SECRET (AND PERSONAL UNTIL 2.30 PM THURSDAY 18 OCTOBER 1984)

MONTHLY MONETARY REPORT: SEPTEMBER-DECEMBER

File

SUMMARY

The main points from this month's report are:-

- as expected MO grew by 1 per cent in banking September. Six, 12 and target period growth rates are still in the bottom of the range at around 5-5½ per cent. The year on year growth of M2 has been creeping up even after adjusting for reclassifications.

- the unexpectedly sharp rise in £M3 probably reflected some round tripping and misreporting. £M3 is now at the top of the target range but 6 and 12 month growth is still around 9 per cent. PSL2 continues to grow more rapidly.

- MO growth is forecast to remain around 5-5½ per cent. Broad monetary growth is also expected to be modest, especially in December, reflecting overfunding and the unwinding of this month's distortions.

- the forecast PSBR is low, in seasonally adjusted terms, only partly because of the BT sale. The gross gilt sales target is £1 billion for November and £½ billion for December. Funding through National Savings may total less than £½ billion but the £3 billion target still looks within reach.

- this month's large rise in bank lending to the private sector was probably erratic. But the reduction in public sector borrowing may lead to some strengthening in private sector loan demand compared with the summer.

- building societies' retail inflows recovered during the course of banking September. The better trend in retail inflows should be sustained, though the BT sale may divert some funds from the societies in December. New commitments suggest some slow-down in advances.

HF3 Division
October 1984

SECRET (AND PERSONAL UNTIL 2.30 PM THURSDAY 18 OCTOBER 1984)

MONTHLY MONETARY REPORT: SEPTEMBER-DECEMBER

Monetary Aggregates

1. The rise in the broad aggregates was much sharper than expected in banking September, even allowing for the shortfall in gross gilt sales. The figures were probably inflated by round tripping and misreporting. Annualised growth in £M3 is now right at the top of the target range, but six and twelve month growth rates remain around 9 per cent. (Three month growth is depressed by the freakishly high June base). Even faster growth in PSL2 was due to a rise in the non-bank private sector's holdings of bills as well as to a pick-up in building society inflows. The latter reflected heavy wholesale borrowing by the societies from the non bank private sector, and a recovery in the societies' retail inflows in the second half of the banking month.

2. There is no reason to suppose that the growth of the narrow aggregates was distorted. As expected, MO grew by 1 per cent, following two very low months; six, twelve and target period growth rates have been in the bottom half of the target range since early spring and are still around 5-5½ per cent. A fall in retail bank deposits kept M2 growth at a modest 0.3 per cent despite the growth in notes and coins and building society retail deposits.

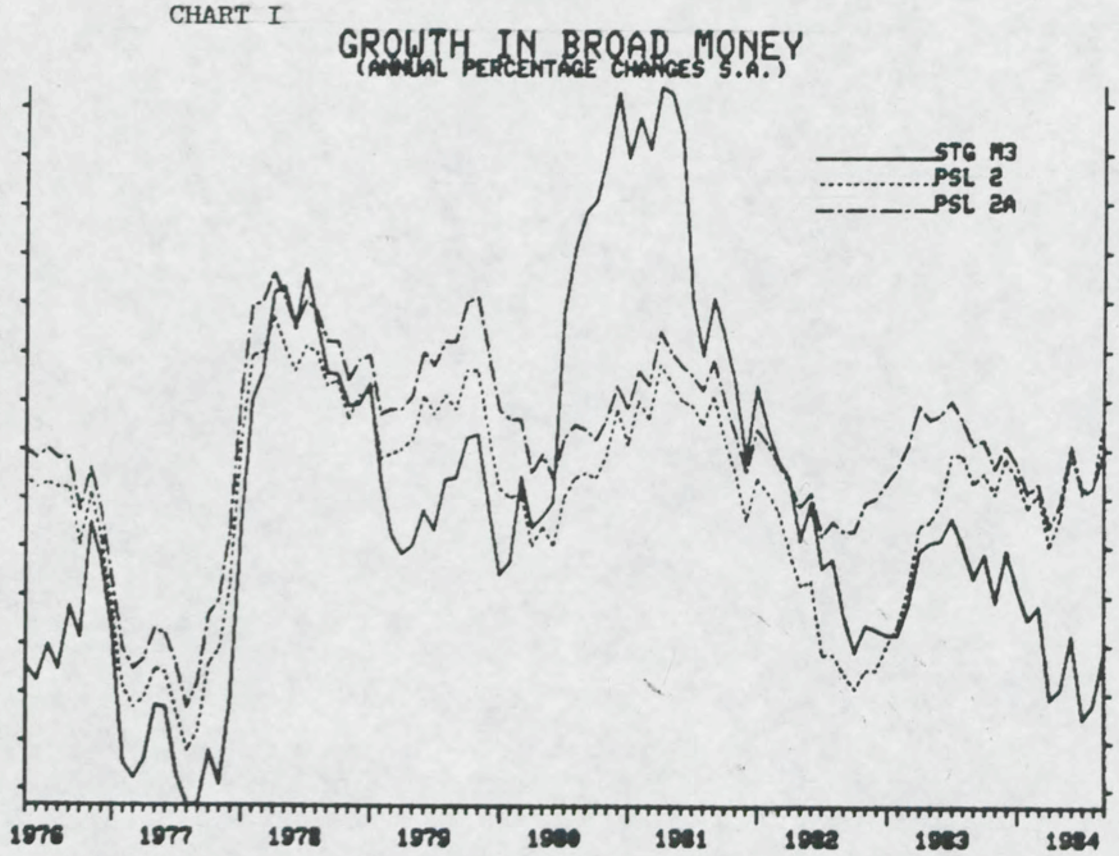
TABLE 1 MAIN AGGREGATES : RECENT EXPERIENCE

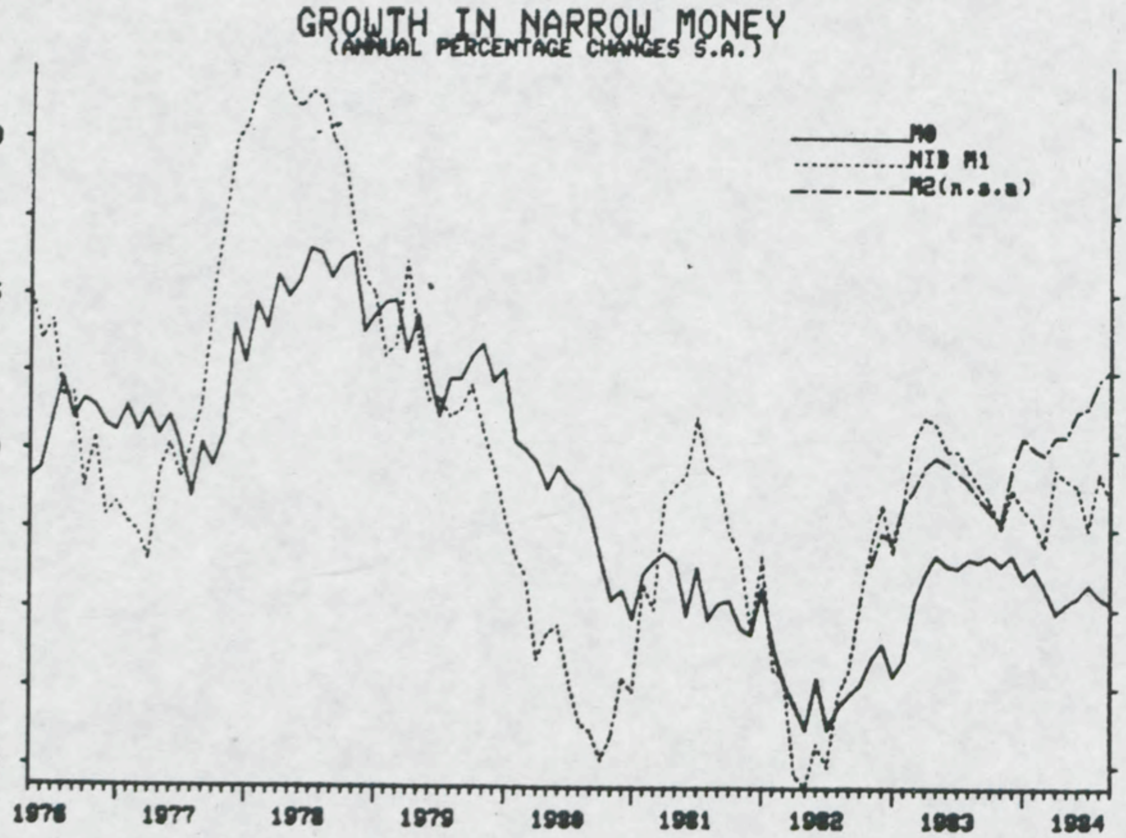
per cent, s.a

	MO	M2*	£M3	PSL2
Monthly change				
August	-0.1	0.3	0.7	1.0
September	1.0	0.3	1.3	1.6
Growth to mid-September at an annual rate				
over past :-				
3 months	4.4	*	4.1	11.5
6 months	5.3	*	8.8	15.4
12 months	5.2	12.6	8.9	13.6
Target Period	5.5	*	10.1	16.4

* not seasonally adjusted

CHART I


GROWTH IN BROAD MONEY
(ANNUAL PERCENTAGE CHANGES S.A.)
STG M3
PSL 2
PSL 2A
20
18
16
14
12
10
8
6
1976
1977
1978
1979
1980
1981
1982
1983
1984


GROWTH IN NARROW MONEY
(ANNUAL PERCENTAGE CHANGES S.A.)
M0
NIB M1
M2(n.s.a)
20
15
10
5
0
1976
1977
1978
1979
1980
1981
1982
1983
1984

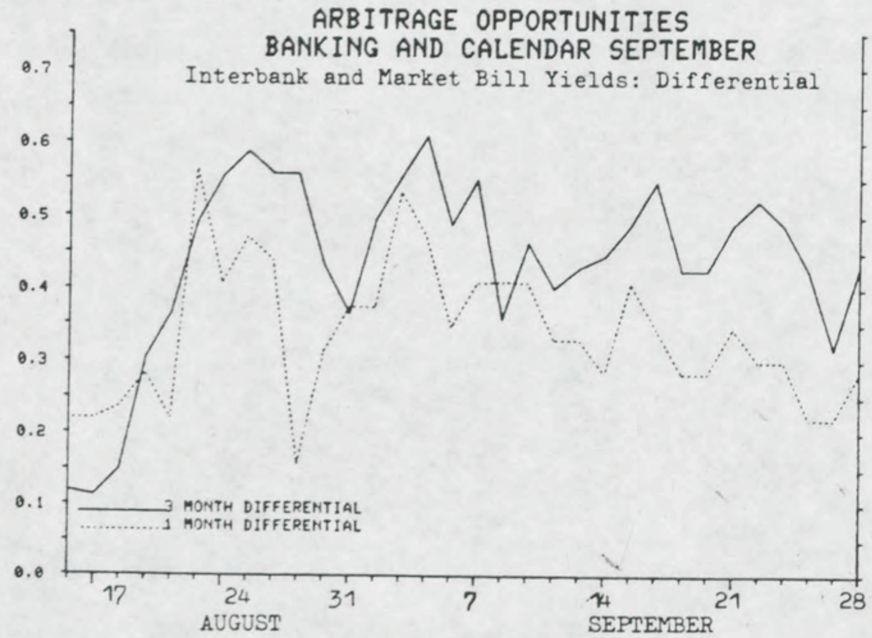
Reclassifications of building society accounts earlier in the year add about 2¾ per cent to the year on year growth rate. Even excluding reclassifications, the 12 month growth rate has been creeping steadily upwards since last winter, from about 8 per cent to about 9½ per cent now. Full details of the growth of all the main aggregates are given in the annex. Chart 1 shows the recent path of year-on-year change for both narrow and broad money.

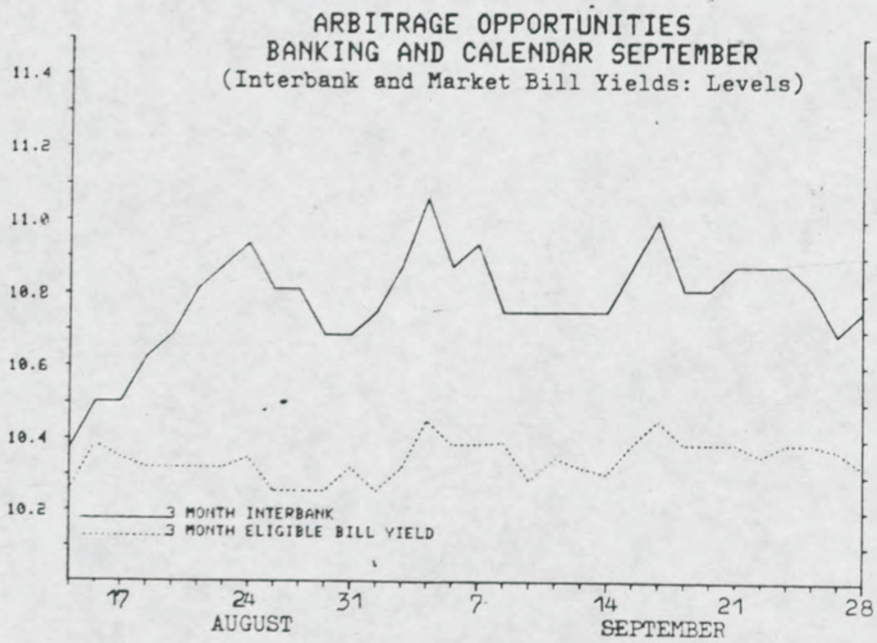
3. Estimates of the extent of any distortion to broad money are inevitably highly speculative. For working purposes, we have assumed that £M3 was inflated by something like ½ per cent, split fairly evenly between round tripping and misreporting of wholesale bank deposits. The evidence for round tripping is circumstantial. As Chart 2 shows, there certainly were times during the month when differentials between 3 month bills and comparable inter-bank rates exceeded ½ per cent, the margin at which hard arbitrage is generally thought to be profitable, after allowing for acceptance costs and an element of risk. Not all arbitrage inflates £M3: "soft arbitrage", which takes place even at fairly narrower differentials, only affects the composition of bank lending; and "hard arbitrage" by banks and overseas sectors has no effect on £M3. Failure to make these distinctions may be one reason why market estimates for round tripping (up to £1 billion) look on the high side. The detailed money figures are not inconsistent with some effect on £M3 this month. Most of the very sharp rise in bank lending to the private sector took the form of bills; and, as Annex Table C shows, wholesale deposits accounted for all the rise in £M3 (the rise in the wholesale deposits was even larger than in June when the surge in £M3 was fairly well spread).

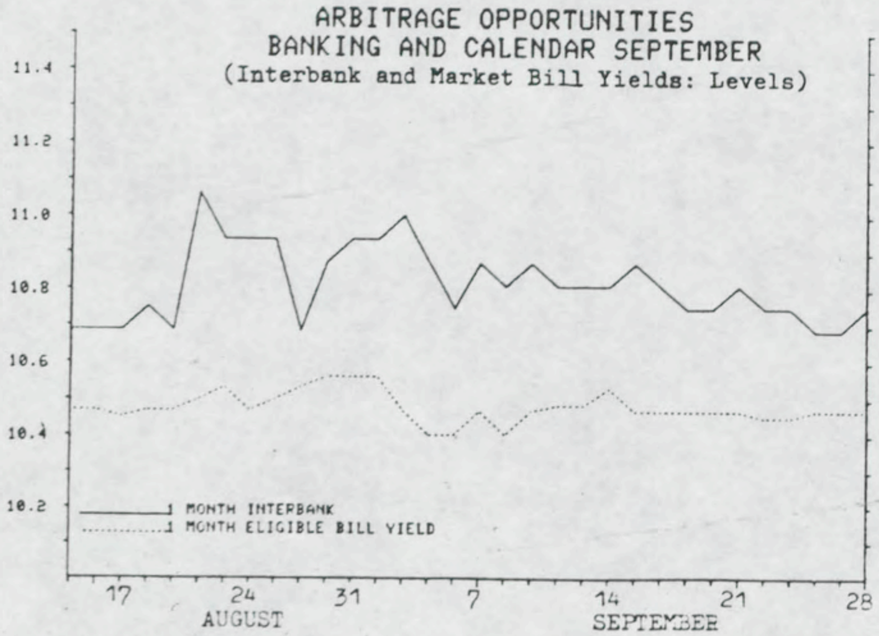
4. This month's sterling inter-bank difference implies that lending by the monthly reporting banks to other banks exceeded deposits taken from the rest of the monetary sector by about £500 million. This could reflect an erratically high sampling error: or misreporting of assets and/or liabilities. We have assumed that most of the error is on the liabilities side (which implies that £M3 was overstated) and attributed the rest to sampling error. We have discounted the possibility of misreporting on the asset side because this would imply an implausibly high underlying level of bank lending

CHART 2

SECRET (AND personal until 2.30 PM THURSDAY 18 OCTOBER 1984)







to the non-bank private sector.

5. As usual, <u>the forecasts for the next three months</u> assume unchanged interest rates, and take as given the targets for gross gilt sales (£1 billion in banking November and £½ billion in December), though we do allow for the fact that this month's £1 billion target has already been exceeded. The weekly figures suggest another fairly sharp rise in MO in October, possibly around ¾ per cent. We expect this to slow down to around ¼ per cent a month as the effect of the recent rise in interest rates comes through, leaving MO still in the bottom half of the target range by the end of the forecast period.

6. The forecasts for £M3 reflect a low PSBR over the next 3 months, not wholly explicable by receipts from the first call for British Telecom and the payment of our EEC budget refund. Even with relatively light funding, the public sector's contribution to £M3 is likely to be significantly contractionary. This may be partly offset by higher bank lending to the private sector, which we expect to grow by about £1¼ billion a month, a little above the recent trend. There is a possibility that the figures for banking October may again be inflated by round tripping (as Chart 2 shows, there seem to have been arbitrage opportunities earlier this month): but the December forecast reflects unwinding of most of the round tripping in 3 month bills which we assume took place in September. More tentatively, the £M3 forecasts for October and November are reduced by some reversal in this month's positive sterling inter-bank difference.

7. The picture, therefore, is of rather slow monetary growth over the next 3 months. The implicit assumption is that the liquidity build-up ahead of the British Telecom sale has largely taken place already and that most of the funds to pay for shares will therefore come from bank deposits. This view gets some support from quarterly data on institutional holdings of cash. But it could easily be wrong. If it is, the chances are that monetary growth in October and November will be somewhat higher than we now expect.

8. Much of the personal sector's subscription to British Telecom

(assumed to be around £0.3 billion) may be at the expense of building society deposits and National Savings. December is likely to be a poor month for the societies: but their underlying position is looking much healthier than it did over the summer. The recent recovery in retail inflows is expected to be sustained in October and November. Since new commitments are pointing to a lower level of lending over the next three months, the societies may be able to reduce their wholesale borrowing without further damage to liquidity ratios. On this scenario, PSL2 growth may be fairly moderate by recent standards, though it is still likely to exceed that of £M3. The forecast for M2 allows for a growth in bank retail deposits of around ¼ per cent a month and assumes, in line with recent experience, that about 2/3 of building society retail inflows fall within the aggregate.

TABLE 2 MAIN AGGREGATES : SUMMARY OF FORECAST

per cent, s.a

	MO	M2*	£M3	PSL2
Monthly change				
October	0.7	0.7	0.4	1.0
November	0.3	0.9	0.7	0.9
December	0.3	0.1	0.0	0.4
growth to mid-October at an annual rate				
Over Past :-				
3 months	6.4	*	10.1	15.6
6 months	6.6	*	8.9	15.5
12 months	5.4	12.7	8.2	13.8
Target Period	5.9	*	9.4	15.9
growth to mid-December at an annual rate				
Over Past :-				
3 months	5.3	*	4.8	9.5
6 months	4.8	*	4.5	10.5
12 months	4.9	10.4	7.7	13.8
Target Period	5.5	*	8.5	14.3

* not seasonally adjusted

Public Sector Borrowing

9. The seasonally adjusted "PSBR" was £1½ billion in banking September, about £100 million more than expected, largely due to a delay in corporation tax receipts. By the end of calendar August the (unadjusted) PSBR was £0.6 billion above the budget profile, principally due to higher than expected local authority borrowing. The forecasts for the next 3 banking months are consistent with the October NIF, and imply some further widening in this gap. Seasonal factors add about £1¾ billion to borrowing over the period; in adjusted terms, however, "the PSBR" is only £290 million, reflecting borrowing of around £½-¾ billion a month in October and November, and a surplus of over £1 billion in December. This compares with a total "PSBR" of £2¾ billion (S.A.) over the last 3 banking months (£2¼ billion, unadjusted).

10. Much of the reduction in borrowing can be explained by asset sales (the first call for BT, which is assumed to reduce the PSBR by £1.4 billion in December, and delayed receipts of £95 million for INMOS, in November) and payment of our EC budget refund (which is assumed to reduce the November PSBR by £¼ billion after allowing for funds already held in the Number 1 account.) Even after adjusting for these factors, however, borrowing is expected to be nearly £¾ billion lower than over the past 3 months in seasonally adjusted terms. First receipts from VAT on imports are not due until 17 December, after the end of the banking month.

11. The forecast assumes that the lower PSBR will be partly offset by increases in the foreign exchange reserves, to match the remaining payments from the EC in November and foreign currency receipts of some £0.3 billion from the overseas sale of BT. At this stage, there is some doubt about the impact of the EC refund. If, as looks possible, the EC does not need to make additional payments into the Number 1 account after all, we will need to make offsetting changes to the forecasts for both the PSBR and the externals. The net effect on money is however nil, both in the forecast, and on this alternative assumption. (The £M3 forecast would only be increased

if we were to assume that the EC makes no further payments in the Number 1 account, but the rise in the reserves goes ahead all the same).

Debt Sales

(a) Gilts

12. Table 3 compares the September outturn with performance over the target period so far, and summarises the forecast for the next three months.

TABLE 3 : GILT SALES *

monthly averages ,£m

	Actual Banking Sept	mid-Sept 1983 -mid-Sept 1984	Forecast mid-Sept 1984 -mid-Dec 1984
Gross Sales	581	1145	933
Redemptions	-2	-291	-218
Next Maturities	-32	-144	0
Net Sales	547	710	715
of which : -			
Monetary Sector	76	-1	83
Public Corporations	25	2	0
Overseas	372	48	67
Non-bank private sector	74	661	565

* excluding Repos

13. In the five weeks of banking September, market activity was unusually thin. Gross sales of gilts raised £580 million, well below the target of £1¼ billion. The gross figure included just over £½ billion of calls. Sales of other stock raised well over £300 million, but buying in of stocks other than next maturities, in support of the market, largely offset this. Net sales were £547 million, there having been no significant redemptions in the month. Unusually, most of these went to the overseas sector and the non-bank private sector's take-up was only £75 million. Some of the overseas sector's purchases of gilts may have been financed out of non-resident sterling bank deposits, which fell for the first

time in over a year. But this fall was much less than the total increase in external holdings of gilts.

14. The London Clearing Banks reduced their base rates by a further ½ per cent on 17 August. However, hopes of further reductions were replaced by fears of an increase when a second dock strike was called, driving money market rates up and gilt prices down. The strength of the dollar also cast a shadow over the market. The August provisional money figures were rather above expectations and did nothing to revive interest in gilts. Sales picked up towards the end of the month, on hopes that the talks between the NCB and NUM would lead to a settlement of the miners' dispute, but when these broke up, the market fell back. The dock strike, which had only been partly effective, was called off at the end of the banking month, too late to affect gilt sales.

15. At the beginning of the month the Bank announced the issue of £950 million of 10½ per cent Treasury convertible 1992 (£200 million of which was reserved for CRND), the first new FOTRA stock since 1977. The first and second call, of 30 per cent each, took place in banking September. The second and final instalment of 11 per cent Exchequer 1989 raised £443 million. Towards the end of banking September, two tranchettes of existing low coupon stocks were issued, £150 million of 2½ per cent Exchequer 1986 and £100 million of 3 per cent Treasury 1987.

16. With a week still to go in banking October, the target of £1 billion has already been exceeded and have gone slightly over the top of the upside range identified at the last funding meeting (£1¼ billion). The final call on 10½ per cent Treasury convertible 1992 was received on 8 October. The market remains reasonably firm, but there is little stock remaining in the Issue Department. We have made the assumption that gross sales will total £1.3 billion this month, falling to £1 billion in November and £½ billion in December, in line with the lower targets agreed at last month's funding meeting. This compares with gross sales of £1.1 billion a month on average in the seven months to mid-September (and a forecast rate of about £1 billion a month for the financial year

1984-85 in the latest NIF). The low target for December reflects a short (3 week) banking month, as well as some allowance for the BT sale. Net sales will be depressed by a £650m redemption in banking October but there are no further redemptions or assumed buying in over the rest of the forecast period.

(b) National Savings

17. National Savings contributed £900 million (unadjusted) to funding during banking September (£973 million seasonally adjusted), exceeding the forecast by about £100 million. Sales of the highly competitive 28th Issue in banking September amounted to £800 million (£50 million of which had not been processed by make-up day, and was held in the Ways and Means account), about £100 million above forecast. With the exception of the Income Bond (terms on which were improved on 2 September), other DNS instruments continued to perform poorly.

18. With no conventional certificate on sale between the 11 September and the 15 October, inflows in banking October will be much lower. Total National Savings funding is forecast at £220 million, unchanged from last time, and largely attributable to the Income Bond and accrued interest.

19. The 29th Issue is not expected to attract substantial funds in banking November and December. The terms of the new issue (8 per cent) were pitched to avoid strong competition with the BT sale. On the assumption that total sales of BT shares to the personal sector reach £0.3 billion, inflows into National Savings may be depressed by around £50 million a month in both November and December compared with what might otherwise have been achieved at present rates. In addition we are expecting the usual large outflow from index-linked certificates in November, following payment of the annual supplement. In seasonally adjusted terms, National Savings is expected to contribute only £150 million to funding in banking November and a mere £35 million in banking December. If correct, this forecast implies that National Savings inflows would have to achieve an unadjusted monthly rate of £250 million (£150 million

seasonally adjusted) to reach the £3 billion target for the financial year as a whole (see final column of table 4 below). This compares with inflows of around £200 million a month (before and after seasonal adjustment) in the period up to mid-August.

TABLE 4: NATIONAL SAVINGS INFLOWS

£m

	Financial year to end August	Financial year to mid September	Financial year to end December	monthly striking rate to achieve £3bn
unadjusted	868	1766	2131	248
seasonally adjusted	1135	2108	2478	150

(c) Certificates of Tax Deposits

20. There was a net outflow of £170m from CTDs in banking September much in line with forecast. But two major payments have already produced inflows of £470m in banking October. Assuming no further payments of this unusual size (the interest differential between CTDs and interbank rates has since been cut by ¼%) we forecast that CTDs will contribute £400m to funding in banking October compared with our previous forecast of a net outflow of £225m. Thereafter the net impact of CTDs on the funding position is likely to be fairly modest.

The PSBR and Funding

21. Table 5 summarises the net funding position over the target period so far and that implied in the forecast to mid-December. Since mid-February the 'PSBR' has been slightly over-funded after taking account of the external finance of the public sector, but underfunded by £0.2 billion if this is excluded. In unadjusted terms both measures show significant underfunding. Over the forecast period we expect overfunding of over £2 billion in seasonally adjusted

terms but a much flatter position in unadjusted terms, reflecting the large negative seasonal adjustment to the PSBR over this period.

TABLE 5 THE "PSBR" AND FUNDING

£ billions sa
(figures in brackets are unadjusted)

	Actual	Forecast	
	mid-Feb 84 -mid-Sep 84	mid-Sep 84 -mid-Dec 84	mid-Feb 84 -mid-Dec 84
"PSBR"	6.7	0.3	7.0
Debt sales to nbps (-) of which :-	-6.5	-2.4	-8.9
Gilts	-4.0	-1.7	-5.7
National Savings	-2.4	-0.4	-2.8
CTDs	-0.0	-0.3	-0.4
OVER(-)/UNDERFUNDING(+)	0.2	-2.1	-1.9
Unadjusted	(2.2)	(-0.4)	(1.7)
External finance of public sector(-)	-1.1	0.3	-0.8
OVER(-)/UNDERFUNDING(+) alternative definition	-0.9	-1.8	-2.7
Unadjusted	(1.1)	(-0.2)	(0.9)

Money Market Influences

22. Daily shortages averaged £550m during banking September, implying gross assistance of £13¼ billion, mainly due to maturing bills. Market shortages were particularly large at the beginning of the banking month and again at the end of calendar August. However the total stock of assistance rose by only £300m over the month to reach £11¼ billion by mid-September. The forecast implies a rise in the stock of assistance of about £½ billion over the forecast period, entirely concentrated in December. Little net change in assistance is expected in either October or November.

Sterling Lending to the Private Sector

23. Sterling bank lending increased by £1½ billion in banking September, about £½ billion above forecast. At the same time, the "bill leak" rose by about £150m and foreign currency lending by UK banks to the UK private sector went up by around £100m. Monetary sector lending to the building societies was £120m, lower than in August, but high by earlier standards. Some of the increase in

total sterling bank lending may have reflected round tripping (possibly as much as £¼ billion). This month's figure was particularly surprising in view of the high PSBR; however, there is increasing evidence that variations in the PSBR only affect lending with a lag, so it may be that we shall see some offset this month.

TABLE 6 THREE AND SIX MONTH MOVING AVERAGES OF RECORDED AND UNDERLYING STERLING LENDING

£ millions

	Three Month Average		Six Month Average	
	Recorded Lending	Underlying Lending	Recorded Lending	Underlying Lending
Oct	1348	1258	1227	1165
Nov	1284	1215	1163	1190
Dec	1428	1202	1252	1214
Jan	1214	993	1281	1126
Feb	1290	1028	1287	1121
March	1286	1095	1357	1149
April	1445	1628	1330	1310
May	1322	1393	1306	1211
June	1304	1540	1295	1318
July	939	852	1192	1240
August	882	1098	1102	1246
September	837	933	1071	1237

24. The three and six month moving averages of recorded and "underlying" bank lending over the last year are shown in table 6 . The "underlying" series is adjusted to allow for the offsetting effects of high PSBRs and the leasing adjustments paid by two clearers in July and August, and an assumed £¼ billion of round tripping in September. The figures suggest some deceleration in the trend of bank lending to the private sector over the summer, a conclusion which is supported by anecdotal evidence from the banks, especially the clearers, who are reporting rather slack loan demand. There is no useful up-to-date information about the composition of lending.

25. For the forecast we have projected underlying lending at around

£1.15 billion a month. Recorded lending is expected to be somewhat higher at around £1.3 billion a month due to more round tripping in October, and the effect of low forecast PSBRs, particularly in December. We have also allowed for £200m extra bank lending to the building societies in December to make up for lower retail inflows resulting from the sale of BT. This is largely offset, however, by the unwinding of much of September's round tripping, three-quarters of which may be repaid in banking December.

26.As table 7 shows, net issues by UK listed companies rose again in banking September. The gross issues queue (excluding privatisations) is still around the £1 billion mark. The major new issue in banking October was Barclay's 'perpetual floater' which raised $600m on 8 October. This should not affect £M3; it is likely to be reflected in an increase in net non-deposit liabilities matched by a rise in the banks net currency liabilities (included within the externals).

Table 7 Net Issues by Listed UK Companies

(Calendar month averages, £M)

	Net Issues	Gross Issues Queue* (Equities)
1984 Q1	51	850
Q2	199	1510
Q3	218	1030
July	132	1105
August	216	1010
September	305	978+

* Excluding privatisations

+ As of 5 October

Building Societies

27. After a disastrous start to the banking month, retail inflows recovered sharply at the beginning of calendar September, reflecting seasonal factors and increases in the premium rates offered by the societies. But even recent weekly inflows are still some way below levels reached in the Spring. Despite extremely heavy wholesale borrowing by the societies in both August and September there was a further rundown in liquidity as net advances continued to grow strongly. But there are clear signs that the growth in net commitments has moderated over the summer, from a peak monthly rate of about £2.4 billion in June and July to around £1.8 billion in calendar August.

Table 3: Building Society Inflows

monthly rate, £M, seasonally adjusted

	mid-April to mid-September	Forecast: mid-September to mid-December
1. Total retail inflows (incl. interest credited)	+ 880	+1005
2. of which term shares	- 80	- 130
3. Net issues of CDs and time deposits to NBPS	+ 145	+ 90
4. BS acquisition of liquid assets. excl. gilts (inc -)	+ 198	- 320
5. Building Societies' contribution to:		
PSL2 (1-2+3+4)	+1303	+ 900
M2	+ 790	+ 820
Memo item		
Building Society net mortgage advances	+1300	+1230

28. We expect the recent weekly rate of inflow to be broadly sustained in October and November, allowing the societies to reduce their wholesale borrowing to a monthly rate of perhaps only £100m a month. The BT sale is expected to reduce retail building society inflows by some £50m in banking November and perhaps £150m in banking December. As the slowdown in new commitments feeds through to advances, this forecast should be consistent with a broadly constant liquidity ratio for the societies (currently around 17½%) implying some increase in their holdings of liquid assets. We assume that this will largely take the form of higher building societies holdings of cash.

SECRET(AND PERSONAL UNTIL 2.30PM,THURSDAY 18TH OCTOBER 1984)

TABLE A : PERCENTAGE CHANGES IN MONETARY AGGREGATES

per cent, s.a

	MO	NIB M1	M1	M2*	£M3	M3	PSL2	PSL2A
Banking months								
(1) In month								
Sept	1.0	-0.8	1.1	0.3	1.3	2.3	1.6	1.4
Oct	0.7			0.7	0.4		1.0	0.9
Nov	0.3			0.9	0.7		0.9	0.9
Dec	0.3			0.1	0.0		0.4	0.4
(2) latest 3 months (a.r)								
Sept	4.4	0.0	7.7	*	4.1	11.3	11.5	9.6
Oct	6.4			*	10.1		15.6	13.5
Nov	8.2			*	10.3		15.2	13.6
Dec	5.3			*	4.8		9.5	9.3
(3) latest 6 months (a.r)								
Sept	5.3	6.4	14.6	*	8.8	8.6	15.4	13.2
Oct	6.6			*	8.9		15.5	13.4
Nov	6.4			*	8.7		14.7	12.8
Dec	4.8			*	4.5		10.5	9.5
(4) latest 12 months (a.r)								
Sept	5.2	7.6	15.4	12.6(9.5)**	8.9	11.5	13.6	12.8
Oct	5.4			12.7(9.7)**	8.2		13.8	12.8
Nov	5.2			13.4(10.6)**	8.9		14.4	13.1
Dec	4.9			10.4(10.5)**	7.7		13.8	12.4
(5) target period (a.r)								
Sept	5.5	8.3	17.9	*	10.1	10.0	16.4	14.2
Oct	5.9			*	9.4		15.9	13.9
Nov	5.7			*	9.4		15.4	13.6
Dec	5.5			*	8.5		14.3	12.7

* not seasonally adjusted

** excluding reclassifications

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TABLE B: £M3 COUNTERPARTS

£ millions

	SEPTEMBER FORECAST	SEPTEMBER OUTTURN	FORECAST OCT	FORECAST NOV	FORECAST DEC	TARGET PERIOD MID-FEB 84 TO MID-DEC 84	MID-APRIL 84 TO MID-DEC 84
1. CGBR							
Own-account (u.a)	900	1036	275	640	35	8742	5467
On-lending (u.a)	250	145	610	395	485	2324	2065
Total (u.a)	1150	1181	840	720	850	11036	7502
TOTAL CGBR (s.a)	1300	1329	760	830	-1110	7082	4906
2. NET PURCHASES OF CG DEBT BY NBPS							
Gilts	-675	-74	-500	-800	-375	-5704	-4535
Treasury bills	0	14	0	0	0	-97	-144
National Savings	-860	-971	-220	-115	-35	-2810	-2300
CTDs,etc	250	170	-400	-15	85	-364	-112
TOTAL DEBT	-1285	-861	-1120	-930	-325	-8975	-7091
3. OTHER PUBLIC SECTOR							
Local Authorities	-190	104	80	-175	-315	-33	-323
Public Corps.	345	127	-295	40	475	-39	179
TOTAL OPS	155	231	-215	-135	160	-72	-144
4. £ LENDING TO PRIVATE SECTOR	965	1457	1345	1190	1355	11959	8879
5.NET EXTERNALS	-140	-543	240	325	360	-306	514
6.NET NON-DEPOSIT LIABILITIES	-500	-226	-600	-500	-400	-2692	-1828
CHANGE IN £M3 £m	495	1387	410	790	40	7006	5246
(%)	(0.5)	(1.3)	(0.7)	(0.9)	(0.1)	(8.5)*	(7.9)*
"PSBR"	1455	1560	545	695	-950	7010	4762
OVER(-)/UNDERFUNDING(+)	170	699	-575	-235	-1275	-1965	-2329

* at an annual rate

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CW

SECRET

TABLE C: The Components of £M3 and PSL2

£ million, Seasonally adjusted

	Banking September	Cumulative total since mid-February	Monthly rate
Notes and coin in circulation	+ 82	+ 467	+ 67
Bank deposits:			
Retail			
(a) interest bearing	+195	+ 905	+ 129
(b) non-intrest bearing	-348	+1010	+ 144
Wholesale	+1575	+3283	+ 469
£ Certificates of Deposit	- 35	+ 102	+ 15
Change in £M3	+1387	+5766	+ 824
Bills and other adjustments	+ 60	+ 841	+ 120
Building Society inflows:			
(a) retail (and interest credited)	+1038	+7012	+1002
(b) wholesale	+ 300	+ 711	+ 102
Other	+ 160	+1236	+ 177
Change in PSL2	2945	15566	+2225

SECRET (AND PERSONAL UNTIL 2.30 PM, THURSDAY 18 OCTOBER)

Table D: Gilts

£ million

	Outturn SEPT	OCT to date	Remainder of OCT	OCT	Forecast NOV	DEC
Calls*	-	251	5	256	-	-
Other 'gross' sales	581	1034	10	1044	1000	500
'GROSS' SALES	581	1285	15	1300	1000	500
Buying-in next maturities[ø]	- 32	- 1	0	- 1	-	-
Redemptions	- 2	-650	- 4	-654	-	-
TOTAL NET SALES	547	634		645	1000	500
Purchases (-) by:						
Overseas	-372			- 50	-100	-50
Banks	- 48			- 85	- 50	
LDMA	- 28			- 10	- 50	-75
Public Corporations	- 25			-	-	-
NET SALES TO NBPS (+)	74			500	800	375

* of which calls on:

- Final call on 10½% Treasury Convertible 1992 (35.3%)
-
-

ø of which, buying in of:

-
-

SECRET (AND PERSONAL UNTIL 2.30 PM, THURSDAY 18 OCTOBER)

Table E: Sterling lending to the private sector

£ million
Seasonally adjusted

	Actual			Forecast		
	July	Aug	Sept	Oct	Nov	Dec
Adjusted lending	- -89	+1337	+1550	+1150	+1150	+1150
Bills held by NBPS(-)	+286	- 1	- 135	-	-	-
PSBR offset	+430	- 170	- 208	+ 145	+ 40	+ 205
Leasing effect	-290	- 450	-	-	-	-
Round tripping	-	-	+ 250	+ 50	-	- 200
B.T.	-	-	-	-	-	+ 200
Actual/forecast recorded lending	337	716	1457	1345	1190	1355
3-month moving average of adjusted lending	852	1098	933	1346	1283	1150

SECRET (AND PERSONAL UNTIL 2.30 PM, THURSDAY 18 OCTOBER)

Table F: Money Market Influences

£ million
not seasonally adjusted

	Actual	Forecast		
	SEP	OCT	NOV	DEC
A. Money market influences				
CGBR (increase +)	+1211	+885	+1035	+520
Reserves etc (+)	- 178	- 5	+ 270	+205
Notes and coin (-)	+ 72	+193	- 110	-715
National Savings (-)	- 898	-160	- 175	- 29
CTDs (-)	+ 142	-455	+ 20	+ 40
Gilts (-)	- 547	-455	-1000	-500
Other Exchequer items etc	+ 6	- 45	- 315	+330
TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	- 192	+ 2	+ 40	-479
B. Money market operations				
Commercial bills (purchase +)				
- Issue Department	+ 120			
- Banking Department	+ 179			
LA bills (purchase +)				
- Issue Department	+ 7			
- Banking Department	- 5			
Treasury bills (purchase +)	+ 73			
Market advances	- 74			
Other	-			
TOTAL MONEY MARKET OPERATIONS	+ 300	- 2	- 40	+479
Change in bankers' balances	+ 108	-	-	-
TOTAL ASSISTANCE OUTSTANDING*	11222	11220	11180	11659

* excluding Treasury bills

1984-85 KEY AGGREGATES **Table G**

		JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
TARGET AGGREGATES										
£M3	(Exc. Public sector deposits)									
	Monthly change (£ millions)	+655	+84	+1,401	+374	+759	+2,091	-1,048	+727	+1,387
	Monthly % change	+0.7	+0.1	+1.4	+0.4	+0.7	+2.0	-1.0	+0.7	+1.3
	Three-monthly % change a.r.	+7.7	+7.6	+8.9	+7.7	+10.9	+13.4	+7.3	+7.1	+4.1
	Six-monthly % change a.r.	+7.6	+6.7	+9.1	+7.7	+9.1	+11.1	+7.5	+9.0	+8.8
	12 Monthly % change	+10.2	+9.5	+9.9	+8.0	+8.1	+9.2	+7.5	+7.8	+8.9
	% Change since Feb-83 a.r.	+10.3	+9.5	+10.2	+9.8					
	% Change since Feb-84 a.r.			+18.2	+11.2	+10.9	+14.8	+9.0	+9.0	+10.1
MO	Averaged weekly									
	Monthly change (£ millions)	+23	+20	+74	+11	+53	+137	+30	-17	+133
	Monthly % change	+0.2	+0.2	+0.6	+0.1	+0.4	+1.0	+0.2	-0.1	+1.0
	Three-monthly % change a.r.	+5.1	+3.7	+3.6	+3.2	+4.3	+6.2	+6.8	+4.6	+4.4
	Six-monthly % change a.r.	+6.6	+6.3	+5.1	+4.1	+4.0	+4.9	+5.0	+4.4	+5.3
	12-monthly % change	+6.0	+6.3	+5.7	+4.9	+5.2	+5.4	+5.8	+5.4	+5.2
	% Change since Feb-83 a.r.	+6.7	+6.3	+6.3	+5.9					
	% Change since Feb-84 a.r.			+7.0	+3.9	+4.3	+6.4	+5.7	+4.4	+5.5
CROSS CHECKS										
PSL2	Monthly change (£ millions)	+1,828	+1,065	+2,894	+1,615	+2,160	+3,956	172	+1,824	+2,945
	Monthly % change	+1.2	+0.6	+1.8	+0.9	+1.2	+2.3	0.1	+1.0	+1.6
	Three-monthly % change a.r.	+10.4	+11.2	+15.0	+14.1	+16.8	+19.1	+15.1	+14.3	+11.5
	Six-monthly % change a.r.	+9.6	+9.0	+11.9	+12.2	+14.0	+17.0	+14.6	+15.6	+15.4
	12-monthly % change	+12.3	+11.6	+12.1	+11.0	+11.6	+13.0	+12.1	+12.2	+13.5
	% Change since Feb-83 a.r.	+12.0	+11.6	+12.5	+12.4					
	% Change since Feb-84 a.r.			+23.5	+17.6	+16.8	+20.2	+16.1	+15.6	+16.4
M2 unadjusted	Monthly change (£ millions)	+1,223	+63	+1,595	+2,3178	+615	+2,110	+1,431	+378	+452
	Monthly % change	+1.0	+0.1	+1.3	+1.9	+0.5	+1.7	+1.1	+0.3	+0.3
	12-monthly % change	+10.5	+10.1	+9.9	+10.5	+10.5	+11.3	+11.4	+12.3	+12.6
	(exc re-classifications)	(+8.2)	(+7.8)	(+7.5)	(+8.0)	(+7.9)	(+8.5)	+8.7	+9.5	+9.8
Levels :	£M3 (Exc. Pub Sec Deps)	99,725	99,781	101,203	101,537	102,270	104,306	103,346	104,061	105,418
	MO (Averaged weekly)	13,137	13,157	13,231	13,242	13,295	13,432	13,462	13,445	13,578
	PSL 2	167,139	168,170	171,063	172,623	174,754	178,727	178,907	180,688	183,598
	M2 (unadjusted)	121,006	121,238	122,885	125,202	125,857	128,017	129,448	129,826	130,278

Table H

OTHER WIDE AGGREGATES

		JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
PSL1	Monthly change (£ millions)	+381	-176	+1,687	+369	+901	+2,631	-1,183	+755	+1,447
	Monthly % change	+0.4	-0.2	+1.7	+0.4	+0.8	+2.5	-1.1	+0.7	+1.3
	Three-monthly % change a.r.	+6.8	+4.7	+7.9	+7.6	+12.0	+15.4	+8.9	+8.6	+3.8
	Six-monthly % change a.r.	+7.1	+5.3	+8.6	+7.2	+8.3	+11.6	+8.2	+10.3	+9.6
	12-monthly % change	+9.8	+8.7	+9.2	+7.2	+7.8	+9.4	+7.6	+7.8	+9.0
	% Change since Feb-83 a.r.	+9.8	+8.7	+9.7	+9.3					
	% Change since Feb-84 a.r.			+22.8	+13.2	+12.0	+17.2	+10.6	+10.3	+11.2
PSL2A	Monthly change (£ milions)	+2,132	+1,165	+3,021	+1,678	+2,023	+3,968	+103	+1,759	+2,759
	Monthly % change	+1.2	+0.6	+1.6	+0.9	+1.0	+2.0	+0.1	+0.9	+1.4
	Three-monthly % change a.r.	+11.6	+11.5	+14.3	+13.1	+15.2	+17.0	+13.2	+12.5	+9.6
	Six-monthly % change a.r.	+11.2	+10.6	+12.7	+12.3	+13.4	+15.7	+13.2	+13.8	+13.3
	12-monthly % change	+12.5	+11.9	+12.4	+11.4	+11.9	+13.1	+12.2	+12.2	+13.0
	% Change since Feb-83 a.r.	+12.3	+11.9	+12.6	+12.5					
	% Change since Feb-84 a.r.			+21.6	+16.2	+15.2	+18.1	+14.4	+13.8	+14.4
M3	(Exc. Public Sector Deposits)									
	Monthly change (£ millions)	+827	+726	+1,739	+664	+1,097	+2,088	+204	+256	+2,779
	Monthly % change	+0.7	+0.6	+1.5	+0.6	-0.9	+1.8	+0.2	+0.2	+2.3
	Three-monthly % change a.r.	+14.2	+14.9	+12.0	+11.3	+4.6	+5.7	+4.1	+8.9	+11.3
	Six-monthly % change a.r.	+11.5	+11.9	+14.7	+12.8	+9.6	+8.8	+7.5	+6.7	+8.6
	12-monthly % change	+12.4	+11.6	+11.9	+10.7	+9.2	+10.0	+9.5	+9.3	+11.5
	% Change since Feb-83 a.r.	+11.9	+11.6	+12.2	+11.8	-				
	% Change since Feb-84 a.r.			+19.5	+13.0	+4.6	+9.0	+7.6	+6.7	+10.0

Levels :

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
PSL1	103,119	102,909	104,605	104,920	105,792	108,440	107,265	107,977	109,389
PSL2A	187,415	188,550	191,559	193,178	195,262	199,247	199,358	201,074	203,798
M3 (ex. Pub. Sec. Deps)	115,761	116,462	118,250	118,873	117,747	119,888	120,112	120,340	123,102

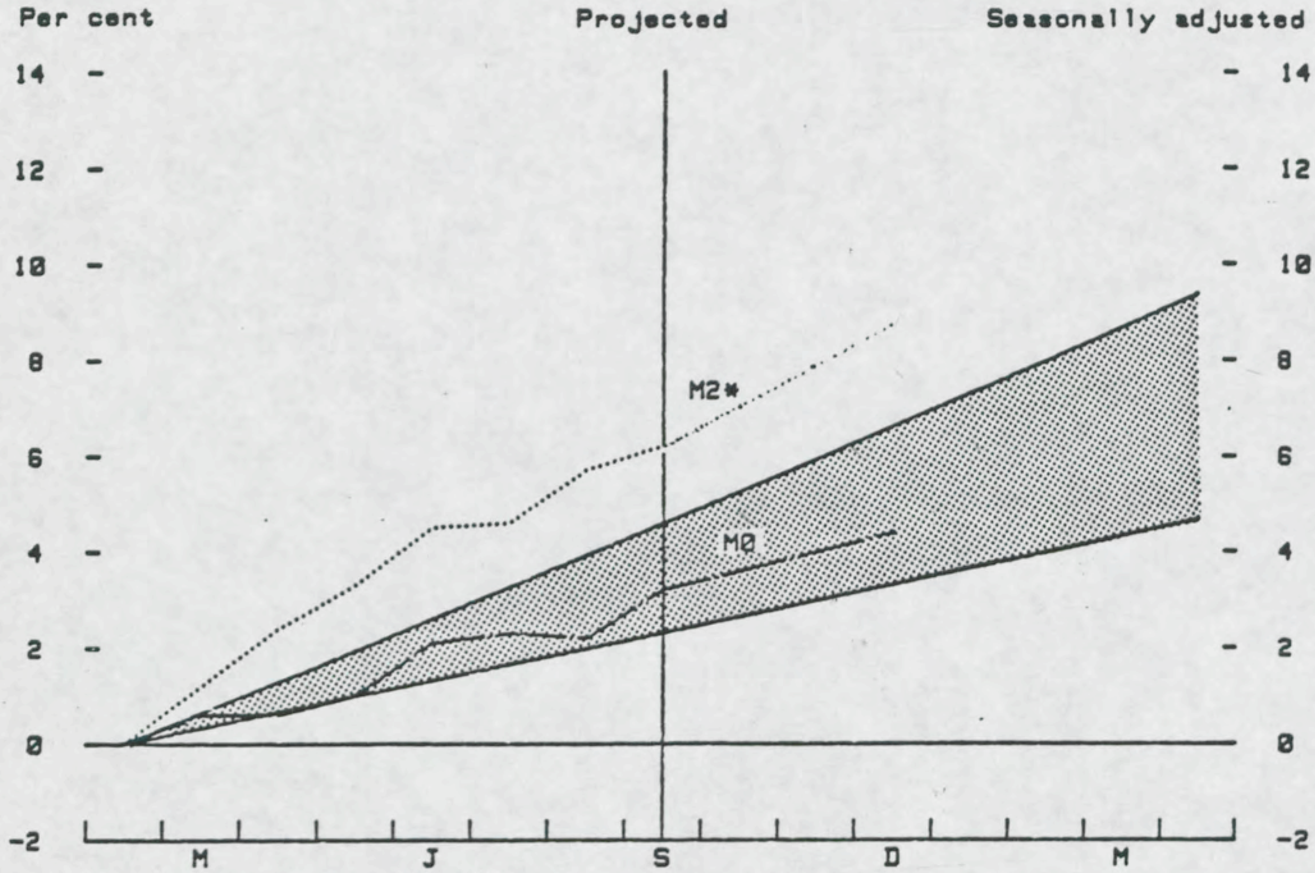
Table I

OTHER NARROW AGGREGATES

		JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
NIB M1	Monthly change (£ millions)	-91	+56	+474	+581	+140	+281	-401	+668	-266
	Monthly % change	-0.3	+0.2	+1.5	+1.8	+0.4	+0.9	-1.2	+2.1	-0.8
	Three-monthly % change a.r.	+6.4	+5.3	+5.7	+15.0	+16.2	+13.3	+0.2	+6.9	-
	Six-monthly % change a.r.	+7.2	+7.1	+8.7	+10.7	+10.6	+9.4	+7.4	+11.5	+6.4
	12-monthly % change	+8.2	+7.8	+7.9	+9.3	+9.2	+9.4	+7.3	+9.3	+7.6
	% Change since Feb-83 a.r.	+8.3	+7.8	+8.7	+9.7					
	% Change since Feb-84 a.r.			+19.8	+22.1	+16.2	+14.9	+8.5	+11.5	+8.3
M1	Monthly change (£ millions)	+299	+158	+1,285	+778	+687	+857	-318	+685	+507
	Monthly % change	+0.7	+0.4	+3.0	+1.8	+1.5	+1.9	-0.7	+1.5	+1.1
	Three-monthly % change a.r.	+10.5	+9.1	+17.4	+22.3	+28.0	+22.6	+11.3	+11.1	+7.7
	Six-monthly % change a.r.	+10.5	+9.5	+16.4	+16.3	+18.2	+20.0	+16.7	+19.3	+14.9
	12-monthly % change	+10.7	+11.1	+13.4	+13.6	+13.7	+13.7	+13.5	+14.3	+15.6
	% change since Feb-83 a.r.	+11.8	+11.1	+13.3	+14.0					
	% change since Feb-84 a.r.			+42.2	+32.3	+28.0	+27.2	+19.3	+19.3	+18.5
M2	Partially seasonally adjusted									
	Monthly change (£ millions)	+1,932	+749	+1,661	+1,513	+1,268	+1,804	+142	+1,326	+574
	Monthly % change	+1.6	+0.6	+1.4	+1.2	+1.0	+1.4	+0.1	+1.0	+0.4
	Three-monthly % change a.r.	+16.2	+15.9	+15.4	+13.6	+15.4	+15.7	+10.7	+10.7	+6.5
	Six-monthly % change a.r.	+10.4	+11.4	+13.5	+14.9	+15.7	+15.6	+12.1	+13.0	+11.0
	12-monthly % change	+10.4	+10.1	+10.1	+10.4	+10.4	+11.3	+11.3	+12.3	+12.3
	% Change since Feb-83 a.r.	+10.3	+10.1	+10.7	+11.0					
	% Change since Feb-84 a.r.			+17.6	+16.6	+15.4	+16.1	+13.0	+13.0	+11.9
Levels :	NIBM1	31,151	31,207	31,686	32,267	32,406	32,689	32,288	32,986	32,704
	M1	42,980	43,140	44,440	45,220	45,910	46,770	46,460	47,170	47,660
	M2 (Partially S/A)	121,210	122,128	123,841	125,354	126,661	128,517	128,659	129,949	130,504

Narrow Money(Target 4-8%)

Chart A



*excluding reclassifications

Broad Money(Target 6-10%)