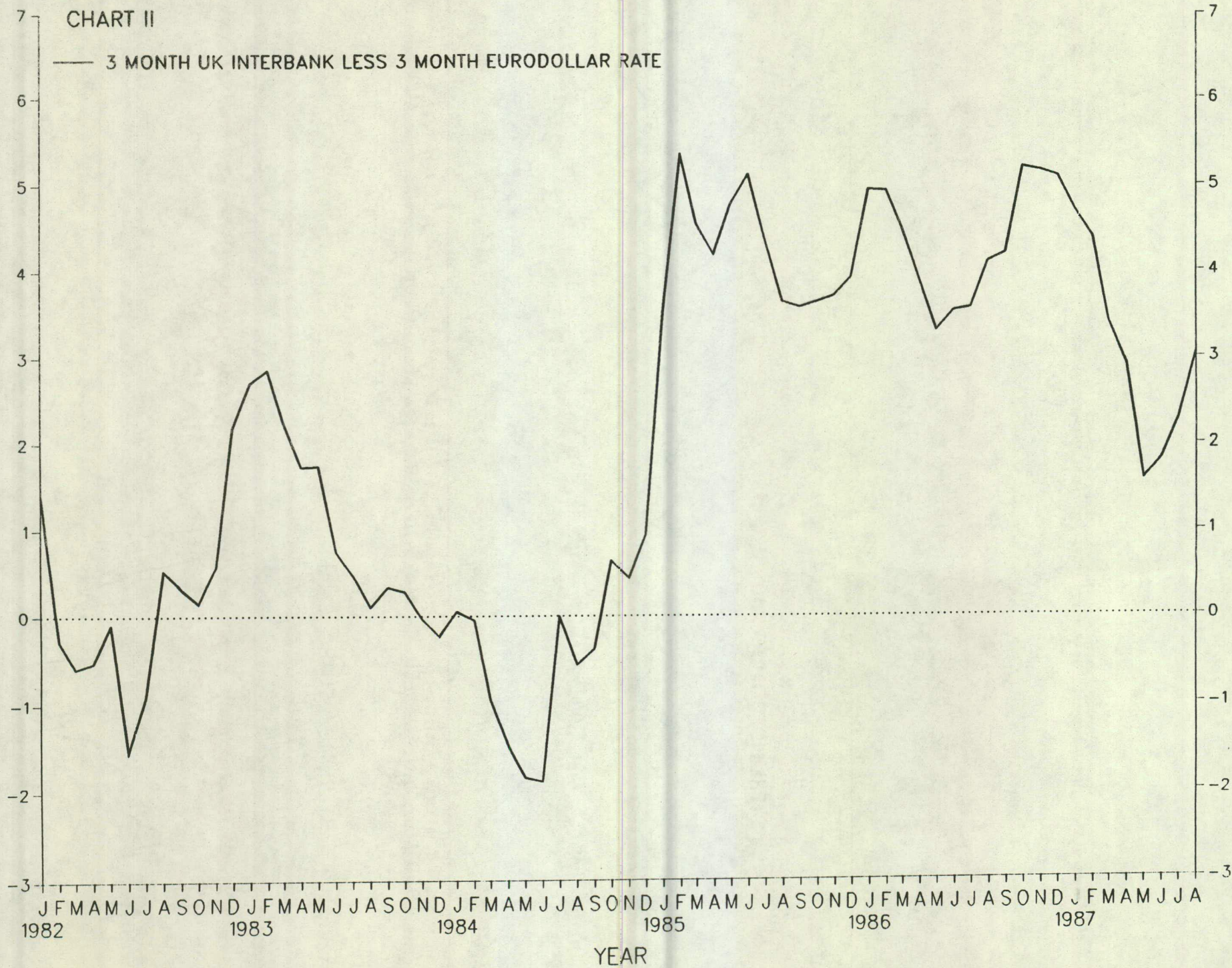


CHART III NARROW MONEY

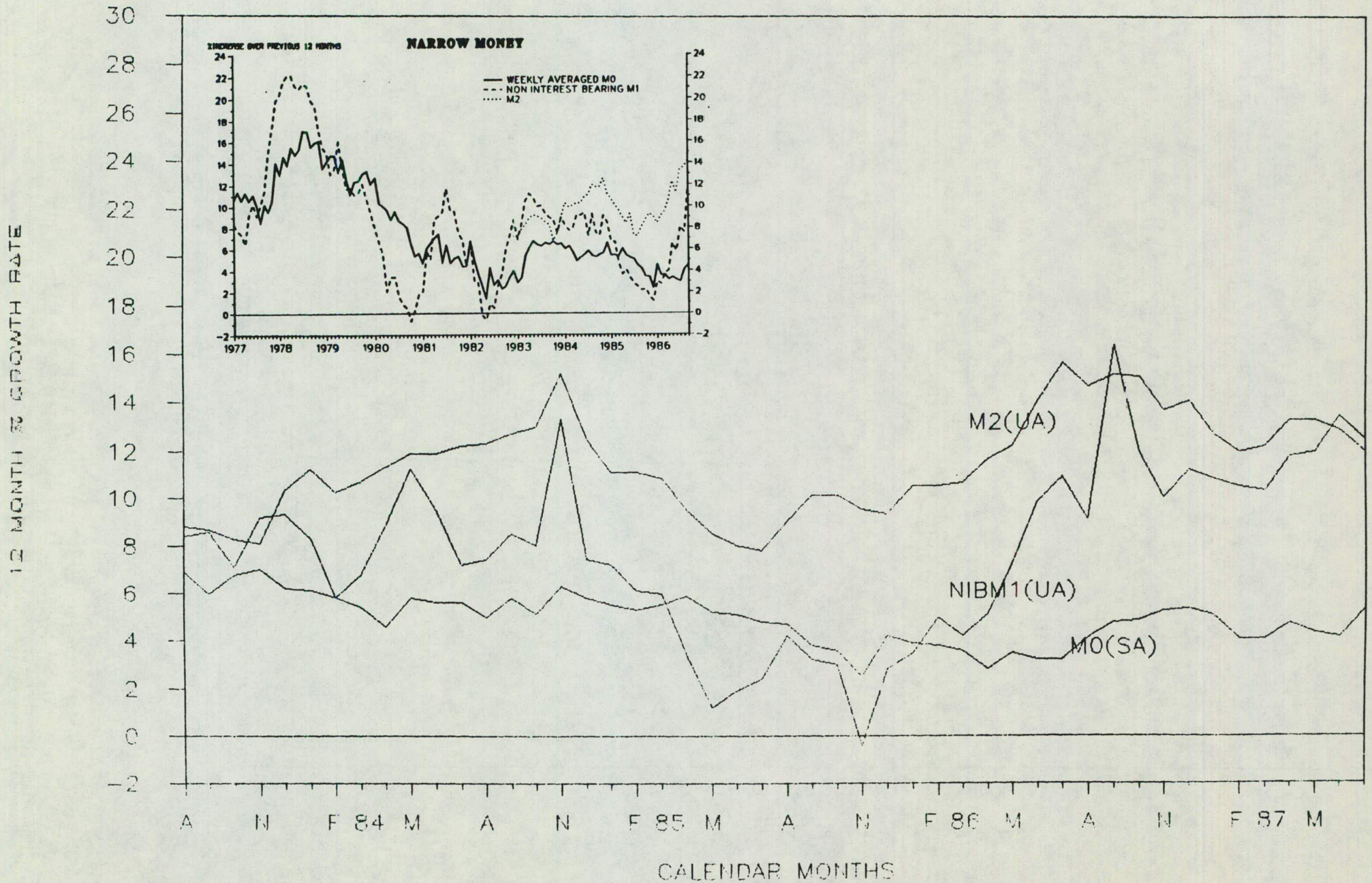
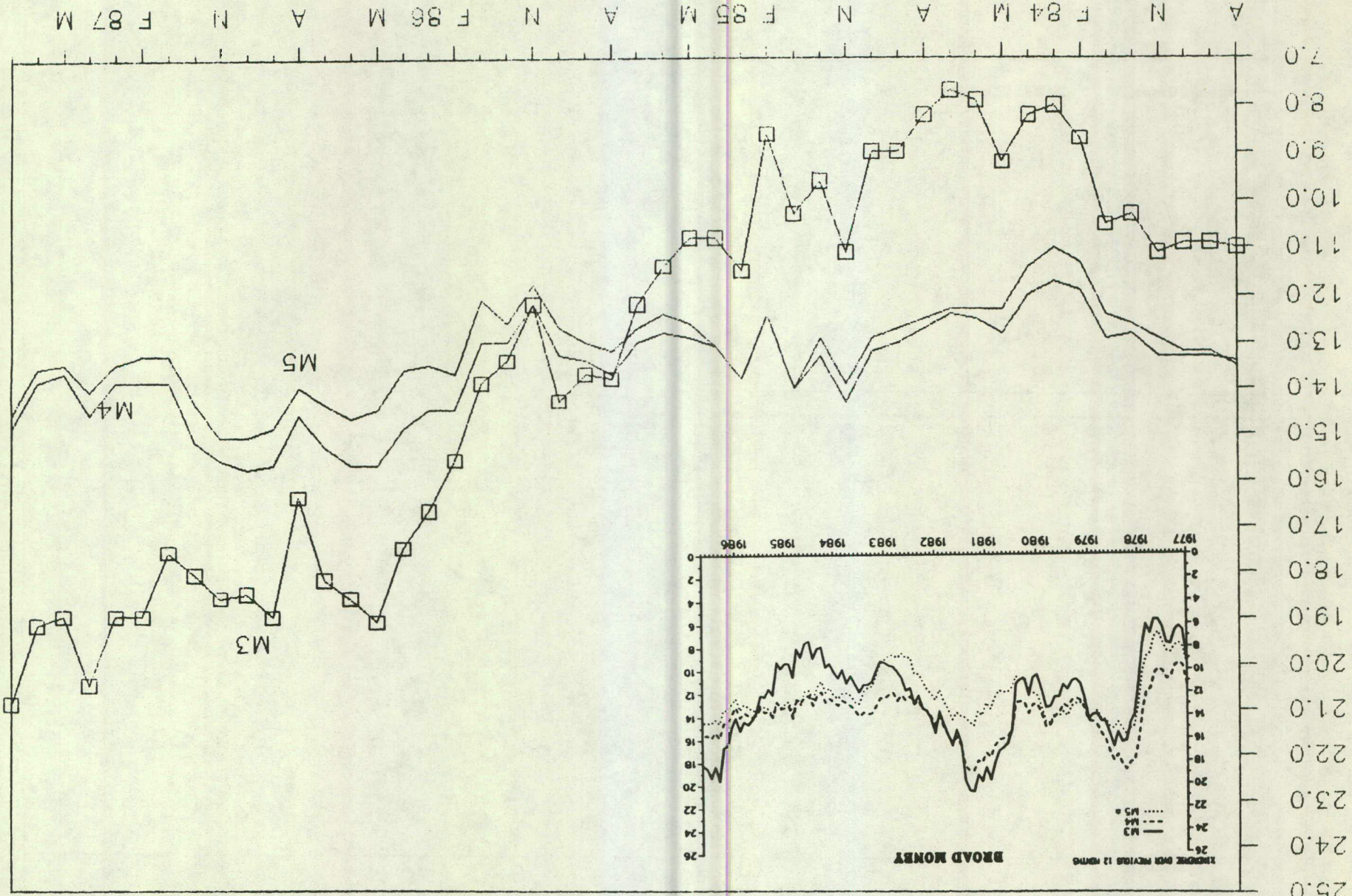


CHART IV BROAD MONEY

Annual percentage growth (sa)



12 MONTH % GROWTH RATE

CHART V REAL MO

Annual percentage growth (sa)

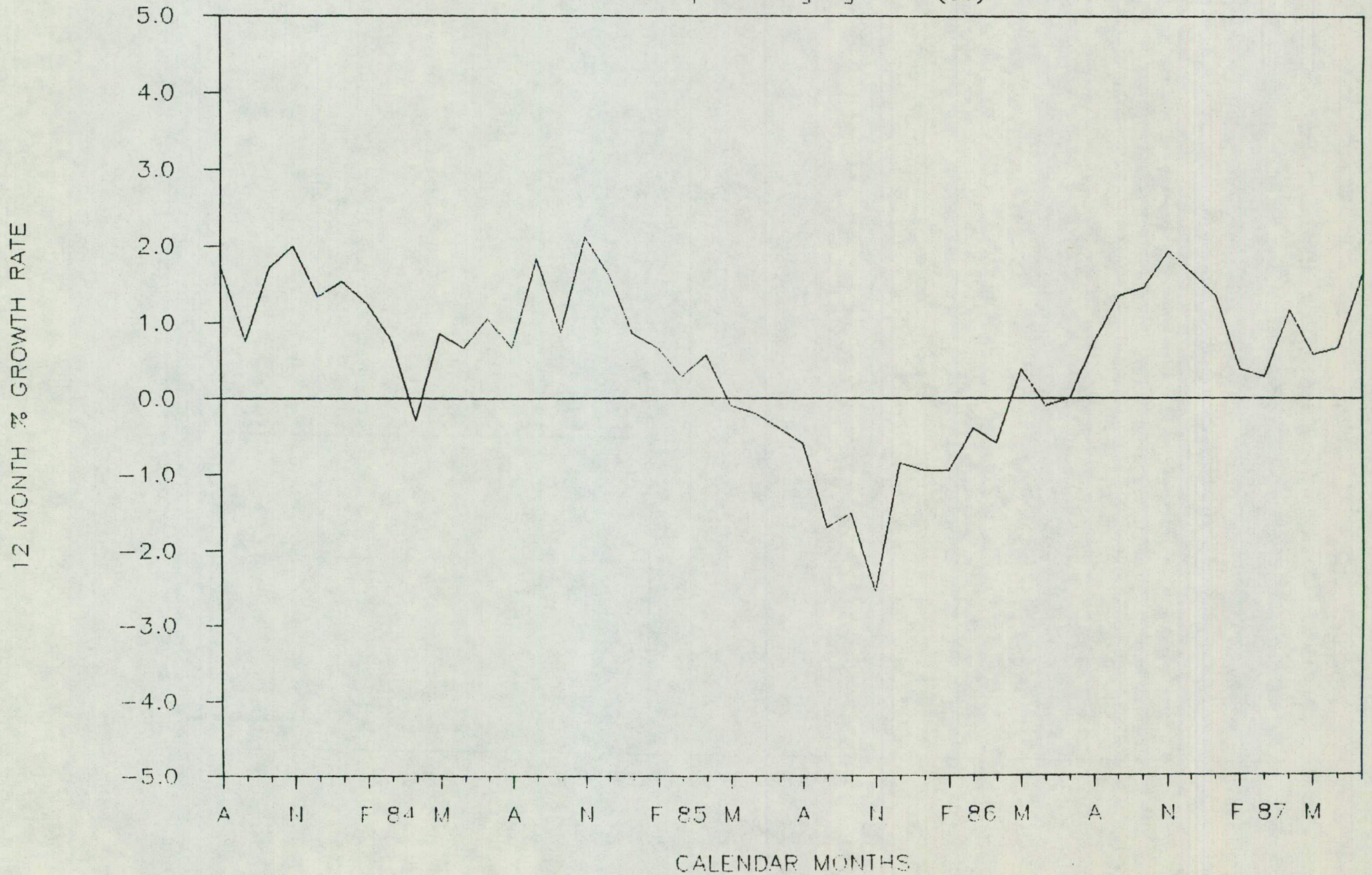


CHART VI REAL BROAD MONEY

Annual percentage growth (ua)

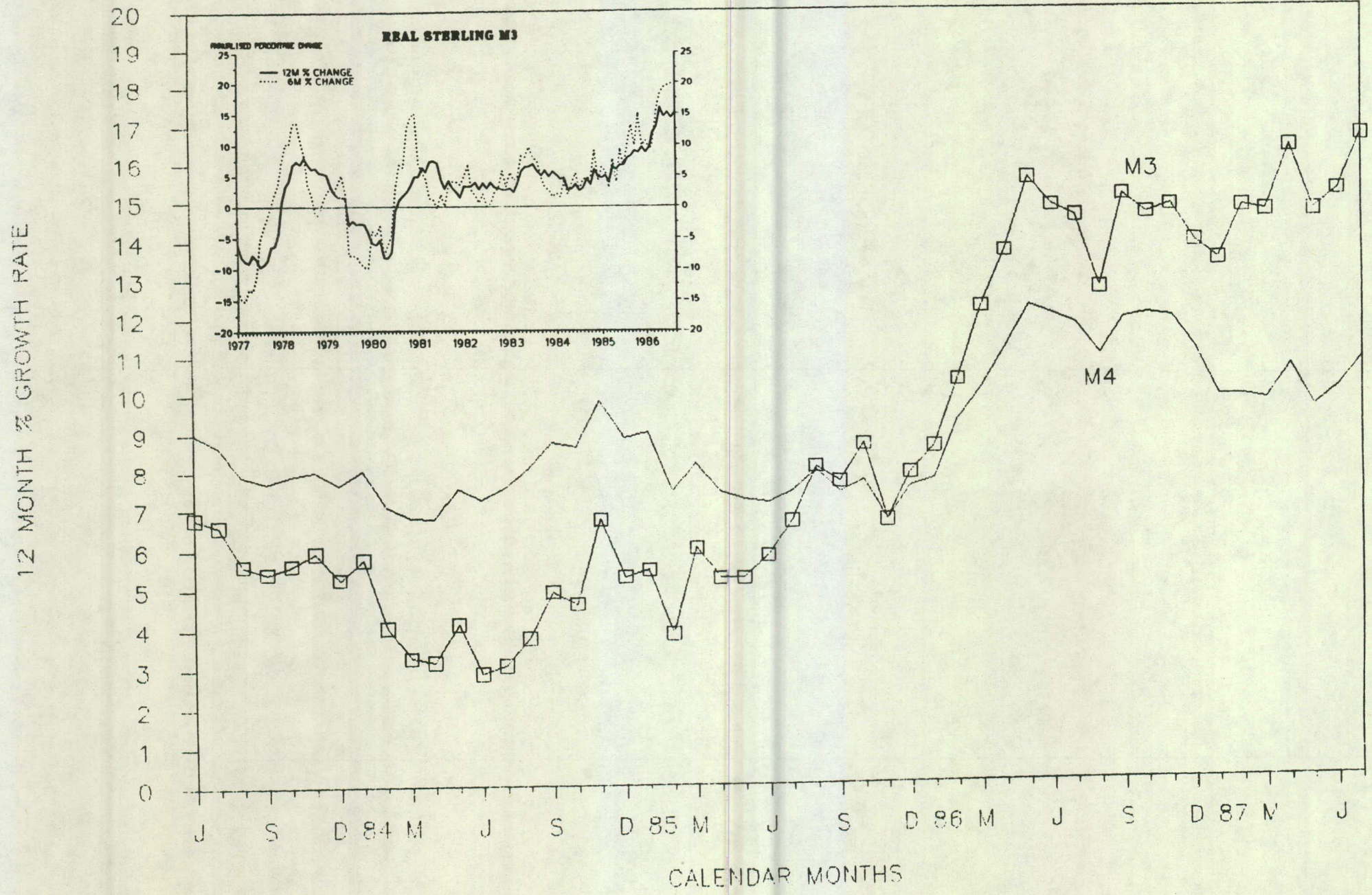


CHART VII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR MO

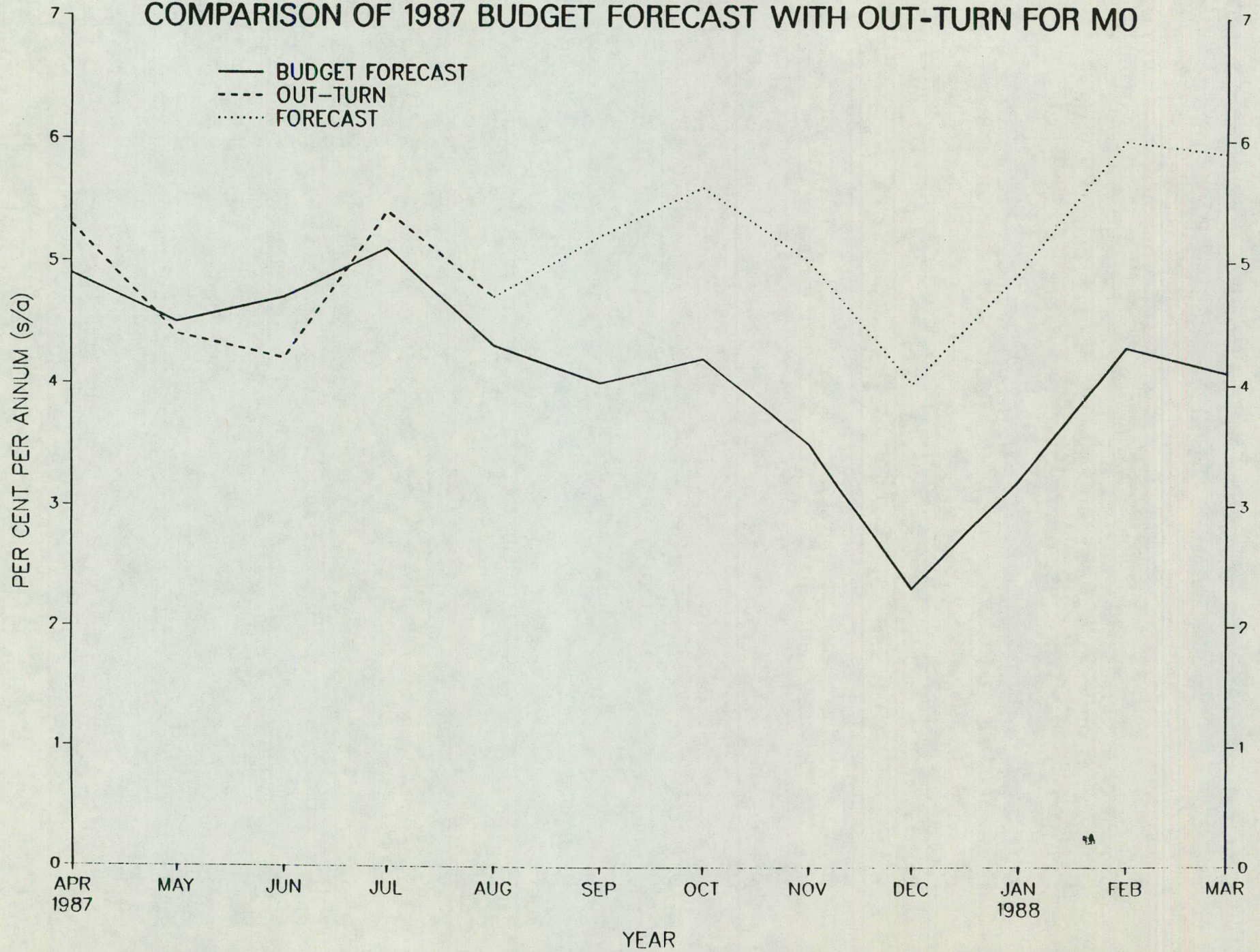
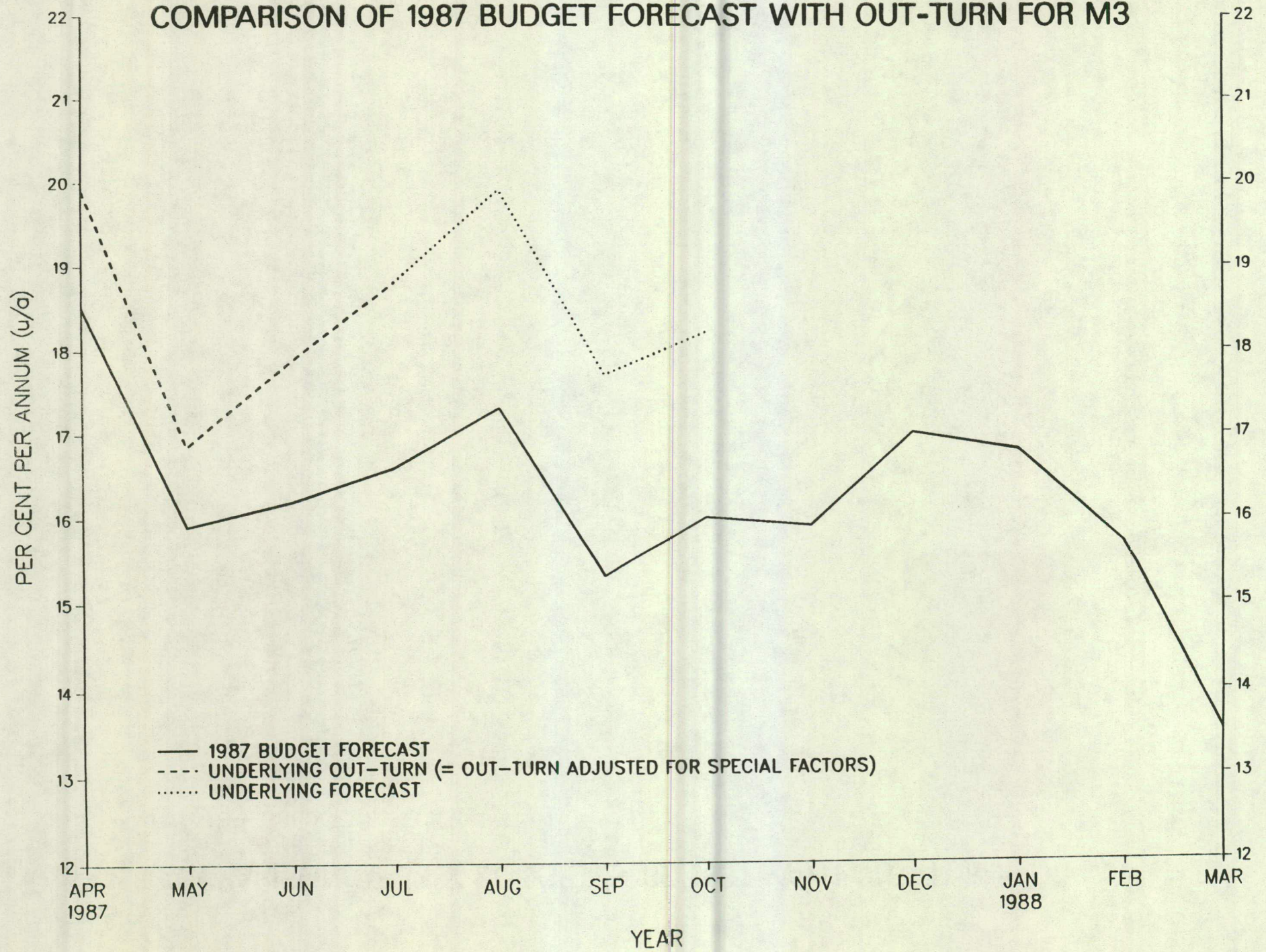


CHART VIII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M3



M0 GROWTH (SA) COMPARED TO TARGET RANGE

CHART IX

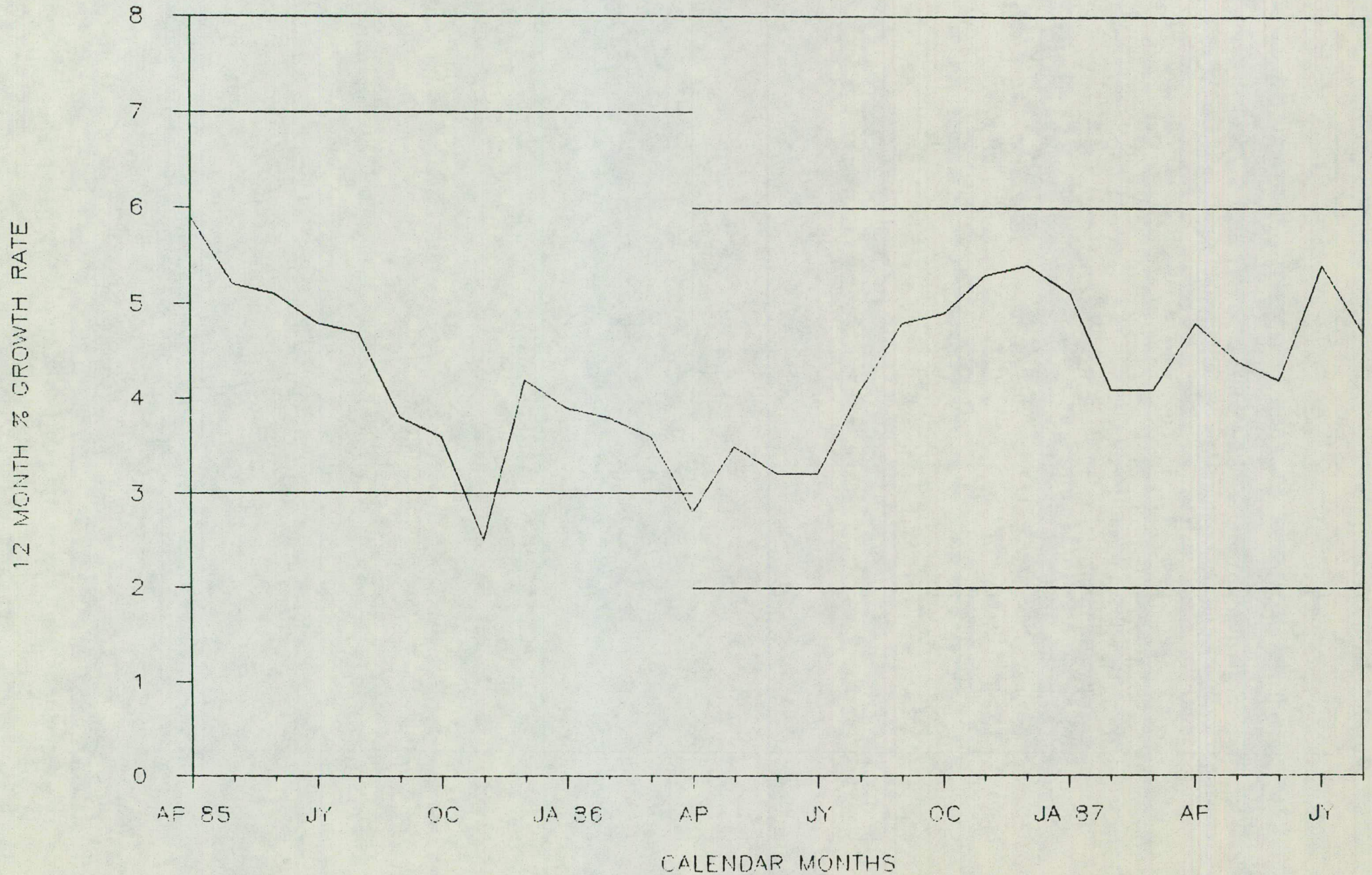
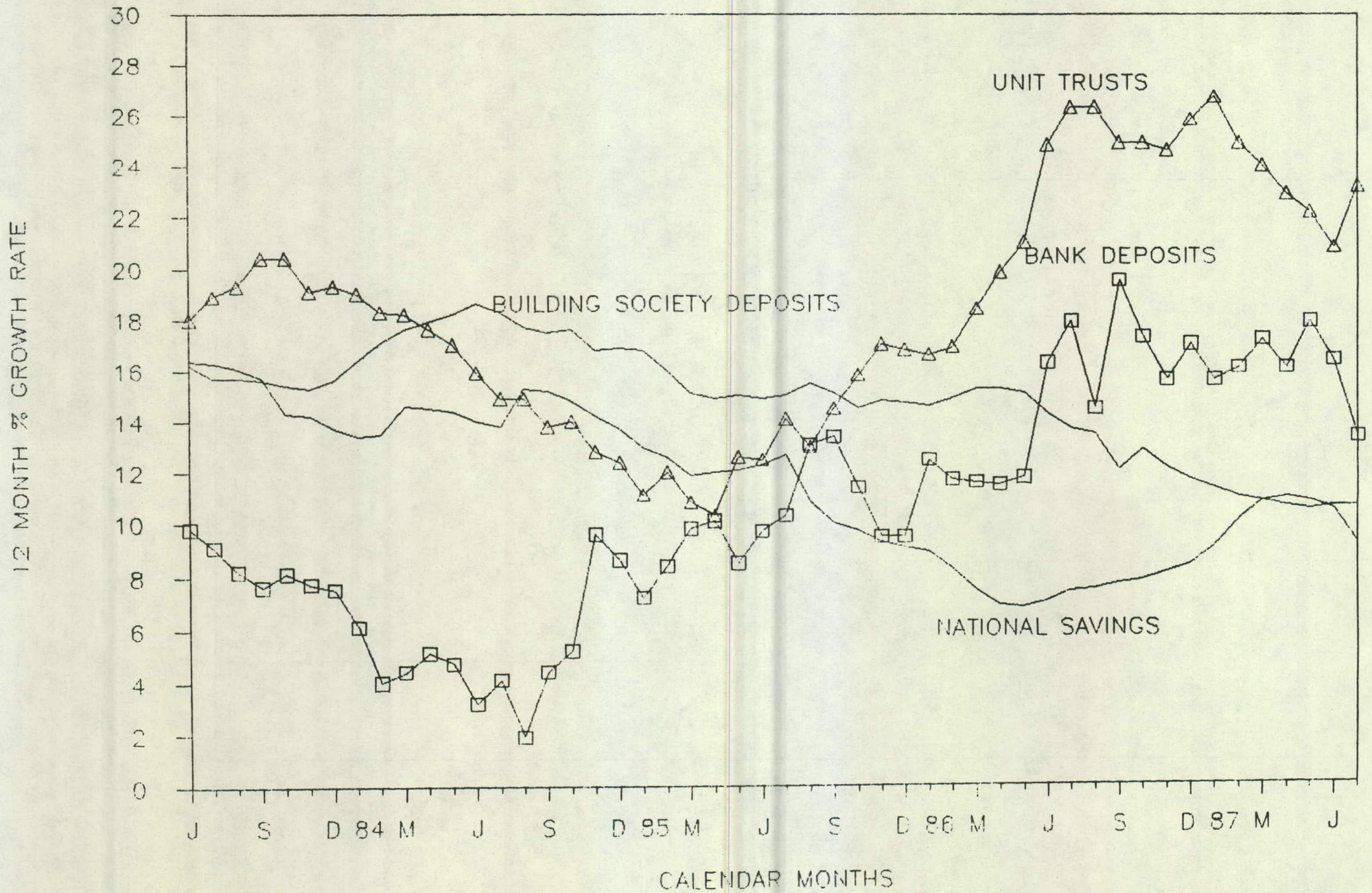
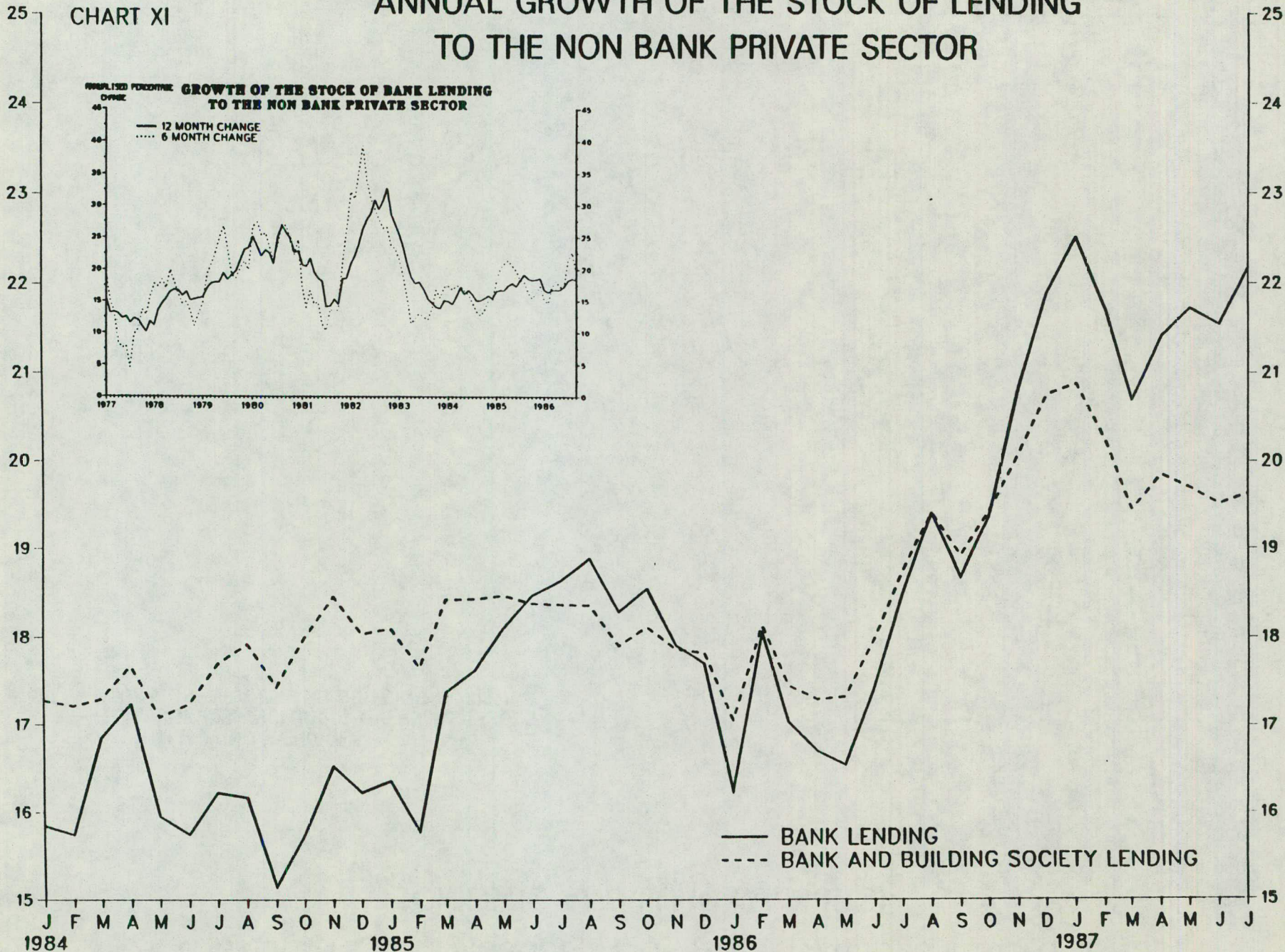


CHART X RETAIL DEPOSITS



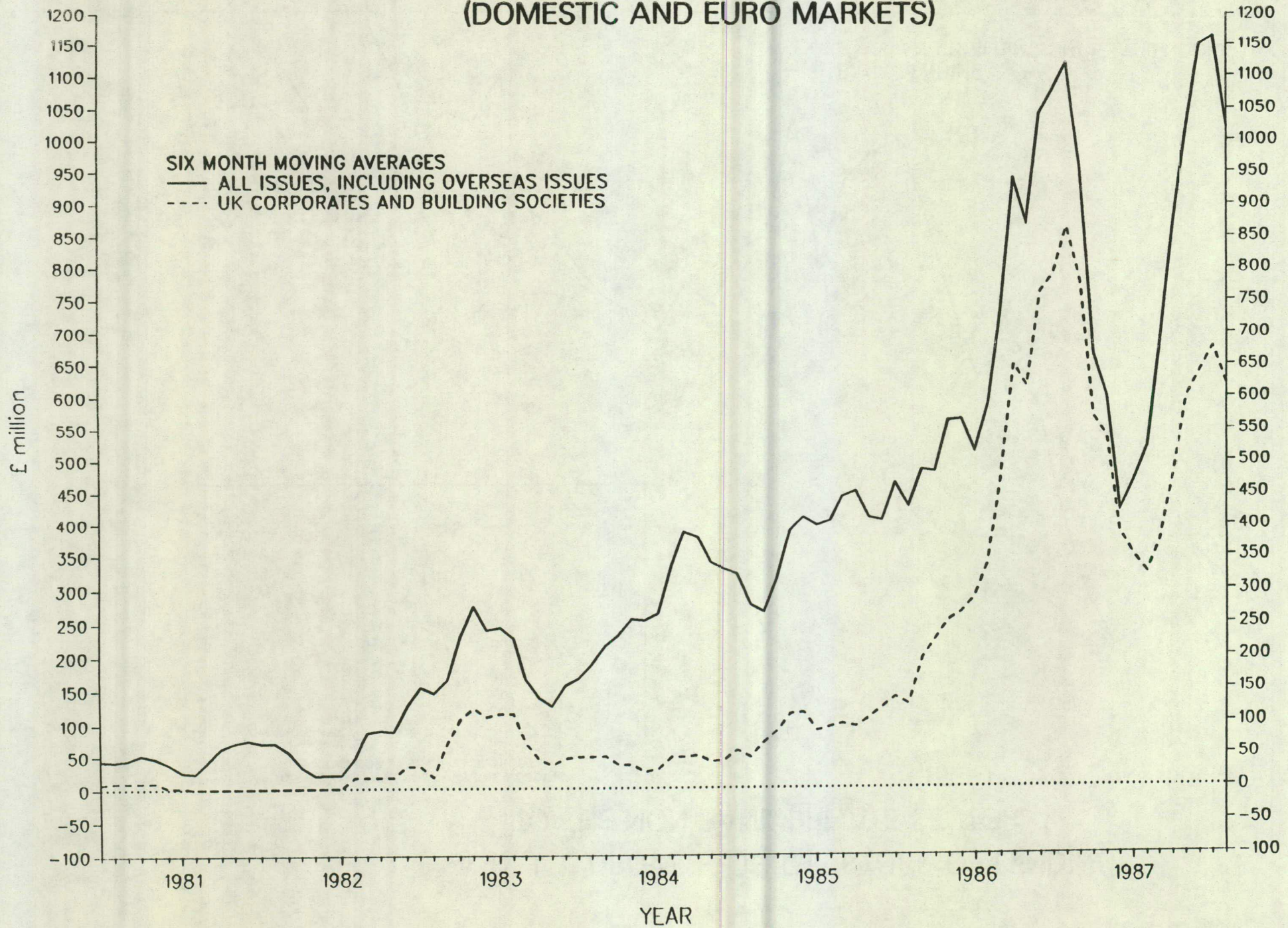
ANNUAL GROWTH OF THE STOCK OF LENDING TO THE NON BANK PRIVATE SECTOR

CHART XI



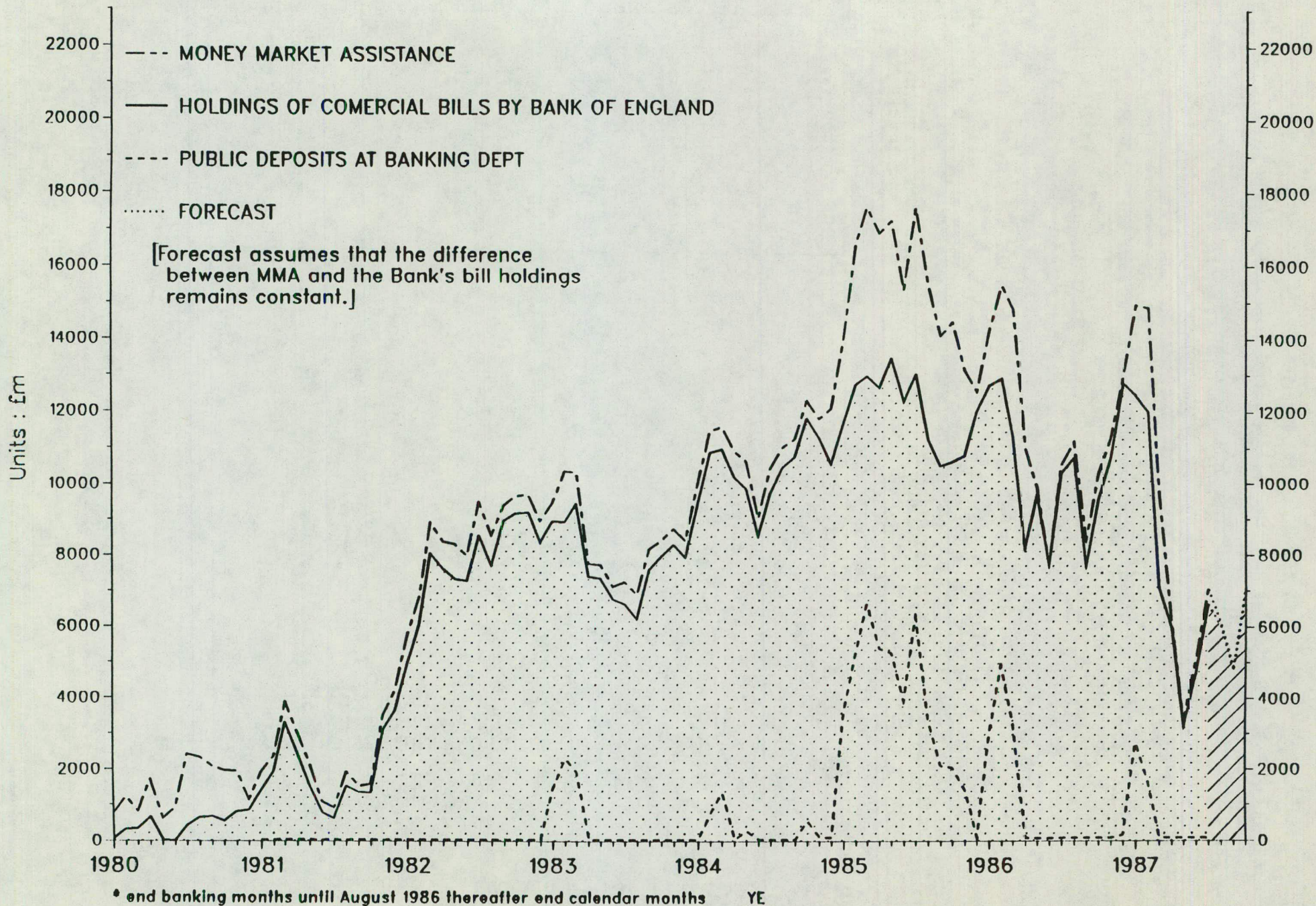
STERLING BOND ISSUES BY UK AND OVERSEAS INSTITUTIONS (DOMESTIC AND EURO MARKETS)

CHART XII



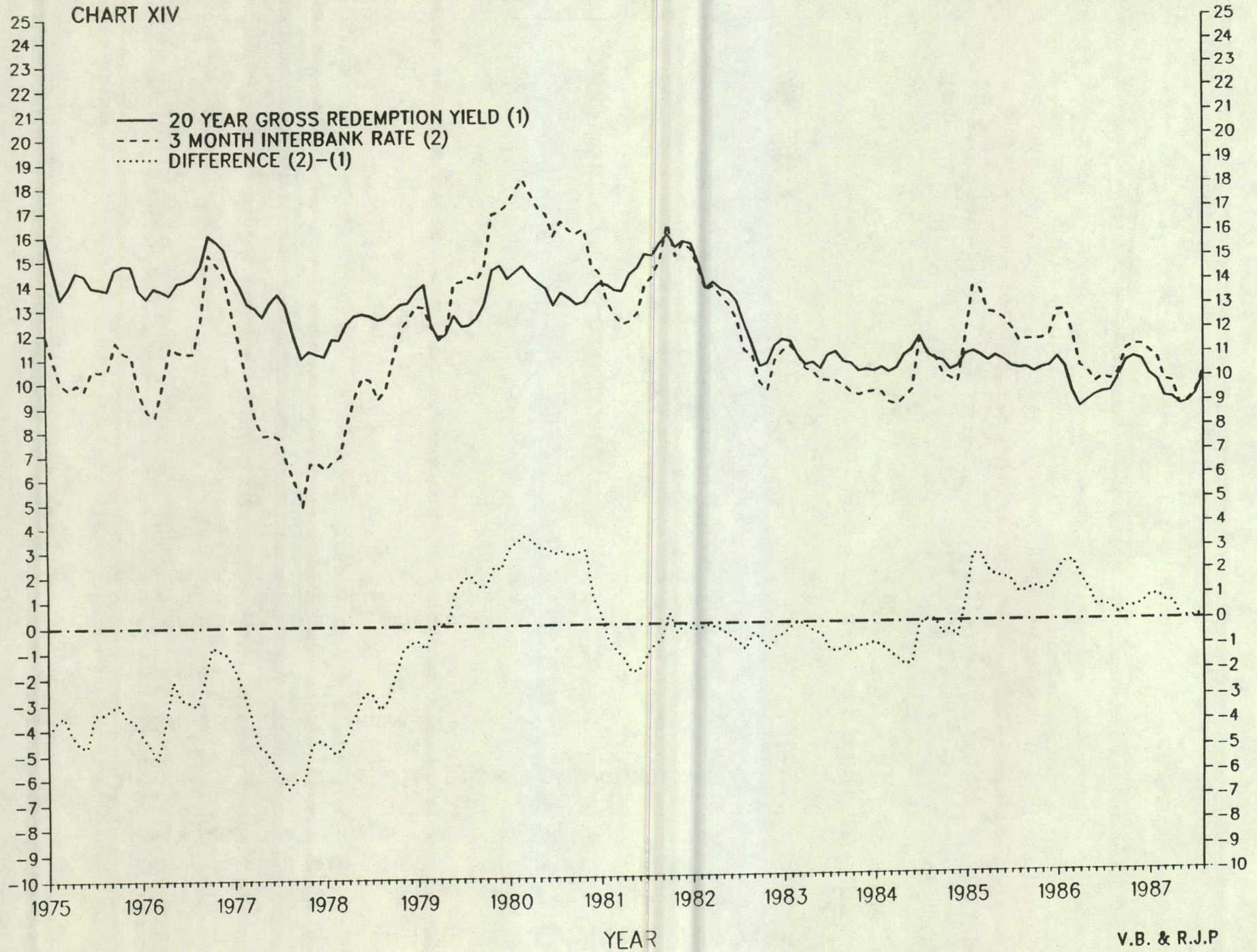
BILL MOUNTAIN RANGE

CHART XIII



NOMINAL INTEREST RATES

CHART XIV



V.B. & R.J.P

Per cent Time / Yield Curves of British Government Stocks

CHART XV

7th September 1987

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 3.06

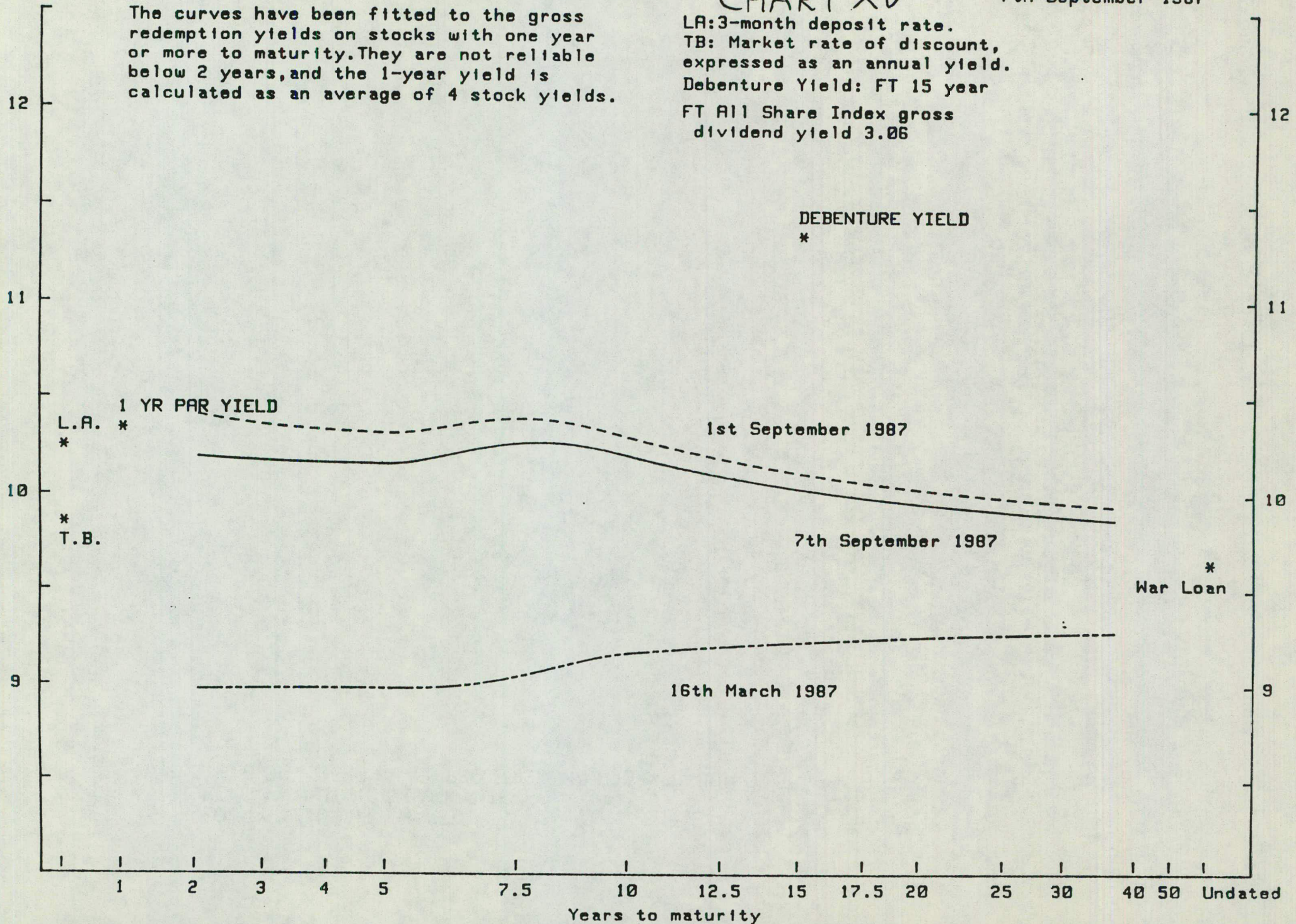
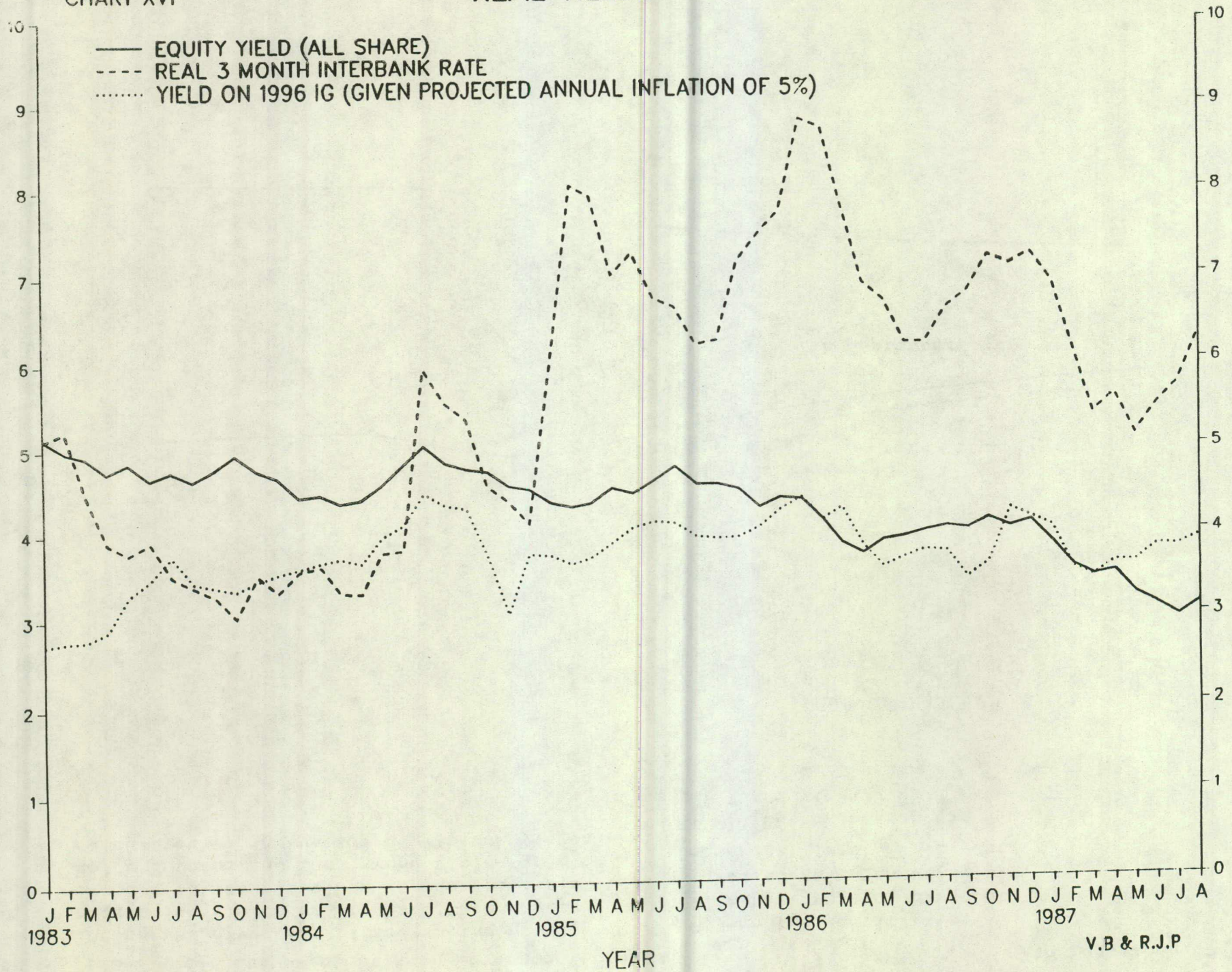


CHART XVI

REAL YIELDS



V.B & R.J.P

ANNUAL HOUSE PRICE INFLATION

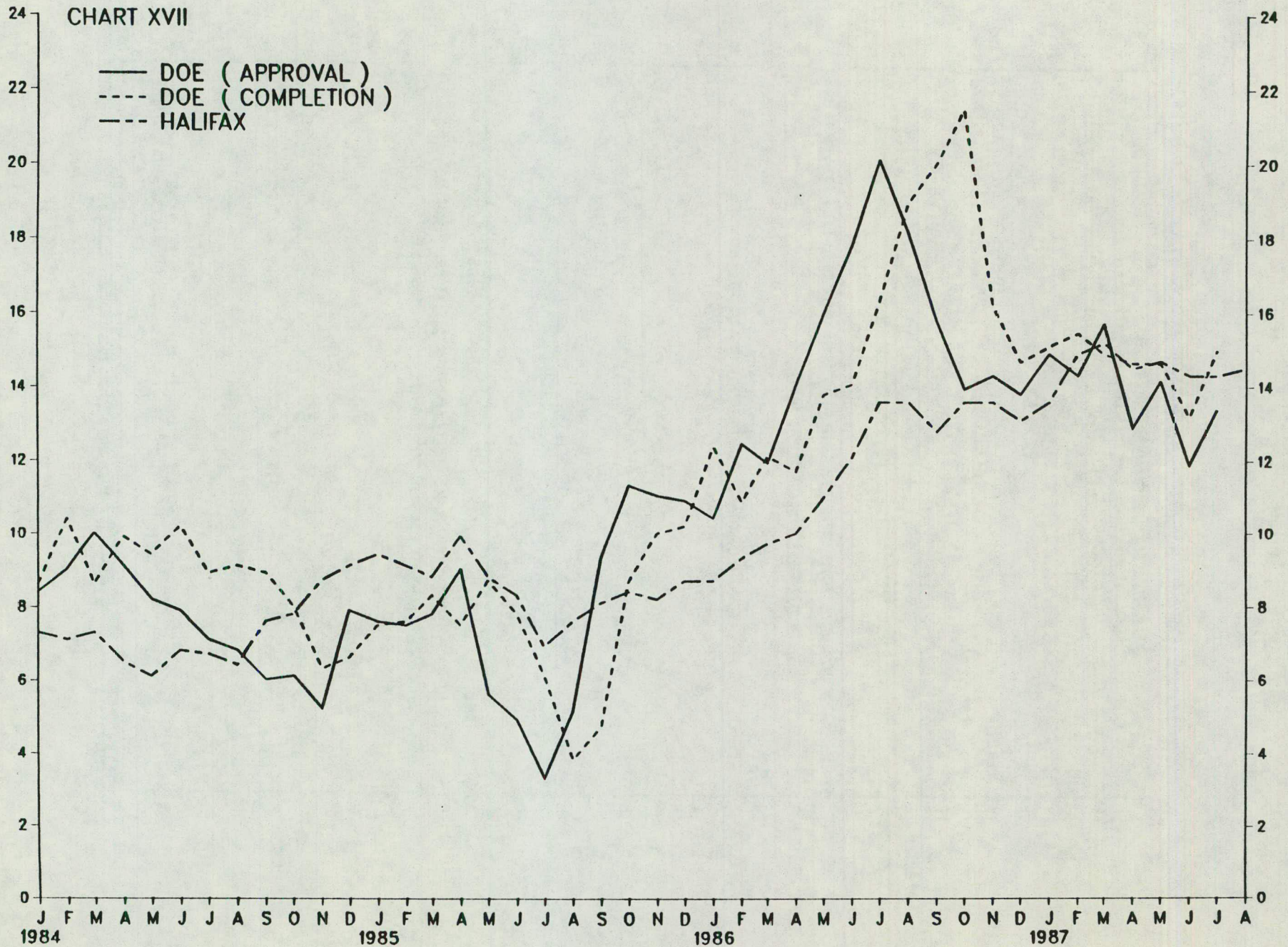


CHART VIII HOUSE PRICES 2

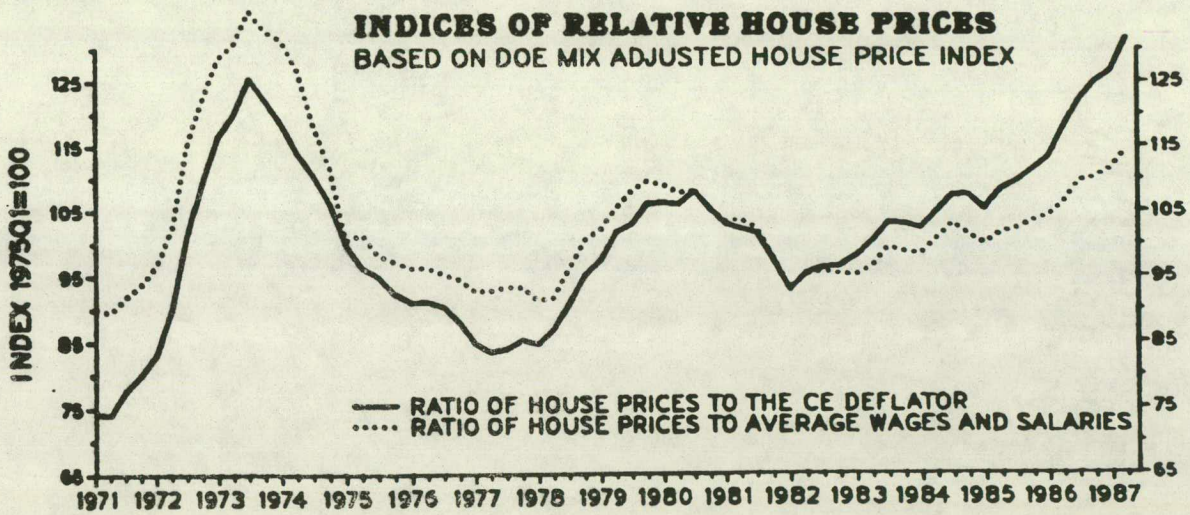
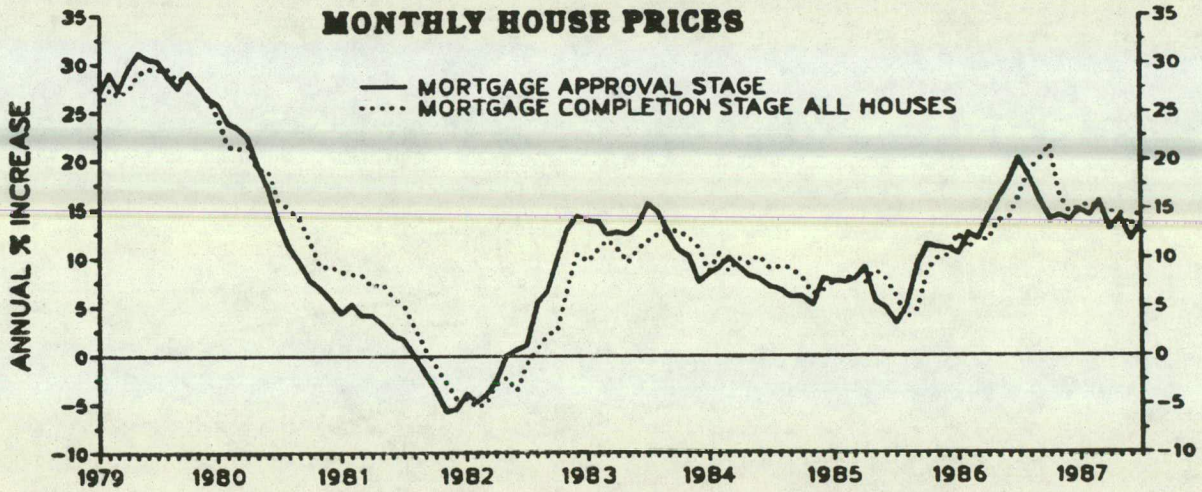
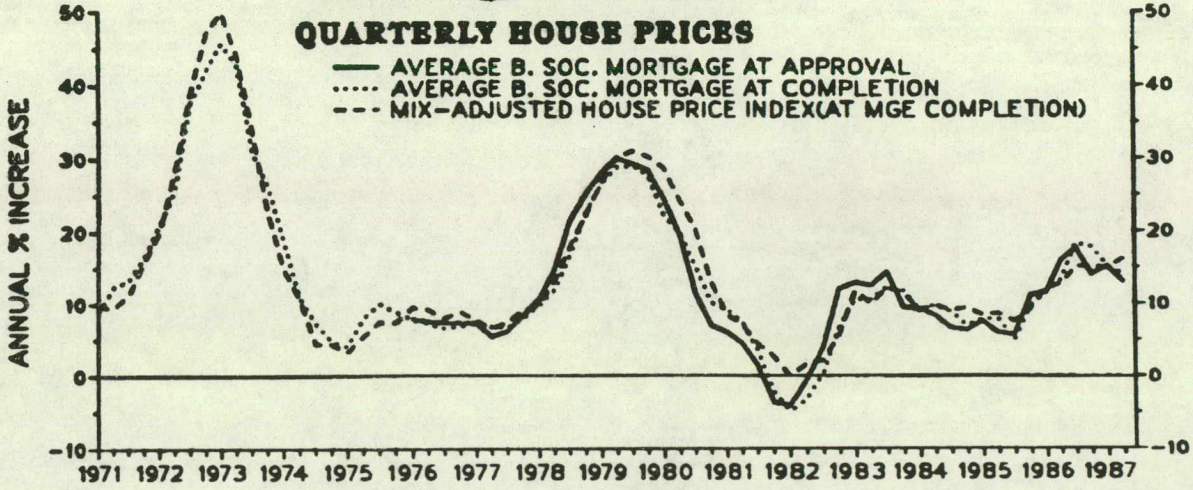
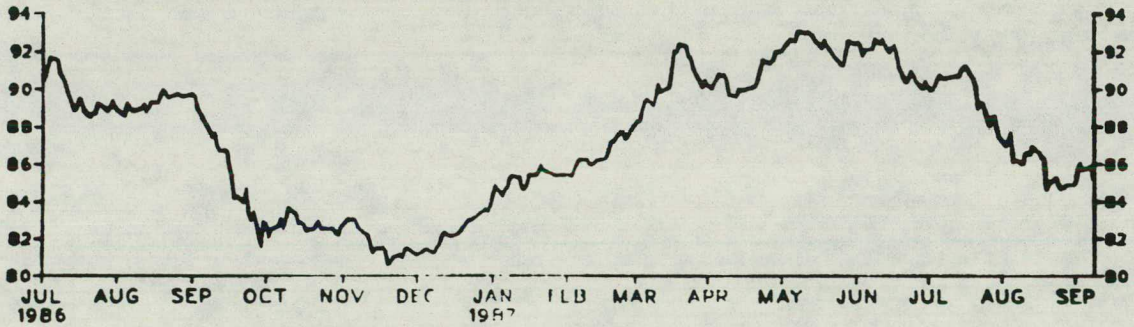


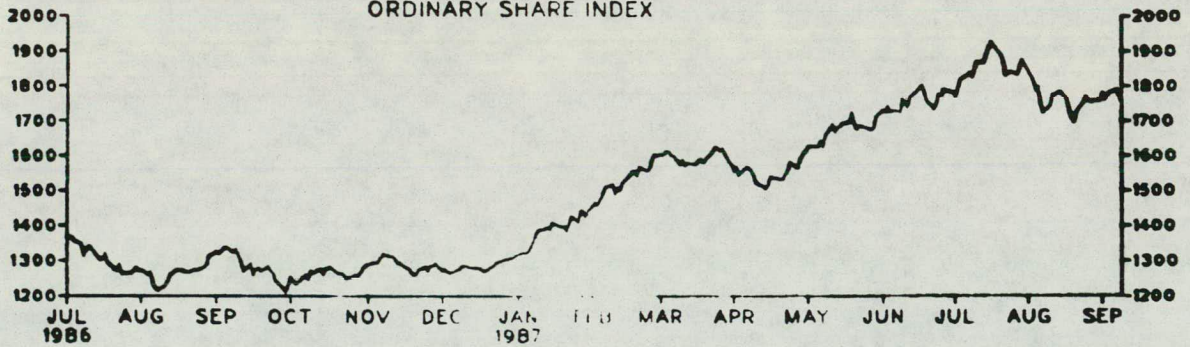
CHART XIX

CAPITAL MARKET INDICES

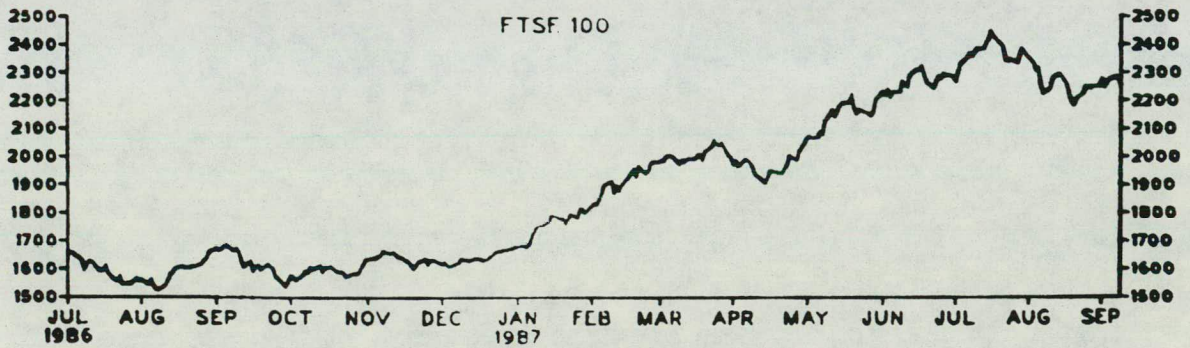
GILT INDEX



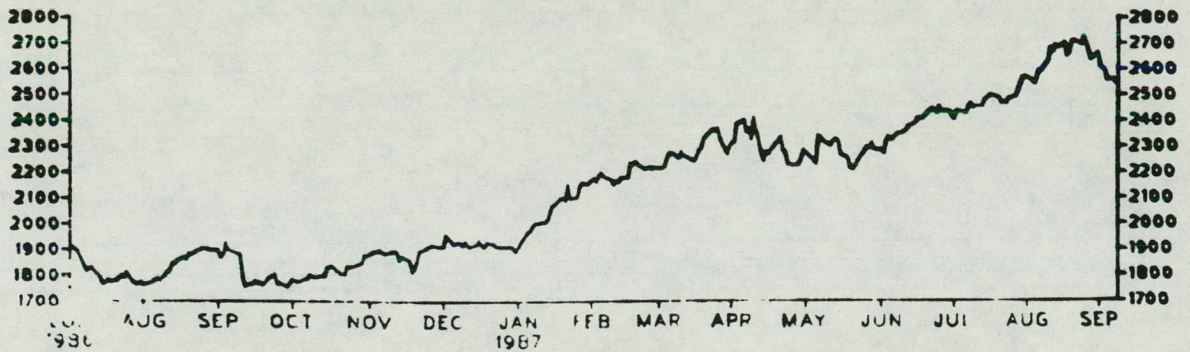
ORDINARY SHARE INDEX



FTSE 100



DOW-JONES INDUSTRIAL INDEX



SECRET

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- Table 3 - Exchange rates in G5

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TABLE 1: DEVELOPMENTS IN THE MAJOR 6 (EXCLUDING THE UK) COUNTRIES
(per cent change on same period a year earlier)

	Nominal GNP	OUTPUT		TRADE VOLUMES*		PRICES		MONEY	
		Real GNP	Industrial production	Exports	Imports	GNP Deflator	Consumer prices	Narrow money	Broad money
1982	6.2	-0.6	-4.1	-2.6	-1.3	6.9	7.0	6.7	9.9
1983	7.4	2.8	3.3	0.1	3.6	4.5	4.6	9.7	8.5
1984	9.5	5.1	8.4	10.0	15.8	4.2	4.5	6.3	8.5
1985	6.8	3.1	2.8	2.5	3.6	3.8	3.7	7.8	8.3
1986	6.2	2.7	1.0	0.4	7.6	3.4	1.8	10.2	7.2
1986Q1	6.6	3.0	1.8	-0.9	5.1	3.5	2.9	8.6	6.8
Q2	6.7	3.1	1.0	-0.1	8.0	3.5	1.7	10.2	6.7
Q3	6.1	2.6	0.6	1.7	10.4	3.4	1.5	10.6	7.4
Q4	5.2	2.2	0.5	0.9	6.9	2.9	1.1	11.4	7.8
1987 Q1	5.4	2.4	1.0	3.3	7.2	2.9	1.5	12.3	7.9
Q2			2.1				2.6	11.4	8.2
1987 Jan			-0.2				1.1	13.0	8.1
Feb			1.0				1.5	12.8	8.0
Mar			2.1				2.0	11.2	7.7
Apr			0.8				2.6	12.1	8.2
May			2.8				2.6	11.7+	8.3+
June			2.7				2.6	10.4+	8.2+

* On national accounts basis

+ Estimate.

TABLE 2: THREE MONTH INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1982	12.2	6.9	8.9	14.7	12.3
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	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
1986 Q1	7.6	6.0	4.6	8.7	12.4
Q2	6.7	4.7	4.6	7.4	10.2
Q3	6.0	4.7	4.6	7.2	10.0
Q4	5.8	4.5	4.7	7.7	11.2
1987 Q1	6.0	4.1	4.2	8.3	10.7
Q2	6.8	3.8	3.8	8.1	9.2
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	7.2	3.7	4.0	7.9	10.2

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

TABLE 3: EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK
1980	93.7	126.4	128.8	94.4	96.0
1981	105.6	142.9	119.2	84.3	94.8
1982	118.0	134.6	124.4	76.6	90.4
1983	124.8	148.4	127.1	70.0	83.2
1984	134.6	156.7	123.8	65.7	78.6
1985	140.7	160.5	123.6	66.3	78.2
1986	114.8	203.1	137.3	70.1	72.8
1985 Q1	149.7	154.3	119.3	63.4	72.1
Q2	145.8	155.2	121.6	65.2	78.9
Q3	138.4	157.6	125.0	67.2	82.1
Q4	128.8	174.9	128.5	69.3	79.8
1986 Q1	121.2	186.8	133.1	71.0	75.1
Q2	116.0	202.8	134.7	69.0	76.0
Q3	111.4	214.8	138.6	69.5	71.9
Q4	110.5	208.0	142.6	70.8	68.3
1987 Q1	104.2	210.1	147.7	71.9	70.2
Q2	101.1	222.9	146.9	71.6	72.7
1987 Jan	105.5	209.4	147.5	71.8	68.9
Feb	103.9	209.3	148.4	72.3	69.0
Mar	103.3	211.7	147.1	71.8	71.9
Apr	101.0	222.7	146.6	71.6	72.3
May	100.4	225.3	147.2	71.7	73.3
June	101.8	220.8	146.8	71.5	72.6
July	103.3	213.7	146.6	71.6	72.8
Aug	103.3	218.2	146.0	71.1	72.3
Sept 9	100.4	223.9	147.2	71.4	72.9
% Change since dollar peak (Feb 85)	-36	+42½	+25½	+15	+4
% Change since Plaza (Sept 85)	-28	+43	+17½	+6	-11
% change since Louvre Accord (Feb 87)	-3½	+7	-½	-1	+5½

TABLE 4:

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

	MONEY GDP		OUTPUT		PRICES AND UNIT LABOUR COSTS					
			Manufacturing		RPI	RPI excluding mortgage payments	Producer Prices***		Unit Wage Costs	
			GDP(O))	Output			Output	Input	Manufacturing	Whole economy
1985-86	9.7	1985	3.7	3.0	6.1	5.2	6.3	4.4	5.6	5.3
1986-87	6.2	1986	2.8	0.9	3.4	3.6	4.3	-10.7	4.6	5.3
1986 2	6.2	1986 1	2.2	- 0.6	4.9	4.6	5.0	- 11.9	7.3	6.0
3	6.5	2	2.0	- 0.6	2.8	3.3	4.3	- 12.4	6.2	6.2
4	5.9	3	3.5	1.3	2.6	3.3	4.0	- 13.0	3.2	4.2
1987 1	6.4	4	3.6	3.6	3.4	3.4	4.0	- 5.6	1.6	4.9
2	8.9*	1987 1	4.2	4.3	3.9	3.7	4.1	- 1.7	0.9	4.1
3	8.6	2	3.8	4.7	4.2	3.6	4.5	4.6	1.3	
4	8.8	3								
1988 1	8.8	4								
1987-88	8.8									
		1986 June		- 1.1	2.5	3.3	4.3	- 12.4	6.2**	
		July		1.4	2.4	3.2	4.0	- 14.3	5.2	
		August		0.8	2.5	3.3	4.0	- 13.3	4.6	
		September		1.5	3.0	3.4	4.0	- 11.5	3.2	
		October		3.4	3.0	3.4	4.0	- 7.4	2.7	
		November		3.7	3.5	3.3	3.8	- 4.9	1.8	
		December		3.6	3.7	3.5	4.0	- 4.4	1.6	
		1987 January		2.6	3.9	3.7	4.2	- 2.5	1.9	
		February		5.3	3.9	3.7	4.2	- 2.9	1.5	
		March		5.0	4.0	3.8	4.1	0.4	0.9	
		April		3.5	4.2	3.6	4.3	3.0	0.5	
		May		5.2	4.1	3.8	4.5	3.4	0.8	
		June		5.4	4.2	3.5	4.4	7.2	1.3	
		July			4.4	3.7	4.6	12.8		
		August			4.4	3.7				

* June forecast.

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

*** Excluding food, drink and tobacco.

TABLE 5: INDICATORS OF FISCAL STANCE

(a) Annual Data

	PSBR		PSBR excluding privatisation proceeds		PSFD	
	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	1½	0.8	1½	-0.2	-½
1971-72	1.0	1¾	1.0	1¾	0.7	1
1972-73	2.4	3½	2.4	3½	2.0	3
1973-74	4.3	5¾	4.3	5¾	3.5	4¾
1974-75	8.0	9	8.0	9	6.0	6¾
1975-76	10.3	9¾	10.3	9¾	8.1	7¾
1976-77	8.3	6½	8.3	6½	7.4	5¾
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5¾	9.2	5¾	8.5	5
1979-80	10.0	4¾	10.4	5	8.2	4
1980-81	12.7	5½	13.1	5½	11.9	5
1981-82	8.6	3¾	9.1	3½	5.7	2½
1982-83	8.9	3¾	9.3	3¾	8.4	3
1983-84	9.8	3¾	10.9	3½	12.2	4
1984-85*	10.2	3	12.3	3¾	13.9	4½
1985-86*	5.8	1½	8.5	2¾	8.4	2½
1986-87	3.3	¾	7.7	2	9.7	2½
1987-88 (June forecast)	1.0	¼	6.3	1½	7.3	1¾

* If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.3 per cent lower in 1985-86.

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		s.a.*	u.a.	s.a.*	u.a.	s.a.+	u.a.
1985	Q2	1.4	2.6	2.8	4.0	2.6	4.0
	Q3	1.9	3.0	2.3	3.4	1.7	2.3
	Q4	1.2	2.1	1.7	2.6	2.0	0.4
1986	Q1	1.3	-1.9	1.8	-1.4	2.3	1.6
	Q2	2.2	2.3	3.3	3.4	2.7	3.5
	Q3	2.5	3.6	2.5	3.6	2.6	4.5
	Q4	-2.5	-1.6	-0.3	0.5	2.0	0.0
1987	Q1	1.4	-0.7	2.5	0.4	2.5	-1.7
	Q2	0.7	1.1	3.0	3.4		

* financial year - constrained

+ calendar year - constrained

Table 6: CGBR(0) April - July: Comparison with Budget Profile
£ billion (-indicates lower borrowing)

Receipts

Inland Revenue	- 0.4
Customs and Excise	- 0.3
National insurance contributions	- 0.1
Privatisation proceeds	- 0.2
Other receipts	+ 0.1

Expenditure

Net debt interest payments	+ 0.2
Net payments to EC	-
NIF benefit funding	+ 0.1
Other departmental expenditure ⁽¹⁾	- 1.0

Net effect on CGBR(0) - 1.6

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

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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)
1983	(3)	84.9	114.7	1.042	1.53	3.94	103.4	-0.3	30.9
	(4)	83.2	112.5	1.035	1.47	3.93	102.9	-0.5	29.6
1984	(1)	81.7	110.5	1.012	1.44	3.87	101.9	-0.9	29.7
	(2)	79.8	109.2	0.988	1.40	3.78	99.6	-2.1	29.7
	(3)	78.0	106.9	0.979	1.30	3.78	99.5	-0.6	28.5
	(4)	75.0	103.7	0.946	1.21	3.72	97.5	+0.3	28.6
1985	(1)	72.1	100.2	0.908	1.12	3.63	95.2	+4.4	27.7
	(2)	78.9	111.4	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	117.7	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	116.2	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	112.5	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	118.3	1.101	1.51	3.39	91.4	+3.3	12.8
	(3)	71.9	113.6	1.049	1.5	3.1	84.9	+3.7	12.4
	(4)	68.3	107.8	0.97	1.43	2.87	79.0	5.1	14.8
19987	(1)	69.9	114.2	0.967	1.54	2.83	78.8	4.3	17.9
	(2)	72.8	116.7	0.996	1.64	2.96	82.6	2.1	18.6
1987	January	68.9	112.6	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	113.7	0.960	1.53	2.78	77.4	+4.5	17.2
	March	71.9	116.4	0.991	1.59	2.92	81.2	+3.6	18.0
	April	72.3	115.8	0.994	1.63	2.95	82.1	+3.0	18.2
	May	73.3	117.6	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	116.7	0.991	1.63	2.96	82.6	+1.8	18.9
	July	72.8	116.9	0.985	1.61	2.97	82.9	+2.7	19.8
	August	72.3	115.7	0.988	1.60	2.97	82.8	+3.0	18.9
	September 10th	72.9	n/a	n/a	1.65	2.97	83.0	+2.8	18.4

† 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

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
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	6.3	2.6	4.3	4.0
	September 10	10.2	7.5	10.0	10.1	3.9	6.3	3.2	4.3	4.1

* 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 £mn
1982	0.5	8.6	0.5	4035
1983	-1.1	9.5	-0.6	3338
1984	9.6	11.0	-1.9	1474
1985	6.8	4.2	1.8	2919
1986	2.4	5.7	-0.8	-980
1986 Q1	-2.5	3.2	3.0	733
2	0.0	2.4	1.9	135
3	2.9	7.5	-2.4	-918
4	9.3	9.9	-4.9	-930
1987 Q1	11.2	5.4	-1.0	471
Q2	6.3	10.1	+1.1	-561
Jan	-2.6	1.5	4.5	995
Feb	-2.7	2.6	3.3	204
Mar	-2.3	5.7	1.7	-466
Apr	-2.2	-1.8	2.3	283
May	-0.2	7.3	2.9	-113
Jun	2.6	1.7	1.6	-35
Jul	2.6	4.2	-1.9	-5
Aug	-0.4	9.7	-2.8	-734
Sep	6.4	8.4	-2.5	-179
Oct	7.7	5.1	-3.3	-155
Nov	11.3	10.6	-5.0	-462
Dec	9.0	15.0	-6.1	-313
1987 Jan	7.3	6.4	-2.7	18
Feb	18.2	8.5	-1.5	333
Mar	7.9	1.0	+0.8	119
April	8.9	10.7	+1.1	74
May	5.4	14.0	+0.3	-496
June	4.7	5.5	+1.6	-140
July	8.5	10.8	-0.4	-310

* excluding oil and erratics.

TABLE 10

Key Monetary Indicators

	1985-86				1986-87							
	<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>April</u>	<u>May</u>	<u>June</u>	<u>July</u>
<u>MONETARY AGGREGATES</u>												
12 month % change (ua)												
MO	4.1	4.8	4.9	5.2	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3
M3	16.4	19.0	18.5	18.6	18.1	17.6	19.0	19.0	20.5	19.0	19.2	20.9
M4	14.6	15.7	15.8	15.6	15.2	13.9	13.9	13.9	14.6	13.7	13.9	14.9
M5	14.0	14.9	15.1	15.1	14.4	13.3	13.3	13.5	14.1	13.5	13.6	14.6
<u>STERLING LENDING</u>												
12 month % change (ua)												
Banks	19.4	18.6	19.4	20.8	21.9	22.5	21.7	20.7	21.4	21.7	21.5	22.9
Banks and building societies	19.4	18.9	19.4	20.1	20.7	20.9	20.2	19.5	19.9	19.7	19.5	19.6
<u>OVER(-)/UNDER (+) FUNDING</u>												
financial year to date:£mn												
	-75	2,654	812	-3	-1,577	-3,931	-3,969	393	3215	5178	2420	1928
<u>MONEY MARKET ASSISTANCE/</u>												
Level outstanding £mn												
	11,168	8,390	10,247	11,295	12,970	14,948	14,873	9,742	6126	3340	5132	7038
<u>INTEREST RATES</u>												
3 months*	9.9	10.2	11.1	11.3	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3
20 year ^φ	9.4	10.3	10.6	10.9	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3
<u>EFFECTIVE EXCHANGE RATE</u>	71.4	70.4	67.8	68.5	68.5	68.9	69.0	71.9	73.3	73.3	72.6	72.8

* Inter bank

^φ par yield

/ banking months until August thereafter end calendar months

Table //

MONETARY AGGREGATES 1986-87

	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY
<u>M0</u>									
Averaged weekly									
Monthly change (£ million)	+134	+1,129	-1,034	-228	+115	+325	+42	-93	+423
Monthly % change	+0.9	+7.6	-6.5	-1.5	+0.8	-2.2	+0.3	-0.6	+2.8
	(+1.0)	(+1.4)	(-0.6)	(-0.8)	(+0.4)	(+0.4)	(+0.5)	(+0.2)	(+1.2)
12 Monthly % change	+5.2	+5.2	+4.1	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3
<u>M3</u>									
(Exc Public sector deposit)									
Monthly change (£ million)	+2,225	+267	-1,225	+2,945	+6,813	+3,203	+3,263	+1,904	+4,199
Monthly % change	+1.5	+0.2	-0.8	+2.0	+4.4	+2.0	+2.0	+1.1	+2.5
	(+1.3)	(+0.2)	(+1.1)	(+2.3)	(+3.3)	(+1.9)	(+2.1)	(+1.0)	(+2.3)
12 Monthly % change	+18.6	+18.1	+17.6	+19.0	+19.0	+20.5	+19.0	+19.2	+20.9
<u>M4</u>									
Monthly change (£ million)	+2,583	+1,691	-325	+2,470	+6,668	+3,555	+3,454	+4,044	5,301
Monthly % change	+1.0	+0.7	-0.1	+0.9	+2.5	+1.3	+1.3	+1.5	+1.9
	(+1.1)	(+0.2)	(+0.6)	(+1.4)	(+2.1)	(+1.4)	(+1.4)	(+1.3)	(+1.8)
12 Monthly % change	+15.6	+15.2	+13.9	+13.9	+13.9	+14.6	+13.7	+13.9	14.9
<u>M5</u>									
Monthly change (£ million)	+2,573	+1,529	-666	+2,616	+6,976	+3,575	+4,121	+4,159	+5,653
Monthly % change	+1.0	+0.6	-0.2	+0.9	+2.5	+1.3	+1.4	+1.4	+1.9
	(+1.2)	(+0.1)	(+0.6)	(+1.3)	(+1.9)	(+1.2)	(+1.6)	(+1.3)	(+1.8)
12 Monthly % change	+15.1	+14.4	+13.3	+13.3	+13.5	+14.1	+13.5	+13.6	+14.6
<u>NIBMI</u>									
Monthly change (£ million)	+926	+410	-1,842	+516	+1,055	+474	+1,167	+1,469	+122
Monthly % change	+2.3	+1.0	-4.4	+1.3	+2.6	+1.2	+2.8	+3.4	+0.3
	(+1.1)	(+0.8)	(+1.0)	(+1.7)	(-0.6)	(-0.2)	(+3.5)	(+3.8)	(-0.3)
12 Monthly % change	+10.0	+11.2	+10.8	+10.5	+10.3	+11.8	+12.0	+13.5	+12.5
<u>M1</u>									
Monthly change (£ million)	+2,197	-871	-237	+409	+4,381	+725	+2,983	+2,120	+1,008
Monthly % change	+3.0	-1.2	-0.3	+0.5	+5.8	+0.9	+3.7	+2.5	+1.2
	(+2.4)	(-1.4)	(+2.8)	(+0.8)	(+4.0)	(+0.2)	(+4.1)	(+2.6)	(+0.9)
12 Monthly % change	+23.5	+21.2	+23.2	+21.2	22.6	+23.3	+23.8	+23.9	+22.7
Net £ deposits from banks abroad	+803	+719	+1,004	-845	-1,395	+714	+992	-940	+408
Overseas non-bank £ deposits	-255	+180	+475	+550	+742	-190	+760	-432	+564
<u>WIDER £ AGGREGATE</u>									
Monthly change (£ million)	+2,773	+1,166	+254	+2,650	+6,160	+3,732	+5,015	+532	+5,168
Monthly % change	+1.6	+0.7	+0.1	+1.5	+3.4	+2.0	+2.6	+0.3	+2.6
	(+1.5)	(+0.7)	(+1.7)	(+1.8)	(+2.5)	(+1.9)	(+2.8)	(+0.2)	(+2.5)

NB Figures in brackets are seasonally adjusted.

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	-0.4	12.2	10.1	9.1	
1986-87	3.8	0.3	14.6	9.7	9.3	
12 MONTH % CHANGES (ua except M0)						
	JUNE	3.3	-0.1	14.8	12.0	11.0
	JULY	3.2	0.0	14.5	11.7	10.9
	AUGUST	3.3	0.8	12.7	10.9	10.4
	SEPTEMBER	3.4	1.4	15.1	11.9	11.1
	OCTOBER	3.4	1.5	14.6	12.0	11.3
	NOVEMBER	3.3	1.9	14.8	11.9	11.4
	DECEMBER	3.7	1.6	13.9	11.1	10.3
1987	JANUARY	3.7	1.4	13.4	9.8	9.3
	FEBRUARY	3.7	0.4	14.8	9.2	9.3
	MARCH	3.8	0.3	14.6	9.7	9.3
	APRIL	3.6	1.2	16.3	10.6	10.1
	MAY	3.8	0.6	14.6	9.5	9.3
	JUNE	3.5	0.7	15.2	10.0	9.8
	JULY	3.7	1.6	16.6	10.8	10.5

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TABLE 13

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets)			% change on previous Month		% change on year earlier						
	Notes and coin (nsa)	(sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa) (sa)	MO (nsa)	MO (sa)		
1987												
Mar	14,577	14,808	(-3)	232	14,809	15,040 (+64)	-0.0	+0.4	+3.2	+3.8	+3.5	+4.1
Apr	14,931	14,903	(+95)	203	15,134	15,106 (+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,973	14,976	(+73)	203	15,176	15,179 (+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,947	15,071	(+95)	136	15,083	15,207 (+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,272	15,154	(+83)	234	15,506	15,388 (+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,338	15,259	(+105)	182	15,520	15,441 (+53)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
Sept [†] (2 of 5)	15,427	15,362	(+103)	269	15,696	15,631 (+190)	+0.7	+1.2	+5.8	+5.0	+6.3	+5.4
Latest 4 weeks [†]	15,389	15,328	(+139)	200	15,589	15,527 (+98)	+0.9	+0.6	+4.8	+4.9	+5.0	+5.0
Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)						
August												
5th	15,202	(+43)	260	15,462	(-8)		-0.1					
12th	15,245	(+43)	209	15,454	(-8)		-0.1					
19th	15,270	(+25)	59	15,328	(-126)		-0.8					
26th	15,317	(+47)	202	15,518	(+190)		+1.2					
September[†]												
2nd	15,379	(+62)	325	15,703	(+185)		+1.2					
9th	15,346	(-33)	214	15,560	(-143)		-0.9					

† Most recent data include estimates only for coin and unbacked note issues. The percentage changes for September so far use as their base the average for the full relevant month; for the latest 4 week period changes as based on the previous 4 week period and a comparable period a year ago.

SECRET
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TABLE 14

BUILDING SOCIETY BALANCE SHEET FLOWS

(Unadjusted, £m)									
Assets					Liabilities				
	Total Flow	Net Mortgage Advances & Unsecured Lending	Liquid Assets	Fixed assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)	
1985 *	1459	1193	239 (18.0)	27	592	495	205	167	
1986 *	1623	1589	17 (16.4)	17	553	498	523	49	
1985 Q2*	1490	1219	241 (16.5)	30	508	583	113	286	
Q3*	1666	1157	479 (17.0)	30	590	384	153	539	
Q4*	2172	1367	783 (18.0)	22	766	660	594	152	
1986 Q1*	858	1271	-431 (17.5)	18	740	462	167	-511	
Q2*	1591	1645	-74 (16.6)	20	478	522	321	270	
Q3*	1783	1884	-112 (15.7)	11	56	402	1099	226	
Q4*	2262	1556	686 (16.4)	20	938	649	403	272	
1987 Q1*	1240	1120	105 (16.1)	15	484	594	279	-117	
Q2*	1602	1284	303 (16.2)	15	595	523	182	302	
June	965	1354	-404 (16.2)	15	556	1067	8	-666	
Forecast									
Q3*	1509	1210	284 (16.3)	15	481	430	392	206	
July +	1536	1308	213 (16.2)	15	281	745	475	35	
August	1886	1273	598 (16.4)	15	404	93	400	989	
Sept	1103	1048	40 (16.3)	15	697	451	300	-345	
Oct	2312	1295	1002 (16.7)	15	1038	313	300	661	

* Monthly Averages
Figures in () liquidity ratio, unadjusted end period

+ Estimated ; part data

TABLE 15

THE COMPONENTS OF M3

BANK DEPOSITS					
	NOTES AND COINS	RETAIL		WHOLESALE	M3
		NIB	IB		
% CHANGES					
Financial years (ua)					
1984-85 ¹	5.2	6.5	7.7	19.1	11.5
1985-86 ¹	3.7	4.5	16.8	26.1	16.7
1986-87 ¹	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
JULY	5.3	13.9	20.6	21.8	18.2
AUGUST	4.1	11.9	16.2	21.7	16.4
SEPTEMBER	2.7	23.4	16.8	22.1	19.0
OCTOBER	5.8	15.3	18.6	22.8	18.5
NOVEMBER	4.0	13.3	17.1	25.6	18.6
DECEMBER	5.1	14.4	18.7	22.3	18.1
1987 JANUARY	3.7	14.7	16.2	23.0	17.6
FEBRUARY	3.2	14.5	17.2	25.7	19.0
MARCH	-2.2	16.9	17.4	25.5	19.0
APRIL	6.4	14.5	17.1	28.0	20.5
MAY	3.6	16.4	19.0	23.1	19.0
JUNE	4.0	18.1	15.4	25.3	19.2
JULY	6.3	15.4	12.0	32.5	20.9
Over 6 months (sa)					
1987 FEBRUARY	0.0	19.6	15.7	21.1	17.3
MARCH	2.9	-8.4	16.2	35.5	17.8
APRIL	2.3	10.5	12.2	37.8	22.0
MAY	-2.3	21.0	10.4	40.3	24.0
JUNE	9.0	24.5	11.3	40.0	26.0
JULY	3.5	22.9	12.5	48.8	29.2
CHANGES £ MILLION					
monthly average (sa)					
1984-85 ¹	42	56	238	683	1017
1985-86 ¹	17	90	161	556	1565
1986-87 ¹	4	359	538	1255	2157
Over 1 month (sa)					
1987 FEBRUARY	-135	808	30	2743	3446
MARCH	-215	-15	702	4694	5166
APRIL	264	-357	488	2603	2998
MAY	156	1278	295	1748	3477
JUNE	-111	1705	557	-426	1725
JULY	267	-409	564	3527	3949

¹March on March

THE COMPONENTS OF M4 AND M5

	BUILDING SOCIETIES						MONEY MARKET INSTRUMENTS	M5
	M3	RETAIL	WHOLESALE	HOLDINGS OF M3 (inc. -)	M4			
% CHANGES								
Financial years (ua)								
1984-85 ^a	11.5	15.1		1.5	13.8	12.2	13.8	
1985-86 ^a	16.7	15.3		93.7	13.5	-0.1	14.5	
1986-87 ^a	19.0	10.8	11.4	57.7	13.9	5.3	13.5	
Over 12 months (ua)								
JULY	18.2	13.7		46.6	15.3	1.0	14.4	
AUGUST	16.4	13.5		34.5	14.6	5.1	14.0	
SEPTEMBER	19.0	12.1		24.1	15.7	2.8	14.9	
OCTOBER	18.5	12.9		28.7	15.8	4.1	15.1	
NOVEMBER	18.4	12.2		24.0	15.6	5.4	15.1	
DECEMBER	18.1	11.7		17.9	15.2	1.7	14.4	
1987								
JANUARY	17.6	11.4		43.0	13.9	3.2	13.3	
FEBRUARY	19.0	11.0		62.9	13.9	3.7	13.3	
MARCH	19.0	10.8		57.7	13.9	5.3	13.5	
APRIL	20.5	10.6		55.7	14.6	5.3	14.1	
MAY	19.0	10.5		60.0	13.7	9.5	13.5	
JUNE	19.2	10.5		69.0	13.9	9.4	13.6	
JULY	20.9	10.4		69.2	14.9	8.0	14.4	
Over 6 months (sa)								
1987								
FEBRUARY	17.3	6.5		65.5	11.0	-0.5	10.3	
MARCH	17.8	12.2		61.3	12.9	-1.9	12.1	
APRIL	22.0	10.6		56.0	14.5	-4.9	13.5	
MAY	24.0	11.0		68.2	15.1	1.5	14.4	
JUNE	26.0	11.8		51.7	17.5	10.8	17.1	
JULY	29.2	11.9		43.8	20.3	11.8	19.9	
CHANGES £ MILLION								
Monthly average (sa)								
1984-85^a								
	984	1034		42	139	2221	2090	
1985-86^a								
	1565	1207		50	-118	2480	2557	
1986-87^a								
	2157	938	17	-372	51	2791	2975	
Over 1 month (sa)								
1987								
FEBRUARY	3446	877	-62	-625	3636	-48	3588	
MARCH	5166	1495	-136	-848	5681	-309	5372	
APRIL	2998	1297	41	-665	3671	-321	3350	
MAY	3477	918	100	-720	3775	820	4595	
JUNE	1725	1305	3	525	3558	255	3913	
JULY	0	901	294	-180	4944	334	5292	

1. Net in flow including Term shares and SAVE.
2. Treasury bills/bank bills/LA temporary debt/OTD's and some national savings accounts.
3. March on March

TABLE 17

RETAIL DEPOSITS

	BANKS	BUILDING ¹ SOCIETIES	NATIONAL SAVINGS	TOTAL
% CHANGES				
Financial years (ua)				
1984-85 ³	7.1	15.1	11.9	12.0
1985-86 ³	11.6	15.3	7.5	12.9
1986-87 ³	17.2	10.8	10.8	12.7
Over 12 months (ua)				
JULY	17.9	13.7	7.4	14.0
AUGUST	14.5	13.5	7.5	12.8
SEPTEMBER	19.5	12.1	7.7	13.7
OCTOBER	17.3	12.9	7.8	13.4
NOVEMBER	15.6	12.2	8.1	12.6
DECEMBER	17.0	11.7	8.4	12.8
1987 JANUARY	15.6	11.4	9.1	12.3
FEBRUARY	16.1	11.0	10.1	12.4
MARCH	17.2	10.8	10.8	12.8
APRIL	16.1	10.6	11.0	12.5
MAY	17.9	10.5	10.8	12.9
JUNE	16.4	10.6	10.5	12.9
JULY	13.4	10.6	9.2	
Over 6 months (sa)				
1987 FEBRUARY	17.2	8.5	9.9	11.4
MARCH	5.6	12.2	11.5	9.9
APRIL	11.6	10.6	11.5	11.3
MAY	14.4	11.0	11.3	12.1
JUNE	16.4	11.8	11.5	12.1
JULY	16.5	11.9	10.8	
CHANGES £ MILLION				
monthly average (sa)				
1984-85 ³	42	1034	683	1759
1985-86 ³	255	1207	1093	2555
1986-87 ³	871	938	266	2075
Over 1 month (sa)				
1987 FEBRUARY	838	877	342	2057
MARCH	687	1499	281	2467
APRIL	131	1297	244	1672
MAY	1573	918	230	2721
JUNE	2262	1305	298	3865
JULY	155	901	248	1304

NOTES

1. Total retail funds, including terms shares and SAYE.
2. Total inflows.
3. March on March.

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TABLE 18

Breakdown of Bank Lending by instrument (banking months before 1986 October)

		unadjusted					
		Advances	Commercial Bills	Investment ¹	Other ²	Total	Total s/a
<u>1984-1986</u>							
<u>% change³</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 average³</u>							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
<u>Contributions to annual bank lending growth⁴</u>							
1986	April	15.6	-0.7	1.7	0.2	16.9	
	May	16.0	-0.7	1.8	-0.1	17.0	
	June	15.4	-1.2	1.9	1.3	17.4	
	July	15.4	0.5	2.1	0.2	18.2	
	August	15.5	0.5	1.9	0.6	18.4	
	September	16.2	0.4	1.9	1.2	18.6	
<u>Monthly changes</u>							
<u>Banking months</u>							
1986	July	2100	1956	421	282	4759	3164
	August	1524	-404	-10	432	1542	2502
	September	1757	-459	-21	-605	673	888
<u>Calendar months</u>							
1986	October	858	1154	323	980	3315	3486
	November	2221	420	129	482	3252	3837
	December	2655	1369	288	-271	4041	3193
1987	January	905	562	34	-136	1365	1701
	February	2617	-426	71	345	2607	2881
	March	4644	-2026	337	420	3375	2083
	April	1746	-409	211	-402	1146	1989
	May	3607	-2126	293	497	2271	2734
	June	5152	752	-8	-1210	4686	3931
	July	2122	1677	-102	868	4565	4861

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

TABLE 19

S E C R E T

COUNTERPARTS TO M3 M4 M5

£ million

	M3	M4	M5
LATEST MONTH : JULY 1987			
PSBR	-420	-420	-420
Debt sales (-): Other Public Sector	192	105	105
Central Government	524	703	713
Public external & fc finance (-)	-788	-788	-788
Over(-)/under(+) funding	-492	-400	-390
£ lending to private sector	4566	5942	6275
Bank/bank & b society externals (-)	-1481	-1612	-1612
Bank/bank & b society £NNDLs (-)	1606	1380	1380
TOTAL	4199	5310	5653

FINANCIAL YEAR 1987/88 TO DATE

PSBR	664	664	664
Debt sales (-): Other Public Sector	1388	556	606
Central Government	-1738	-1341	-786
Public external & fc finance (-)	1614	1614	1614
Over(-)/under(+) funding	1928	1493	2098
£ lending to private sector	12669	18775	19315
Bank/bank & b society externals (-)	-2068	-2411	-2411
Bank/bank & b society £NNDLs (-)	40	-1494	-1494
TOTAL	12569	16363	17508

FINANCIAL YEAR 1986/87

PSBR	3343	3343	3343
Debt sales to private sector (-)	-1235	-5840	-6082
Public external & fc finance (-)	-1700	-1700	-1700
Over(-)/under(+) funding	408	-4197	-4439
£ lending to private sector	30299	47406	48393
Bank/bank & b society externals (-)	-676	-1553	-1553
Bank/bank & b society £NNDLs (-)	-4601	-8689	-8689
TOTAL	25430	32967	33712

Table 20:- NET FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (£ million)

	BANK BORROWING =====			TOTAL	OTHER BORROWING =====				TOTAL	ALL BORROWING =====	
	Sterling		Foreign Currency		Sterling Commercial Paper	Equities	Bonds	Euro-Sterling(*)			
	ICC's	BSCC's						ICC's			BSCC's
1984											
Q1	2905	-86	-895	1924		163	44	25	0	232	2156
Q2	559	-56	-193	310		429	75	0	0	504	814
Q3	1219	533	-74	1678		288	59	100	0	447	2125
Q4	2312	408	1433	4153		249	73	210	0	532	4685
1985											
Q1	3386	6	-606	2786		924	170	235	0	1329	4115
Q2	747	248	47	1042		1092	327	230	0	1649	2691
Q3	229	161	1469	1859		873	274	130	600	1877	3736
Q4	874	351	1444	2669		525	89	200	475	1289	3958
1986											
Q1	3935	89	-879	3145		471	209	350	935	1965	5110
Q2	-172	178	-1120	-1114		1369	344	325	1075	3113	1999
Q3	355	976	-1072	259		1431	290	231	1575	3527	3786
Q4	5319	187	-50	5456	65	2339	-52	281	0	2633	8089
1987											
Q1	1051	306	2093	3450	312	1558	-781	1231	290	2610	6060
Q2	566	-490	759	835	588	2231	346	740	50	3955	4790
Average per quarter											
1984	1749	200	68	2016	0	282	63	84	0	429	2445
1985	1309	192	589	2089	0	854	215	199	269	1536	3625
1986	2359	358	-780	1937	16	1403	193	297	896	2809	4746
1987											
H1	809	-92	1426	2143	450	1895	-218	986	170	3283	5425
			1986:-	AUGUST	12	698	126	100	650	1586	
				SEPTEMBER	31	385	113	0	750	1279	
				OCTOBER	76	898	-49	105	0	1030	
				NOVEMBER	77	835	-3	0	0	909	
				DECEMBER	-66	605	0	176	0	715	
			1987:-	JANUARY	150	500	-67	110	0	693	
				FEBRUARY	85	870	20	315	140	1430	
				MARCH	77	183	-735	806	150	481	
				APRIL	193	828	110	440	0	1571	
				MAY	79	414	184	150	50	877	
				JUNE	289	1007	58	150	0	1504	
				JULY	24	1734	68	150	0	1976	
				AUGUST		1972	386	150	0		

* 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.

Table 21:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

	BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
	Banks	Building Societies	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL
1984											
Q1	5141	3007	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		471	209	350	1030	12328	2362	14690
Q2	5465	5083	10548		1369	344	325	2038	12586	1575	14161
Q3	5764	5592	11356		1431	290	231	1952	13308	3688	16996
Q4	10433	4667	15100	65	2329	-52	281	2633	17733	591	18324
1987											
Q1	7037	3464	10501	312	1558	-781	1231	2320	12821	7358	20179
Q2	8585	4240	12825	588	2231	346	740	3905	16730	4633	21363
Average per quarter											
1984	3936	3643	7579	0	282	63	84	429	8007	1226	9234
1985	5051	3682	8733	0	854	215	199	1267	10000	1185	11185
1986	7273	4802	12076	16	1403	198	297	1913	13989	2054	16043
1987											
H1	7811	3852	11663	450	1895	-218	986	3113	14776	5996	20771
1987											
JANUARY	1316	1304	2620	150	500	-67	110	693	3313	1368	4681
FEBRUARY	2594	980	3574	85	870	20	315	1290	4864	2404	7268
MARCH	3127	1180	4307	77	183	-735	806	331	4638	3586	8224
APRIL	1333	1590	2923	193	828	110	440	1571	4494	1242	5736
MAY	2222	1295	3517	79	414	184	150	827	4344	2635	6979
JUNE	5032	1355	6387	289	1007	58	150	1504	7891	756	8647
JULY	4639	1302	5941	24	1734	68	150	1976	7917	-2239	5678
AUGUST					1972	386	150				

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

TABLE 22

SECRET

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

	APR-JUL 1987	£ million	u/a
CGBR	3755		
Gilt sales to nbps and overseas (inc-)	-3357		
Other CG debt sales to nbps incl Treasury bills* (-)	-1228		
CG external and fc finance other than BGS(-)	4434		
Funding of the CGBR			
Over(-)/under(+)	3604		3604
		Other BGS sales (-)	1548
OPS net of on lending	-3091	Other CG debt sales (-)	-780
OPS debt sales to nbps(-)	1388	Notes and coins (-)	-1020
OPS currency finance(-)	27	Other incl exchequer (-)	-559
Funding of OPS	-1676	CG bank deposits (+)	-188
Over(-)/under(+)	-----	Total influences*	2605
Funding of PSBR	1928	(surplus+,shortage-)	-----
Over(-)/under(+)	-----	Change in bankers deposits (-)	100
		Change in level of assistance (+) #	-2705
		of which	
		Issue Department bills	331
		Banking Department bills	1436
		Market advances	-1341
		Repos	-3131
		Level of assistance	
		End March 1986	13317
		End March 1987	9742
		End July 1987	7038

* Treasury bills usually included below the line in the Money Market Assistance Table

Surplus on influences leads to a fall in assistance and vice versa

TABLE 23

SECRET

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted

1 MONTH % CHANGE TO:

	MO	M3	M4	M5
1987 MAY	0.3	2.0	1.3	1.4
JUNE	-0.6	1.1	1.5	1.4
JULY	2.8	2.5	1.9	1.9
AUG)	* 0.1	1.3	0.9	0.8
SEP) FORECAST	N/A	0.8	0.8	0.8
OCT)	N/A	1.2	0.8	0.6

12 MONTH % CHANGE TO:

1987 MAY	4.4	19.0	13.7	13.5
JUNE	4.2	19.2	13.9	13.6
JULY	5.3	20.9	14.9	14.6
AUG)	* 4.5	22.1	15.5	15.0
SEP) FORECAST	N/A	19.4	14.6	14.2
OCT)	N/A	19.8	14.3	13.8

Seasonally adjusted

1 MONTH % CHANGE TO:

1987 MAY	0.5	2.1	1.4	1.6
JUNE	0.2	1.0	1.3	1.3
JULY	1.2	2.3	1.8	1.8
AUG)	* 0.3	1.5	1.3	1.3
SEP) FORECAST	1.0	0.7	0.4	0.4
OCT)	0.4	0.9	0.6	0.5

12 MONTH % CHANGE TO:

1987 MAY	4.4	18.9	13.5	13.4
JUNE	4.2	19.1	13.7	13.5
JULY	5.4	20.8	14.8	14.4
AUG)	* 4.7	22.2	15.4	15.0
SEP) FORECAST	5.2	19.3	14.5	14.1
OCT)	5.6	20.3	14.4	14.0

* August out-turn for M0

SECRET

TABLE 24: MO FORECAST

	LEVELS £ MILLION			SEASONALLY ADJUSTED			
	Notes and coin	Bankers' Deposits	MO	% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
				Notes and coin	MO	Notes and coin	MO
ACTUAL							
Jan	14,947	157	15,104	+0.1	-0.5	+5.5	+5.1
Feb	14,811	165	14,976	-0.9	-0.8	+4.3	+4.1
Mar	14,808	232	15,040	-0.0	+0.4	+3.8	+4.1
April	14,902	204	15,106	+0.6	+0.4	+4.6	+4.8
May	14,975	204	15,179	+0.5	+0.5	+4.5	+4.4
June	15,070	137	15,207	+0.6	+0.2	+4.6	+4.2
July	15,154	234	15,388	+0.5	+1.2	+4.7(4.8)	+5.4(5.1)
August	15,259	182	15,441	+0.7	+0.3	+4.6(4.5)	+4.7(4.7)
FORECAST							
September	15,380	220	15,600	+0.8	+1.0	5.1(4.9)	5.2(4.8)
October	15,465	190	15,655	+0.6	+0.4	5.2	5.6
November	15,530	190	15,720	+0.4	+0.4	4.9	5.0
December	15,600	190	15,790	+0.5	+0.4	4.4	4.0
January	15,650	190	15,840	+0.3	+0.3	4.7	4.9
February	15,690	190	15,880	+0.3	+0.3	5.9	6.0
March	15,730	190	15,920	+0.3	+0.3	6.2	5.9

* Last month's forecast in brackets.

SECRET

SECRET

TABLE 25

BROAD AGGREGATES FORECAST

£ mn u/a

	OUTTURN	FORECAST		
	1987 JULY	AUG	SEP	OCT
1. CG (OA) (SURPLUS-)	-345	1200	375	-1200
2. LABR	186	250	-175	-300
3. PCBR	-261	-50	125	150
4. PSBR(1+2+3)	-420	1400	325	-1350
5. NET DEBT SALES TO NBPS (-)				
GILTS	631	-100	-225	-725
TREASURY BILLS etc	-17	50	50	50
NATIONAL SAVINGS	-178	-250	-150	-75
CTDs	88	0	250	150
OPS DEBT	192	50	100	150
TOTAL	716	-250	25	-450
6. EXTERNAL FINANCE OF PUBLIC SECTOR (INC-)	-788	-450	150	25
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	-492	700	500	-1775
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	4566	2050	3950	3350
(seasonally adjusted)	(4862)	(3000)	(2950)	(3500)
9. PRIVATE NET EXTERNALS AND NET NON-DEPOSIT LIABILITES	125	-550	-2975	550
10.M3 (7+8+9)	4199	2200	1475	2125
BUILDING SOCIETIES:				
11. RETAIL DEPOSITS	1052	675	975	600
12. WHOLESALE DEPOSITS NBPS	294	150	100	100
13. HOLDINGS OF M3 (-)	-235	-575	-175	-550
14.M4 (10+11+12+13)	5310	2450	2375	2275
15.MONEY MARKET INSTRUMENTS	279	0	-25	-350
16.NATIONAL SAVINGS BANK	64	75	75	75
17.M5 (14+15+16)	5653	2525	2425	2000

SECRET

TABLE 26: MONEY MARKET INFLUENCES

£ million
not seasonally adjusted

	Actual		Forecast	
	1987 JULY	AUG	SEP	OCT
A. Money market influences				
(i) CGBR (+)	-431	808	575	-1150
(ii) Reserves etc (+)	337	-325	-25	-125
(iii) Notes and coin (-)	-732	-102	475	-375
(iv) National Savings (-)	-169	-233	-150	-100
(v) CTDs (-)	90	16	250	150
(vi) Gilts (-)	-453	-267	-375	-900
(vii) Other Exchequer items etc	-473	334	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	-1831	231	750	-2500
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	1373	-349		
- repo terms	0			
Banking Department	515	-463		
(ii) LA bills (purchase +)				
Issue Department	54	17		
Banking Department	54	-57		
(iii) Treasury bills (purchase +)	-46	690	500	300
(iv) Market advances	-90	-72		
(v) Export Credit/Shipbuilding Repos	0			
(vi) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	1860	-234	-750	2500
C. Change in bankers balances = A + B	29	-3		
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	7038	6114	4864	7064
of which commercial bills	6620	6017	4767	6967

GOVERNMENT SHARE SALES: TIMETABLE

1987

23 September		Rolls Royce II
15 October	(lists 20 October)	BP I

1988

19 April		BGC III
19 May		BAA II

B/F 15/9

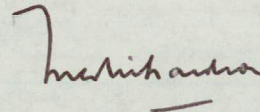
FROM: M G RICHARDSON
DATE: 11 September 1987

PPS

cc: PS/EST
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Kelly
Mr Grice o/r
Ms Bronk o/r
Mr W Allen B/E

MO: BANKERS BALANCES

I attach a revised note, as requested in your minute of 4 September.



M G RICHARDSON

M0: BANKERS' BALANCES AT THE BANK OF ENGLAND

At the end of each day, the clearing banks settle up with each other and with the Bank of England through their clearing accounts held at the Bank. The banks are not permitted to overdraw on these accounts and must therefore maintain a balance sufficient to cover unexpected transactions. These "bankers' balances", which are non-interest-bearing, are a component of M0.

2. Each clearing bank declares to the Bank of England a working target for the level of its account, allowing for the need to avoid getting overdrawn. The average level of bankers' balances and the fluctuations around this depend on the accuracy with which individual banks and the Bank of England can forecast their net positions at the end of each day. These fluctuations can be considerable, a factor underlying the decision to measure M0 (uniquely among the monetary aggregates) as the average of Wednesday levels during each month.

3. The present target level, which has changed little since 1981, is £187 million. Since this represents only a little more than one per cent of the stock of M0, which is just under £16 billion, bankers' balances have very little long term effect on the aggregate. However the monthly flow of M0, from which one and twelve month growth rates are calculated, is typically less than £100 million. The volatility of bankers' balances therefore means that an erratic swing in their level (such as the increase of £98 million in July) can impact heavily on the ^{short run} growth rate of M0.

FROM: M G RICHARDSON
DATE: 14 September 1987

PPS

*9/ content for attached
to go to No 10?*

cc: PS/EST
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Kelly
Mr Grice
Ms Bronk o/r

CK 14/9

MO: BANKERS' BALANCES

I attach another redraft of a note on bankers balances, as requested by Ms Ryding.

M G Richardson

M G RICHARDSON

*AA
JW is present;
see how that.
Mention, after the
last time, I
was asked by Janet M.*

Please
rely on .

MO: BANKERS' BALANCES AT THE BANK OF ENGLAND

At the end of each day, the clearing banks settle up with each other and with the Bank of England through their clearing accounts held at the Bank. The banks individually conduct their day-to-day money market operations with the objective of reaching a target credit balance on these accounts; ^{This target is set so as to} this provides ^(the bank) them with a cushion against unexpected outflows and ^{to} protects them from going into overdraft (which both they and the Bank would regard as contrary to the understandings on money market operations reached in 1981). These "bankers' balances", which are non-interest-bearing, are a component of MO.

2. The average level of bankers' balances and the fluctuations around this depend on the accuracy with which individual banks and the Bank of England can forecast their net positions at the end of each day. These fluctuations can be considerable, a factor underlying the decision to measure MO (uniquely among the monetary aggregates) as the average of Wednesday levels during each month.

3. The present target level, which has changed little since 1981, is £187 million. Since this represents only a little more than one per cent of the stock of MO, which is just under £16 billion, bankers' balances ^{can in a case} have very little ~~long term~~ ^{effect} on the aggregate. However the monthly change in MO, from which one and twelve month growth rates are calculated, is typically less than £100 million. The volatility of bankers' balances therefore means that an erratic swing in their level (such as the increase of £98 million in July) can impact heavily on the growth rate of MO ^{in any particular month.}

but from from

low v. happy!



per

Ch

Money supply first guess

	u.a.	s.a.
M3 month	1.2-2.0	1.4-2.2
yr on yr	22.0-23.0	22.0-23.0
M0 month	0.1	0.3
yr on yr	4.5	4.7
Bank lending	-450 to +1550	+600 to +2600

(but v large plusses* in residual
- ie external, other errors - which
may get shifted into bank lending
by time of provisionals)

AA

(* not surprising given contrast
between M3 figs & bank lending
figs, with low PSBR).

pwp



FROM: P D P BARNES
DATE: 15 September 1987

PS/CHANCELLOR

cc PS/Financial Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Lavelle
Mr Monck
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Bottrill
Mr Culpin
Mr S J Davies
Mr Grice o/r
Mr Kelly
Mr Riley
Mr Pike
Mr Richardson
Mr Cropper
Mr Tyrie
Mr Call

MONTHLY MONETARY ASSESSMENT: AUGUST 1987

The Economic Secretary has seen Mr Kelly's submission to the Chancellor of 11 September.

2. The Economic Secretary suspects that the underlying reason for much of the high recent lending figure is the implementation of decisions deferred from the pre-election period (as is implicit in the Annex to the submission). He thinks this phenomenon will have affected both mortgage lending and corporate borrowing, and that the growth rates of these should subside, although not necessarily to pre-election rates.

P

P D P BARNES
Private Secretary

UNCLASSIFIED



[Handwritten signature]

FROM: N G FRAY

DATE: 15 September 1987

MR C W KELLY

MONTHLY MONETARY ASSESSMENT: AUGUST 1987

The Chancellor was grateful for your minute of 11 September, the contents of which he has noted.

Nigel Fray
N G FRAY

CONFIDENTIAL

20

FROM: T PIKE

DATE: 17 September 1987

1. MR PERETZ

Recd 17/9

2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mrs Lomax
Mr C W Kelly
Mr Grice
Mr Bottrill
Mr Richardson
Mr Westaway
Ms Bronk

✓
✓**MO FIGURES**

The latest weekly figures for MO, covering the third week of September, are attached. They show that the twelve month growth rate of MO to the latest four week period is 5.2 per cent (5.4 per cent not seasonally adjusted).

2. The seasonally adjusted level of notes and coin has fallen back somewhat in the past two weeks, which has brought down the annualised growth rate of notes and coin in the three months to the latest four week period to about 7¼ per cent. (Though it is possible that this movement in part reflects changing seasonal patterns, not picked up in the seasonal adjustment.)

T. Pike

T PIKE

CONFIDENTIAL

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets)			% change on previous Month		% change on year earlier						
	Notes and coin (nsa)	(sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa) (sa)	MO (nsa)	MO (sa)		
1987												
Mar	14,578	14,809	(-3)	231	14,809	15,040 (+64)	-0.0	+0.4	+3.2	+3.8	+3.5	+4.1
Apr	14,931	14,903	(+94)	203	15,134	15,106 (+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,973	14,976	(+73)	203	15,176	15,179 (+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,947	15,071	(+95)	136	15,083	15,207 (+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,272	15,154	(+83)	234	15,506	15,388 (+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,338	15,259	(+105)	181	15,519	15,440 (+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
Sept [†] (3 of 5)	15,364	15,345	(+86)	235	15,599	15,579 (+139)	+0.6	+0.9	+5.4	+4.8	+5.6	+5.1
Latest 4 weeks [†]	15,380	15,338	(+119)	226	15,606	15,564 (+135)	+0.8	+0.9	+5.0	+4.8	+5.4	+5.2

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)	% change on previous week MO (sa)	
August						
5th	15,202	(+43)	260	15,462	(-8)	-0.1
12th	15,245	(+43)	209	15,454	(-8)	-0.1
19th	15,270	(+25)	59	15,328	(-126)	-0.8
26th	15,317	(+47)	202	15,518	(+190)	+1.2
September [†]						
2nd	15,379	(+62)	325	15,703	(+185)	+1.2
9th	15,347	(-32)	214	15,561	(-142)	-0.9
16th	15,309	(-38)	165	15,474	(-87)	-0.6

[†] Most recent data include estimates only for coin and unbacked note issues. The percentage changes for September so far use as their base the average for the full relevant month; for the latest 4 week period changes as based on the previous 4 week period and a comparable period a year ago.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

psf

18 September 1987

Nigel Wicks
No.10 Downing Street

Dear Nigel,

MO: BANKERS' BALANCES

... I attach a note on banker's balances held at the Bank of England, as the Prime Minister requested when she and the Chancellor discussed interest rates on 6 August.

*Yours
Alex*

A C S ALLAN
Principal Private Secretary

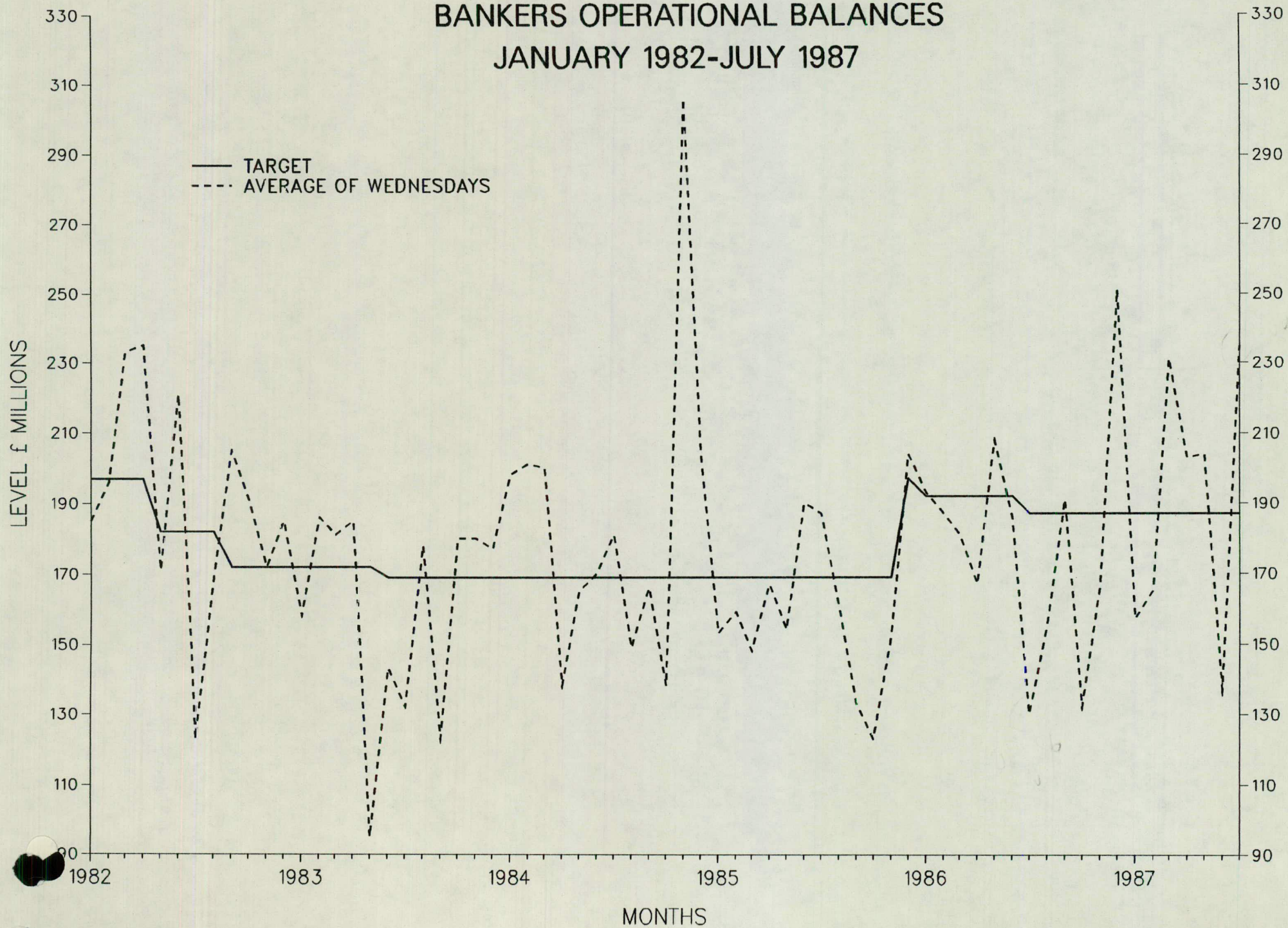
MO: BANKERS' BALANCES AT THE BANK OF ENGLAND

At the end of each day, the clearing banks settle up with each other and with the Bank of England through their clearing accounts held at the Bank. These "bankers' balances", which are non-interest bearing, are a component of MO. The banks individually conduct their day-to-day money market operations with the objective of reaching a target credit balance on these accounts. This target is set so as to provide the banks with a cushion against unexpected outflows and to protect them from going into overdraft (which both they and the Bank would regard as contrary to the understandings on money market operations reached in 1981).

2. The average level of bankers' balances and the fluctuations around this depend on the accuracy with which individual banks and the Bank of England can forecast their net positions at the end of each day. These fluctuations can be considerable, a factor underlying the decision to measure MO (uniquely among the monetary aggregates) as the average of Wednesday levels during each month.

3. The present target level, which has changed little since 1981, is £187 million. Since this represents only a little more than one per cent of the stock of MO, which is just under £16 billion, bankers' balances can in any case have very little medium-term effect on the aggregate. However the monthly change in MO, from which one and twelve month growth rates are calculated, is typically less than £100 million. The volatility of bankers' balances therefore means that an erratic swing in their level (such as the increase of £98 million in July) can impact heavily on the growth rate of MO in any particular month.

BANKERS OPERATIONAL BALANCES JANUARY 1982-JULY 1987



787

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ND

FROM: Ms V F BRONK

DATE: 24 September 1987

1. MR GRICE JWA 24.9.87
2. ECONOMIC SECRETARY

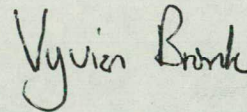
cc PS/Chancellor -
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mrs Lomax
Mr C W Kelly
Mr Peretz
Mr Bottrill
Mr Richardson
Mr Westaway
Mr Pike O/R

✓

MO FIGURES

The latest weekly figures for MO, covering the fourth week of September, are attached. They show that the twelve month growth rate of MO to the latest four week period is 4.9 per cent (5.2 per cent not seasonally adjusted).

2. The seasonally adjusted level of notes and coin has increased little in the past four weeks, which has brought down the annualised growth rate of notes and coin in the three months to the latest four week period to about 7½ per cent.



Ms V F BRONK

CONFIDENTIAL

MO, THE WIDE MONETARY BASE												
Calendar months	Levels £ million (changes in brackets)			% change on previous Month			% change on year earlier					
	Notes and coin (nsa)	(sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa)	(sa)	MO (nsa)	MO (sa)	
1987												
Mar	14,578	14,809	(-3)	231	14,809	15,040 (+64)	-0.0	+0.4	+3.2	+3.8	+3.5	+4.1
Apr	14,931	14,903	(+95)	203	15,134	15,106 (+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,973	14,976	(+73)	203	15,176	15,179 (+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,947	15,071	(+95)	136	15,083	15,207 (+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,272	15,154	(+83)	234	15,506	15,388 (+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,338	15,259	(+105)	181	15,519	15,440 (+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
Sept [†] (4 of 5)	15,333	15,344	(+85)	200	15,533	15,544 (+104)	+0.6	+0.7	+5.2	+4.8	+5.2	+4.8
Latest 4 weeks [†]	15,333	15,344	(+86)	200	15,533	15,544 (+103)	+0.6	+0.7	+5.2	+4.9	+5.2	+4.9

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)	% change on previous week MO (sa)	
August						
5th	15,202	(+43)	260	15,462	(-8)	-0.1
12th	15,245	(+43)	209	15,454	(-8)	-0.1
19th	15,270	(+25)	59	15,328	(-126)	-0.8
26th	15,317	(+47)	202	15,518	(+190)	+1.2
September [†]						
2nd	15,379	(+62)	325	15,703	(+185)	+1.2
9th	15,347	(-32)	214	15,561	(-142)	-0.9
16th	15,310	(-37)	165	15,475	(-86)	-0.6
23rd	15,340	(+30)	96	15,436	(-39)	-0.3

[†] Most recent data include estimates only for coin and unbacked note issues. The percentage changes for September so far use as their base the average for the full relevant month; for the latest 4 week period changes as based on the previous 4 week period and a comparable period a year ago.

SECRET AND PERSONAL
UNTIL 11.30 AM ON TUESDAY 29 SEPTEMBER

20

FROM: P H BROOK
DATE: 25 SEPTEMBER 1987

MR CASSELL

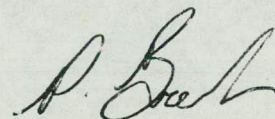
cc: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Culpin
Mr Peretz
Mr Grice
Mr Kelly
Mr Pickford
Mr Pike
Mr Richardson
Ms Bronk
Mr Cropper

FULL MONEY FIGURES - AUGUST

I attach the Bank's draft press release on the full money figures which will be published at 11.30 am on Tuesday²⁹ September. The only change to the main aggregates as published in the provisional press releases on 20 July is to M4. The annual growth rate has risen from 15.5 per cent to 15.6 per cent and the seasonally adjusted growth rate in August from 1.3 per cent to 1.4 per cent.

2. The attached press briefing is as agreed for the provisional figures apart from minor amendments. I have not included in factual (ii) the Chancellor's widely reported comments from Barbados on interest rates and the trade figures, as no transcript of the interview is (yet?) available.

3. I would be grateful for comments on the Bank's draft press release by noon on Monday 28 September and any comments on the press briefing by close that day.



P H BROOK

SECRET AND PERSONAL
UNTIL 11.30 AM ON TUESDAY 29 SEPTEMBER

MONEY SUPPLY IN AUGUST: PRESS BRIEFING

A. FACTUAL

(i) Changes in main monetary aggregates

	per cent			
	M0	M3	M4	M5
Annual growth rate	+4.5	+22.1	+15.6	+14.9
one month change	+0.1	+1.4	+0.9	+0.8
	(+0.3)	(+1.5)	(+1.3)	(+1.3)

(figures in brackets seasonally adjusted)

(ii) Monetary Policy - Recent Statements

(a) Chancellor's speech to CBI annual dinner 19 May

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) Chancellor's speech to FHA annual dinner, 17 June

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"....the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(c) Chancellor in response to question whether "too much consumer credit" was reason for rise in interest rates in August (BBC TV News 6 August)

"No, it's looking at the economic and financial indicators as a whole and deciding that to maintain the sound monetary conditions which have brought inflation down and kept it down it's necessary to have a slight tightening of monetary conditions which means putting interest rates up by 1%."

(d) Chancellor in response to question whether 1 per cent increase in interest rates would hold (BBC Radio 4 World at One, 2 September)

"I think that recent events have fully vindicated the increase in interest rates which I made during the early part of August. That is now seen to have been right."

- (iii) Funding: underfund in August of around £0.3 billion. Underfund of PSBR so far in this financial year around £2.3 billion. PSBR April/August 1987 about £1.4 billion; debt sales outside monetary sector and external finance of public sector minus £0.9 billion.

B. POSITIVE

- (i) Commitment: Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation.
- (ii) Bank and building society lending. Twelve month growth rate steady over last six months: no evidence of acceleration.

C. DEFENSIVE

- (i) Growth of credit/liquidity inflationary? Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increased liquidity willingly held. But Government remain committed to maintaining monetary conditions that keep downward pressure on inflation and has not hesitated to act if necessary.
- (ii) Consumer credit boom?
- No evidence that rate of lending to consumers accelerating in recent months.
 - Vast bulk of personal borrowing takes form of mortgages, which represented over $\frac{3}{4}$ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of $2\frac{1}{2}$ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).
- (iii) Role of MO? MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

- (iv) Role of exchange rate. Continuing desire to see exchange rate stability. Balance struck between exchange rate and domestic monetary growth consistent with aims for money GDP and inflation.
- (v) Role of broad money. With changes in financial practices, no simple relationship between broad money growth and money GDP. Government therefore decided should be no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions.
- (vi) Funding policy remains to fund PSBR fully, and no more, over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur). Intervention included in funding - buying dollars equals negative funding.
- (vii) Large other external and foreign currency breakdown figures? Series is erratic and always hard to interpret.

MONETARY AGGREGATES & BANKING STATISTICS: AUGUST 1987

1 Changes in the monetary aggregates in August 1987, and in the 12 months to August 1987, are summarised in the table below:

	12 months to		seasonally adjusted
	August 1987	August 1987	
	not seasonally adjusted	not seasonally adjusted	seasonally adjusted
M0	4.5%	0.1%	0.3%
M1	23.9%	1.3%	1.7%
of which, non-interest- bearing M1	12.3%	-0.2%	0.6%
M2	10.7%	0.3%	0.9%
M3	22.1%	1.3%	1.5%
M3c	N/A	1.1%	1.3%
M4	15.6%	0.9%	1.4%
M5	14.9%	0.8%	1.3%

2 Tables A-G show the components and counterparts of the main monetary aggregates (except for M0 which is shown in Table I). Tables K-N show the details of the banks' and discount market's balance sheets. Transactions of the UK monetary sector during the month, excluding inter-bank items and valuation changes on foreign currency items, are shown in Table H. Details of the building societies' balance sheets are shown in "Financial Statistics" (Table 7.7) published by the Central Statistical Office.

3 An article in the May 1987 Quarterly Bulletin ("Measures of broad money", page 212) discusses the construction of the broad monetary aggregates and the counterparts to changes in them. As the article explains, the aggregate which was formerly known as EM3 has been renamed M3, and that formerly known as M3 has been renamed M3c. Broadly speaking, M4 and its counterparts are constructed in a similar fashion to M3, except that banks and building societies are treated as if they were a single group of institutions. Deposit transactions between banks and building societies are excluded from M4, and within the counterparts to M4 lending transactions between banks and building societies are excluded from "lending", and both banks' and building societies' transactions in public sector debt are excluded from "purchases of public sector debt by the UK private sector". In the case of M5, which in addition to M4 includes private sector holdings of certain money-market instruments, CTDS and some national savings instruments, the "lending" counterpart includes private holdings of bank acceptances, and "purchases of public sector debt by the UK private sector" excludes those instruments which are included in M5 itself.

[SECRET until 11.30 am Tuesday 29 September 1987]

4 Estimated seasonal movements in September 1987

The provisional seasonal movements for September 1987 are shown below. Because of the difficulties referred to in the December 1986 Quarterly Bulletin note "Banking and Monetary Statistics: a change in reporting dates" (page 519), the figures should be regarded as more uncertain than were the figures formerly given for banking months. They remain subject to revision.

£mms	M0 (average series)	-	60
	M3	+	280
	M4		+1,320
	M5		+1,510
	M3 counterpart: Bank lending in sterling to the private sector		+1,050
	M4 and M5 counterpart: Bank and building society lending in sterling to the private sector (1)	+	900

The seasonally-adjusted changes are obtained by subtracting (with due regard to sign) the seasonal movement from the unadjusted changes.

(1) See the footnotes to Table G.

M



FROM: P D P BARNES
 DATE: 30 September 1987

PS/CHANCELLOR

cc PS/Chief Secretary
 PS/Financial Secretary
 Mr Monck
 Mr Burgner
 Mrs Lomax
 Mr Ilett
 Mr Pickford
 Mr Waller
 Mr Gunton

C.
 OK to issue?
 Barnes: - AH
 30.9.

YORKSHIRE MONEY SHOW: PRESS RELEASE

The Economic Secretary would like to release the attached press notice when he opens the Yorkshire Money Show on Friday.

2. I would be grateful to know whether the Chancellor is content with this, and to receive comments from copy recipients.

fb

P D P BARNES
 Private Secretary

DRAFT PRESS NOTICE

Opening the Yorkshire Money Show, the Economic Secretary, Peter Lilley MP, hailed "the dramatic growth in employment in the financial services industry in Yorkshire and Humberside. Since 1979 the number of people employed in financial services has risen by 45,000. That is equivalent to providing new jobs for half the working population of a town the size of []".

"Media attention concentrates on the job explosion in financial services in the City of London and the South East. But in fact the 44% growth in this important industry in Yorkshire has far outstripped the South East growth rate of 35% since 1979."

The Economic Secretary criticised those who try to claim that jobs in financial services have less intrinsic value than those in manufacturing or are even created at the expense of manufacturing employment. He said, "It is absurd to say that manufacturing office equipment is productive but condemn users of that equipment in financial firms as unproductive; especially as the net result of an efficient financial services industry is to channel savings more cost effectively into industrial investment, homes and consumers' needs. A vigorous financial sector in this region is a benefit to the resurgent local manufacturing industry, not a burden."

Peter Lilley went on to recommend local financial advisers to "utilise the Business Expansion Scheme to channel local money

into local enterprise." He pointed out that "investors are far more likely to be attracted to these schemes if they are invested in local enterprises whose progress they can follow and to whom they may even be able to contribute relevant experience. Moreover, the new and expanding enterprises can benefit from the interest and involvement of their investors."

CONFIDENTIAL

msf

FROM: Ms V F BRONK

DATE: 30 September 1987

1. MR GRICE *JWG* 1.10.87
2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mrs Lomax
Mr C W Kelly
Mr Peretz
Mr Bottrill
Mr Richardson
Mr Westaway
Mr Pike o/r

MO FIGURES

The latest weekly figures for M0, covering the final week of September, are attached. They show that the twelve month growth rate of M0 rose to 4.9 per cent (5.2 per cent not seasonally adjusted) in September from 4.7 per cent in August. The annual growth rate of notes and coin rose to 5.0 per cent having been consistently around 4¾ per cent from April to August. The annualised growth rate of notes and coin in the latest three months rose to 8¼ per cent from 7¾ per cent in August.

2. The figures include returns from the Scottish and Northern Irish issuing banks and are thus unlikely to be revised.

Vyvia Bank

MS V F BRONK

MO, THE WIDE MONETARY BASE

Calendar months	Notes and coin		Levels £ million (changes in brackets)				% change on previous Month		% change on year earlier				
	(nsa)	(sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa)	(sa)	MO (nsa)	MO (sa)		
1987													
Mar	14,578	14,809	(-3)	231	14,809	15,040	(+64)	-0.0	+0.4	+3.2	+3.8	+3.5	+4.1
Apr	14,931	14,903	(+95)	203	15,134	15,106	(+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,973	14,976	(+73)	203	15,176	15,179	(+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,947	15,071	(+95)	136	15,083	15,207	(+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,272	15,154	(+83)	234	15,506	15,388	(+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,338	15,259	(+105)	181	15,519	15,440	(+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
Sept	15,348	15,374	(+115)	184	15,534	15,558	(+118)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)	% change on previous week MO (sa)	
August						
5th	15,202	(+43)	260	15,462	(-8)	-0.1
12th	15,245	(+43)	209	15,454	(-8)	-0.1
19th	15,270	(+25)	59	15,328	(-126)	-0.8
26th	15,317	(+47)	202	15,518	(+190)	+1.2
September [†]						
2nd	15,406	(+89)	325	15,730	(+212)	+1.4
9th	15,374	(-32)	214	15,588	(-142)	-0.9
16th	15,337	(-37)	165	15,502	(-86)	-0.6
23rd	15,368	(+31)	96	15,464	(-38)	-0.2
30th	15,385	(+17)	122	15,507	(+43)	+0.3

Most recent data include estimates only for coin

SECRET

FW [redacted] meeting per

FROM: J W GRICE
DATE: 2 October 1987

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Financial Secretary
- Economic Secretary
- Sir T Burns
- Sir G Littler
- Mr Cassell
- Mr Lavelle
- Mr Monck
- Mrs Lomax
- Mr Odling-Smee
- Mr Peretz
- Mr Sedgwick
- Mr Bottrill
- Mr Culpin
- Mr S J Davies
- Mr C W Kelly
- Mr Riley
- Mr Pike
- Mr Richardson (o/r)
- Mr Cropper
- Mr Tyrie
- Mr Call
- Mr George - B/E
- Professor Griffiths - No 10
- Mr Lankester - Washington
- File: MAMC F1

The mood of this mtg was a policy response to the sterling situation & possibly future intervention. Per fix (monthly) small mtg. (15-17) Mr.

MONTHLY MONETARY ASSESSMENT: SEPTEMBER 1987

This note reports the discussion at Sir Peter Middleton's regular meeting on monetary conditions. Attached is the usual Monthly Assessment.

Sir Peter Middleton's Meeting

2. Mr Cassell suggested that, taken overall, there had been no great change in monetary conditions since the last Assessment three weeks ago. Bank lending, which had been very high in July, had dropped sharply in August. There was no fully convincing explanation for this behaviour but the suspicion must be that the lending pattern reflected special financial transactions with few implications for the real economy and monetary conditions generally. Taken together, the average lending in July and August was not out of the ordinary.

3. The Assessment brought out the competitive difficulties being experienced by building societies. Barely half of new lending for house purchase was being undertaken by them. They were being squeezed particularly hard by the new mortgage institutions which funded themselves in the wholesale capital markets.

4. Mr Cassell also drew attention to what had been happening in the exchange markets. The exchange rate itself had not changed much over the last month. But since 23 September, there had been nearly \$2 billion of intervention to hold down the pound. Some of this would spill over into increased liquidity at a time when narrow money - as measured by M0 - was growing near the top of its target range. It may be that we would be faced with the policy conundrum we had earlier thought might occur after the Election: to lower interest rates or to let the exchange rate rise or to accept continuous and heavy intervention. The Assessment made no case for lower interest rates: indeed overseas rates were drifting up, and on domestic grounds the arguments continued to point to not resisting a rise if upward pressure were to emerge.

5. Mr Flemming said that the Bank largely accepted Mr Cassell's analysis. Monetary conditions made it inappropriate to let interest rates fall. There would be some advantages in gaining room for manoeuvre by allowing the exchange rate to rise. Sterling appreciation would cause some deterioration in competitiveness immediately but, by dampening wage settlements, would generate offsetting improvements later. On the other hand, such action so soon after the Washington reaffirmation of the Louvre Accord would look very odd.

6. Sir Terence Burns noted that demand was certainly rising very quickly, even without any significant contribution from stockbuilding. At the same time we were seeing a much lower PSBR than had been expected: public expenditure was running below expectations whilst tax receipts were well above. A pronounced fall in the private sector savings ratio seemed to be taking place. This may be due to the sharp rise in real wealth which had occurred as a result of the buoyant equity market and the period of sustained low inflation. Even so, while the current account could be interpreted as indicating overheating, other evidence was absent. It was not obvious that allowing a higher exchange rate was the best answer in these

circumstances. For the moment, intervention as necessary to keep the exchange rate steady seemed the better course.

7. Several points were made in discussion:-

(i) The present upward pressure on sterling against the DM could prove evanescent in the event of further bad trade figures, a renewed decline in the dollar or higher overseas interest rates. It was not clear where the present inflows into sterling were going. There were no signs of significant inflows into gilts whilst, at the shorter end of the maturity spectrum, money market rates had been edging upwards;

(ii) there was no doubt that in due course holding to a £/DM rate around the current level would act as a discipline serving to put strong downward pressure on inflation. If companies could be brought to expect this it should encourage them to contain costs in the short run as well as the longer term;

(iii) the statistics could be overstating any balance of payment problems. The net stock of UK overseas assets was exceptionally high. In part, UK residents may in effect be spending some of the substantial capital gains that had been made on their overseas holdings. But whilst the current account reflects such expenditure, it takes into consideration only the running income on overseas assets and not the increase in UK wealth represented by the capital gains themselves;

(iv) despite the intervention of the last few days, the funding position remained comfortable. The intervention was matched by the downward revisions to the expected PSBR.

8. Summing up, Sir Peter Middleton felt that the main value of the meeting had been in defining the key policy questions. It would be easier to resolve these with the aid of the greater perspective which the Autumn forecast, now near to completion, would provide.

9. The main issue was whether current monetary conditions were so slack as to warrant an upward move in the exchange rate and reduced intervention. Cases had been set out both for making this change

and continuing as at present. Which course was preferable depended upon strategic issues such as the inflation objectives themselves and how they were to be attained. For the present, however, it was agreed that more evidence of slackness than from the current account alone was required to justify such a move. That implied leaving interest rates unchanged and, if the upward pressure persisted, being prepared to intervene in the foreign exchanges as required.

JWG

J W GRICE

MONTHLY MONETARY ASSESSMENT: SEPTEMBER 1987**Summary Assessment**

Taken overall, the indicators suggest no major change in monetary conditions since the last Assessment (11 September). Activity continues to look more buoyant than expected at Budget time, reflected in relatively rapid growth in M0. Broader monetary developments are a little more encouraging with some moderation in both monetary and credit growth. Sterling has been in demand latterly and intervention in the last week of September has been substantial.

Main Points

The 12 month growth rate for M0 rose to 4.9 per cent in September from 4.7 per cent in August. The 3 month annualised rate for notes and coin rose to 8½ per cent from 7¾ per cent to August. The 12 month rate for M0 is forecast to reach 5½ per cent by end-October (paras 19-21)

M4 and M3 both grew more moderately in August; by 0.9 per cent and 1.3 per cent respectively. But the 12 month growth rates increased: to 15½ per cent from 15 per cent in July in the case of M4 and to 22 per cent from 21 per cent in the case of M3 (paras 23-27).

Bank lending also moderated in August to 1 per cent increase after 2½ per cent rises in the preceding two months. Much lower company borrowing was probably the main factor. Building society lending was also subdued. Bank and building society lending together grew by 18¾ per cent in the 12 months to August, the lowest increase for over a year (paras 28-32).

Public sector borrowing fell further below the Budget profile (paras 13-14).

The exchange rate remains at about the same level as at the last Assessment, despite weakness immediately after the August trade figures were published. Intervention in the last week of September totalled nearly \$2 billion (paras 15-18).

Latest indicators suggest activity remains above the levels expected at Budget time. But there is no sign as yet that this is manifesting itself in renewed inflation. The renewed deterioration in trade performance in recent months does, however, argue against a marked improvement in supply performance above what had been anticipated (paras 11-12).

A. External Developments

1. Main developments in the G7 countries other than the UK are set out in tables 1-3. In particular:

- **Short term interest rates** in the US have risen about $\frac{1}{2}$ percentage point since the beginning of August. The US discount rate was increased by $\frac{1}{2}$ per cent on 4 September. Short rates in Germany have edged up. Those in Japan are little changed from early August.
- The **dollar** has been steady during September rising by $1\frac{1}{4}$ per cent and $\frac{1}{2}$ per cent against the yen and deutschemark, respectively. Since the Louvre Accord the dollar has fallen by $6\frac{1}{2}$ per cent against the yen but by less than 1 per cent against the DM.
- In the second quarter, **GNP** grew more slowly in the US and was unchanged in Japan. But it picked up in France and Germany after a bad first quarter.
- After rising sharply earlier in the year, **consumer price inflation** in G7 has remained around 3 per cent since April.
- **Non-oil commodity prices** are currently about 10 per cent higher (in SDR terms) than a year ago. Prices of industrial commodities have risen but food prices have fallen. **Oil spot prices** are about 35 per cent higher (in dollar terms) than a year ago.

B. Activity and Inflation

2. **Table 4 summarises recent indicators of activity and inflation.** The labour market indicators remain generally very buoyant. The Q2 average GDP estimate published on 21 September is below the June forecast; but the more reliable output estimate is in line with the forecast. The latest manufacturing output figures are above expectations. The latest set of inflation figures have been broadly as anticipated.

Recent indicators of activity

3. The **average measure of GDP** grew by $3\frac{1}{2}$ per cent in the year to 1987 Q2. Provisional figures for production industry output in July show a $1\frac{1}{2}$ per cent rise in **manufacturing output** from June, to a level over 6 per cent higher than a year earlier. The September CBI Survey of Manufacturers, published on 21 September, showed order books and output expectations remaining buoyant, but down marginally from peak August outturns. Construction output is estimated to have fallen $3\frac{1}{2}$ per cent in the second quarter but remains $7\frac{1}{2}$ per cent higher in the first half of 1987 than a year earlier.

4. **Retail sales** rose 0.5 per cent in August, and in the three months to August were 3 per cent higher than in the previous three months. New car sales were at record levels in August.

5. **Industrial investment** in the second quarter is now estimated to have risen by 6 per cent over the previous quarter (revised up from $3\frac{1}{2}$ per cent) while ~~spending by manufacturers~~ rose by almost 14 per cent. Revised estimates of second quarter **stockbuilding** show a modest rundown in manufacturers' stocks during the first half of 1987 - preliminary estimates showed a small rise. **Private housing starts** in July are provisionally estimated to have risen 8 per cent from June, but remain below the high level in the first quarter.

6. **Unemployment** fell by 43,000 in August, close to the rate of decline, over the previous six months. **Overtime working** fell in July from June's record level but remains high. **Vacancies** rose a further 3,000 in July, a similar rate of increase to that seen in recent months. Manufacturing employment fell by 17,000 in July following a rise in the second quarter; though the monthly sample is not wholly reliable.

Inflation

7. The outturn for **retail prices** in August was 4.4 per cent, unchanged from July, though marginally higher than anticipated.

8. The twelve month increase in the **producer output price** index (excluding food, drink, and tobacco) in August was 4.7 per cent, the same as the (revised) estimate for July. The September CBI survey of manufacturers, adjusted for seasonal variation, showed a small upward movement in output price expectations relative to the August survey. **Producer input prices** (also excluding FDT) rose by 14.3 per cent over the year to August, up from 13.3 per cent in the year to July.

9. Underlying growth in **average earnings** in July remained unchanged at $7\frac{1}{4}$ per cent. Average private sector settlements during the 1986-87 pay round just ended fell about $\frac{3}{4}$ per cent compared to the previous round. Manufacturing settlements were down 1 per cent on the same comparison, but the latest CBI settlement data points to a small upward drift in manufacturing pay settlements since the end of 1986.

10. The annual rate of **house price inflation** (measured by the Halifax index) was 14.5 per cent in August, little changed from July and compared to a peak of 15.2 per cent in March. The DoE index showed a rise of 15.2 per cent at completion stage and 14.7 per cent at approval, compared to 15 and $13\frac{1}{2}$ per cent respectively in July.

Projections for Money GDP

11. The June forecast showed money GDP overshooting by over 1 per cent, relative to the Budget forecast, in 1987-88. Projected real growth was revised from 3 to 4 per cent, while the forecast for growth of the GDP deflator was raised from $4\frac{1}{2}$ to 5 per cent (mainly because of higher projections for oil prices). CSO figures now show growth of 8 per cent in money GDP in the year to the second quarter (about $\frac{3}{4}$ per cent below the June forecast). Both real GDP (on the average estimate) and the GDP deflator show nearly $\frac{1}{2}$ per cent less growth than expected. Early estimates are, of course, subject to revision, normally upwards. Estimated growth of the consumers' expenditure deflator, at 2.3 per cent, is surprisingly low in relation to the increase in the RPI over the same period. Moreover the expenditure measure of real GDP may be a serious underestimate; the output measure is up to the June forecast level.

12. Although demand is clearly buoyant there remain, as yet, no convincing signs of overheating. Recent RPI inflation outturns have been broadly as anticipated and profit margins do not appear to have risen faster than over the last few years. UK net trade performance, however, has shown a renewed deterioration in recent months, tending to argue against a supply side improvement substantially in excess of what was anticipated having occurred.

C. Public Sector Finances and the Fiscal Stance

13. Table 5 gives the main indicators of the fiscal stance. The PSBR in August was £0.8 billion, as compared with a forecast of £1.4 billion. This brings the PSBR for the first five months of 1987-88 to £1.4 billion, which is £2.9 billion below the Budget profile. Of this difference, central government own account borrowing is around £2 billion below profile - Table 6 gives details - and local authorities' borrowing just under £¾ billion below profile.

14. Latest PSBR figures confirm the view that the fiscal stance is tighter than envisaged at Budget time.

D. Exchange Rates and External Accounts

15. The sterling index which firmed after the rise in UK interest rates on 6 August, has remained strong in September, despite publication of worse than anticipated trade figures (for August) on 24 September. Sterling and the dollar have both strengthened against the Deutschemark during September perhaps in part reflecting a move into high interest currencies in light of the G7 commitment to a further period of exchange rate stability. The UK interest differential against Germany is now more than 6 per cent although rising American interest rates have narrowed the differential against the US to 2½ per cent.

16. Oil prices which fell during August and early September, at least partly because of OPEC overproduction, have risen slightly again in the most recent period. This has raised the oil-adjusted exchange rate, but with sterling roughly flat, the oil-adjusted reference ratio has fallen slightly.

17. Support for the dollar under the Louvre arrangements and the high £/DM rate involved intervention of +£1500 million overall in September.

18. The August trade figures, published on 24 September showed a current account deficit of £929 million compared with a deficit of £310 million in July. The increase in the deficit, although probably in part erratic, reflects continued strong growth in non-oil import volumes as UK demand expands, while export volumes are at best rising only slowly.

E. Domestic Monetary and Financial Market Developments

(see Tables 10 to 26)

Narrow Money

19. M0 continues to exhibit disturbing signs. Since June, annualised three month growth has been consistently around 6-8 per cent. Although the 12 month growth rate has been significantly lower, it is above what was anticipated at Budget time. In part lower than expected interest rates have contributed to this faster growth but after the interest rate rises in August, these are now closer to what was assumed in the Budget projections. The significance of the M0 figures is their apparent confirmation of the forecasters' view that activity is above the Budget projections. This looks set to continue. As Chart 7 shows, the 12 month growth rate is now projected to rise in September and October, compared to little change forecast at Budget time. Although the annual growth rate is projected to fall back until December, mainly because of developments in 1986, thereafter it is projected to rise to the top of its target range during 1988 Q1.

20. M0 (seasonally adjusted) rose by 0.8 per cent in September, and the annual growth rate rose to 4.9 per cent from 4.7 per cent in August. The 12 month growth rate of notes and coin rose to 5.0 per cent, having been around 4¾ per cent from April to August. The annualised growth of notes and coin in the latest three months rose to 8¼ per cent from 7¾ per cent to August.

21. The forecast assumes that the level of notes and coin rises by 0.6 per cent in October - close to the monthly average rise

since June. This reflects both the expected buoyancy of consumers' expenditure and the likelihood that the August base rate increase will not have any immediate dampening effect on M0 growth. In terms of twelve month growth rates, M0 growth will rise to 5½ per cent in October (the annual comparison being distorted upwards by abnormally low bankers' balances in October 1986). Thereafter, monthly growth of notes and coin and M0 is expected to fall back gradually to about ¼ per cent by March 1988 as the base rate rise feeds through. Annual growth rates, however, will be affected by brisk growth towards the end of 1986, and the twelve month rate of M0 growth rate is therefore forecast to fall to about 4 per cent in December but to rise to the top of the target range in February 1988.

22. **NIB M1** fell by £0.2 billion in August and its annual growth rate was, at 12.3 per cent, little changed compared to July. There has been little unwinding of the large increases - which were related in part to oversubscribed share issues - in June and July. It may be that individuals have been holding inflated balances ahead of TSB and Rolls Royce calls in September and the BP share issue in October.

Broad Money

23. Broad money growth in August was less than in recent months, although twelve month growth rates of all the broad aggregates rose. Bank lending was at more normal levels this month and total bank and building society lending was also below the average of the last few months.

24. **M4** rose by £2.6 billion (0.9 per cent) in August and the 12 month growth rate increased to 15½ per cent, from 15 per cent in July. **M3** rose by £2.2 billion (1.3 per cent) whilst its 12 month increase rose to 22 per cent, from 21 per cent in July.

25. With respect to the **M4 components**, holdings of M3 by the private sector (excluding building societies) rose by £1.9 billion and private sector retail deposits with building societies rose by £0.7 billion. Within M3 holdings, **NIB M1** fell by £0.1 billion, **IB** retail deposits increased by £0.2 billion and wholesale deposits

increased by £2.1 billion. Wholesale bank deposits grew by 33 per cent in the twelve months to August, reflecting both the current liquidity of UK companies and OFIs, and a competitive rate of return.

26. Building society retail inflows in August were, in spite of the societies' weakened competitive position, the highest since March (seasonally adjusted) at £970 million, but this probably reflects the return of funds following the BAA privatisation. The large retail inflows left little need for wholesale funding, and societies raised only £40 million. As in July, societies added to their liquid assets with a net increase in holdings of bank deposits (£280 million) and gilts (£115 million). Their liquidity ratio now stands at the highest seasonally adjusted level for twelve months. This possibly reflects societies building up liquidity as a precaution against known pressures on balance sheets in September (heavy tax payments and second calls on TSB and Rolls Royce) and October (the BP privatisation).

27. Broad money growth is forecast to remain moderate in September with both M4 and M3 rising about 1 per cent. The contractionary effect (of about £½ billion) of the Midland Bank rights issue is partly offset by the expansionary effects of intervention and increased bank lending associated with the TSB and Rolls Royce calls. Underlying seasonally adjusted bank lending is assumed to grow by 1.6 per cent and building society lending by 1.0 per cent, leaving underlying annual growth of bank lending and bank plus building society lending little changed at 21¾ per cent and 18½ per cent respectively. The 12 month growth rates of broad money drop back sharply, however, as the temporary upward distortion from the TSB share sale in September 1986 drops out of the annual comparison. M4 annual growth reverts to about 14¾ per cent - similar to July's figure - and M3 annual growth falls by 2½ per cent to 19½ per cent. Further details of the forecast are given at Annex.

Credit

28. Bank and building society lending rose by only 0.7 per cent in August, compared with an average of 1.5 per cent over the previous twelve months. After having been around 19½ per cent since May,

the annual growth rate of lending to the private sector in August fell back to 18.7 per cent.

29. **Sterling bank lending** grew by 0.5 per cent (1.0 per cent seasonally adjusted) in August following 2½ per cent increases both in June and July, and compared to a monthly average of 1¼ per cent over the previous twelve months. The annual growth rate of sterling lending fell back to 21¼ per cent in August, from 22¼ per cent in July. Within the total, advances increased by £2.6 billion and lending via commercial bills fell by £1.6 billion, the latter reversing a similar increase in July.

30. It is worthwhile considering bank lending in August in relation to the factors which were thought to have influenced the high July figure:

(a) in July, the non-bank sector switched sharply out of foreign currency bank borrowing at the same time as they increased their sterling borrowing. One explanation at the time was that this stemmed from a weakening of residents' confidence in sterling so that they reduced their net sterling positions. This explanation is not without its difficulties. The EEA sold sterling in July whilst the exchange rate appreciated. So if residents were also major sellers of sterling, overseas residents must coincidentally have been heavy buyers - taking a quite different view to residents. It seems far more likely that the residents' switch out of foreign currency bank borrowing was at least in part into other forms of foreign currency borrowing with the coincidental high sterling lending explained by other, non-speculative, factors. Firm data to test this hypothesis will not be available for some months. On the other hand, it is true that the lower private sector sterling bank borrowing in August was accompanied by a resumption of foreign currency bank borrowing - some £0.6 billion after the repayments of £3.8 billion in July;

(b) what seems more definite is that the sharp swing between July and August was mainly due to changes in company borrowing. In July, industrial and commercial company borrowing

is estimated at £1½-2 billion against a monthly average of only £0.3 billion in the second quarter. In August, low CLSB advances to companies and a large switch out of bill finance (which is predominantly provided to industrial companies) suggests that industrial company borrowing was back to low levels. It is less clear, however, what companies did with their extra July borrowing. What evidence there is on stockbuilding and other company expenditures gives no reason to think that they were especially high in July;

(c) it is possible that companies borrowed sterling heavily in July in order to pay off borrowing in the US commercial paper market on a covered basis. The constellation of rates in July suggests this may at times have been an attractive proposition to companies. But the same pattern of rates was apparent in August as well so that it is hard on this basis to explain the sharp deceleration in sterling borrowing in that month;

d) it is striking that taken together, sterling bank lending in July and August is not out of line with levels of recent months. It is possible, therefore, that the swing between the two months is due purely to an erratic bunching of individual borrowings in July matched by unusually low borrowings in August. If so, there would be no great significance in the swing between the two months. But there is no independent evidence to support this interpretation or to reject it;

(e) strong lending for house purchase was a feature of both months. In both July and August, CLSB banks advanced £0.8 billion for this purpose.

31. An additional factor to emerge in August was the seasonal pick-up in car registrations which contributed to a sharp (£0.3 billion) rise in lending to leasing companies.

32. Building societies' mortgage lending, although slightly higher than the previous three months, remained fairly subdued. With indications of rapid growth in bank lending for house purchase

in August, societies' share of the new mortgage market is unlikely to be much above 50 per cent at present.

Other Broad Money Counterparts

33. A PSBR of £0.8 billion was underfunded by £0.3 billion, reflecting public sector debt repayments of £0.2 billion to the non-bank private sector and a £0.3 billion fall in the reserves. (So far in 1987-88, with the £4½ billion increase in reserves, there has been cumulative underfunding of £2¼ billion.) Since the building societies made small purchases of gilts in August the public sector contribution to M4 is slightly more expansionary, at £0.4 billion. Bank and building society externals were expansionary by £0.8 billion and £NNDLs were contractionary by £0.7 billion.

34. Public and banking sector external transactions were flat in August (public and banking externals were both £0.9 billion). As in July, however, allowance needs to be made for the impact of known capital restructurings as part of the provisioning exercise currently being undertaken by British banks. Such restructuring reduces sterling NNDLs but increases foreign currency NNDLs by an offsetting amount. After allowing for this effect, the true impact of external influences on money was to increase it by £0.5 billion. The main factors behind the contractionary public externals in August were the further foreign inflow into the gilts market and a £0.3 billion fall in recorded (spot) reserves. The expansionary influence on money of the banking externals is entirely explained by resumed net foreign currency borrowing (£0.6 billion) by the non-bank private sector, which only partially reversed July's very large net reduction (£3.8 billion) in net foreign currency liabilities to UK banks.

M5

35. M5 grew by £2.5 billion (0.8 per cent) in August and at an annual rate of 15 per cent, compared to 14½ per cent in July. Among the M5 components, aside from the £2.6 billion increase in M4, there was a £0.2 billion fall in private sector holdings of local authority debt and a modest fall in holdings of Treasury bills offset by a rise in National Savings instruments.

Money Markets and Interest Rates

36. Money market rates edged lower in the first three weeks of September, as fears of another rise in interest rates have receded, but subsequently firmed after the August trade figures. Rates currently range from nearly 10.1 per cent at one month to 10.6 per cent at twelve months.

37. Following the rise in base rates on 7 August the Halifax and Abbey National have reversed their mortgage rate cuts for new borrowers and joined the other societies with mortgage rates of 11.25 per cent. Share rates, which were not lowered by any societies, remain unchanged. Since the banks' deposit rates (and mortgage rates in the case of Natwest and Lloyds) have gone up in line with the rise in base rates, building societies have now lost their exceptional competitiveness on the deposit side, with the spread of top tier rates above those of the banks ranging from about 1.7 per cent net to a more normal 1 per cent. On the other hand, building societies as a whole will have regained competitiveness in the mortgage market, since with an increase in the cost of wholesale funding, the MFI's, like some of the banks, are raising interest rates. This will not be reflected immediately in increased building society lending however, because of the lag between commitments and advances.

38. The stock of money market assistance fell by £1.0 billion in August and by a further £¼ billion in September to £5.4 billion (see Table 25). It is forecast to rise to around £7 billion in October, but to fall back again to about £5¼ billion in November. The temporary surge in assistance in October mainly reflects the CGBR forecast of a £1.1 billion surplus in October followed by borrowing of £1½ billion in November. Unwinding market holdings of Treasury bills are assumed to reduce the need for commercial bill purchases by about £¼ billion in October.

39. Gilts began the month with the index just over 85, and with 5, 10, and 20 year par yields at 10.3, 10.3 and 10.0 per cent respectively. The market traded quietly around those levels before moving ahead more strongly on sterling, a low PSBR and the provisional money figures. and then weakening on the August trade

figures. The gilts index now stands at 85.8 (a fall of nearly 6 per cent since mid-July), and par yields are around 10¼ at 5 years and 10 years, and just under 10 at 20 years. Breakeven inflation rates of Treasury 1990 and 2006 indexed gilts against comparison stocks are currently 3.0 per cent and 5.9 per cent respectively, compared to 4.3 per cent and 6.1 per cent at the end of August. Nominal conventional yields were broadly unchanged over this period, whereas real yields on indexed gilts rose. The equity dividend yield (based on the all-share index) fell to 2.9 per cent in mid-July but has since risen slightly, to 3.0 per cent.

Capital Markets and Corporate Finance

(see tables 20-21)

40. Following falls in August, equity prices (measured by the FT All Share Index) have risen in September, notwithstanding a 1½ per cent fall immediately after the publication of the August trade figures. The index is currently 2 per cent below its mid-July record level.

41. UK commercial companies and building societies raised a total of £2.5 billion net sterling finance in August from the domestic capital and eurosterling markets, compared to a monthly average of £1.2 billion in the rest of 1987. Most new issues in August were again on the stock market (£2.0 billion). Announcements of future equity issues were over £1½ billion in August, well below the £2½ billion announced both in June and July but still slightly above the monthly average during 1987 so far. The total of capital issues in the queue and those announced but not raised (excluding privatisations) rose by £0.4 billion over August to stand at £11.1 billion at 1 September. Since a large part of these issues will be made over the next few months, the cash demands on the institutions will be substantial. Issues on the euromarkets continue to be depressed, with little activity in either August or September. This weakness reflects in part the closing in May of the loophole which had allowed borrowers to circumvent the Stock Exchange ruling on pre-emption rights by issuing convertible eurobonds, and also the rise in UK medium and long term interest rates.

42. The stock of sterling commercial paper (SCP) outstanding rose by £140 million in August, to £2.1 billion (with net issues by

UK commercial companies of £39 million pushing their stock up to £1.3 billion). Monetary sector holdings of SCP rose by £85 million to £560 million.

43. Net sales of unit trusts fell back from a record £1.1 billion in July to £0.7 billion in August. This was nonetheless the highest August figure ever as well as being the fourth highest on record. The number of unit holder accounts has risen sharply since end-1985 and now stands at £4.4 billion (having increased by £1.3 billion in the last twelve months alone).

MG2 Division
2 October 1987

Monetary developments since last month's report

Latest outturns available at time of:

	Feb Report	August Report	Sept. Report
Monetary aggregates (12 month % growth)	(Jan)	(July)	(August)
M0 (sa)	5.1	5.4	4.7 4.9
M3	17.6	20.9	22.1
M4	13.9	14.9	15.6
M5	13.3	14.5	14.9
Bank lending	22.5	22.2	21.4
Bank & building society lending	20.9	19.6	18.8
Interest rates (%)	27 Feb	10 Sept	1st Oct
3 month interbank	10.8	10.2	10.3
20 year gilt-edged (par yield)	9.7	10.1	10.0
Yield gap	1.1	0.1	0.3
3 month overseas basket	6.3	6.7	6.8 ⁺⁺
3 month interbank/euro dollar differential	4.4	2.7	2.1
Real 3 month interbank	6.7	6.1	n/a
Equity dividend yield (all-share)	3.4	3.1	3.0
IG yields (2001) assuming 5% inflation	3.5	4.3	4.4
Exchange rate			
ERI	69.9	72.9	72.8
Oil adjusted reference index*	71.3	72.9	73.0
ERI/reference rate ratio	98.0	100.0	99.7
Asset prices			
FT-A Index (% pa)	30.8	41.7	56.4
FT-A Level (July peak: 1239)	985	1152	1215
Halifax house index (% pa)	13.6	14.3	14.5

* indicates what ERI would be if exchange rate simply responded to oil prices in the ratio 1:4. In determining the reference rate the base taken is the Jan '83 - Nov '85 average for the ERI and oil price.

+ September outturn

++ latest available figure is September 28.

BROAD MONEY FORECAST

ANNEX

1A. M3 and M4 are **forecast** to grow by about 1 per cent in September, lower than the average growth of 2.2 per cent and 1.6 per cent respectively seen during the last six months. Annual growth rates will drop back sharply as the temporary upward distortion from the TSB share sale in September 1986 drops out of the annual comparison. M4 annual growth reverts to about 14¾ per cent - similar to July's figure - and remains there in the next two months, while M3 annual growth falls to 19½ per cent in September and edges back to 20½ per cent over the forecast period.

2A. Special factors affecting the forecast are set out in Table 1. In September, the contractionary effect of the Midland rights issue of about £½ billion is partly offset by expansionary effects from intervention and lending; in October, the assumed contractionary effect of the BP sale is partly offset by other expansionary effects on lending; while in November underfunding associated with the pause in privatisations is offset by other contractionary effects on lending.

3A. The lending forecast assumes that underlying seasonally adjusted bank lending grows by 1.6 per cent (about £3 billion), and building society lending by 1.0 per cent (about £1¼ billion), per month. These underlying flows incorporate the effect of increased bank mortgage lending at the expense of building societies. Special factors superimposed on the underlying forecast are set out in Table 2. Privatisations increase lending by £0.2 billion in September (Rolls Royce and TSB second calls) and bank lending by £0.3 billion and total lending by £0.1 billion in October (BP) while unwinding of the BP effect is expansionary in November. Other expansionary effects include exceptionally high capital issues in September and low PSBRs in September and October. The bill leak has an expansionary effect of £¼ billion in October and a similarly contractionary effect in November, reflecting the money market assistance profile.

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4A. A number of factors over the next two months indicate that **building societies** are likely to feel considerable pressure on their balance sheet. Second calls on the TSB and Rolls Royce privatisations are estimated to take about £250m out of retail deposits in September while the BP privatisation may lower inflows by as much as £1 bn in October, with about two thirds of this returning in November. Additionally a large (£830m) tax payment falls due in September and increased competitiveness in the mortgage market following the societies' staying put after the August rise in base rates should lead to a rise in mortgages by the end of the forecast period. Societies are forecast to respond to these pressure both by increasing wholesale funding (£1.3 bn forecast for the period September-November) and by lowering liquidity ratios, although the forecast does see some small expansion in total liquid assets within which societies continue to make purchases of gilts.

ANNEX TABLE 1Broad Money Forecasts

	£ million not seasonally adjusted							
	AUGUST		SEPTEMBER		OCTOBER		NOVEMBER	
	M4	M3	M4	M3	M4	M3	M4	M3
(i) Underlying Increase*	2542	2302	2800	1700	3100	2525	3125	2900
Special Factors:								
Privatisations	- 50	- 50	- 50	- 50	- 250	- 50	350	200
Bank/Building Society Lending	150	150	200	200	350	350	- 200	- 200
Midland rights issue	-	-	- 500	- 500	-	-	-	-
Intervention	- 200	- 200	125	-	-	-	-	-
(ii) Total Special Factors	- 100	- 100	- 225	- 225	100	300	150	-
(iii) Total Increase	2642	2202	2575	1475	3200	2825	3275	2900
% Change on previous month	0.9	1.3	0.9	0.8	1.1	1.6	1.1	1.6
% Change on previous year	15.6	22.1	14.8	19.4	14.8	20.3	14.9	20.5

Memc

Underlying % Change on previous year	14.5	20.1	13.8	17.6	14.0	18.7	14.1	18.9
% Change expected at Budget time	14.2	17.3	14.1	15.3	14.4	16.0	14.3	15.9

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

* Based on the following assumptions:

(a) Underlying bank lending rises by £3.0 billion per month and building society lending rises by £1.2 billion per month, both seasonally adjusted.

(b) The public sector contribution to M4 and M3 is as follows:

	September	October	November
M4	-100	-1325	1300
M3	-150	-1350	1300

ANNEX TABLE 2

Lending Forecasts

£ million

	AUGUST			SEPTEMBER			OCTOBER			NOVEMBER		
	Bank Lending	Building Society Lending	Lending Counter-part to M4*	Bank Lending	Building Society Lending	Lending Counter-part to M4*	Bank Lending	Building Society Lending	Lending Counter-part to M4*	Bank Lending	Building Society Lending	Lending Counter-part to M4*
(i) Underlying Increase	1761	1196	2858	2950	1200	4050	3000	1200	4100	3050	1300	4250
Special Factors:												
PSBR offset	200	-	200	100	-	100	100	-	100	-	-	-
Bill leak	-100	-	-100	-	-	-	250	-	250	-200	-	-200
Privatisations	- 50	-	- 50	200	-	200	300	-	100	-200	-	- 50
Capital issues	150	-	150	100	-	100	-	-	-	-	-	-
(ii) Total Special Factors	200	-	200	400	-	400	650	-	450	-400	-	-250
(iii) Total Increase (seasonally adjusted)	1961	1196	3058	3350	1200	4450	3650	1200	4550	2650	1300	4000
Total Increase	933	1269	2103	4400	1050	5350	3400	1300	4400	2170	1470	3690
% Change on previous year	21.4	14.6	18.8	22.6	13.7	19.4	22.2	13.0	18.6	21.1	12.7	18.0
<u>Memo</u>												
Underlying % Change on previous year	21.4	14.6	18.4	21.7	13.7	18.5	21.1	13.2	17.7	20.5	12.9	17.2
% Change expected at Budget time	20.4	16.8	18.4	21.3	16.3	18.9	20.3	15.9	18.1	19.3	15.8	17.5

* Excludes bank lending to building societies (which is included under Bank Lending)

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ANNEX TABLE 3

BROAD AGGREGATES FORECAST

£ mn u/a

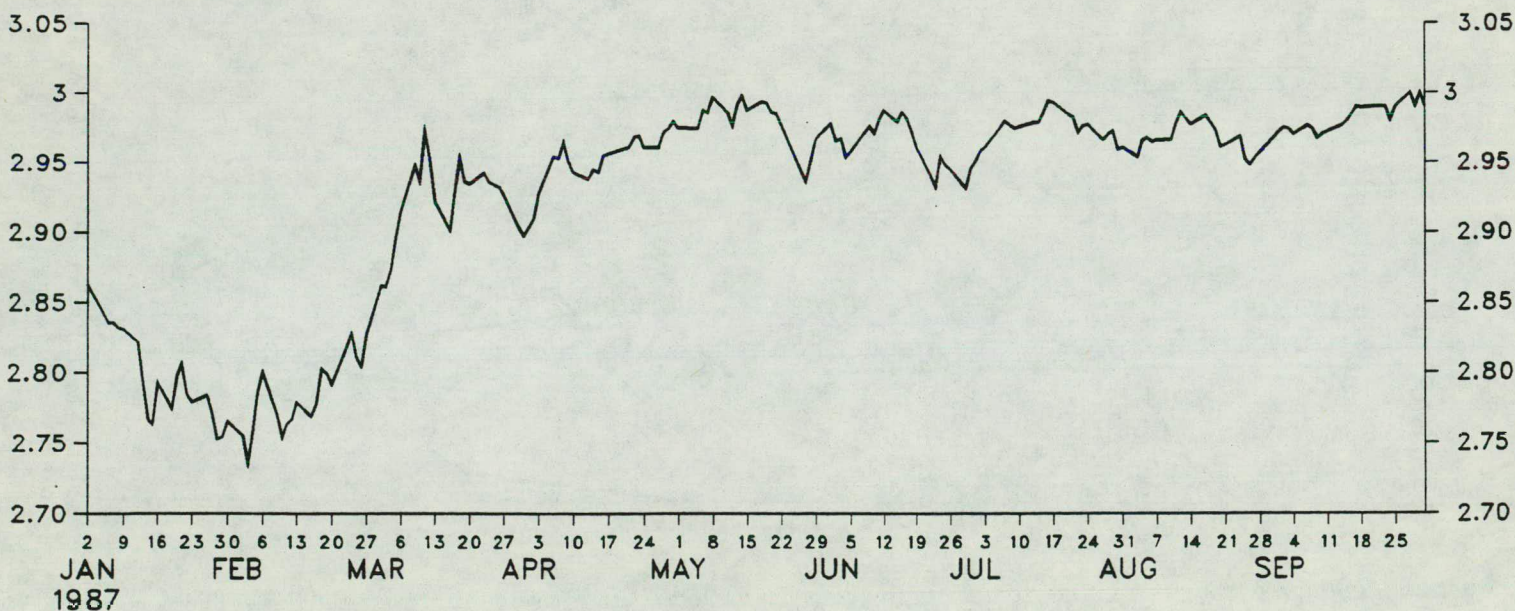
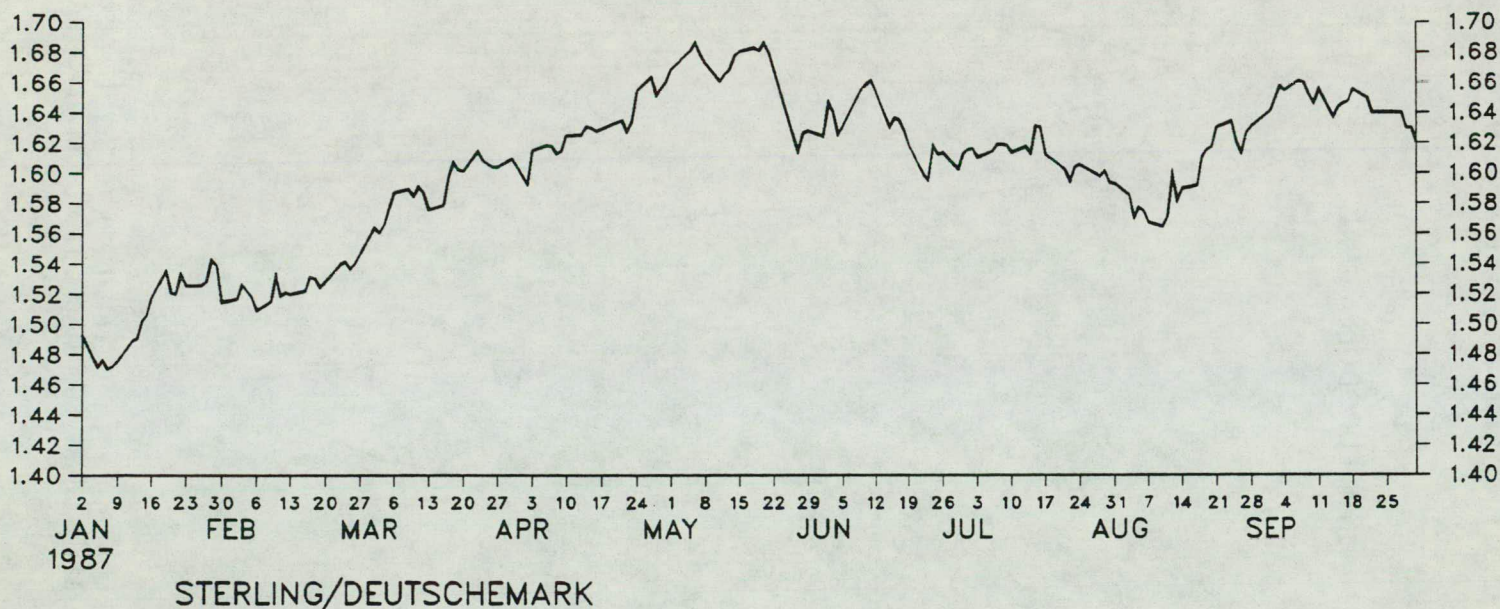
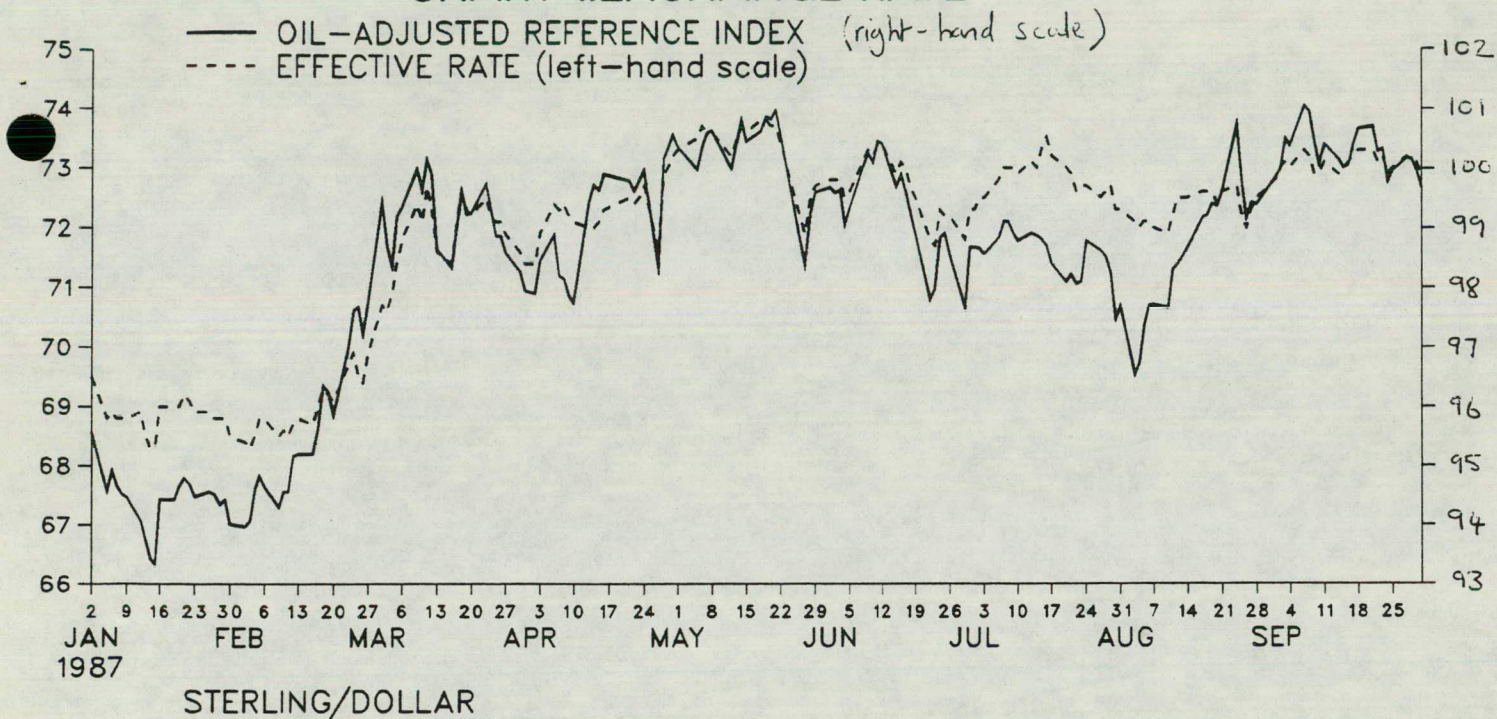
	OUTTURN 1987 AUG	FORECAST SEP	OCT	NOV
1. CG (OA) (SURPLUS-)	938	-300	-1125	1375
2. LABR	-145	-100	-300	-500
3. PCBR	-42	175	25	-175
	-----	-----	-----	-----
4. PSBR(1+2+3)	751	-225	-1400	700
5. NET DEBT SALES TO NBPS (-)				
GILTS	280	-150	-300	350
TREASURY BILLS etc	-23	50	50	50
NATIONAL SAVINGS	-228	-125	-100	-100
CTDs	25	-150	150	0
OPS DEBT	356	100	150	200
	-----	-----	-----	-----
TOTAL	410	-275	-50	500
6. EXTERNAL FINANCE OF PUBLIC SECTOR (INC-)	-858	350	100	100
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	----- 303	----- -150	----- -1350	----- 1300
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	933	4400	3400	2175
(seasonally adjusted)	(1961)	(3350)	(3650)	(2650)
9. PRIVATE NET EXTERNALS AND NET NON-DEPOSIT LIABILITES	966	-2775	775	-575
	-----	-----	-----	-----
10.M3 (7+8+9)	2202	1475	2825	2900
	-----	-----	-----	-----
BUILDING SOCIETIES:				
11. RETAIL DEPOSITS	720	1125	300	825
12. WHOLESALE DEPOSITS NBPS	4	150	150	150
13. HOLDINGS OF M3 (-)	-284	-175	-75	-600
	-----	-----	-----	-----
14.M4 (10+11+12+13)	2642	2575	3200	3275
	-----	-----	-----	-----

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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
- VI Real Broad money
- VII FSBR budget profile M0
- VIII FSBR budget profile M3
- IX M0 growth against target
- X Retail Deposits
- XI Bank and Building Society Lending
- XII £ Corporate bond issues
- XIII Bill Mountain
- 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



UK/US INTEREST RATE DIFFERENTIAL

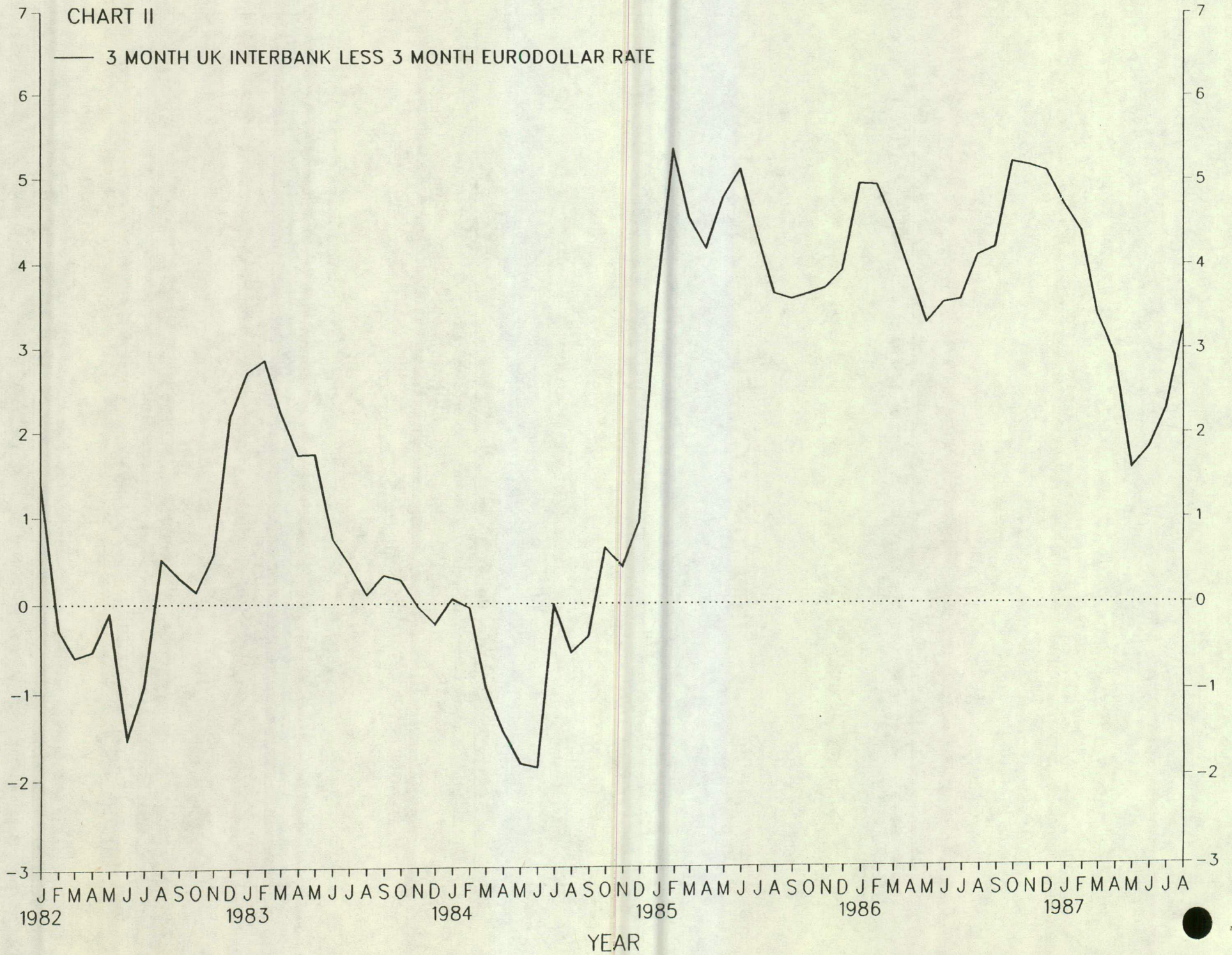


CHART III NARROW MONEY

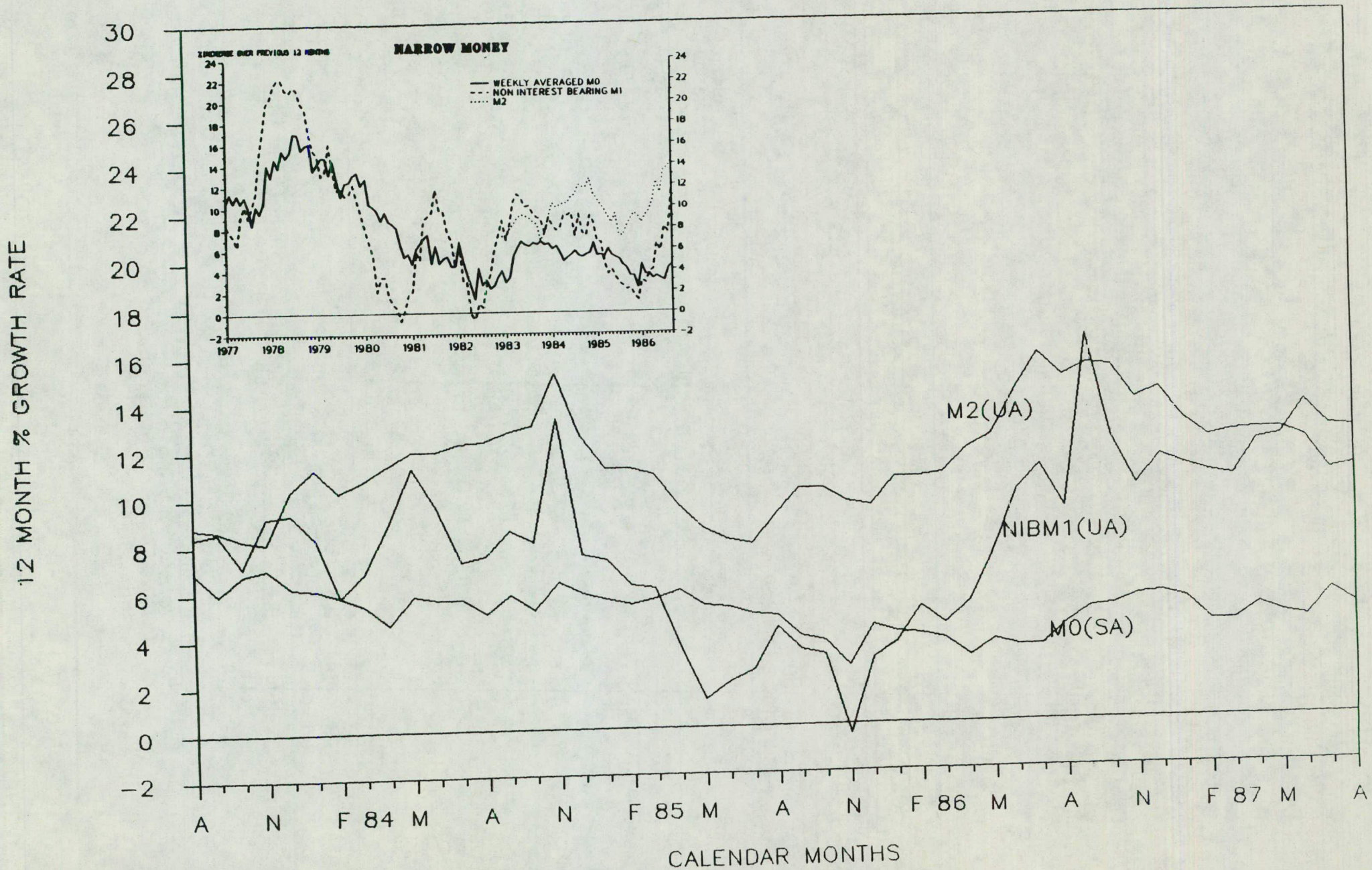


CHART IV BROAD MONEY

Annual percentage growth (sa)

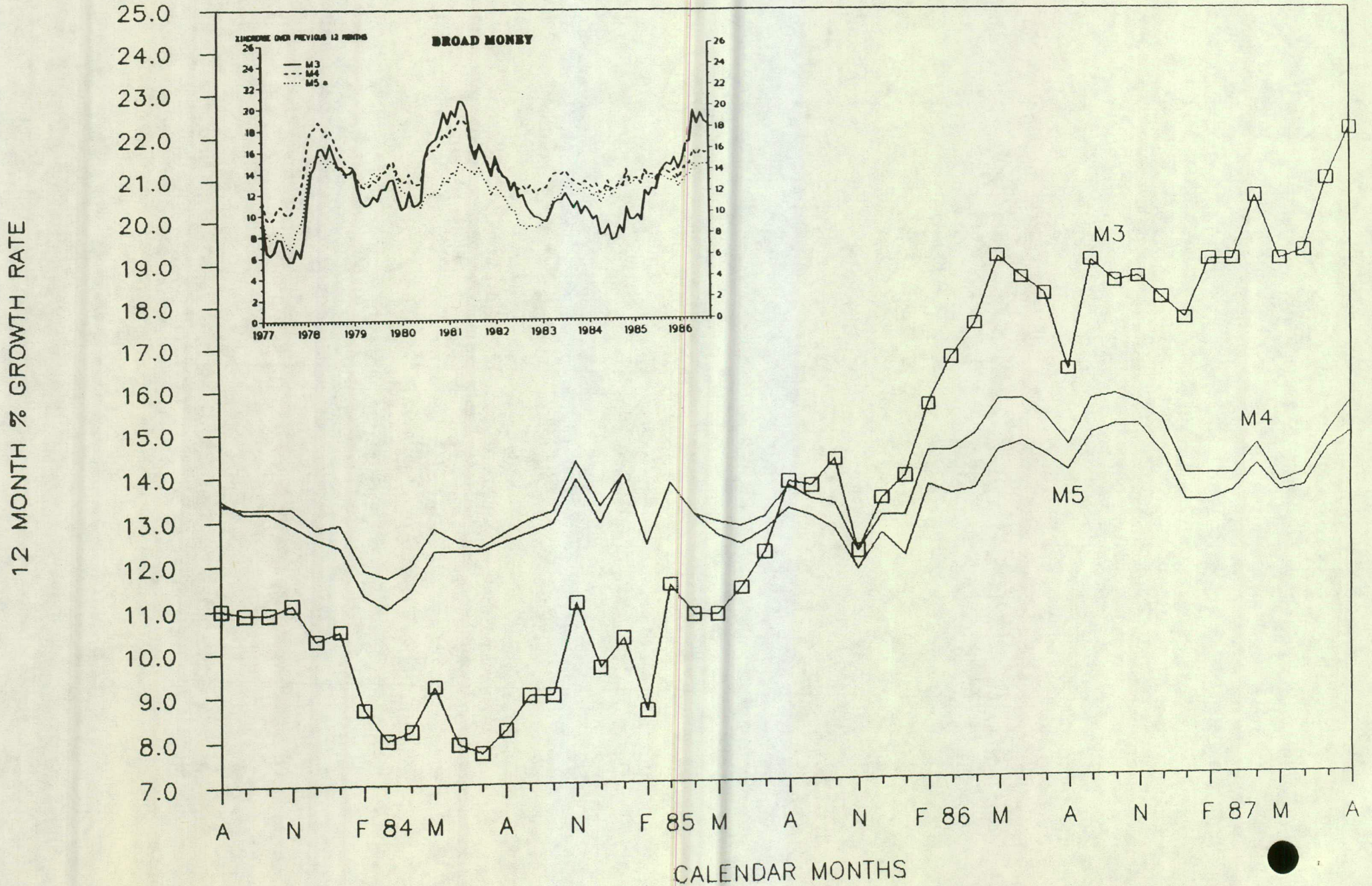


CHART V REAL MO

Annual percentage growth (sa)

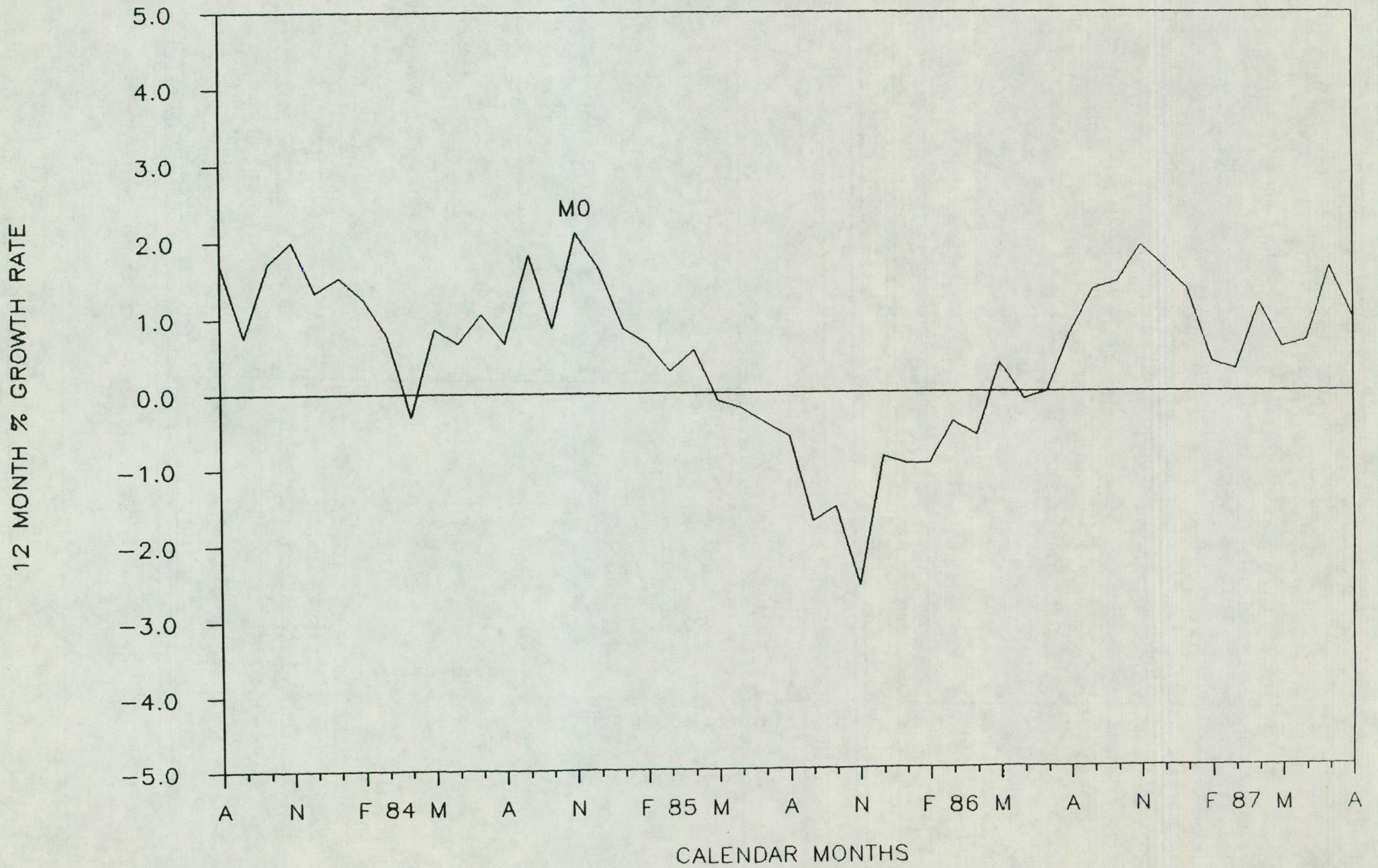


CHART VI REAL BROAD MONEY

Annual percentage growth (ua)

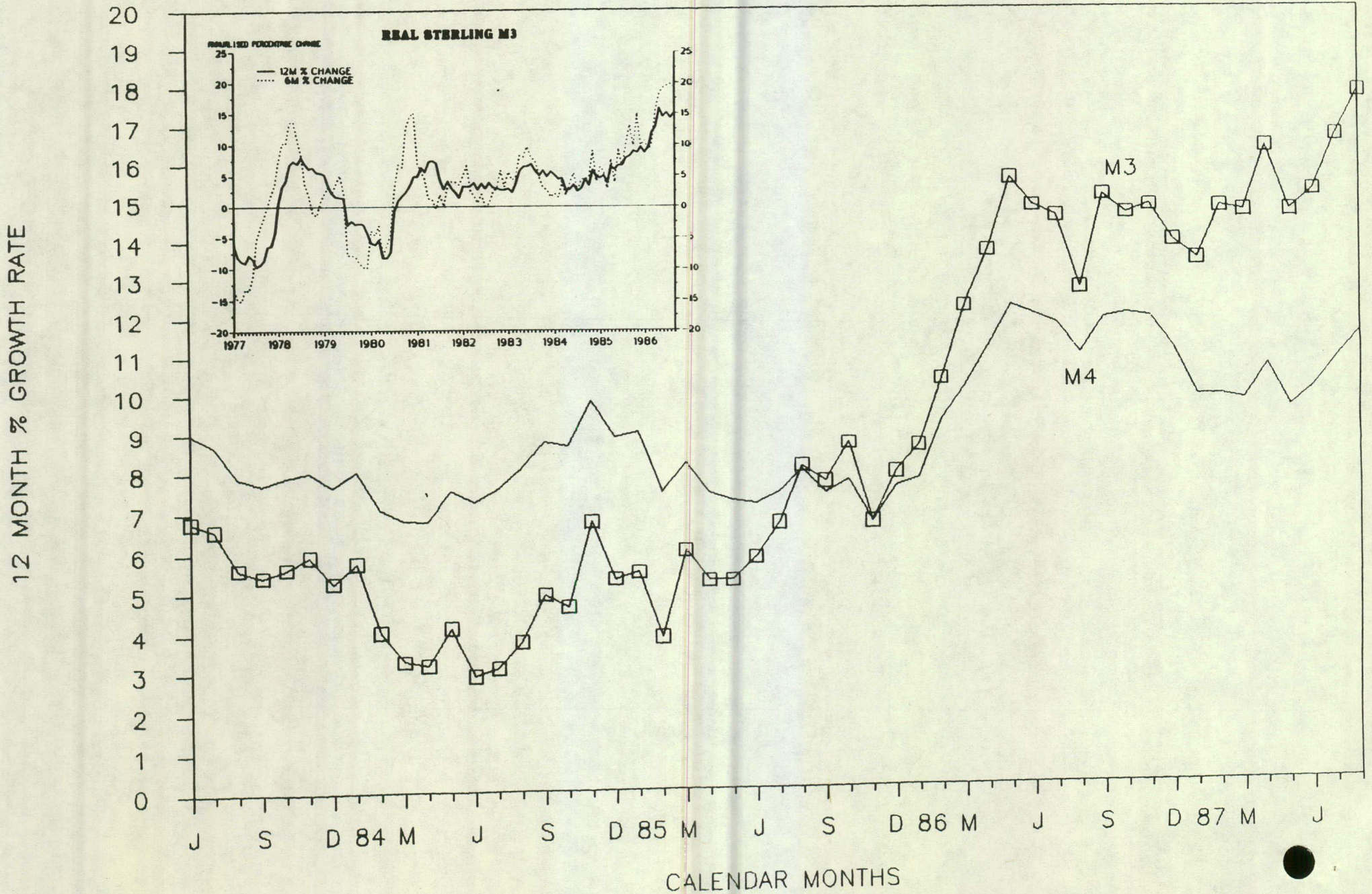


CHART VII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR MO

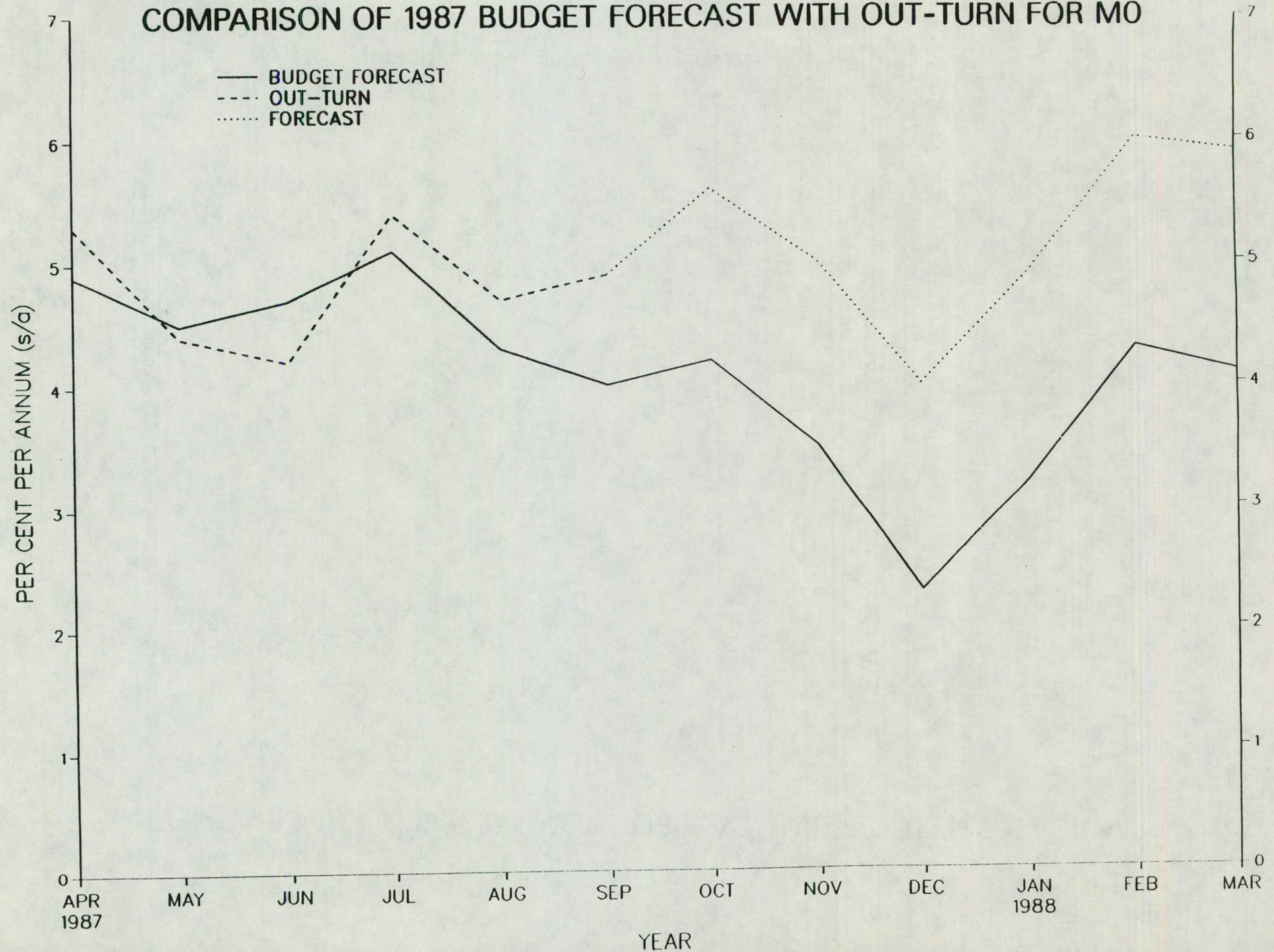
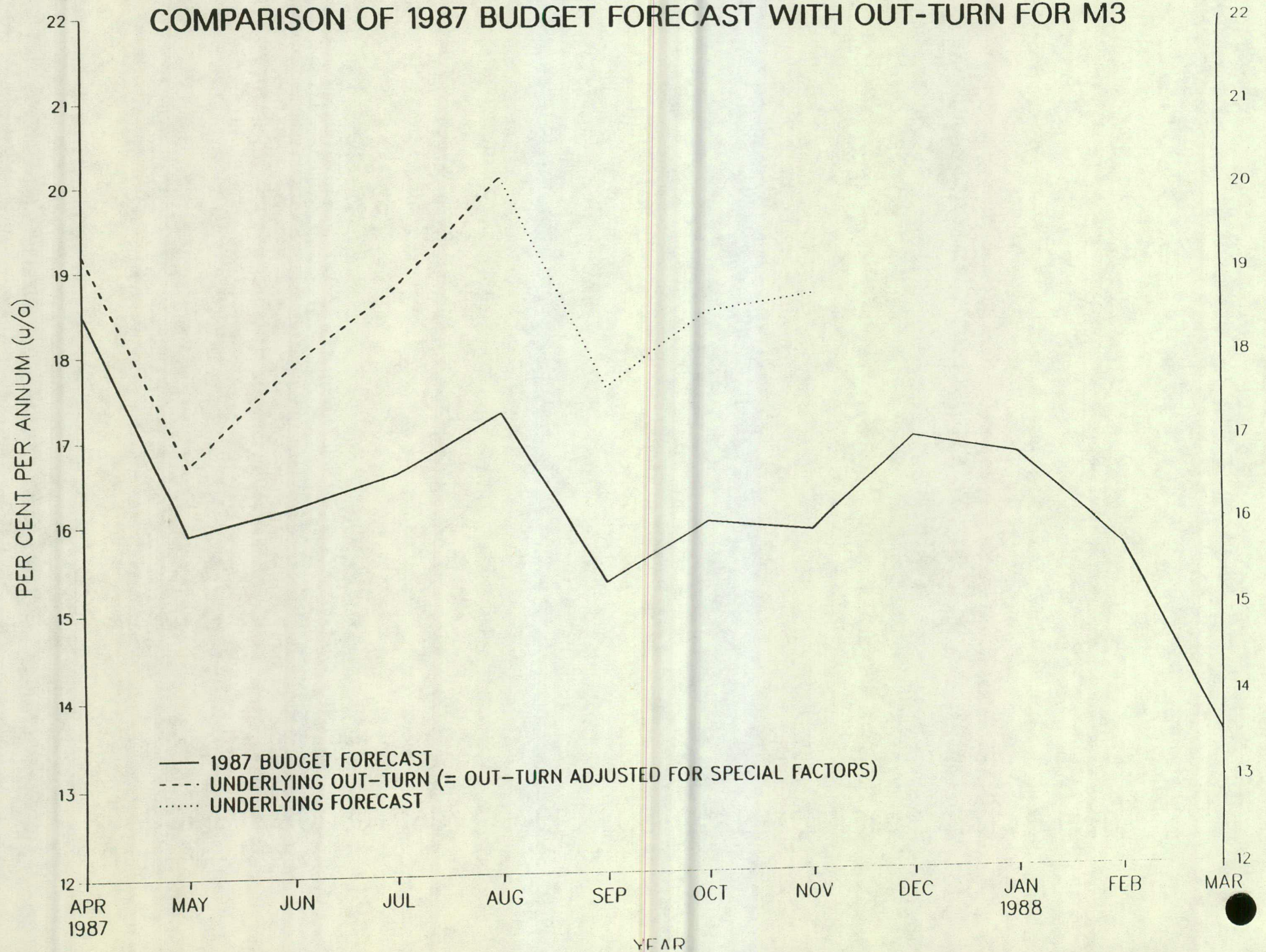


CHART VIII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M3



MO GROWTH (SA) COMPARED TO TARGET RANGE

CHART IX

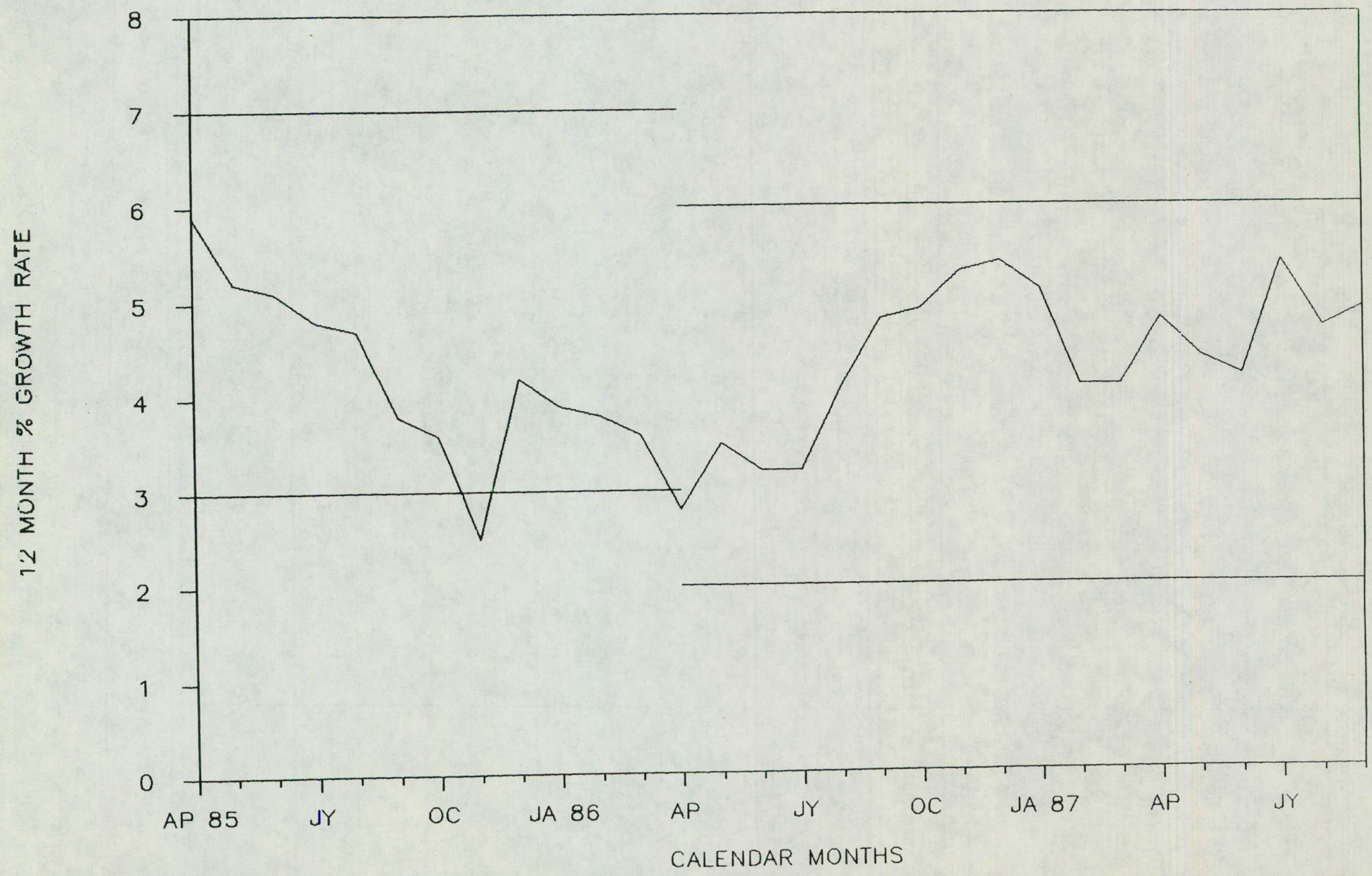
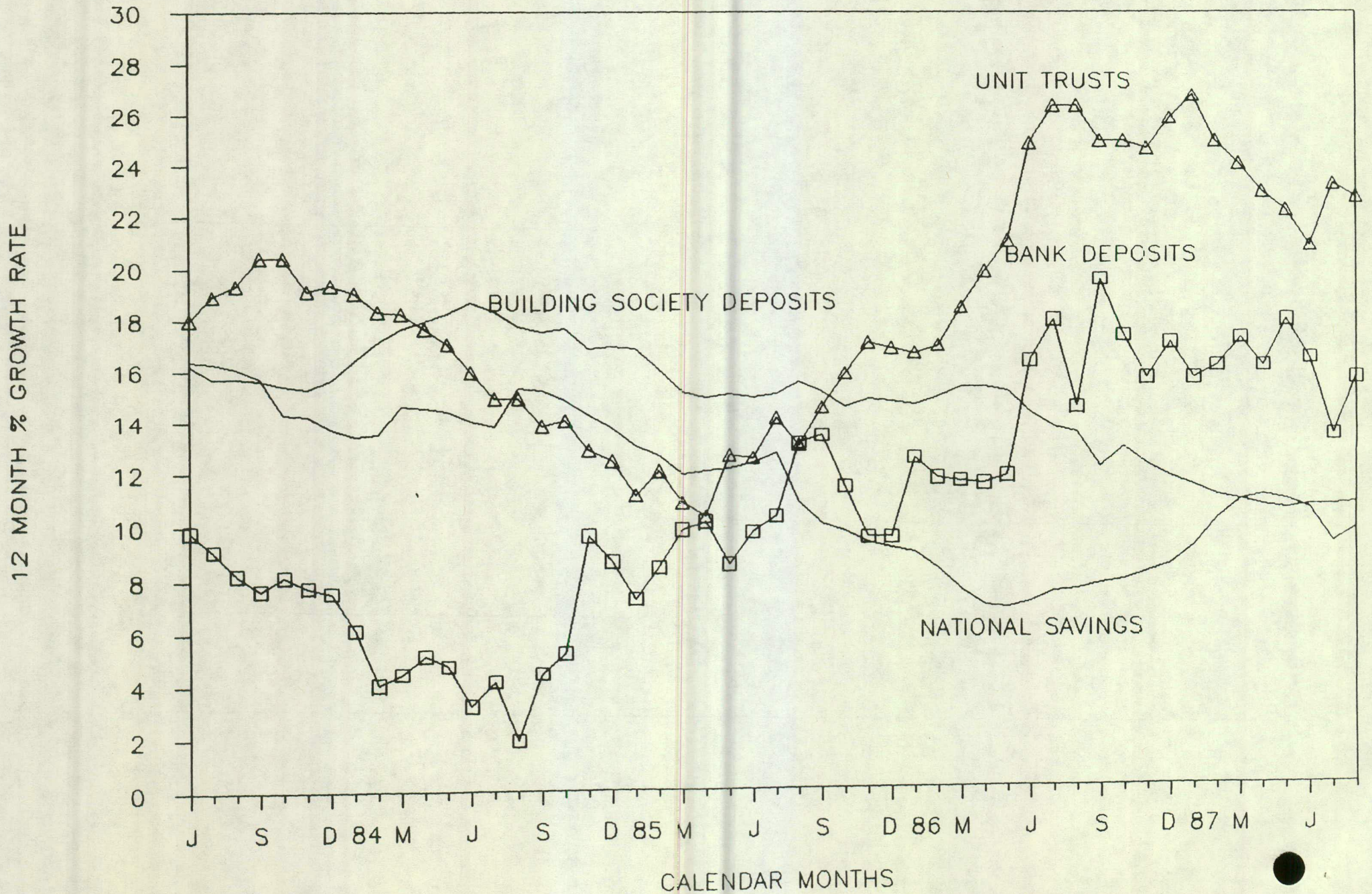
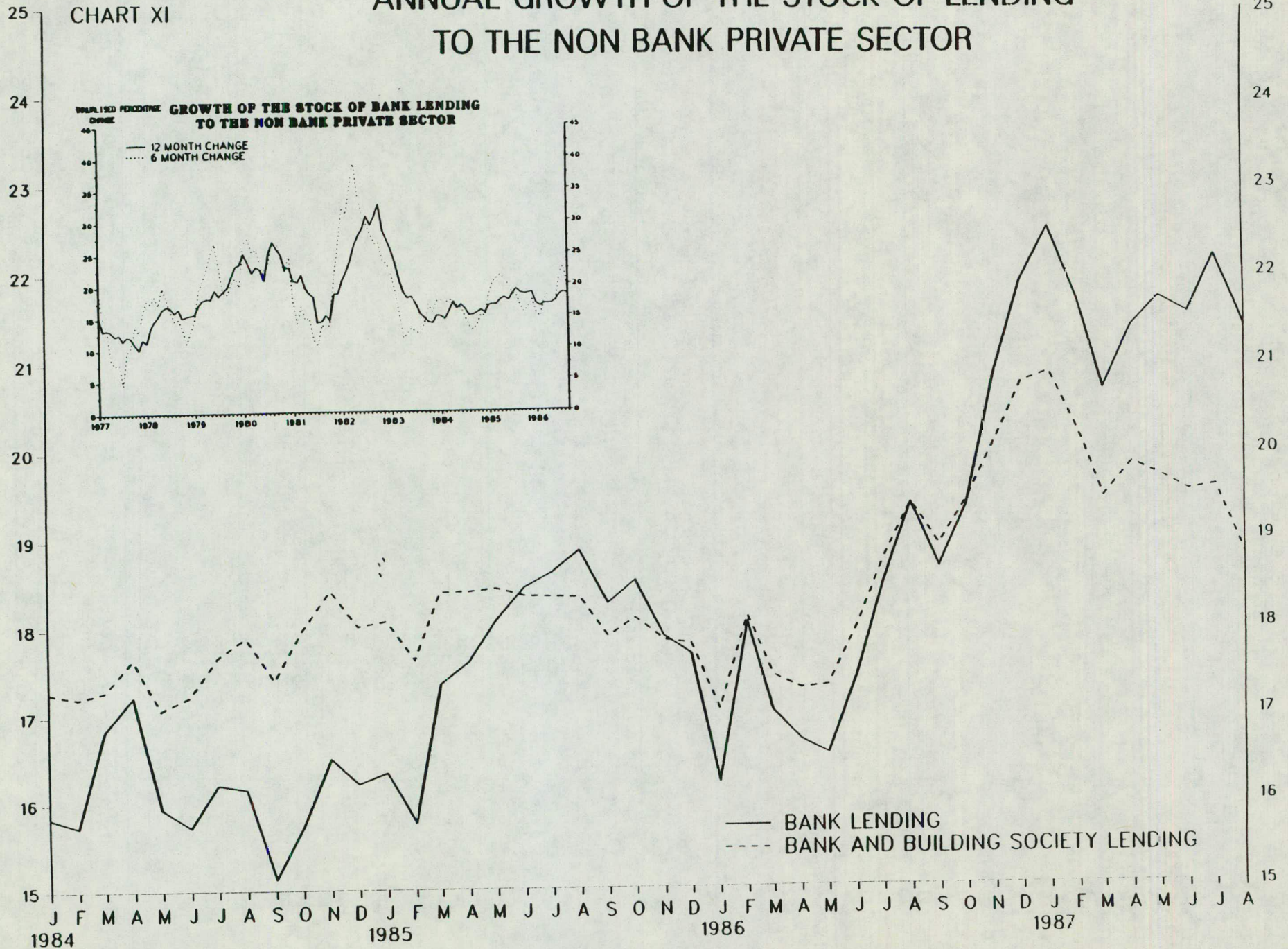


CHART X RETAIL DEPOSITS



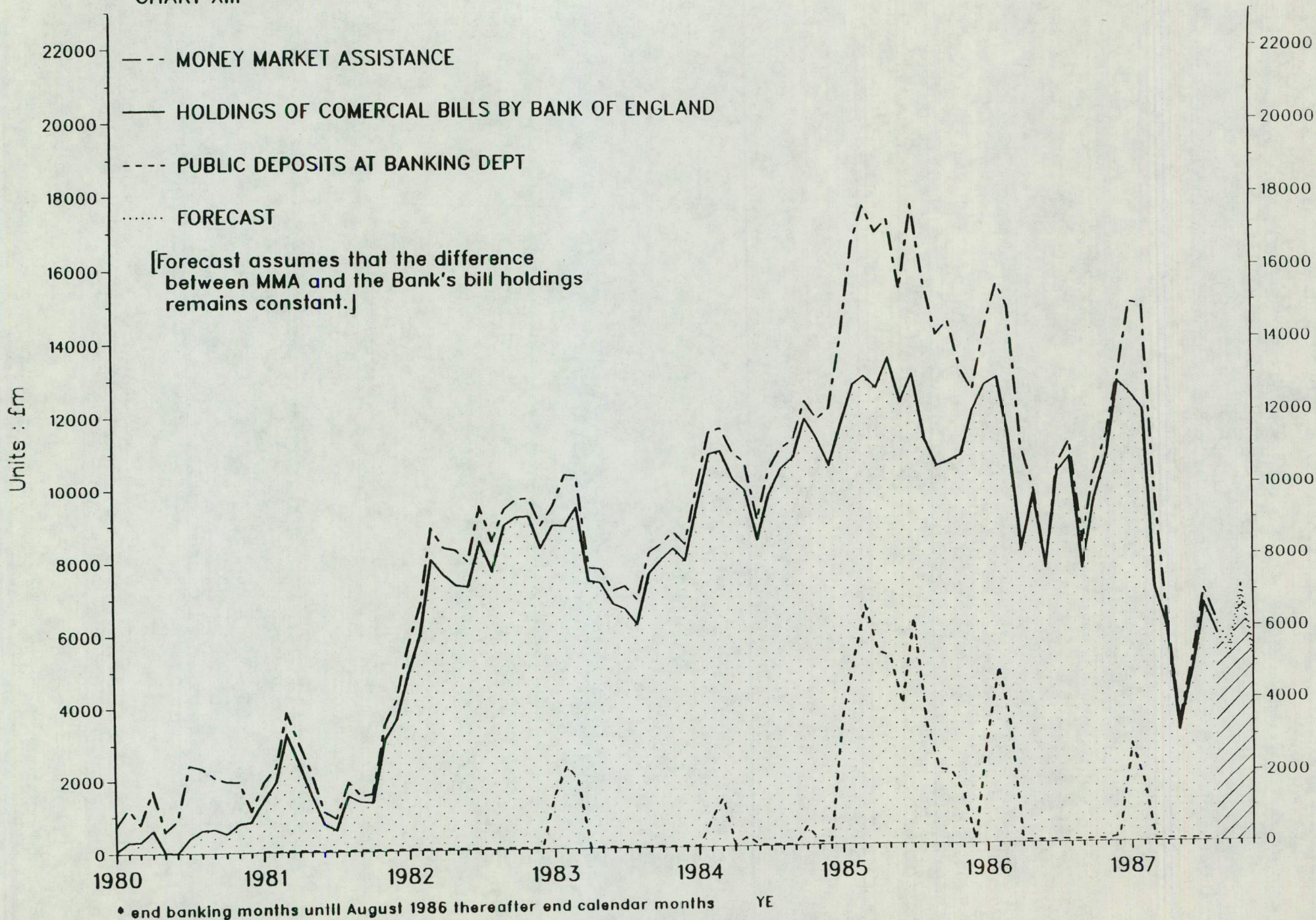
ANNUAL GROWTH OF THE STOCK OF LENDING TO THE NON BANK PRIVATE SECTOR

CHART XI



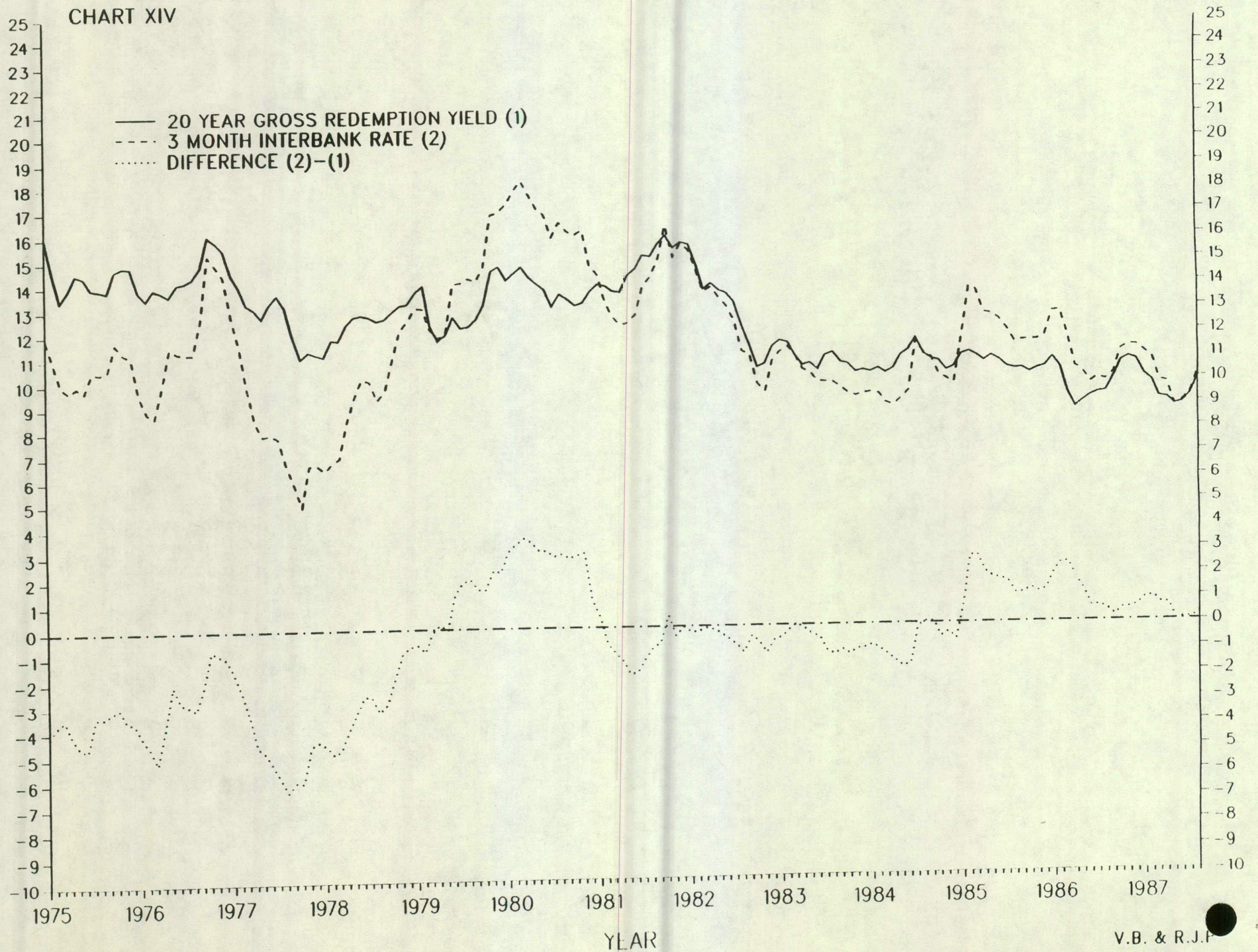
BILL MOUNTAIN RANGE

CHART XIII



NOMINAL INTEREST RATES

CHART XIV



Per cent

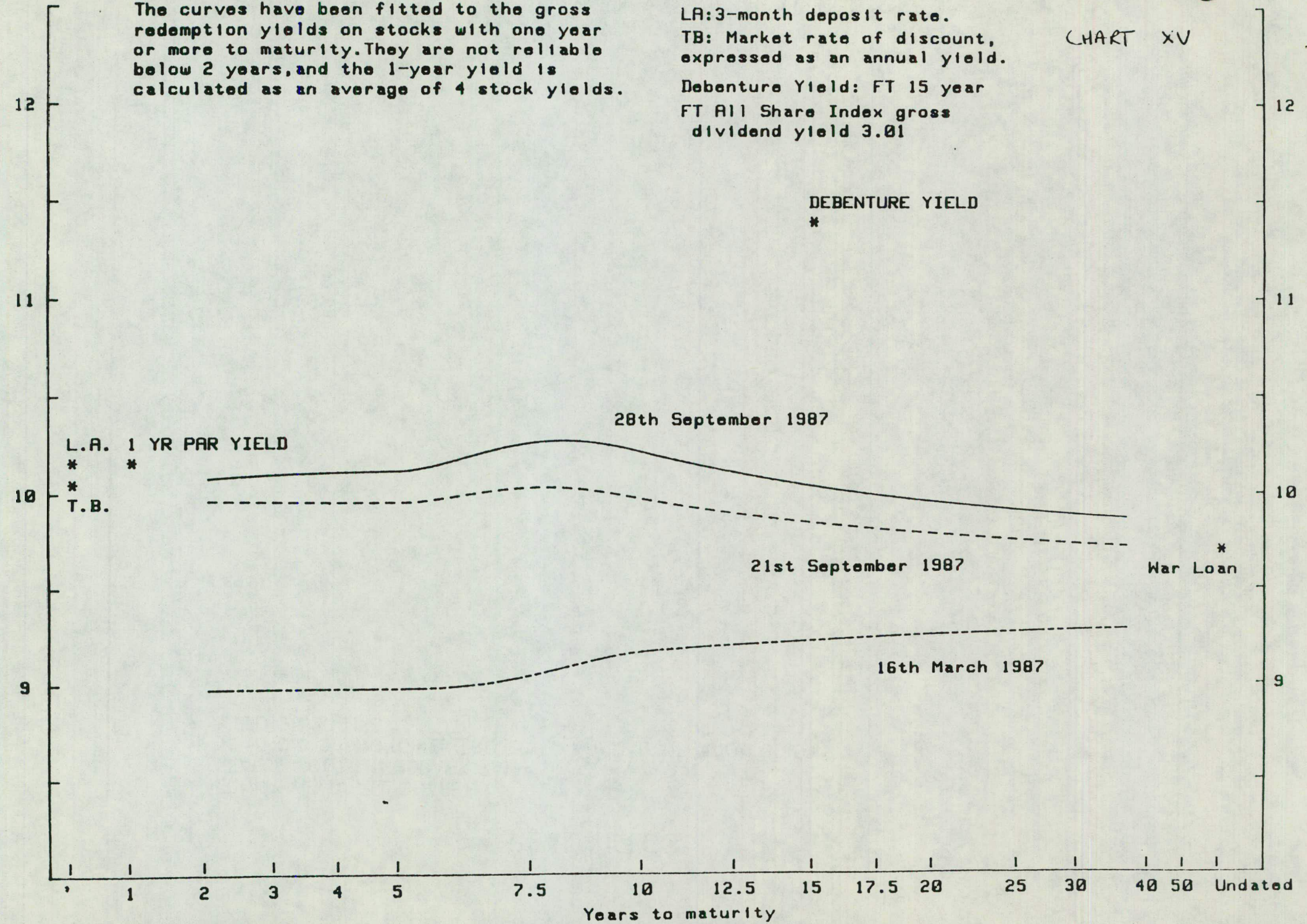
Time / Yield Curves of British Government Stocks

28th September 1987

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 3.01

CHART XV



DEBENTURE YIELD *

28th September 1987

L.A. 1 YR PAR YIELD *
*
T.B. *

21st September 1987

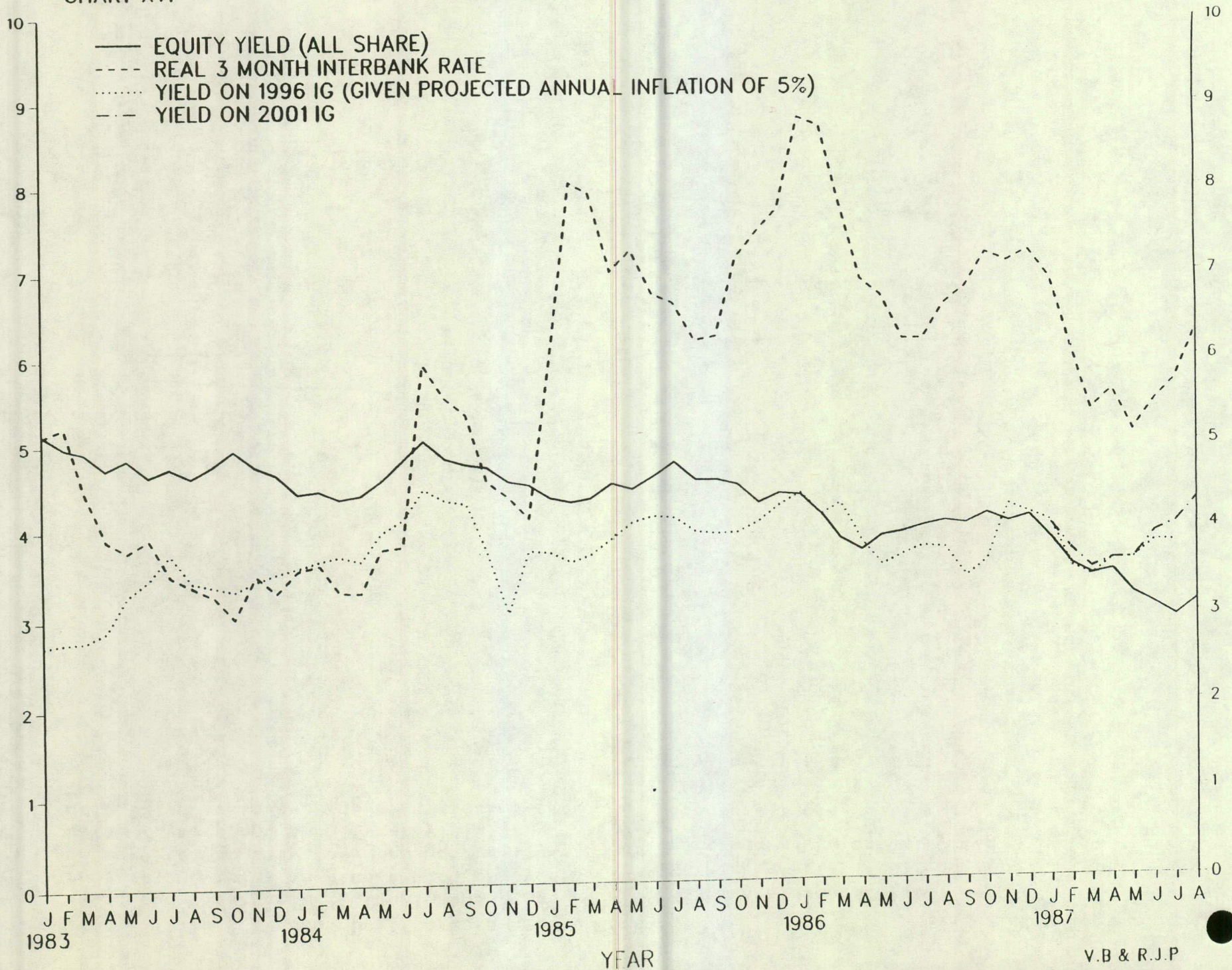
War Loan *

16th March 1987

Years to maturity

CHART XVI

REAL YIELDS



ANNUAL HOUSE PRICE INFLATION

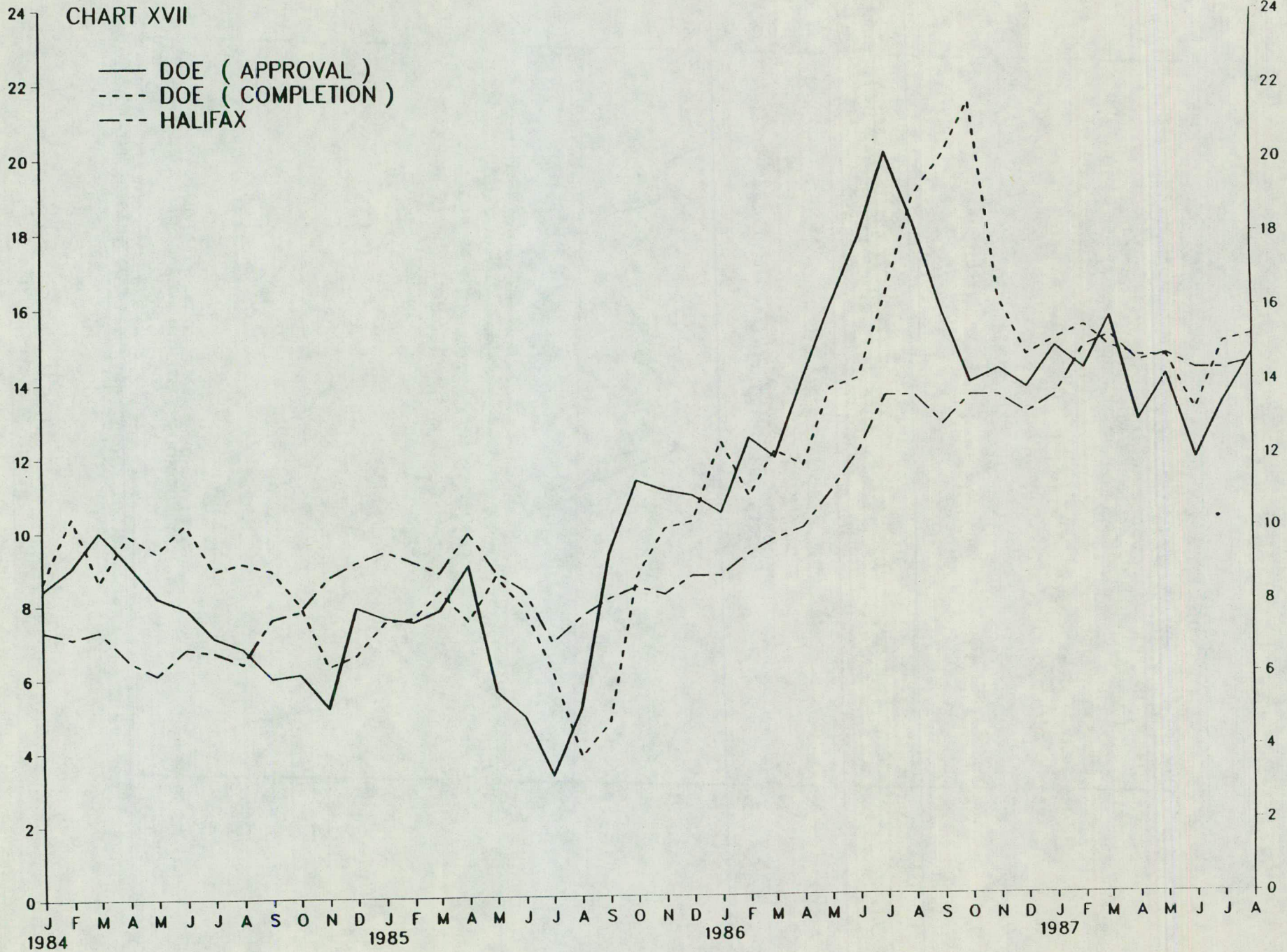
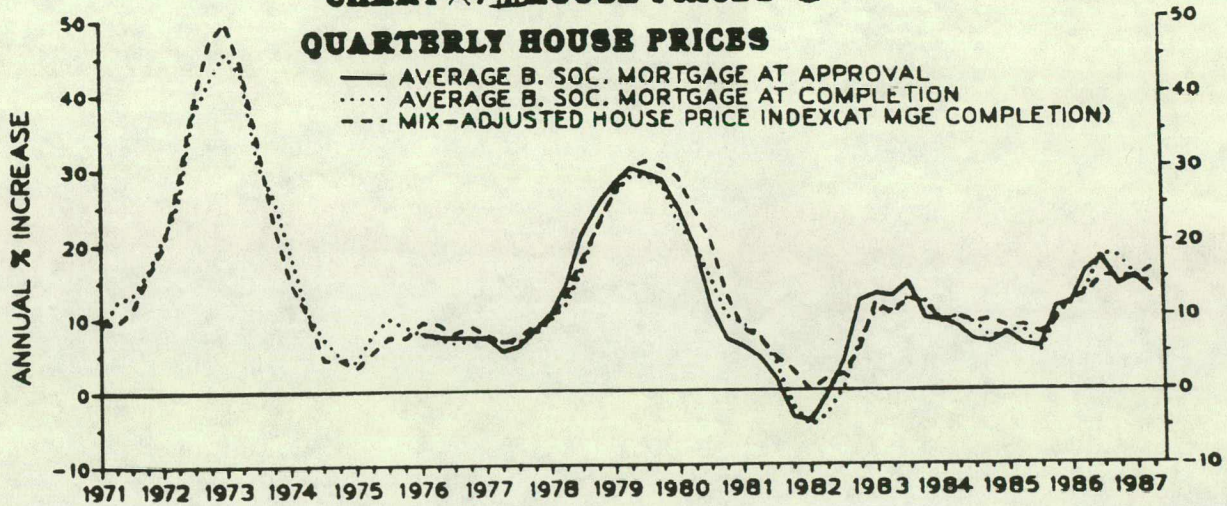
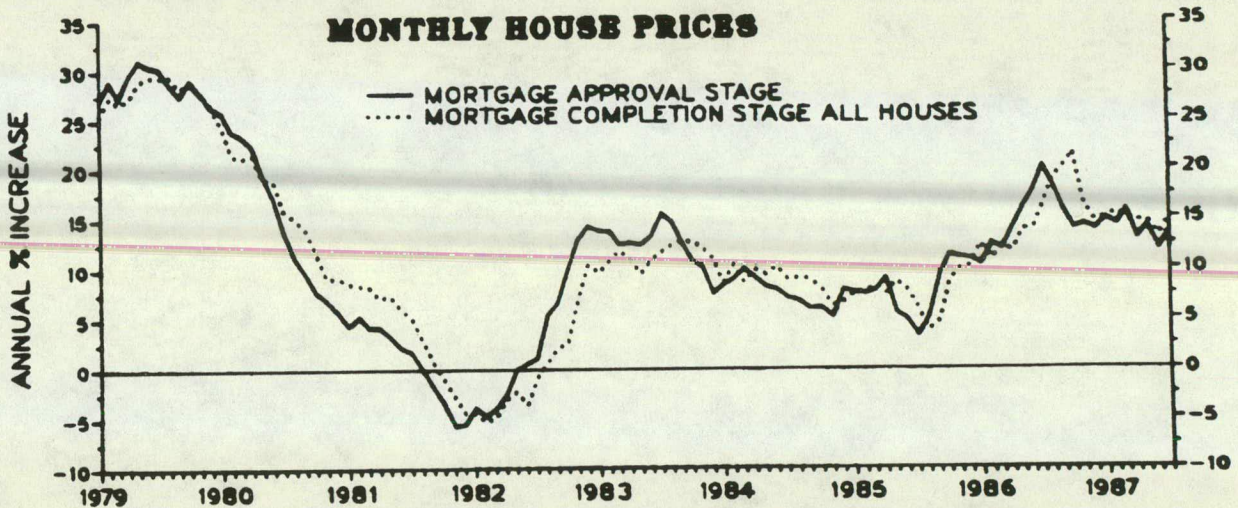


CHART VIII HOUSE PRICES 2
QUARTERLY HOUSE PRICES



MONTHLY HOUSE PRICES



INDICES OF RELATIVE HOUSE PRICES
 BASED ON DOE MIX ADJUSTED HOUSE PRICE INDEX

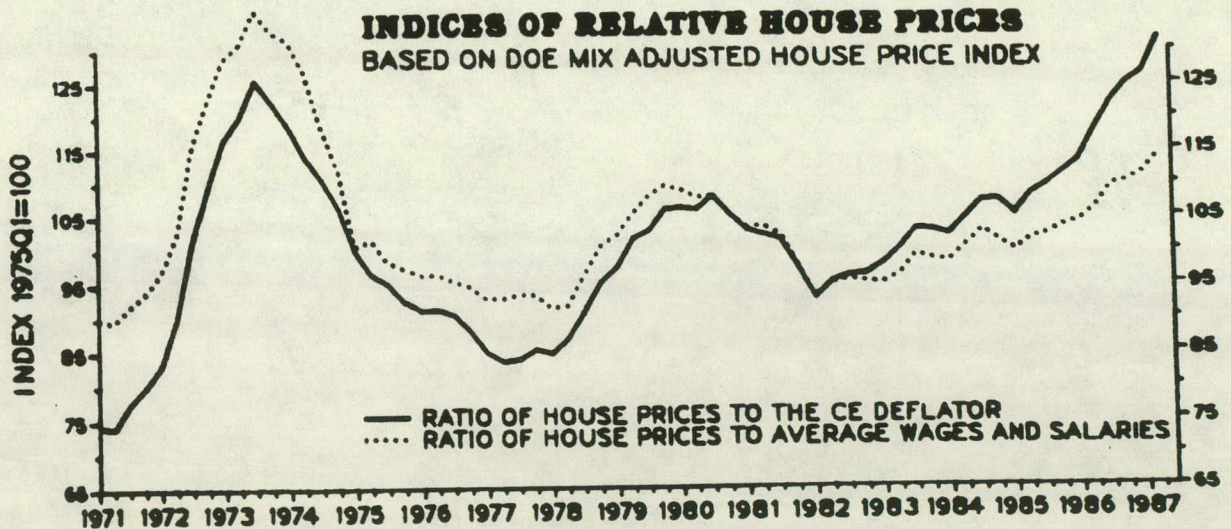
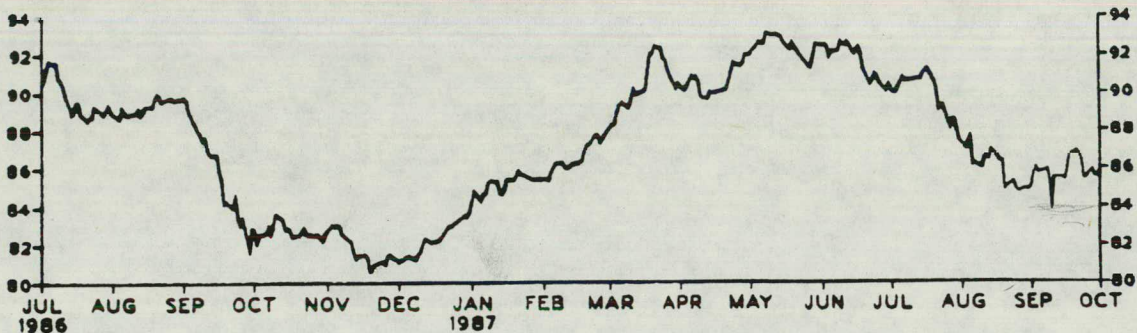


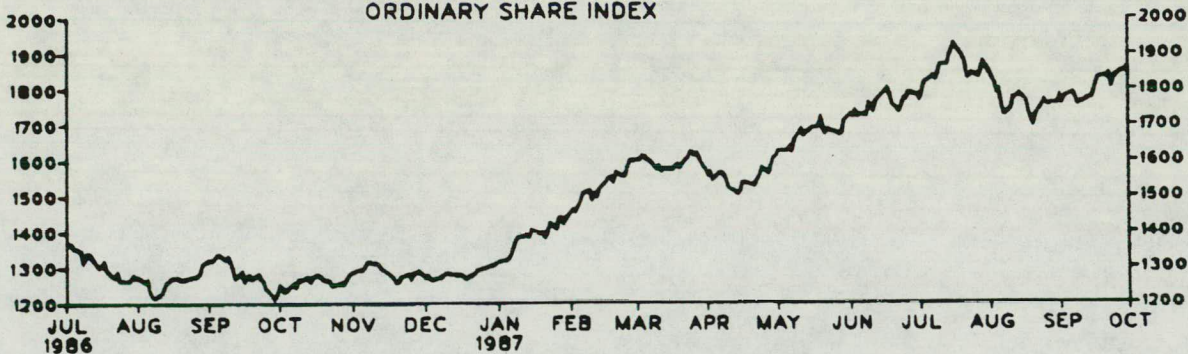
CHART IXX

CAPITAL MARKET INDICES

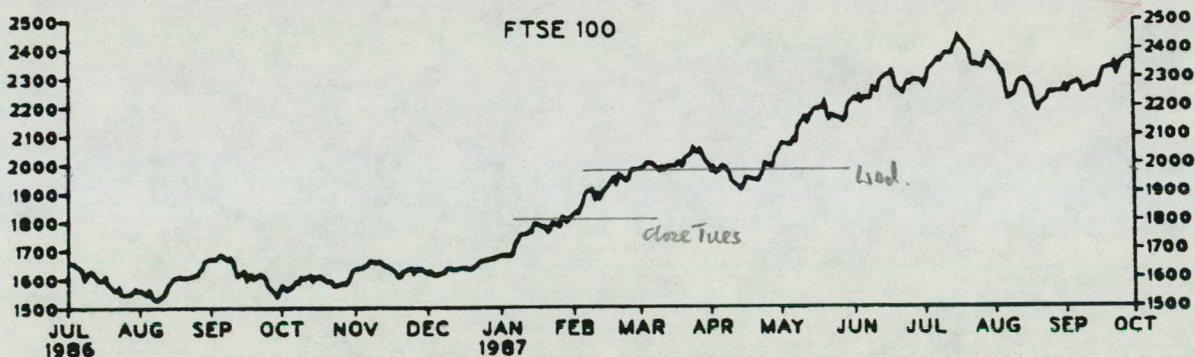
GILT INDEX



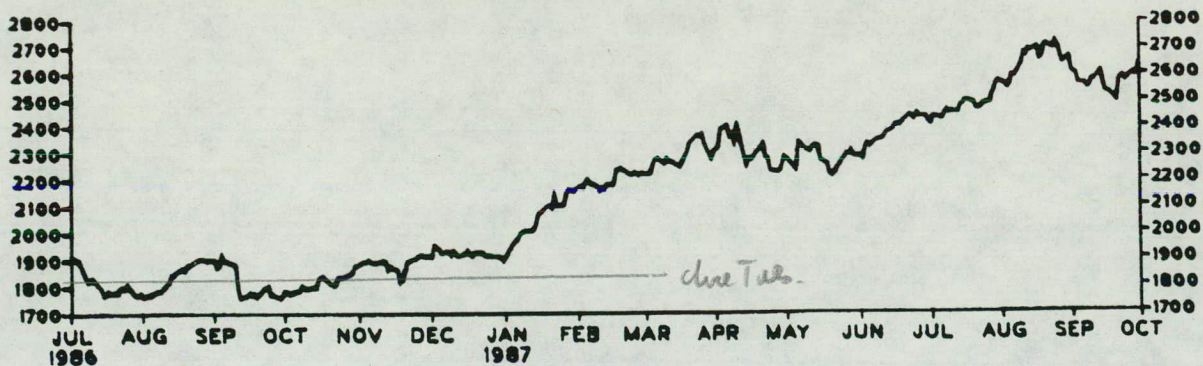
ORDINARY SHARE INDEX



FTSE 100



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TABLE 1: DEVELOPMENTS IN THE MAJOR 6 (EXCLUDING THE UK) COUNTRIES
(per cent change on same period a year earlier)

	Nominal GNP+	OUTPUT		TRADE VOLUMES*		PRICES		MONEY	
		Real GNP+	Industrial production	Exports	Imports	GNP Deflator+	Consumer prices	Narrow money	Broad money
1982	6.2	-0.6	-4.1	-1.6	-1.2	6.9	7.0	6.7	9.9
1983	7.8	2.7	3.3	0.6	2.2	5.0	4.6	9.7	8.5
1984	9.4	5.1	8.4	10.1	13.3	4.1	4.5	6.3	8.5
1985	6.9	3.2	2.8	3.3	4.0	3.6	3.7	7.8	8.3
1986	6.2	2.7	1.0	0.4	6.8	3.4	1.8	10.2	7.2
1986Q1	6.6	3.0	1.8	-0.8	4.2	3.5	2.9	8.6	6.8
Q2	6.8	3.1	1.0	0.4	7.7	3.5	1.7	10.2	6.7
Q3	6.0	2.5	0.6	1.6	9.2	3.5	1.5	10.6	7.4
Q4	5.3	2.2	0.5	0.4	6.1	2.9	1.1	11.4	7.8
1987 Q1	5.4	2.4	1.0	2.7	6.8	2.9	1.5	12.3	7.9
Q2	-	2.2	2.1	-	-	-	2.6	11.4	8.2
1987 Jan			-0.2				1.1	13.0	8.1
Feb			1.0				1.5	12.8	8.0
Mar			2.1				2.0	11.2	7.7
Apr			0.8				2.6	12.1	8.2
May			2.8				2.6	11.7	8.3
June			2.7				2.6	10.4	8.2
July			-				2.7	-	-

* On national accounts basis

TABLE 2: THREE MONTH INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1982	12.2	6.9	8.9	14.7	12.3
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	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
1986 Q1	7.6	6.0	4.6	8.7	12.4
Q2	6.7	4.7	4.6	7.4	10.2
Q3	6.0	4.7	4.6	7.2	10.0
Q4	5.8	4.5	4.7	7.7	11.2
1987 Q1	6.0	4.1	4.2	8.3	10.7
Q2	6.8	3.8	3.8	8.1	9.2
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 28	7.5	3.8	4.0	7.9	10.2

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

TABLE 3: EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK
1980	93.7	126.4	128.8	94.4	96.0
1981	105.6	142.9	119.2	84.3	94.8
1982	118.0	134.6	124.4	76.6	90.4
1983	124.8	148.4	127.1	70.0	83.2
1984	134.6	156.7	123.8	65.7	78.6
1985	140.7	160.5	123.6	66.3	78.2
1986	114.8	203.1	137.3	70.1	72.8
1985 Q1	149.7	154.3	119.3	63.4	72.1
Q2	145.8	155.2	121.6	65.2	78.9
Q3	138.4	157.6	125.0	67.2	82.1
Q4	128.8	174.9	128.5	69.3	79.8
1986 Q1	121.2	186.8	133.1	71.0	75.1
Q2	116.0	202.8	134.7	69.0	76.0
Q3	111.4	214.8	138.6	69.5	71.9
Q4	110.5	208.0	142.6	70.8	68.3
1987 Q1	104.2	210.1	147.7	71.9	70.2
Q2	101.1	222.9	146.9	71.6	72.7
1987 Jan	105.5	209.4	147.5	71.8	68.9
Feb	103.9	209.3	148.4	72.3	69.0
Mar	103.3	211.7	147.1	71.8	71.9
Apr	101.0	222.7	146.6	71.6	72.3
May	100.4	225.3	147.2	71.7	73.3
June	101.8	220.8	146.8	71.5	72.6
July	103.3	213.7	146.6	71.6	72.8
Aug	103.3	218.2	146.0	71.1	72.3
Sept	100.8	222.1	146.7	71.4	72.8
Oct	102.4	218.2	146.0	71.1	72.8
% Change since dollar peak (Feb 85)	-35	+39	+14½	+15	+4
% Change since Plaza (Sept 85)	-27½	+39½	+16½	+6	-11
% change since Louvre Accord (Feb 87)	-2	+4½	-1½	-1½	+5½

TABLE 4: 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	9.8	1985	3.7	3.0	6.1	5.2	6.3	4.4	5.6	5.3
1986-87	6.7	1986	3.0	1.1	3.4	3.6	4.3	-10.7	4.6	5.3
1986 2	6.4	1986 1	2.3	- 0.6	4.9	4.6	5.0	- 11.9	7.3	6.0
3	6.5	2	2.3	- 0.4	2.8	3.3	4.3	- 12.4	6.2	6.2
4	6.6	3	3.6	1.4	2.6	3.3	4.0	- 13.0	3.2	4.2
1987 1	7.2	4	3.9	4.1	3.4	3.4	4.0	- 5.6	1.6	4.9
2	8.0	1987 1	4.5	4.8	3.9	3.7	4.1	- 1.7	0.9	4.1
3	8.6*	2	4.1	5.3	4.2	3.6	4.5	4.6	1.3	
4	8.8	3								
1988 1	8.8	4								
1987-88	8.8									
		1986 July		1.5	2.4	3.2	4.0	- 14.3	5.2**	
		August		0.9	2.5	3.3	4.0	- 13.3	4.6	
		September		1.7	3.0	3.4	4.0	- 11.5	3.2	
		October		3.8	3.0	3.4	4.0	- 7.4	2.7	
		November		4.2	3.5	3.3	3.8	- 4.9	1.8	
		December		4.2	3.7	3.5	4.0	- 4.4	1.6	
		1987 January		2.9	3.9	3.7	4.2	- 2.5	1.9	
		February		5.7	3.9	3.7	4.2	- 2.9	1.5	
		March		5.7	4.0	3.8	4.1	0.4	0.9	
		April		4.4	4.2	3.6	4.3	3.0	0.5	
		May		5.9	4.1	3.8	4.5	3.4	0.8	
		June		5.6	4.2	3.5	4.5	7.2	1.3	
		July		6.2	4.4	3.7	4.7	13.3		
		August			4.4	3.7	4.7	14.3		

* June forecast.

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

*** Excluding food, drink and tobacco.

TABLE 5: INDICATORS OF FISCAL STANCE

(a) Annual Data

	PSBR		PSBR excluding privatisation proceeds		PSFD	
	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	1½	0.8	1½	-0.2	-½
1971-72	1.0	1¾	1.0	1¾	0.7	1
1972-73	2.4	3½	2.4	3½	2.0	3
1973-74	4.3	5¾	4.3	5¾	3.5	4½
1974-75	8.0	9	8.0	9	6.0	6¾
1975-76	10.3	9½	10.3	9½	8.1	7¾
1976-77	8.3	6½	8.3	6½	7.5	5¾
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5½	9.2	5½	8.3	4¾
1979-80	10.0	4¾	10.4	5	8.0	3¾
1980-81	12.7	5½	13.1	5½	11.7	5
1981-82	8.6	3½	9.1	3½	5.2	2
1982-83	8.9	3½	9.3	3½	8.3	3
1983-84	9.8	3½	10.9	3½	11.4	3¾
1984-85*	10.2	3	12.3	3¾	13.1	4
1985-86*	5.8	1½	8.5	2¾	8.3	2½
1986-87	3.5	1	7.4	2	9.6	2½
1987-88 (June forecast)	1.0	¼	6.3	1½	7.3	1½

* If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.3 per cent lower in 1985-86.

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		s.a.*	u.a.	s.a.*	u.a.	s.a.+	u.a.
1985	Q2	1.4	2.6	2.6	3.8	2.6	4.0
	Q3	1.9	2.4	2.4	3.4	1.7	2.3
	Q4	1.2	2.1	1.7	2.6	2.0	0.4
1986	Q1	1.3	-1.9	1.8	-1.4	2.3	1.6
	Q2	2.2	2.3	3.3	3.4	2.7	3.5
	Q3	2.5	3.6	2.5	3.6	2.6	4.5
	Q4	-2.5	-1.6	-0.4	0.5	2.0	0.0
1987	Q1	1.4	-0.7	2.6	0.5	2.5	-1.7
	Q2	0.4	1.1	3.3	3.5		

* financial year - constrained

+ calendar year - constrained

Table 6: CGBR(0) April - July: Comparison with Budget Profile
£ billion

Receipts

Inland Revenue	+ 0.7
Customs and Excise	+ 0.3
Privatisation proceeds	+ 0.3
Other receipts	+ 0.2

Expenditure

Net debt interest payments	+ 0.2
Other departmental expenditure ⁽¹⁾	- 0.3

Net effect on CGBR(0) - 2.0

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

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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)
1983	(3)	84.9	114.7	1.042	1.53	3.94	103.4	-0.3	30.9
	(4)	83.2	112.5	1.035	1.47	3.93	102.9	-0.5	29.6
1984	(1)	81.7	110.5	1.012	1.44	3.87	101.9	-0.9	29.7
	(2)	79.8	109.2	0.988	1.40	3.78	99.6	-2.1	29.7
	(3)	78.0	106.9	0.979	1.30	3.78	99.5	-0.6	28.5
	(4)	75.0	103.7	0.946	1.21	3.72	97.5	+0.3	28.6
1985	(1)	72.1	100.2	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	111.4	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	117.7	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	116.2	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	112.5	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	118.3	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	113.6	1.049	1.5	3.1	84.9	+3.8	12.4
	(4)	68.3	107.8	0.97	1.43	2.87	79.0	+5.1	14.8
19987	(1)	69.9	114.2	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	116.7	0.996	1.64	2.96	82.6	+2.1	18.6
1987	January	68.9	112.6	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	113.7	0.960	1.53	2.78	77.4	+4.4	17.2
	March	71.9	116.4	0.991	1.59	2.92	81.2	+3.4	18.0
	April	72.3	115.8	0.994	1.63	2.95	82.1	+2.9	18.2
	May	73.3	117.6	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	116.7	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	116.9	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	115.7	0.988	1.60	2.97	82.8	+3.2	18.9
	October 1st	72.8	n/a	0.997	1.62	2.99	83.2	+2.1	18.6

† Oil price adjusted ERI has roughly the same inflation implications as does an ERI of 80 given an oil price of \$29 (their average values for January 1983 - November 1985). The ratio shown therefore indicates whether movements in the ERI are inflationary or otherwise, relative to the period Jan-1983 - Nov 1985, having allowed for oil prices.

* 1975=100

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
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	6.3	2.6	4.3	4.0
	October 1st	10.3	8.2	10.0	10.0	n/a	n/a	3.1	4.4	4.1

* 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 £mn
1982	0.5	8.6	0.5	4035
1983	-1.1	9.5	-0.6	3338
1984	9.6	11.0	-1.9	1474
1985	6.8	4.2	1.8	2919
1986	2.4	5.7	-0.8	-980
1986 Q1	-2.5	3.2	3.0	733
2	0.0	2.4	1.9	135
3	2.9	7.5	-2.4	-918
4	9.3	9.9	-4.9	-930
1987 Q1	11.2	5.4	-1.0	672
Q2	6.3	10.1	+1.1	-174
Jan	-2.6	1.5	4.5	995
Feb	-2.7	2.6	3.3	204
Mar	-2.3	5.7	1.7	-466
Apr	-2.2	-1.8	2.3	283
May	-0.2	7.3	2.9	-113
Jun	2.6	1.7	1.6	-35
Jul	2.6	4.2	-1.9	-5
Aug	-0.4	9.7	-2.8	-734
Sep	6.4	8.4	-2.5	-179
Oct	7.7	5.1	-3.3	-155
Nov	11.3	10.6	-5.0	-462
Dec	9.0	15.0	-6.1	-313
1987 Jan	7.3	6.4	-2.7	85
Feb	18.2	8.5	-1.5	400
Mar	7.9	1.0	+0.8	186
April	8.9	10.7	+1.1	203
May	5.4	14.0	+0.3	-367
June	4.7	5.5	+1.6	-11
July	8.5	10.8	-0.4	-310
Aug	9.0	13.4	+0.5	-929

* excluding oil and erratics.

TABLE 10

Key Monetary Indicators

	1985-86											1986-87
	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>
<u>MONETARY AGGREGATES</u>												
12 month % change (ua)												
MO	4.8	4.9	5.2	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3	4.5
M3	19.0	18.5	18.6	18.1	17.6	19.0	19.0	20.5	19.0	19.2	20.9	22.1
M4	15.7	15.8	15.6	15.2	13.9	13.9	13.9	14.6	13.7	13.9	14.9	15.6
M5	14.9	15.1	15.1	14.4	13.3	13.3	13.5	14.1	13.5	13.6	14.5	14.9
<u>STERLING LENDING</u>												
12 month % change (ua)												
Banks	18.7	19.4	20.8	21.9	22.5	21.7	20.7	21.4	21.7	21.5	22.2	21.4
Banks and building societies	18.9	19.4	20.1	20.7	20.9	20.2	19.5	19.8	19.7	19.5	19.6	18.8
<u>OVER(-)/UNDER (+) FUNDING</u>												
financial year to date:£mn												
	2,654	812	-3	-1,577	-3,931	-3,969	393	3,215	5,178	2,420	1,950	2,253
<u>MONEY MARKET ASSISTANCE</u>												
Level outstanding £mn												
	8,390	10,247	11,295	12,970	14,948	14,873	9,742	6,126	3,340	5,132	7,078	6,114
<u>INTEREST RATES</u>												
3 months*	10.2	11.1	11.3	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3	10.2
20 year ϕ	10.3	10.6	10.9	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3	10.0
<u>EFFECTIVE EXCHANGE RATE</u>	70.4	67.8	68.5	68.5	68.9	69.0	71.9	73.3	73.3	72.6	72.8	72.3

* Inter bank

 ϕ par yield

/ banking months until August thereafter end calendar months

Table 11

MONETARY AGGREGATES 1986-87

	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG
<u>M0</u>									
Averaged weekly									
Monthly change (£ million)	+1,129	-1,034	-228	+115	+325	+42	-93	+423	+13
Monthly % change	+7.6	-6.5	-1.5	+0.8	+2.2	+0.3	-0.6	+2.8	+0.1
	(+1.4)	(-0.6)	(-0.8)	(+0.4)	(+0.4)	(+0.5)	(+0.2)	(+1.2)	(+0.3)
12 Monthly % change	+5.2	+4.1	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3	+4.5
<u>M3</u>									
(Exc Public sector deposit)									
Monthly change (£ million)	+267	-1,225	+2,945	+6,813	+3,203	+3,263	+1,904	+4,192	+2,202
Monthly % change	+0.2	-0.8	+2.0	+4.4	+2.0	+2.0	+1.1	+2.5	+1.3
	(+0.2)	(+1.1)	(+2.3)	(+3.3)	(+1.9)	(+2.1)	(+1.0)	(+2.3)	(+1.5)
12 Monthly % change	+18.1	+17.6	+19.0	+19.0	+20.5	+19.0	+19.2	+20.9	+22.1
<u>M4</u>									
Monthly change (£ million)	+1,692	-325	+2,470	+6,668	+3,555	+3,454	+4,044	5,298	+2,642
Monthly % change	+0.7	-0.1	+0.9	+2.5	+1.3	+1.3	+1.5	+1.9	+0.9
	(+0.2)	(+0.6)	(+1.4)	(+2.1)	(+1.4)	(+1.4)	(+1.3)	(+1.3)	(+1.4)
12 Monthly % change	+15.2	+13.9	+13.9	+13.9	+14.6	+13.7	+13.9	14.9	+15.6
<u>M5</u>									
Monthly change (£ million)	+1,547	-666	+2,616	+6,977	+3,575	+4,121	+4,154	+5,342	+2,510
Monthly % change	+0.6	-0.2	+0.9	+2.5	+1.3	+1.4	+1.4	+1.8	+0.8
	(+0.1)	(+0.6)	(+1.3)	(+1.9)	(+1.2)	(+1.6)	(+1.3)	(+1.7)	(+1.3)
12 Monthly % change	+14.4	+13.3	+13.3	+13.5	+14.1	+13.5	+13.6	+14.5	+14.9
<u>NIBMI</u>									
Monthly change (£ million)	+410	-1,842	+516	+1,055	+474	+1,167	+1,469	+100	-82
Monthly % change	+1.0	-4.4	+1.3	+2.6	+1.2	+2.8	+3.4	+0.2	-0.2
	(+0.8)	(+1.0)	(+1.7)	(-0.6)	(-0.2)	(+3.5)	(+3.8)	(-0.4)	(+0.6)
12 Monthly % change	+11.2	+10.8	+10.5	+10.3	+11.8	+12.0	+13.5	+12.4	+12.3
<u>M1</u>									
Monthly change (£ million)	-871	-237	+409	+4,381	+724	+2,984	+2,120	+986	+1,128
Monthly % change	-1.2	-0.3	+0.5	+5.8	+0.9	+3.7	+2.5	+1.2	+1.3
	(-1.4)	(+2.8)	(+0.8)	(+4.0)	(+0.2)	(+4.1)	(+2.6)	(+0.9)	(+1.7)
12 Monthly % change	+21.2	+23.2	+21.2	22.6	+23.3	+23.8	+23.9	+22.7	+23.9
Net £ deposits from banks abroad	+719	+1,004	-845	-1,395	+724	+987	-947	+493	-970
Overseas non-bank £ deposits	+180	+475	+550	+742	-194	+765	-427	+490	+140
<u>WIDER £ AGGREGATE</u>									
Monthly change (£ million)	+1,166	+254	+2,650	+6,160	+3,733	+5,015	+530	+5,175	+1,372
Monthly % change	+0.7	+0.1	+1.5	+3.4	+2.0	+2.6	+0.3	+2.6	+0.7
	(+0.7)	(+1.7)	(+1.8)	(+2.5)	(+1.9)	(+2.8)	(+0.2)	(+2.5)	(+0.9)

NB Figures in brackets are seasonally adjusted.

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	-0.4	12.2	10.1	9.1	
1986-87	3.8	0.3	14.6	9.7	9.3	
12 MONTH % CHANGES (ua except M0)						
	JULY	3.2	0.0	14.5	11.7	10.9
	AUGUST	3.3	0.8	12.7	10.9	10.4
	SEPTEMBER	3.4	1.4	15.1	11.9	11.1
	OCTOBER	3.4	1.5	14.6	12.0	11.3
	NOVEMBER	3.3	1.9	14.8	11.9	11.4
	DECEMBER	3.7	1.6	13.9	11.1	10.3
1987	JANUARY	3.7	1.4	13.4	9.8	9.3
	FEBRUARY	3.7	0.4	14.8	9.8	9.3
	MARCH	3.8	0.3	14.6	9.7	9.3
	APRIL	3.6	1.2	16.3	10.6	10.1
	MAY	3.8	0.6	14.6	9.5	9.3
	JUNE	3.5	0.7	15.2	10.0	9.8
	JULY	3.7	1.6	16.6	10.8	10.4
	AUGUST	3.7	1.0	17.7	11.5	10.8

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TABLE 13

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets)			% change on previous Month		% change on year earlier						
	Notes and coin (nsa)	(sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa)	MO (sa)	MO (sa)		
1987												
March	14,578	14,809	(-3)	231	14,809	15,040 (+64)	-0.0	+0.4	+3.2	+3.8	+3.5	+4.1
April	14,931	14,903	(+95)	203	15,134	15,106 (+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8
May	14,973	14,976	(+73)	203	15,176	15,179 (+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4
June	14,947	15,071	(+95)	136	15,083	15,207 (+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,272	15,154	(+83)	234	15,506	15,388 (+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,338	15,259	(+105)	181	15,519	15,440 (+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
Sept ^f	15,349	15,374	(+115)	184	15,534	15,558 (+118)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)	% change on previous week MO (sa)	
August						
5th	15,202	(+43)	260	15,462	(-8)	-0.1
12th	15,245	(+43)	209	15,454	(-8)	-0.1
19th	15,270	(+25)	59	15,328	(-126)	-0.8
26th	15,317	(+47)	202	15,518	(+190)	+1.2
September ^f						
2nd	15,406	(+89)	325	15,730	(+212)	+1.4
9th	15,374	(-32)	214	15,588	(-142)	-0.9
16th	15,337	(-37)	165	15,502	(-86)	-0.6
23rd	15,368	(+31)	96	15,464	(-38)	-0.2
30th	15,385	(+17)	122	15,507	(+43)	0.3

^f Most recent data include estimates only for coin.

SECRET
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TABLE 14

BUILDING SOCIETY BALANCE SHEET FLOWS

(Unadjusted, £m)

	Assets			Liabilities				
	Total Flow	Net Mortgage Advances & Unsecured Lending	Liquid Assets	Fixed assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)
1985 *	1459	1193	239 (18.0)	27	592	495	205	167
1986 *	1623	1589	17 (16.4)	17	553	498	523	49
1985 Q2*	1490	1219	241 (16.5)	30	508	583	113	236
Q3*	1666	1157	479 (17.0)	30	590	384	153	539
Q4*	2172	1367	783 (18.0)	22	766	660	594	152
1986 Q1*	858	1271	-431 (17.5)	18	740	462	167	-511
Q2*	1591	1645	-74 (16.6)	20	478	522	321	270
Q3*	1783	1884	-112 (15.7)	11	56	402	1099	226
Q4*	2262	1556	686 (16.4)	20	938	649	403	272
1987 Q1*	1240	1120	105 (16.1)	15	484	594	279	-117
Q2*	1558	1240	303 (16.4)	15	612	457	182	307
July	1818	1389	414 (16.3)	15	333	812	475	198
Forecast								
Q3*	1575	1223	337 (16.3)	15	439	466	338	332
August +	1614	1232	367 (16.3)	15	683	100	40	791
Sept	1292	1048	229 (16.4)	15	647	486	500	-341
Oct	1501	1295	191 (16.3)	15	-12	331	500	682
Nov	2207	1468	724 (16.5)	15	839	118	300	950

* Monthly Averages
Figures in () liquidity ratio, unadjusted end period

+ Estimated ; part data

TABLE 15

THE COMPONENTS OF M3

	BANK DEPOSITS				
	NOTES AND COINS	RETAIL		WHOLESALE	M3
		NIB	IB		
% CHANGES					
Financial years (ua)					
1984-85 ¹	5.2	6.5	7.7	19.1	11.5
1985-86 ¹	3.7	4.5	16.8	26.1	16.7
1986-87 ¹	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
AUGUST	4.1	11.9	16.2	21.7	16.4
SEPTEMBER	2.7	23.4	16.8	22.1	19.0
OCTOBER	5.8	15.3	18.6	22.8	18.5
NOVEMBER	4.0	13.3	17.1	25.6	18.6
DECEMBER	5.1	14.4	18.7	22.3	18.1
1987 JANUARY	3.7	14.7	16.2	23.0	17.6
FEBRUARY	3.2	14.5	17.2	25.7	19.0
MARCH	-2.2	16.9	17.4	25.5	19.0
APRIL	6.4	14.5	17.1	28.0	20.5
MAY	3.6	16.4	19.0	23.1	19.0
JUNE	4.0	18.1	15.4	25.3	19.2
JULY	6.3	15.3	12.1	32.4	20.9
AUGUST	4.3	16.4	15.1	32.8	22.1
Over 6 months (sa)					
1987 MARCH	2.9	-8.4	16.2	35.5	17.8
APRIL	2.3	10.5	12.2	37.8	22.0
MAY	-2.3	21.0	10.4	40.3	24.0
JUNE	9.0	24.5	11.3	40.0	26.0
JULY	3.5	22.7	12.6	48.7	29.2
AUGUST	5.2	18.0	14.7	43.6	27.2
CHANGES £ MILLION					
monthly average (sa)					
1984-85 ¹	42	56	238	683	1017
1985-86 ¹	17	90	161	556	1565
1986-87 ¹	4	359	538	1255	2157
Over 1 month (sa)					
1987 MARCH	-215	-15	702	4694	5166
APRIL	264	-357	488	2603	2998
MAY	156	1278	295	1748	3477
JUNE	-111	1705	557	-426	1725
JULY	267	-431	601	3505	3942
AUGUST	-29	278	452	1849	2550

¹March on March

TABLE 16

SECRET

THE COMPONENTS OF M4 AND M5

BUILDING SOCIETIES							
	M3	RETAIL ¹	WHOLESALE	HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							

Financial years (ua)							
1984-85 ²	11.5	15.1				13.8	13.8
1985-86 ²	16.7	15.3	52.6	94	-0.1	13.5	14.5
1986-87 ²	19.1	10.8	11.4	50	-15.6	13.5	12.9
Over 12 months (ua)							
AUGUST	16.4	14.5		34.5	14.6	5.1	14.0
SEPTEMBER	19.0	19.5		24.1	15.7	2.8	14.9
OCTOBER	18.5	17.3		28.7	15.8	4.2	15.1
NOVEMBER	18.6	15.6		24.0	15.6	5.6	15.1
DECEMBER	18.1	17.0		17.9	15.2	2.1	14.4
1987 JANUARY	17.6	15.6		43.0	13.9	3.7	13.3
FEBRUARY	19.0	16.1		62.9	13.9	4.0	13.3
MARCH	19.0	17.2		57.7	13.9	5.7	13.5
APRIL	20.5	16.1		55.7	14.6	5.7	14.1
MAY	19.0	17.9		60.0	13.7	9.9	13.5
JUNE	19.2	16.4		69.0	13.9	9.7	13.6
JULY	20.9	13.4		69.2	14.9	6.3	14.5
AUGUST	22.1	15.6		67.6	15.6	4.1	14.9
Over 6 months (sa)							
1987 MARCH	17.8	12.2		61.3	12.9	-1.2	12.1
APRIL	22.0	10.6		56.0	14.5	-4.5	13.5
MAY	24.0	11.0		68.2	15.2	1.8	14.4
JUNE	26.0	11.8		51.7	17.5	10.7	17.1
JULY	29.2	11.9		43.8	20.3	7.4	19.6
AUGUST	27.2	12.8		33.1	20.2	8.1	19.5
CHANGES £ MILLION							

monthly average (sa)							
1984-85 ²	984	1034	42	-28	139	2221	2090
1985-86 ²	1565	1207	50	-362	-118	2480	2557
1986-87 ²	2157	938	17	-372	51	2791	2975
Over 1 month (sa)							
1987 MARCH	5166	1499	-136	-848	5681	-308	5373
APRIL	2998	1297	41	-665	3671	-321	3350
MAY	3477	918	100	-720	3775	820	4595
JUNE	1725	1305	3	525	3558	350	3908
JULY	3942	901	289	-180	4952	35	4987
AUGUST	2550	1389	4	-54	3889	-5	3884

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

TABLE 17
RETAIL DEPOSITS

	BANKS	BUILDING ¹ SOCIETIES	NATIONAL SAVINGS ²	TOTAL
% CHANGES				
Financial years (ua)				
1984-85 ³	7.1	15.1	11.9	12.0
1985-86 ³	11.6	15.3	7.5	12.9
1986-87 ³	17.2	10.8	10.8	12.7
Over 12 months (ua)				
AUGUST	14.5	13.5	7.5	12.8
SEPTEMBER	19.5	12.1	7.7	13.7
OCTOBER	17.3	12.9	7.8	13.4
NOVEMBER	15.6	12.2	8.1	12.6
DECEMBER	17.0	11.7	8.4	12.8
1987 JANUARY	15.6	11.4	9.1	12.3
FEBRUARY	16.1	11.0	10.1	12.4
MARCH	17.2	10.8	10.8	12.8
APRIL	16.1	10.6	11.0	12.5
MAY	17.9	10.5	10.8	12.9
JUNE	16.4	10.6	10.5	12.9
JULY	13.4	10.6	9.2	
AUGUST	15.6	10.7	9.7	
Over 6 months (sa)				
1987 MARCH	5.6	12.2	11.5	9.9
APRIL	11.6	10.6	11.5	11.3
MAY	14.4	11.0	11.3	12.1
JUNE	16.4	11.8	11.5	12.1
JULY	16.5	11.9	10.8	
AUGUST	16	12.8	10.8	
CHANGES £ MILLION				
monthly average (sa)				
1984-85 ³	42	1034	683	1759
1985-86 ³	255	1207	1093	2555
1986-87 ³	871	938	266	2075
Over 1 month (sa)				
1987 MARCH	687	1499	281	2467
APRIL	131	1297	244	1672
MAY	1573	918	229	1672
JUNE	2262	1305	288	1672
JULY	170	901	248	1672
AUGUST	730	1389	107	1672

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 (banking months before 1986 October)

		unadjusted					
		Advances	Commercial Bills	Investment ¹	Other ²	Total	Total s/a
<u>1984-1986</u>							
<u>% change³</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 average³</u>							
	1984-85	1131	186	25	91	1433	1452
	1985-86	1438	56	157	11	1661	1692
<u>Contributions to annual bank lending growth⁴</u>							
1986	April	15.6	-0.7	1.7	0.2	16.9	
	May	16.0	-0.7	1.8	-0.1	17.0	
	June	15.4	-1.2	1.9	1.3	17.4	
	July	15.4	0.5	2.1	0.2	18.2	
	August	15.5	0.5	1.9	0.6	18.4	
	September	16.2	0.4	1.9	1.2	18.6	
<u>Monthly changes</u>							
<u>Banking months</u>							
1986	July	2100	1956	421	282	4759	3164
	August	1524	-404	-10	432	1542	2502
	September	1757	-459	-21	-605	673	888
<u>Calendar months</u>							
1986	October	858	1154	323	980	3315	3486
	November	2221	420	129	483	3253	3838
	December	2655	1369	283	-272	4035	3187
1987	January	905	562	40	-136	1371	1707
	February	2617	-426	68	345	2604	2878
	March	4644	-2026	336	420	3374	2082
	April	1727	-409	212	-402	1128	1971
	May	3626	-2126	292	497	2289	2752
	June	5154	752	-7	-1210	4689	3934
	July	2125	1674	-100	819	4586	4882
	August	2680	-1601	137	-283	933	1961

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

TABLE 19

S E C R E T

COUNTERPARTS TO BROAD MONEY

£ million

	M3	M4
LATEST MONTH : AUGUST 1987	-----	-----
PSBR	751	751
Debt sales (-): Other Public Sector	356	274
Central Government	54	273
Public external & fc finance (-)	-858	-858
-----	-----	-----
Over(-)/under(+) funding	303	440
-----	-----	-----
£ lending to private sector	933	2103
Bank/bank & b society externals (-)	856	790
Bank/bank & b society £NNDLs (-)	110	-691
-----	-----	-----
TOTAL	2202	2642
-----	-----	-----

FINANCIAL YEAR 1987/88 TO DATE

PSBR	1431	1431
Debt sales (-): Other Public Sector	1751	837
Central Government	-1676	-1060
Public external & fc finance (-)	747	747
-----	-----	-----
Over(-)/under(+) funding	2253	1955
-----	-----	-----
£ lending to private sector	13625	20711
Bank/bank & b society externals (-)	-1259	-1668
Bank/bank & b society £NNDLs (-)	145	-2005
-----	-----	-----
TOTAL	14764	18993
-----	-----	-----

FINANCIAL YEAR 1986/87

PSBR	3343	3343
Debt sales to private sector (-)	-1235	-5840
Public external & fc finance (-)	-1700	-1700
-----	-----	-----
Over(-)/under(+) funding	408	-4197
-----	-----	-----
£ lending to private sector	30299	47406
Bank/bank & b society externals (-)	-676	-1553
Bank/bank & b society £NNDLs (-)	-4601	-8689
-----	-----	-----
TOTAL	25430	32967
-----	-----	-----

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		Euro-		TOTAL	Sterling	Foreign	TOTAL	
			Commercial Paper	Equities	Bonds	Sterling (*)			Currency		
1984											
Q1	5141	3007		163	44	25	232	8380	1102	9482	
Q2	2781	4076		429	75	0	504	7361	808	8169	
Q3	3285	4087		288	59	100	447	7819	1047	8866	
Q4	4535	3402		249	73	210	532	8469	1948	10417	
1985											
Q1	7093	3189			924	170	235	1329	11611	3225	14836
Q2	4158	3748			1092	327	230	1649	9555	1382	10937
Q3	4148	3560			873	274	130	1277	8985	-806	8179
Q4	4803	4232			525	89	200	814	9849	939	10788
1986											
Q1	7431	3867			471	209	350	1030	12328	2362	14690
Q2	5465	5083			1369	344	325	2038	12586	1575	14161
Q3	5764	5592			1431	290	231	1952	13308	3688	16996
Q4	10433	4667		68	2339	-52	281	2636	17736	591	18327
1987											
Q1	7037	3464		416	1558	-781	1231	2424	12925	7358	20283
Q2	8585	4240		634	2231	346	740	3951	16776	4633	21409
Average per quarter											
1984	3936	3643		0	282	63	84	429	8007	1226	9234
1985	5051	3682		0	854	215	199	1267	10000	1185	11185
1986	7273	4802		17	1403	198	297	1914	13990	2054	16044
1987											
H1	7811	3852		525	1895	-218	986	3188	14851	5996	20846
1987											
JANUARY	1316	1304		147	500	-67	110	690	3310	1368	4678
FEBRUARY	2594	980		150	870	20	315	1355	4929	2402	7331
MARCH	3127	1180		119	183	-735	806	373	4680	3584	8264
APRIL	1333	1590		176	828	110	440	1554	4477	1236	5713
MAY	2222	1295		159	414	184	150	907	4424	2693	7117
JUNE	5032	1355		299	1007	58	150	1514	7901	713	8614
JULY	4470	1302		92	1734	68	150	2044	7816	-2185	5631
AUGUST	827	1288		38	1972	386	150	2546	4661	1042	5703

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

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

	BANK BORROWING			TOTAL	OTHER BORROWING					TOTAL	ALL BORROWING	
	Sterling		Foreign		Sterling Commercial Paper	Equities	Bonds	Euro-Sterling(*)				TOTAL
	ICC's	BSOC's	Currency					ICC's	BSOC's			
1984												
Q1	2905	-86	-895	1924		163	44	25	0	232	2156	
Q2	559	-56	-193	310		429	75	0	0	504	814	
Q3	1219	533	-74	1678		288	59	100	0	447	2125	
Q4	2312	408	1433	4153		249	73	210	0	532	4685	
1985												
Q1	3386	6	-606	2786		924	170	235	0	1329	4115	
Q2	747	248	47	1042		1092	327	230	0	1649	2691	
Q3	229	161	1469	1859		873	274	130	600	1877	3736	
Q4	874	351	1444	2669		525	89	200	475	1289	3958	
1986												
Q1	3935	89	-879	3145		471	209	350	935	1965	5110	
Q2	-172	178	-1120	-1114		1369	344	325	1075	3113	1999	
Q3	355	976	-1072	259		1431	290	231	1575	3527	3786	
Q4	5319	187	-50	5456	68	2338	-52	281	0	2635	8091	
1987												
Q1	1051	306	2093	3450	416	1553	-782	1231	290	2708	6158	
Q2	566	-490	759	835	634	2249	352	740	50	4025	4860	
Average per quarter												
1984	1749	200	68	2016	0	282	63	84	0	429	2445	
1985	1309	192	589	2089	0	854	215	199	269	1536	3625	
1986	2359	358	-780	1937	17	1402	198	297	896	2810	4747	
1987												
H1	809	-92	1426	2143	525	1901	-215	986	170	3367	5509	
1986:-												
AUGUST					12	698	126	100	650	1586		
SEPTEMBER					13	385	113	0	750	1261		
OCTOBER					76	898	-49	105	0	1030		
NOVEMBER					74	835	-3	0	0	906		
DECEMBER					-82	605	0	176	0	699		
1987:-												
JANUARY					147	500	-67	110	0	690		
FEBRUARY					150	870	20	315	140	1495		
MARCH					119	183	-735	806	150	523		
APRIL					176	828	110	440	0	1554		
MAY					159	414	184	150	50	957		
JUNE					299	1007	58	150	0	1514		
JULY					92	1734	68	150	0	2044		
AUGUST					38	1972	386	150	0	2546		

* 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.

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

	APR-AUG 1987	£ million	u/a
CGBR	4590		
Gilt sales to nbps and overseas (inc-)	-3607		
Other CG debt sales to nbps incl Treasury bills* (-)	-1443		
CG external and fc finance other than BGS(-)	4046		
Funding of the CGBR			
Over(-)/under(+)	3586		3586
		Other BGS sales (-)	1532
OPS net of on lending	-3159	Other CG debt sales (-)	-74
OPS debt sales to nbps(-)	1751	Notes and coins (-)	-1111
OPS currency finance(-)	75	Other incl exchequer (-)	-179
Funding of OPS	-1333	CG bank deposits (+)	-228
Over(-)/under(+)	-----		-----
Funding of PSBR	2253	Total influences*	3526
Over(-)/under(+)	-----	(surplus+, shortage-)	-----
		Change in bankers deposits (-)	103
		Change in level of assistance (+) #	-3629
		of which	
		Issue Department bills	-1
		Banking Department bills	916
		Market advances	-1413
		Repos	-3131
		Level of assistance	
		End March 1986	13317
		End March 1987	9742
		End August 1987	6114

* Treasury bills usually included below the line in the Money Market Assistance Table

Surplus on influences leads to a fall in assistance and vice versa

TABLE 23

SECRET

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted

	MO	M3	M4

1 MONTH % CHANGE TO:			
1987 JUNE	-0.6	1.1	1.5
JULY	2.8	2.5	1.9
AUG	0.1	1.3	0.9
SEP)	0.1	0.8	0.9
OCT) FORECAST	n/a	1.6	1.1
NOV)	n/a	1.6	1.1

12 MONTH % CHANGE TO:

1987 JUNE	4.2	19.2	13.9
JULY	5.3	20.9	14.9
AUG	4.5	22.1	15.6
SEP)	5.2	19.4	14.8
OCT) FORECAST	n/a	20.3	14.8
NOV)	n/a	20.4	14.9

Seasonally adjusted

1 MONTH % CHANGE TO:

1987 JUNE	0.2	1.0	1.3
JULY	1.2	2.3	1.8
AUG	0.3	1.5	1.4
SEP)	0.8	0.7	0.4
OCT) FORECAST	0.6	1.3	0.9
NOV)	0.4	1.4	1.2

12 MONTH % CHANGE TO:

1987 JUNE	4.2	19.1	13.7
JULY	5.4	20.8	14.8
AUG	4.7	22.2	15.5
SEP)	4.9	19.3	14.6
OCT) FORECAST	5.6	20.8	14.9
NOV)	5.0	20.8	15.0

* September outturn for M0

TABLE 24: MO FORECAST

SEASONALLY ADJUSTED

	LEVELS £ MILLION			% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
	Notes and coin	Bankers' Deposits	MO	Notes and coin	MO	Notes and coin	MO
ACTUAL							
Jan	14,947	157	15,104	+0.1	-0.5	+5.5	+5.1
Feb	14,811	165	14,976	-0.9	-0.8	+4.3	+4.1
Mar	14,808	232	15,040	-0.0	+0.4	+3.8	+4.1
April	14,902	204	15,106	+0.6	+0.4	+4.6	+4.8
May	14,975	204	15,179	+0.5	+0.5	+4.5	+4.4
June	15,070	137	15,207	+0.6	+0.2	+4.6	+4.2
July	15,154	234	15,388	+0.5	+1.2	+4.7	+5.4
August	15,259	182	15,441	+0.7	+0.3	+4.6	+4.7
September	15,374	184	15,534	+0.8	+0.8	+5.0(5.1)	+4.9(5.2)
FORECAST							
October	15,465	190	15,655	+0.6	+0.6	5.2(5.2)	5.6(5.6)
November	15,530	190	15,720	+0.4	+0.4	4.9(4.9)	5.0(5.0)
December	15,600	190	15,790	+0.5	+0.4	4.4(4.4)	4.0(4.0)
January	15,650	190	15,840	+0.3	+0.3	4.7(4.7)	4.9(4.9)
February	15,690	190	15,880	+0.3	+0.3	5.9(5.9)	6.0(6.0)
March	15,730	190	15,920	+0.3	+0.3	6.2(6.2)	5.9(5.9)

* Last month's forecast in brackets.

SECRET

TABLE 25: MONEY MARKET INFLUENCES

£ million
not seasonally adjusted

	Actual		Forecast	
	1987 AUG	SEP	OCT	NOV
A. <u>Money market influences</u>				
(i) CGBR (+)	808	-50	-1075	1475
(ii) Reserves etc (+)	-325	325	-100	-50
(iii) Notes and coin (-)	-102	525	-400	125
(iv) National Savings (-)	-233	-100	-75	-100
(v) CTDs (-)	16	-100	150	0
(vi) Gilts (-)	-267	-725	-450	200
(vii) Other Exchequer items etc	334	400	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	----- 231	----- 275	----- -1950	----- 1650
	-----	-----	-----	-----
B. <u>Money market operations</u>				
(i) Commercial bills (purchase +):				
Issue Department - outright	-349			
- repo terms	0			
Banking Department	-463			
(ii) LA bills (purchase +)				
Issue Department	17			
Banking Department	-57			
(iii) Treasury bills (purchase +)	690	250	300	100
(iv) Market advances	-72			
(v) Export Credit/Shipbuilding Repos	0			
(vi) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	----- -234	----- -275	----- 1950	----- -1650
	-----	-----	-----	-----
C. Change in bankers balances = A + B	-3	-150		
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	6114	5439	7089	5339
of which commercial bills	5808	5163	6813	5063

CONFIDENTIAL

FROM: Ms V F BRONK
DATE: 8 October 1987

1. MR GRICE *in the figures above*
8.10.

2. ECONOMIC SECRETARY

cc PS/Chancellor -
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mrs Lomax
Mr C W Kelly
Mr Peretz
Mr Bottrill
Mr Richardson
Mr Westaway
Mr Pike

MO FIGURES

The latest weekly figures for M0, covering the first week of October, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 4.5 per cent (4.6 per cent not seasonally adjusted). The annual growth rate of notes and coin to the latest four week period is 4.9 per cent.

Vivian Bronk

MS V F BRONK

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MO, THE WIDE MONETARY BASE													
Calendar months	Levels £ million (changes in brackets)					% change on previous Month		% change on year earlier					
	Notes and coin (nsa)	Notes and coin (sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)		
1987													
April	14,931	14,903	(+95)	203	15,134	15,106	(+66)	+0.6	-0.4	+5.1	+4.6	+5.3	+4.8
May	14,973	14,976	(+73)	203	15,176	15,179	(+73)	+0.5	-0.5	+4.5	+4.5	+4.4	+4.4
June	14,947	15,071	(+95)	136	15,083	15,207	(+28)	+0.6	-0.2	+4.6	+4.6	+4.2	+4.2
July	15,272	15,154	(+83)	234	15,506	15,388	(+181)	+0.5	-1.2	+4.7	+4.7	+5.3	+5.4
August	15,338	15,259	(+105)	181	15,519	15,440	(+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,374	(+115)	184	15,534	15,558	(+118)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October [†] (1 of 4)	15,314	15,429	(+55)	190	15,504	15,619	(+61)	+0.4	+0.4	+5.2	+5.0	+5.5	+5.4
Latest 4 weeks [†]	15,288	15,380	(+25)	143	15,431	15,523	(-32)	+0.2	-0.2	+5.0	+4.9	+4.6	+4.5
Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)							
August													
19th	15,270	(+25)	59	15,328	(-126)		-0.8						
26th	15,317	(+47)	202	15,518	(+190)		+1.2						
September													
2nd	15,406	(+89)	325	15,730	(+212)		+1.4						
9th	15,374	(-32)	214	15,588	(-142)		-0.9						
16th	15,337	(-37)	165	15,502	(-86)		-0.6						
23rd	15,368	(+31)	96	15,464	(-38)		-0.2						
30th	15,385	(+17)	122	15,507	(+43)		+0.3						
October[†]													
7th	15,429	(+44)	190	15,619	(+112)		+0.7						

[†] Most recent data include estimates only for coin and unbacked note issues. The percentage changes for October so far use as their base the average for the full relevant month; for the latest 4 week period changes as based on the previous 4 week period and a comparable period a year ago.

FROM: P H BROOK
DATE: 12 October 1987

- 1. MR KELLY
- 2. CHANCELLOR

cc: Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Cassell
 Mr Peretz
 Mr Grice
 Mr Pike
 Mr Richardson
 o/r
 Ms Bronk

Another way high bank lending figure looks likely.

Money numbers themselves look OK, but bank lending figure will cause a stir unless negative residual reduce it
AA

12-10

Most important effort is made to allocate min. of massive budget
US/UK

MONEY SUPPLY IN SEPTEMBER: "FIRST GUESS"

(All figures are unadjusted unless specified otherwise)

This note summarises the Bank's "first guess" at M0 and M3 figures for September. As usual at this stage M3 figures may be subject to significant revision.

Table 1: Monetary Aggregates (per cent)

	<u>M0</u>	<u>M3**</u>
Annual growth rate*	5.2 (4.9)	18.6-19.4
Change in month*	0.1 (0.8)	0.1-0.9 (-0.1-0.7)
Target range	2-6	-

* Figures in brackets seasonally adjusted

**The actual outturn has been within the range forecast by the "first guess" in 10 of the last 11 months.

2. Evidence thus far suggests that the increase in bank lending in September is likely to be in the range £4.2-6.2 billion (£3.1-5.1 billion seasonally adjusted). The Bank report that bank lending has been boosted by a bridging loan of £500 million to finance a takeover of a foreign firm pending receipt of funds from a capital issue. The loan is expected to be fully repaid in October.

ROCK
12/10

SECRET

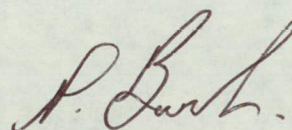
3. The main unusual feature of the "first guess" is the large contractionary influence of other counterparts (externals and residual - including nndls) which is mainly responsible for a lower than forecast projected outturn for M3 growth in September. Other counterparts of £-3,424 million include a seasonal factor calculated at £-1,605 million (mainly interest charging) and must include the Midland rights issue of £0.7 billion and possibly a negative effect from the takeover mentioned in paragraph 2. This, however, still leaves a negative residual of considerable size, which casts some doubt on the other elements of the "first guess".

M3 components and counterparts

4. Table 2 (attached) compares the changes in M3 components in August underlying the "first guess" with the average monthly change over the previous 12 months. Table 3 (attached) provides a similar comparison for M3 counterparts.

Timetable

5. We expect to receive provisional September figures on Friday 17 October. They will be published on Monday 20 October. Full money and banking figures for September will appear on Thursday 29 October.



P H BROOK

cc: Mr Norgrove - No 10

SECRET

TABLE 2: M3 COMPONENTS - SEPTEMBER 1987

"First Guess" compared with average monthly change in the previous year.

		<u>£ millions</u>
	<u>First Guess</u>	<u>Average monthly change in year to August</u>
Notes and coins in circulation	-566	50
Non-interest bearing sight	1303	350
Interest bearing sight	589	1000
Time deposits (including (CDs)	<u>-591</u>	<u>1230</u>
Change in £M3	<u>735</u>	<u>2630</u>

SECRET AND PERSONAL

TABLE 3 : M3 COUNTERPARTS - SEPTEMBER 1987

"First guess compared with average monthly change in the previous year

£ millions

	First Guess	Average change in year to August
CGBR (0) (ex bank deposits)	-199	210
Other public sector:		
LABR)		
PCBR)	171	100
OPS debt sales)		
Modified PSBR*	-28	310
CG debt: Gilts	23	10
Treasury bills	120	-40
National Savings	-97	-250
CTD's etc.	-100	140
Total CG debt sales (-)	-54	-140
External and fc finance of public sector (-)	-101	60
Wide over(-)/under(+)funding	-183	230
Sterling lending to nbps (incl Issue Dept commercial bills)	4342 #	2800
Net private externals **)	-3424	-400
Residual (includes NNDLS ** and reporting differences))		
Change in M3	735	2630
(Monthly percentage change)	(0.5%)	(1.7%)
(12 month percentage change)	(19.0%)	(19.3%)

* Modified PSBR equals PSBR less OPS debt sales

** For the "first guess", Private Externals and NNDLS cannot be separately identified

£3291 million after seasonal adjustment.



FROM: CATHY RYDING
DATE: 13 October 1987

MR P H BROOK

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Grice
Mr C W Kelly
Mr Pike
Mr Richardson
Ms Bronk

MONEY SUPPLY IN SEPTEMBER: "FIRST GUESS"

The Chancellor was grateful for your minute of 12 October.

2. The Chancellor has noted that the Bank lending figure would cause a stir unless the negative residual reduces it. He thinks it is most important that every effort is made to allocate most of the massive negative residuals.

CR

CATHY RYDING

CONFIDENTIAL

FROM: MS V F BRONK

DATE: 15 October 1987

1. MR GRICE JWG 15.10.87
2. ECONOMIC SECRETARY

cc PS/Chancellor —
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz
Mrs Lomax
Mr C W Kelly
Mr Bottrill
Mr Richardson o/r
Mr Westaway
Mr Pike

M0 FIGURES

The latest weekly figures for M0, covering the second week of October, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 4.9 per cent (4.9 per cent not seasonally adjusted). The annual growth rate of notes and coin to the latest four week period 5.0 per cent.

Vivian Banks

MS V F BRONK

CONFIDENTIAL

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets)			% change on previous Month		% change on year earlier						
	Notes and coin (nsa)	Notes and coin (sa)	Bankers' deposits	MO (nsa)	MO (s.a.)	Notes (sa) and coin	MO (sa)	Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)	
1987												
April	14,930	14,902 (+94)	204	15,134	15,106 (+66)	+0.6	+0.4	+5.1	+4.6	+5.3	+4.8	
May	14,972	14,975 (+73)	204	15,176	15,179 (+73)	+0.5	+0.5	+4.5	+4.5	+4.4	+4.4	
June	14,946	15,070 (+95)	137	15,083	15,207 (+28)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2	
July	15,271	15,153 (+83)	235	15,506	15,388 (+181)	+0.5	+1.2	+4.7	+4.7	+5.3	+5.4	
August	15,337	15,258 (+105)	182	15,519	15,440 (+52)	+0.7	+0.3	+4.3	+4.6	+4.5	+4.7	
September	15,349	15,374 (+116)	184	15,533	15,558 (+118)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9	
October†(2 of 4)	15,293	15,423 (+49)	191	15,484	15,614 (+56)	+0.3	+0.4	+5.0	+5.0	+5.4	+5.3	
Latest 4 weeks†	15,289	15,400 (+35)	150	15,439	15,550 (-41)	+0.2	-0.3	+5.1	+5.0	+4.9	+4.9	
Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)						
September												
2nd	15,406	(+89)	325	15,730	(+212)							+1.4
9th	15,374	(-32)	214	15,588	(-142)							-0.9
16th	15,337	(-37)	165	15,502	(-86)							-0.6
23rd	15,368	(+31)	96	15,464	(-38)							-0.2
30th	15,385	(+17)	122	15,507	(+43)							+0.3
October†												
7th	15,431	(+46)	190	15,621	(+114)							+0.7
14th	15,415	(-16)	192	15,607	(-14)							-0.1

† Most recent data include estimates only for coin and unbacked note issues. The percentage changes for October so far use as their base the average for the full relevant month; for the latest 4 week period changes as based on the previous 4 week period and a comparable period a year ago.



FROM: CATHY RYDING
DATE: 19 October 1987

MR PERETZ

cc Mr Cassell
Mr R I G Allen
Mr P Brook

PROVISIONAL MONEY FIGURES: BRIEFING

The Chancellor was grateful for your minute of 19 October. He has made a number of changes to the general briefing line for ... tomorrow's figures, and a retyped version is attached.

2. On your paragraph 7, the Chancellor does not favour an on the record comment. At present, the focus is on Louvre and the equity market (especially BP).

CR

CATHY RYDING

POINTS TO MAKE

- Stable and firm exchange rate against DM scarcely suggests resurgence of inflationary pressures. But continue to watch all the indicators carefully.
- Bank lending. Too soon to have analysed last month's figures. But analysis of previous 3 months suggests major factors were (a) sharp rise in mortgage lending (with banks increasing their share of a growing market at the expense of the building societies) and (b) heavy lending to OFIs, associated with post-big Bang deregulation and takeover activity. These trends likely to have continued in September.
- Confirms tendency of private sector borrowing to rise as public sector borrowing declines (see FSBR chart 2.4).

or something like this

1. have an
substantive.

2. I do not
know an
a - R - W - W -
Comm. (para 7 refs)

At present, the focus
is on Labour &
the equity
market
(esp BSP).
M.

From : D L C Peretz
Date : 19 October 1987

CHANCELLOR

Are you happy with
this general line. If you
Peretz will incorporate jcc
in the full briefing you will
receive this evening?

Mr Cassell
Mr R I G Allen
Mr P Brook

CR 19/10

PROVISIONAL MONEY FIGURES : BRIEFING

Ms Ryding tells me you would like to have a look at a suggested general briefing line for tomorrow's figures, around lunchtime today.

2. I think it is a month for being very clear about what message we want to get across. It is also fairly clear - tactically - what that message should be. We want to avoid adding to upward pressure on the exchange rate : and the best way to do that is to seek to play down the significance of the bank lending figure, and avoid giving any hint that there is anything in the figures that might cause us to wish to raise interest rates again.

3. So it is a month for praying in aid any special factors that might have affected bank lending. There is in fact one : a temporary £½bn loan to finance part of an overseas acquisition (Blue Arrow) that was subsequently refinanced by a market issue. The Bank are reluctant to mention this on the face of the press notice, since there are apparently a number of other similar transactions they know about, some going in the other direction (the net total of those they know about is about £350m). But I have agreed with the Bank that both we and they should make use of it orally in briefing the press.

4. Even if bank lending in September had been boosted by the whole £½bn, however, the underlying, seasonally adjusted, figure would still be just under £4bn - compared with a market expectation of around £2½-3bn. So we need a strong general message about how misleading the individual counterparts can be, nowadays; and the need therefore to look at the money numbers, rather than bank lending. The seasonally adjusted M3

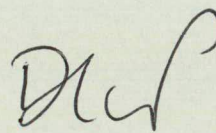
growth rate of 0.7% is well below the general range of market expectations of $1\frac{1}{2}$ - $2\frac{1}{2}$ %.

5. There is no great comfort to be had from the building society lending figures in September, with the increase in bank plus building society lending also well above the average of recent months.

6. I am attaching the draft press release, and a draft of what seem to me the main points to make.

Press handling

7. I think it will be helpful to let IDT have a list of points to make of this kind, this month, alongside the normal background briefing (which will be put to you for clearance this evening). But you might like to consider, also, whether this is an occasion on which you should make an on the record comment. There might be something to be said for that, though you might prefer to hold your fire until the current account figures are published on Friday. An argument against is that in any interview you would undoubtedly be asked about the Louvre Accord : which might be a little awkward given the current state of the markets, and Baker's recent pronouncements.



D L C PERETZ

Points to Make

- Stable and firm exchange rate against DM scarcely suggests resurgence of inflationary pressures.

2 But continue to watch all the indicators carefully.

Other indicators - MO (in target range), broad money, credit - all much the same as in August when decided to raise interest rates by 1%. No reason to revise judgement that 1% was enough.

- Bank lending. £1bn special factor relating to temporary bank financing of a takeover. More importantly, must look at September bank and building society lending figures against slower growth of broad money. May be able to tell more when full counterparts are published (with full banking figures); but with complex financing transactions, including lending in foreign currency, can be a variety of offsets between sterling lending and other counterparts. General message: individual counterparts very hard to interpret nowadays - should look at money numbers.

- Confirms tendency of private sector ^{some of not} as public sector ^(see FBR chart 2.4) ~~declines~~ ^{last month's figs.}

Analysis of previous 3 months ~~shows~~ Bank suggests major factors were (a) sharp rise in mortgage lending (with banks moving their share of a given market @ a separate of the big four) & (b) heavy ~~post-big~~ ^{post-big} ~~bank~~ ^{bank} ~~development~~ ^{development} as takeover activity. These trends likely to have continued in Sept.

Some like that:

SECRET until publication at 11.30 am, Tuesday 20 October

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: SEPTEMBER 1987

1 Provisional information suggests the following:

% changes	M0	M3	M4	M5
12 months to September (not seasonally adjusted)	+5.2	+19.4	+15.2	+14.7
September - not seasonally adjusted	+0.1	+ 0.9	+ 1.0	+ 1.0
seasonally adjusted	+0.8	+ 0.7	+ 0.5	+ 0.4

2 Provisional counterparts to the changes in September in broad money (M3, M4 and M5) are:

£ billion, <u>not seasonally adjusted</u>	M3		M4		M5	
	Sept	Latest 12 months	Sept	Latest 12 months	Sept	Latest 12 months
A PSBR	-	- 1.0	-	- 1.0	-	- 1.0
B debt sales to private sector(-) (1)	-	+ 0.3	-0.2		+0.1	
C external flows to public sector(-)	<u>-0.4</u>	<u>+ 0.3</u>	<u>-0.4</u>		<u>-0.4</u>	
D public sector contribution (A+B+C)	-0.4	- 0.5	-0.6		-0.2	
E sterling lending(2)	+5.4	+37.1	+6.8	+53.9	+6.6	+54.3
F other counterparts(3)	<u>-3.5</u>	<u>- 8.1</u>	<u>-3.4</u>		<u>-3.4</u>	
Total (D+E+F)	+1.6	+28.5	+2.9	+38.5	+3.0	+39.2
Sterling lending (seasonally adjusted)	+4.4		+5.9		+5.7	
(average of previous 6 months)	+2.9		+4.2		+4.2	

- (1) Sales of public sector debt to the private sector other than banks (and, for M4 and M5, building societies), with an adjustment in the case of M5 for private holdings of certain liquid government debt.
- (2) Lending by banks (and, for M4 and M5, by building societies) to the rest of the private sector; includes Issue Department holdings of commercial bills. For M5, an adjustment is necessary for private holdings of certain money-market instruments etc.
- (3) External and foreign currency transactions and net non-deposit liabilities of banks (and, for M4 and M5, of building societies).

3 In September, a rights issue by Midland Bank (£0.7 bn) will have increased net non-deposit sterling liabilities (a negative contribution within "other counterparts"). The final payment under the TSB offer-for-sale will not have affected the monetary sector's non-deposit liabilities because the payment relates to shares in the TSB Group plc, which is not a monetary sector institution.

+ £1.5 special

SECRET until publication at 11.30 am Tuesday, 20 October

4 Full money and banking figures for September, including revised estimates of the figures given above, will be published on 29 October. [The annual review of the seasonal adjustments is currently in progress; the revised adjustments may be used for the first time either in the release on 29 October or in the provisional estimates due to be published on 19 November.]

BANK OF ENGLAND
20 October 1987

*Thanks.
Low. One for market for
PS 4(a) + 4(b).
Latter in low
former, on reflection,
beid with
@ all.
9/10
My father
was not on the
substance so much
of*

From : D L C Peretz
Date : 19 October 1987

CHANCELLOR

Of course, given other market excitement these figures may attract less attention than we feared

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr R I G Allen
Mr Grice
Mr Richardson
Mr Pike
Mr P Brook
Mr Cropper

PROVISIONAL MONEY FIGURES

I attach Mr Brook's note about tomorrow's money and lending figures, together with suggested briefing for IDT.

2. It is the lending figure that will come as a shock to the market. Tactically, we want to avoid any suggestion that this will lead us to raise interest rates (because of the implications that would probably have for the exchange rate).

3. We have included at the beginning of the briefing the three particular points you suggested IDT might make this month. The second of these, as you suggested, refers in particular to the rapid increase in lending to OFIs. In fact the biggest increase within this category, over the three months to August, was in lending to a miscellaneous category of "other" non-bank financial institutions. Most of the growth here seems to be accounted for by lending to Channel Island and finance house subsidiaries, and to mortgage finance vehicles. There is no obvious direct relationship with post-big bang developments, or with takeover activity (where lending would be classified by the sector of the acquiring company).

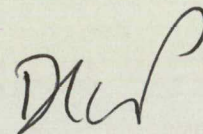
4. We have included in the defensive briefing two other points to make on bank lending, both of which seem to me worth making.

a) the difficulty of interpreting, and dangers of trying to read too much into, individual counterparts (ie bank

lending in sterling) nowadays. This is a particularly obvious point to make in a month in which rapid growth of sterling lending was offset by unusually contractionary other counterparts, to give a very modest growth in M3 and M4.

- b) the £½bn special factor the Bank have identified that will have boosted bank lending temporarily over the end of September (temporary lending to finance an acquisition, subsequently refinanced by a rights issue).

Do you think these extra points are worth making, albeit in a relatively low key way?



D L C PERETZ

SECRET AND PERSONAL

FROM: P H BROOK
 DATE: 19 October 1987

1. MR PERETZ
 2. CHANCELLOR

cc: EST
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Cassell
 Mr R I G Allen
 Mr Kelly
 Mr Grice
 Mr Pike
 Mr Richardson
 Mr Cropper

PROVISIONAL MONEY FIGURES - SEPTEMBER

(All figures are unadjusted unless specified otherwise)

The provisional money supply figures for September will be published by the Bank at 11.30 on Tuesday 20 October. As usual at this stage broad money figures - M4 and M5 as well as M3 - are subject to revision.

Summary

2. The annual growth rate of M0 to September was 5.2 per cent (4.9 per cent seasonally adjusted (s.a.) - the same as estimated in the "first guess". The annual growth rate of notes and coin rose to 5 per cent having been consistently around 4¾ per cent from April to August. In ~~September~~ MO grew by 0.1 per cent (0.8 per cent s.a.) giving a 3 month annualised increase of 12.5 per cent.

3. The annual growth rate of M3 to September is estimated to be 19.5 per cent - at the top end and of the "first guess" range. The main reason for the fall in annual growth rate from 22 per cent to August is that the increase in M3 in September 1986 was ^{boosted by} the TSB sale. Growth of M3 in September is estimated to be 1.0 per cent (0.8 per cent s.a.) the lowest increase since January (December 1986 s.a.).

SECRET AND PERSONAL

4. The annual growth rates for M4 and M5 to September are estimated at 15.2 per cent and 14.7 per cent respectively. These are both over $\frac{1}{2}$ per cent lower than the increases to August. In September both M4 and M5 increased by 1.0 per cent (0.5 per cent s.a.). Both one month increases are slightly higher than in August (lower seasonally adjusted) but well below the average for recent months.

5. Table 1 below gives the growth rate of all four aggregates for September:

Table 1: Provisional monetary aggregates for September(per cent)

	<u>MO</u>	<u>M3</u>	<u>M4</u>	<u>M5</u>
Annual	+ 5.2	+19.5	+15.2	+14.7
One month	+ 0.1	+ 1.0	+ 1.0	+ 1.0
One month (s.a)	+ 0.8	+ 0.8	+ 0.5	+ 0.5

Table 2 attached gives the historical growth rates for MO, M3, M4, M5, NIBM1, M1, and the wider sterling aggregate.

6. **Bank lending** to the private sector in September rose by £5.4 billion (£4.4 billion s.a.). The unadjusted figure is the highest recorded in calendar month data; well above the previous highest of £4.7 billion in June. The s.a. figure was exceeded in July (£4.9 billion) but not other than this. In percentage terms the increase was 2.9 per cent (2.3 per cent s.a.), giving an annual growth rate to August of 23.3 per cent (23.4 per cent s.a.). The annual growth rate is also the highest recorded in calendar month data. Foreign currency lending to the private sector was broadly flat in September.

7. **Bank and building society** lending to the private sector - as defined in the M4 counterpart - increased sharply by about £6.8 billion (£5.9 billion s.a.). Building society lending alone was in line with recent months at around £1.3 billion. The twelve month growth rate of bank and building society rose to 20.3 per cent from 19.1 per cent to August.

SECRET AND PERSONAL

8. Tables 3 and 4 (attached) show respectively the components and counterparts for broad money in September, together with the average changes over the previous twelve months.

Special Factors

9. The main points of note identified so far are:

(a) Possible reasons for the modest rise in M3 include:

(i) CG receipt of the second instalment on Rolls Royce and other privatisation receipts (£0.6 billion).

(ii) The Midland rights issue (£0.7 billion) in fndls.

(iii) Unusually large payments of PRT (£0.9 billion). This includes additional payments in respect of the previous five months when oil companies payments had been too low. The Bank are investigating the possibility that oil companies may have raised part of this by selling dollars abroad. If this were so the effect may be concentrated in the externals and possibly to a lesser extent in bank lending, rather than M3.

(b) As previously mentioned the rise in M3 in September 1986 was distorted upwards due to the TSB sale. This unwound to give a low growth rate in October 1986. This means that the twelve month growth rate in M3 is likely to rebound next month to over 20 per cent.

(c) Unadjusted bank lending was boosted by around £1 billion by quarterly interest charging. Lending was also boosted by a temporary £½ billion loan to finance part of an overseas acquisition pending receipt of funds from a capital issue. The Bank are aware of a number of other

smaller transactions associated with takeover activity which may offset this by perhaps £150 million giving a net increase to bank lending of around £350 million.

- (d) The heavily contractionary fndls include a large offset to the interest charging in bank lending. The Midland rights issue also reduces fndls by £0.7 billion.
- (e) The contractionary nature of the externals may have been boosted by the foreign takeover mentioned in (c) above. The increase in externals is more than accounted for by a build up of overseas foreign currency deposits. However, flows are very large and behaviour of the externals is very difficult to interpret.

The regular note by the Bank on the figures is attached and a more detailed commentary on the money figures will be given in the Monthly Monetary Assessment.

Presentation

10. This section concentrates on seasonally adjusted M0, M3 and bank lending in line with commentators' practice.

11. The main "news" in this month's figures - as far as the market is concerned - will be the bank lending figure. As you are aware commentators' are forecasting a rise of £2½-3 billion compared with an actual increase of £4.4 billion.

12. The increase in M0 at 0.8 per cent is slightly above commentators' forecasts, the median of which is an increase of 0.6 per cent. The increase of M3 in September is, however, well below what commentators' are expecting - very contractionary other counterparts offsetting the heavy bank lending figure. Commentators' are generally forecasting an increase of M3 in the range of 1½-2 per cent, on average more than twice the actual outturn of 0.8 per cent.

Press Briefing

13. The attached draft press briefing includes the three particular points which you suggested IDT should make. We have also included in the defensive material some additional points on bank lending that might be worth making. I should be grateful for comments on the press briefing first thing tomorrow Tuesday 20 October. The Bank's draft press notice is also attached.



P H BROOK

cc: Mr Norgrove No 10 (personal

Bank of England

Mr George
Mr Mann (Financial Statistics Div)

Table 2

MONETARY AGGREGATES 1986-87

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	
<u>MO</u>	Averaged weekly									
Monthly change (£ million)	-1,034	-228	+115	+325	+42	-93	+423	+13	+14	
Monthly % change	-6.5 (-0.6)	-1.5 (-0.8)	+0.8 (+0.4)	+2.2 (+0.4)	+0.3 (+0.5)	-0.6 (+0.2)	+2.8 (+1.2)	+0.1 (+0.3)	+0.1 (+0.8)	
12 Monthly % change	+4.1	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2	
<u>M3</u>	(Exc Public sector deposit)									
Monthly change (£ million)	-1,223	+2,947	+6,814	+3,203	+3,162	+1,903	+4,147	+2,219	+1,584	
Monthly % change	-0.8 (+1.1)	+2.0 (+2.3)	+4.4 (+3.3)	+2.0 (+1.9)	+1.9 (+2.1)	+1.1 (+1.0)	+2.5 (+2.3)	+1.3 (+1.5)	+1.0 (+0.8)	
12 Monthly % change	+17.6	+19.0	+19.0	+20.5	+18.9	+19.2	+20.8	+22.0	+19.5	
<u>M4</u>	Monthly change (£ million)									
Monthly % change	+494 (+0.9)	+2,472 (+1.4)	+6,669 (+2.1)	+3,555 (+1.4)	+3,353 (+1.3)	+4,043 (+1.3)	5,208 (+1.7)	+2,693 (+1.4)	+2,880 (+0.5)	
12 Monthly % change	+14.4	+14.4	+14.4	+14.9	+14.0	+14.3	15.3	+15.9	+15.2	
<u>M5</u>	Monthly change (£ million)									
Monthly % change	+92 (+0.9)	+2,618 (+1.3)	+6,978 (+1.9)	+3,575 (+1.2)	+4,019 (+1.6)	+4,154 (+1.3)	+5,252 (+1.7)	+2,561 (+1.3)	+2,988 (+0.5)	
12 Monthly % change	+13.8	+13.9	+13.9	+14.5	+13.8	+14.1	+14.8	+15.3	+14.7	
<u>NIBMI</u>	Monthly change (£ million)									
Monthly % change	-1,842 (+1.0)	+516 (+1.7)	+1,055 (-0.6)	+474 (-0.2)	+1,167 (+3.5)	+1,469 (+3.8)	+98 (-0.4)	-81 (+0.6)	+492 (+1.5)	
12 Monthly % change	+10.8	+10.5	+10.3	+11.8	+12.0	+13.5	+12.4	+12.3	+6.3	
<u>M1</u>	Monthly change (£ million)									
Monthly % change	-237 (+2.8)	+409 (+0.8)	+4,381 (+4.0)	+724 (+0.2)	+2,984 (+4.1)	+2,120 (+2.6)	+945 (+0.8)	+1,122 (+1.7)	+1,447 (+1.8)	
12 Monthly % change	+23.2	+21.2	22.6	+23.3	+23.8	+23.9	+22.6	+23.8	+20.3	
Net £ deposits from banks abroad	+1,004	-845	-1,395	+724	+987	-947	+492	-955	-260	
Overseas non-bank £ deposits	+475	+550	+742	-194	+765	-428	+494	+201	-48	
<u>WIDER £ AGGREGATE</u>	Monthly change (£ million)									
Monthly % change	+256 (+1.7)	+2,652 (+1.8)	+6,161 (+2.5)	+3,733 (+1.9)	+4,914 (+2.7)	+528 (+0.2)	+5,133 (+2.5)	+1,465 (+0.9)	+1,276 (+0.5)	

NB Figures in brackets are seasonally adjusted.

SECRET AND PERSONAL

TABLE 3:PROVISIONAL BROAD MONEY COMPONENTS

	£ million	Growth in 12 months to August	
		Monthly Rate	Percentage Increase
SEPTEMBER			
Notes and coins in circulation (nbps)	-554	47	4.3
Bank deposits (nbps)			
Retail			
non-interest bearing	1046	358	16.4
interest bearing	248	512	15.1
Wholesale	844	1701	32.6
Change in M3 -----	1584	2618	22.0
Less building society holdings of M3	114	-350	53.1
Buildings society deposits (nbnbsps)			
Retail	751	1011	10.8
Wholesale	431	24	14.0
Change in M4 -----	2880	3303	15.9
Money market instruments (nbnbsps)	60	-51	-11.8
National Savings Bank (nbnbsps)	48	72	9.1
Change in M5 -----	2988	3324	15.1

nbnbsps = non-bank, non-building-society private sector

SECRET AND PERSONAL

TABLE 4: PROVISIONAL BROAD MONEY COUNTERPARTS

September 1987 (£ million)

	M3	M4	M5
1. PSBR	33	33	33
2. Debt sales to private sector (-)			
Gilts	233	141	141
Treasury bills	114	-72	
National Savings	-107	-107	-59
CTD's	-99	-93	
Other CG debt	4	4	4
LA and PC debt	-175	-89	44
3. External finance of public sector (-)	-376	-376	-376
4. Public sector contribution (1+2+3)	-371	-557	-211
5. Sterling lending to private sector	5441	6793	6555
6. Externals	-903	-1018	-1018
7. £NNDLs	-2583	-2338	-2338
8. Total change (4+5+6+7)	1584	2880	2988
(Percentage change)	(0.9)	(1.0)	(1.0)

Average growth 11 months to August 1987 (£ million)

1. PSBR	-95	-95	-95
2. Debt sales to private sector (-)			
Gilts	-15	-78	-78
Other public debt	42	-125	-165
3. External finance of public sector (-)	59	59	59
4. Public sector contribution (1+2+3)	-9	-239	-279
5. Sterling lending to private sector	2878	4302	4359
6. Externals	-215	-328	-328
7. £NNDLs	-206	-511	-511
8. Total change (4+5+6+7)	2448	3224	3241
(Percentage change)	(1.8)	(1.3)	(1.3)

Footnotes (see overleaf)

THE GOVERNOR'S		<u>Financial Statistics</u>		<u>Gilt-Edged Division</u>	
PRIME SECRETARY	HO-P	<u>Division</u>			
THE DEPUTY GOVERNOR	HO-P	MR BULL	BB-1	MR PLENDERLEITH	HO-G
MR GEORGE	HO-P	MR PENNINGTON	BB-1	MR COLLINS	HO-G
MR LOEHNIS	HO-P	MR THORP	BB-1	MR MORTIMER-LEE	HO-G
MR COLEBY	HO-P	MR M ST J WRIGHT	BB-4	MR T A CLARK	HO-G
MR FLEMMING	HO-P				
		<u>Foreign Exchange Division</u>		<u>Wholesale Markets</u>	
<u>Economics Division</u>		MR GILL	HO-1	<u>Supervision Division</u>	
MR TAYLOR	HO-4		HO-1	MR TOWNEND	HO-G
MR MIDGLEY	HO-4	<u>Money Markets</u>			
MR SHEPPARD	HO-4	<u>Operations Division</u>		<u>Information Division</u>	
		MR ALLEN	HO-G	MR WARLAND	HO-1
From: C R Mann		MR BRIAULT	HO-G		
				<u>HMT</u>	
				MR KELLY	
				MR BROOK	
				MR PERETZ	

PRESS STATEMENT: SEPTEMBER BANKING AND MONEY FIGURES
£ million

1 The preliminary monetary aggregates press release for calendar September will be published by the Bank at 11.30 am on Tuesday. A copy of the press release is attached. It covers M0 and M3 (formerly £M3), M4 and M5, and counterparts to M3, M4 and M5. Figures for member bank groups will be published by the CLSB at the same time. The full banking and money supply figures will be published on Thursday, 29 October.

2 Attention is once again likely to focus on bank lending, which will be seen as a high figure (it brings both the seasonally adjusted 6 and 12 month growth rates above 23% pa and the 3-month growth rate above 27%).

The aggregates

3 The growth rates of the main aggregates are summarised below.

% changes	M0 ⁽¹⁾	M1	M2	M3	M4	M5
Sept (nsa)	+0.1	+ 1.8	+ 1.1	+ 1.0	+ 1.0	+ 1.0
(sa)	+0.8	+ 1.9	+ 1.1	+ 0.8	+ 0.5	+ 0.5
12 months to						
Sept (nsa)	+5.2	+20.4	+10.1	+19.5	+15.2	+14.7
(sa)	+4.9	+20.3	+ 9.7	+19.4	+15.0	+14.5
12 months to						
Aug (nsa)	+4.5	+23.8	+10.8	+22.0	+15.9	+15.3
(sa)	+4.7	+24.5	+10.8	+22.1	+15.9	+15.3

(1) Calculated as an average of Wednesdays in the month.

The target for M0 set in the Budget is 2%-6%.

4 There are several points to note about these figures.

- (a) All of the increase in M0 is attributable to notes and coin. The unadjusted 12 month growth rate has shot up from 4.5% in August to 5.2% now, but this is largely due to the different timing of the August Bank Holidays in 1986 and 1987. After seasonal adjustment this blip is largely smoothed out, and the seasonally adjusted 12 month growth rate has increased from 4.7% to 4.9% .
- (b) Over recent months the note circulation has been growing quite strongly, and its annualised 3 and 6 month seasonally adjusted growth rates have risen to 8.3% and 7.8% respectively. Examination of the past shows however that short-run accelerations of the note circulation of this magnitude (followed by decelerations) are not uncommon, nor do they appear to reflect seasonal factors (although similar behaviour was observed in Autumn 1986, the reverse was observed in Autumn 1985 - see Chart).
- (c) Within M3, the increase was more than accounted for by sight deposits, split between 990 of interest-bearing (of which some 210 was retail) and 640 of non-interest-bearing deposits.
- (d) Bank deposits are likely to have been affected by several factors:
- (i) payments of the second instalment for Rolls Royce shares and other privatisation receipts (£0.6 bn) and the Midland Bank rights issue (£0.7 bn), which depress M3.
 - (ii) Unusually large payments of PRT (£0.9 bn). We are investigating the effect that this might have had on M3: contacts with three large oil companies who together account for half of the payment suggest that the effect may have been concentrated in the external counterparts, and to a small extent in bank lending, rather than in M3.

M3 is not directly affected by the second instalment for TSB shares, since the shares are in the non-bank holding company and deposits have therefore been switched from one part of the non-bank private sector (ie the shareholders) to another (ie the holding company).

- (e) The 12-month growth rate of M3 has fallen from 22.1% in August to 19.4% now. This is the result of the artificially high level of M3 at end-September last year at the time of the TSB sale, which depresses the 12-month growth rate now. The 12-month growth rate is likely to jump back over 20% next month as this distortion unwinds.
- (f) Building societies' deposits with banks (a component of M3, but excluded from M4 and M5) increased by 550, and their own retail deposit inflows from the nbps were only 220 (including 490 of interest credited, so that there was an outflow of 260 of principal). No doubt building societies suffered withdrawals to finance the Midland Bank, Rolls Royce and TSB calls and a unit trust promotion that attracted 240. But societies were able to raise 430 of wholesale deposits from the nbps. Overall, therefore, the growth in M4 was only 100 more than the growth in M3.
- (g) Private holdings of foreign currency deposits fell by 160 (a rise of 10 in transactions terms being offset by a fall of 170 due to exchange rate movements). M3c therefore rose by 1,250 (+0.6%, sa).

5 There were no major share sales in progress in September. This is however only a lull between the BAA sale (end-July) and the BP sale (end-October) and it is unlikely that any of the pool of funds which seems to have accumulated to subscribe to share issues will have been run down to any significant extent in September.

Counterparts

6 Among the counterparts to broad money, only sterling lending is published in seasonally adjusted form. The public sector in September showed a deficit of only 30, a surplus of 310 on CG own account being offset by LA and PC deficits. The public sector deficit would have been larger but for £0.6 bn of receipts from the call on Rolls Royce shareholders and other smaller privatisation receipts. (Seasonally adjusted - not published - there was a public sector surplus of 870 in the month, though this is partly due to stronger than expected PRT receipts). On the financing side, the non-bank private sector reduced gilt holdings by 230, the overseas sector having bought 550 and the banks having

made unusually large purchases of 420 which together more than accounted for official sales of 720 (including 440 from the auction). The reserves rose by 300, but the large overseas take-up of public sector debt meant that external transactions contributed in total some £0.4 billion to funding. Altogether, there was overfunding of 250 in September (nsa - an overfund of 1,090 in seasonally adjusted terms, not published), reducing the cumulative underfund in the financial year to 1,920 (an underfund of 670 seasonally adjusted).

7 Within the "other" counterparts (published as a single figure, -£3.5 billion, in the provisional press release), the banks' sterling transactions with overseas residents were expansionary by about £0.3 billion (ie in net terms overseas residents borrowed more in sterling from the banks than they added to sterling deposits), and the banks switched about £1.2 billion into (spot) sterling (this, in itself, is a contractionary influence on money, as if the banks bought the sterling from the private sector in exchange for foreign currency deposits or CDs). In total the external counterparts (not published) were -900 and sterling net non-deposit liabilities (not published) were -2,590. The latter figure includes the effect of regular quarterly interest charging by the banks (which is smoothed out by the seasonals) and the effect of Midland Bank's rights issue (£0.7 bn): both these factors increase banks' capital, which shows as a negative figure within the counterparts to M3.

Bank lending

8 The seasonally adjusted figure of 4,390 in bank lending confirms the evidence for an acceleration in recent months. It rose by 3,930 in June, 4,870 in July and 2,170 in August. Over the same period the 12-month growth rate has risen from 21.5% to 23.4%. Foreign currency borrowing over this period has fallen by about £0.1 bn per month on average, compared with an average monthly rise of nearly £2.0 bn per month in the 6 months to May. In part this may "explain" the recent acceleration in sterling borrowing, though the underlying economic reasons are not clear.

9 We know that in recent months there has been a number of major temporary loans to corporate borrowers to provide finance for takeovers; typically these loans are repaid when long-term capital finance is arranged. But we usually learn only of the largest of such loans, and we often notice only the original loan (which tends to be large) and not the repayments (which may be smaller, being spread over several months). It is likely that such borrowing has added to the stock of borrowing in recent months, though the amount and the timing are not clear. In particular we know of a large new loan in September (+500) expected to unwind in October and a large repayment in September (-130) of a loan made in July, so that identified lending of this type has inflated the September bank lending figure by 370.

10 Looking at the composition of bank lending by instrument, most of the increase in September was in loans and advances (as has been the case over the last four months taken together). Much of the new lending in September (about £2.0 bn) took place outside the CLSB bank groups and we know nothing about its composition. The CLSB increase is larger (about £3.6 bn) but, because it includes a large element of interest charging, it may be somewhat misleading about the sectors in which new borrowing is concentrated. The CLSB analysis shows another very large increase of 990 in lending to persons for house purchase. But this figure includes some interest charging; over the last three months such lending has risen by 850 per month, compared with 670 per month in the previous quarter. Other lending to persons increased by 660, but this is not an unusually large figure for an interest charging month; such lending has risen by an average of 370 per month over the past three months compared with 480 per month in the previous quarter. Other large increases in lending include 710 to "other services", 360 to property companies, 210 to securities dealers and 200 to the construction industry. It is impossible to say what the interest-charging element is in each of these figures. The figure for lending to "other services" is also distorted by the large loan of 500 associated with takeover activity. The CLSB, however, show reductions in sterling acceptance finance (-280, largely due to manufacturers) and reductions also in lending in foreign currency (-230, largely in investment and unit trusts).

11 Building society lending continued to rise steadily, so that over recent months the total of bank and building society lending has grown quite fast. But looking at the last year as a whole, the dominant feature is a growth in the market share of the banks at the expense of the societies. Total new lending for house purchase (including an estimate for lending by other institutions such as mortgage finance vehicles, independent mortgage lenders, insurance companies, local authorities, etc) is likely to be less in 1987 Q3 than it was in the same quarter of 1986.

Financial Statistics Division BB-1
19 October 1987

C R Mann (4427)

CRM

MONEY SUPPLY IN AUGUST: PRESS BRIEFINGA. POINTS TO MAKE

- Stable and firm exchange rate against DM scarcely suggests resurgence of inflationary pressures. But continue to watch all the indicators carefully.
- Bank lending. Too soon to have analysed last month's figures. But analysis of previous 3 months suggests major factors were (a) sharp rise in mortgage lending (with banks increasing their share of a growing market at the expense of the building societies) and (b) heavy lending to OFIs perhaps associated with activity in financial markets. These trends likely to have continued in September.
- Confirms tendency of private sector borrowing to rise as public sector borrowing declines (see FSBR chart 2.4)

B. FACTUAL(i) Changes in main monetary aggregates

	per cent			
	M0	M3	M4	M5
Annual growth rate	+ 5.2	+ 19.5	+ 15.2	+ 14.7
one month change	+ 0.1	+ 1.0	+ 1.0	+ 1.0
	(+ 0.8)	(+ 0.8)	(+ 0.5)	(+ 0.5)

(figures in brackets seasonally adjusted)

(ii) Monetary Policy - Recent Statements

(a) Chancellor's speech to CBI annual dinner 19 May

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) Chancellor's speech to FHA annual dinner, 17 June

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"....the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(c) Chancellor in response to question whether "too much consumer credit" was reason for rise in interest rates in August (BBC TV News 6 August)

"No, it's looking at the economic and financial indicators as a whole and deciding that to maintain the sound monetary conditions which have brought inflation down and kept it down it's necessary to have a slight tightening of monetary conditions which means putting interest rates up by 1%."

(d) Chancellor in press briefing on Washington
IMF/World Bank meeting 30 September

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining" exchange rate stability.

(e) Chancellor in interview on future economic
claims (BBC Radio 4, Today, 7 October)

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(f) Chancellor in response to question whether
interest rates in UK would rise following increases
in Japan, US etc (ITV Channel 4, Business Daily,
15 October)

"No we are very comfortable with the position at present."

- (iii) Funding: overfund in September of around £.4 billion. Underfund of PSBR so far in this financial year around £1.8 billion. PSBR April/September 1987 about £1.4 billion; debt sales outside monetary sector and external finance of public sector minus £.4 billion.

C. POSITIVE

- (i) Commitment: Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation.

- (ii) Sterling. Remained stable and firm since February Louvre agreement.

D. DEFENSIVE

- (i) Interest rates should be increased? No. Right to tighten financial conditions a little in August when interest rates raised by 1 per cent. But very comfortable with position now.
- (ii) Bank lending in September evidence of overheating?
'See points to make' Also -
- Bank identified a special factor associated with the takeover of a foreign firm which boosts bank lending by £500 million.
 - Growth of broad money lower than growth of bank lending: individual counterparts need very careful interpretation nowadays.
- (iii) But bank lending high for a number of months. Recent growth of lending/liquidity confirms trend of which Government fully aware when decision made to tighten financial conditions a little by raising interest rates by 1 per cent in August. Believe that that increase was enough.
- (iv) Interest rates solely driven by exchange rates?
Not at all. Interest rates continue to be set in the light of a range of factors affecting financial conditions. But for all G7 countries exchange rate stability is an important objective.

(v) Growth of credit/liquidity inflationary? Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has not hesitated to act if necessary.

(vi) Consumer credit boom?

- No evidence that rate of lending to consumers accelerating in recent months.
- Vast bulk of personal borrowing takes form of mortgages, which represented over $\frac{3}{4}$ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).

(vii) Role of MO? MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

- (viii) Role of exchange rate. Continuing desire to see exchange rate stability. Balance struck between exchange rate and domestic monetary growth consistent with aims for money CDP and inflation.
- (ix) Role of broad money. With changes in financial practices, no simple relationship between broad money growth and money GDP. Government therefore decided should be no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions.
- (x) Funding policy remains to fund PSBR fully, and no more, over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur). Intervention included in funding - buying dollars equals negative funding.
- (xi) Does Baker's statement show Louvre Accord is dead. No. Secretary Baker simply pointing out that achieving exchange rate stability requires consistent domestic policy as well as central bank intervention in the foreign exchange markets.
- (xii) Contractionary other counterparts due to September Current Account deficit? Not necessarily. Wait for full banking figures and September current account figures. \pounds nddls boosted by quarterly interest charging and \pounds 0.7 billion Midland rights issue.

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: SEPTEMBER 1987

1 Provisional information suggests the following:

% changes	M0	M3	M4	M5
12 months to September (not seasonally adjusted)	+5.2	+19.5	+15.2	+14.7
September - not seasonally adjusted	+0.1	+ 1.0	+ 1.0	+ 1.0
seasonally adjusted	+0.8	+ 0.8	+ 0.5	+ 0.5

2 Provisional counterparts to the changes in September in broad money (M3, M4 and M5) are:

£ billion, <u>not seasonally adjusted</u>	M3		M4		M5	
	Sept	Latest 12 months	Sept	Latest 12 months	Sept	Latest 12 months
A PSBR	-	- 1.0	-	- 1.0	-	- 1.0
B debt sales to private sector(-) (1)	-	+ 0.3	-0.1	- 2.9	+0.2	- 2.6
C external flows to public sector(-)	<u>-0.3</u>	<u>+ 0.4</u>	<u>-0.3</u>	<u>+ 0.3</u>	<u>-0.3</u>	<u>+ 0.3</u>
D public sector contribution (A+B+C)	-0.3	- 0.3	-0.4	- 3.6	-0.1	- 3.3
E sterling lending (2)	+5.4	+37.1	+6.8	+53.9	+6.6	+54.3
F other counterparts(3)	<u>-3.4</u>	<u>- 8.1</u>	<u>-3.4</u>	<u>-11.8</u>	<u>-3.4</u>	<u>-11.8</u>
Total (D+E+F)	+1.7	+28.7	+3.0	+38.5	+3.1	+39.2
Sterling lending (seasonally adjusted)	+4.4		+5.9		+5.7	
(average of previous 6 months)	+2.9		+4.2		+4.3	

- (1) Sales of public sector debt to the private sector other than banks (and, for M4 and M5, building societies), with an adjustment in the case of M5 for private holdings of certain liquid government debt.
- (2) Lending by banks (and, for M4 and M5, by building societies) to the rest of the private sector; includes Issue Department holdings of commercial bills. For M5, an adjustment is necessary for private holdings of certain money-market instruments etc.
- (3) External and foreign currency transactions and net non-deposit liabilities of banks (and, for M4 and M5, of building societies).

3 In September, a rights issue by Midland Bank (£0.7 bn) will have increased net non-deposit sterling liabilities (a negative contribution within "other counterparts"). The final payment under the TSB offer-for-sale will not have affected the monetary sector's non-deposit liabilities because the payment relates to shares in the TSB Group plc, which is not a monetary sector institution.

4 Full money and banking figures for September, including revised estimates of the figures given above, will be published on 29 October.