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Professor A.A. Walters,  
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3rd December, 1981

Dear Alan,

As you know, I telephoned you earlier in the week to express my concern that monetary policy is becoming dangerously tight and you asked me to put my comments in writing.

Let me assume, for the moment, that I am correct about the current tightness of policy - why the concern? Arguing from example, a primary cause of the extraordinary appreciation in sterling in the second and third quarters of 1980 was the tightness of monetary policy in the first half of 1980. If monetary policy had not been allowed to become too tight, the intensity of the squeeze on manufacturing and employment would not have been as severe and the siren voices of the Wets would not have become as troublesome as they are now.

If a similar mistake is made this time the result will be very serious. The economic recovery in the UK is extremely fragile, particularly as the US is having the second leg of its recession. In my judgement the monetary indicators are starting to signal that the UK is suddenly going to dive into the second leg of its recession. To put it mildly, that would not be a policy of "gradualism".

One of the ways in which gradualism works in practice is to confront companies with the serious possibility of bankruptcy without them actually going out of business. Some managements and unions have to be frightened into "putting their houses into order" but the company must survive for the outcome to be positive. If the UK develops secondary recessionary momentum to a major extent, the result will be the slaughter of many companies. Hence my concern, particularly at a time when, contrary to popular impression, the Government's economic policy is close to being on course.

/Continued .....

Professor A.A. Walters

3rd December, 1981

Turning to the best way of judging the current stance of monetary policy, I have the following points to make:

- i) Sterling M3 and PSL1 are currently distorted upwards by competition between the clearing banks and building societies. PSL2 is the best current measure of broad monetary growth.
- ii) Even so, PSL2 has been distorted upwards by the civil servants' dispute. The likely outcome in the financial year as a whole now appears to be about 11%, i.e. growth of 5% per annum during the second half of the year.

PSL2 has also been inflated by genuine savings being invested in liquid instruments, as described in our recent Bulletins. A distinction should be made between buoyant growth that is a result of genuine savings and buoyancy that is the result of unintended savings, the latter being the usual phenomenon. The short run effects are different (the long run effects may, however, be similar; I accept that allowing excessive liquidity to build up in the economy may store up problems for the future).

- iii) All the narrow monetary aggregates are flashing warning signs that the squeeze is dangerously tight. They are likely to continue to do so if short term interest rates are not reduced.

I know that Brian Griffith's judgement about the stance of monetary policy is different from mine. I accept his point that during the last decade or so sterling M3 has statistically been the most reliable measure but it has only been the most reliable on average and not in every year. Financial conditions in the last two years have been without precedent and the statistical evidence of earlier years must not be followed blindly.

I am all too aware that when in the past I have sounded warnings of excessive monetary tightness I have been misunderstood. The last time was in 1979/80. I have been re-reading the warnings that I sounded then and enclose some extracts together with our latest Bulletin, with the relevant passages marked. You will see that the parallels, particularly about not following US interest rates down, are too close for comfort. With the benefit of hindsight, I am convinced I was right in 1980. I fear a similar situation is developing now.

*Gordon Pepper*

Gordon Pepper

*PS. I am sending a copy of this letter with  
enclosures to Terry Burns and Peter Middleton.*

Encl.



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## BAROMETRIC PRESSURE

*A Column by Gordon Pepper  
in The Observer on 12th August, 1979*

Will Margaret Thatcher, like Edward Heath in 1971, be forced to make an about-turn in her economic policies, either this winter or next? The odds must be heavily on 'Yes', if the money supply is allowed to grow too slowly, and on 'No' if it is not.

It may surprise some people to read that a person with my reputation is worried about the prospect of the money supply rising too slowly, but the popular image misrepresents the true position.

In common with most monetary economists, I argue for policies which exert controlled financial pressure. It takes time for the economy to adjust to changes in financial pressures. The economy should be given that time. If it is forced to react too abruptly, it will suffer quite unnecessary disruption. I, therefore, disagree with policies which lead to sudden and acute pressures.

One of the best barometers of financial pressure is the behaviour of the money supply. Most monetary and financial economists argue just as strongly against inadequate monetary growth as they do against excessive monetary growth.

A good example of a too abrupt reaction being forced on the economy was the inadequate monetary growth in 1969-70. The same thing occurred in 1974-75. On both occasions, Britain subsequently paid the price in a stream of unnecessary bankruptcies and higher unemployment and, in 1971, Mr. Heath was forced into an about-turn.

Unhappily a replay in 1980 is threatened. A recession seems almost certain to start soon. Once it does, it will tend to feed on itself. As the recessionary pressures gather momentum, the growth of the money supply will decelerate. It always does, because the money supply is a barometer, not only of financial pressures which result from Government policy, but also of internally generated pressures.

I should stress that inadequate monetary growth is not our problem at the moment. On the contrary, monetary growth in the recent past has been excessive and appears only now to be coming back under control, but inadequate growth will be a danger by next year.

If we are to avoid a repetition of the upheavals of 1974-75, the authorities must prevent the money supply from growing too slowly as we enter the recession. For example they should ration the sales of gilt-edged stock to ensure that adequate finance is available for the corporate sector. Otherwise, the recession could get out of control.

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### Virtuous circle

What is true for the money supply is also true for sterling. In both cases, gradual change is desirable. Many of us hope that sterling will tend to rise gently, as part of a virtuous circle where a rising exchange rate reflects and supports a successful domestic policy to lower inflation.

But sterling can rise too sharply. A fortnight ago, it was too high. If it had remained at that level, the pressure on export industries and the squeeze on profits of domestic manufacturers would have been too acute.

As far as I was concerned, danger lights flashed a fortnight ago when there were reports that some members of the Government did not accept that sterling was too high. They argued for the higher the better, because that would help to reduce inflation. If they argue that way about sterling, they may argue similarly about a monetary squeeze - the tighter the better.

If they get their way in 1980, Mrs. Thatcher will eventually be forced into an about-turn similar to Mr. Heath's. I do not think that Mrs. Thatcher's Government contains many such Selsdon men. If it does, my message to them is that the good things of life should be taken in moderation. Overindulgence can kill.



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## MONETARY BULLETIN

No. 105, May 1980

### Crowding Out

The financial pressure on the corporate sector is becoming progressively tighter. As explained on page 2, the monetary squeeze in real terms is now of a similar order to that in mid-1974. It should not be allowed to tighten further. If financial pressure is allowed to become too acute, some parts of industry will not participate in the subsequent recovery, because they will not survive.

Matters have been made worse by the fact that industry has been, and is continuing to be, crowded out of long term capital markets. This may have been inevitable when monetary growth was excessive but, now that the money supply is within its target range, this crowding out should stop.

Industry is not significantly tapping the huge cash flow of life assurance companies and pension funds; for example, Stock Exchange issues have been minimal. If market forces were not dominated by official transactions, industry would now be borrowing both short and long term to cover its huge financial deficit. But market forces are dominated by official transactions.

The Government is not merely raising long dated rather than short dated finance. It is actually borrowing long and repaying short dated debt. During the last six months, the Government has raised almost £5,000m. by selling mainly long dated gilt-edged stock to the non-bank private sector; during the same period, sales of central government debt to the non-bank private sector have exceeded the CGBR by some £2,000m. (seasonally adjusted) i.e. the Government has been repaying previous borrowing from the banking system. This process of repayment cannot continue much longer, because banks' holdings of central government debt must now be close to a working minimum.

One reason why the Government has been issuing so much gilt-edged stock is that it has been trapped in a vicious circle. Companies have been relying on banks for the bulk of their external financial needs. This bank lending has been increasing monetary growth. The large sales of gilt-edged stock have been needed as an offset. The Government should now begin the process of breaking this vicious circle.

The time has come for the Government to begin to restrict its issues of long dated stock. The aim should be to allow market forces to re-establish the level at which companies are again prepared to raise substantial quantities of long term capital, either ordinary shares or long term debt. This may take some time to materialise but, when it happens, companies will borrow less from banks, the pressure on monetary growth will be reduced and the Government will need to sell less gilt-edged stock.

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Whilst monetary growth was excessive, there was some pressure on the authorities both to issue more gilt-edged stock than the market wanted and to offer the type of stock for which there was the greatest demand. In general, when monetary growth starts to undershoot, the Government should issue less stock than the market wants and should offer the type of stock which the authorities prefer. As far as the latter is concerned, it should be remembered that not only has the Government a large borrowing requirement but also life assurance companies and pension funds have a huge cash flow, the one being a reflection of the other. When monetary growth is excessive, the authorities are on the defensive; but when monetary growth tends to be inadequate, the boot is on the other foot.

#### The current stance of monetary policy

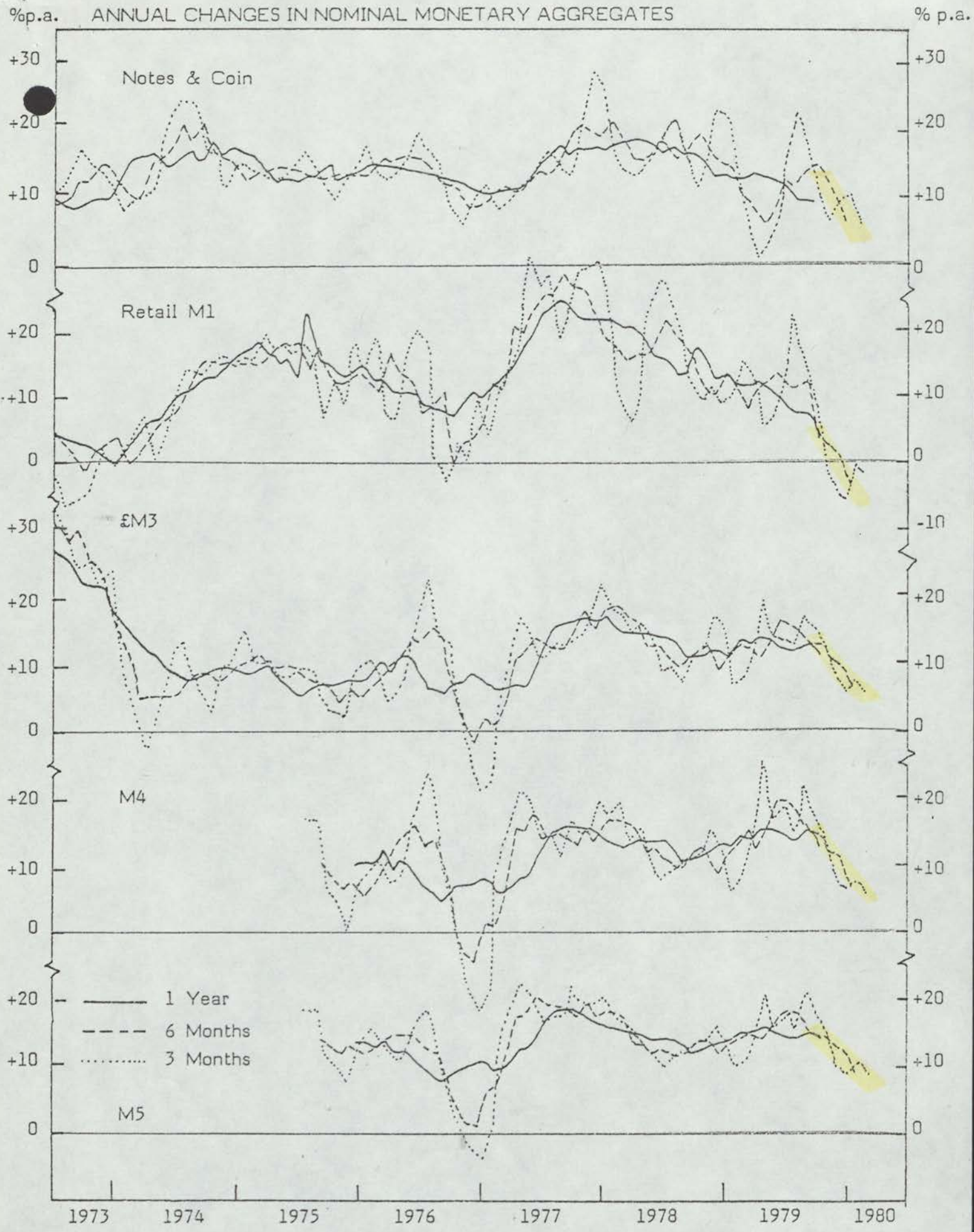
It was agreed in 1971, when Competition and Credit Control was published, that the best measure of the stance of monetary policy was the behaviour of the monetary aggregates and not interest rates, either in nominal or real terms.

The behaviour of sterling M3 is not the only indicator of the current tightness of monetary policy. Both the narrower and broader definitions of the money supply confirm the squeeze. Graphs are shown of the important definitions in nominal terms on page 3 and in real terms on page 4 (the definitions of our series for M4 and M5 have been revised, as explained on page 6). It will be seen that the squeeze in real terms is extremely severe. It is, in fact, more severe than that in mid-1974, as shown in Table I, below.

Table I : Real Monetary Growth

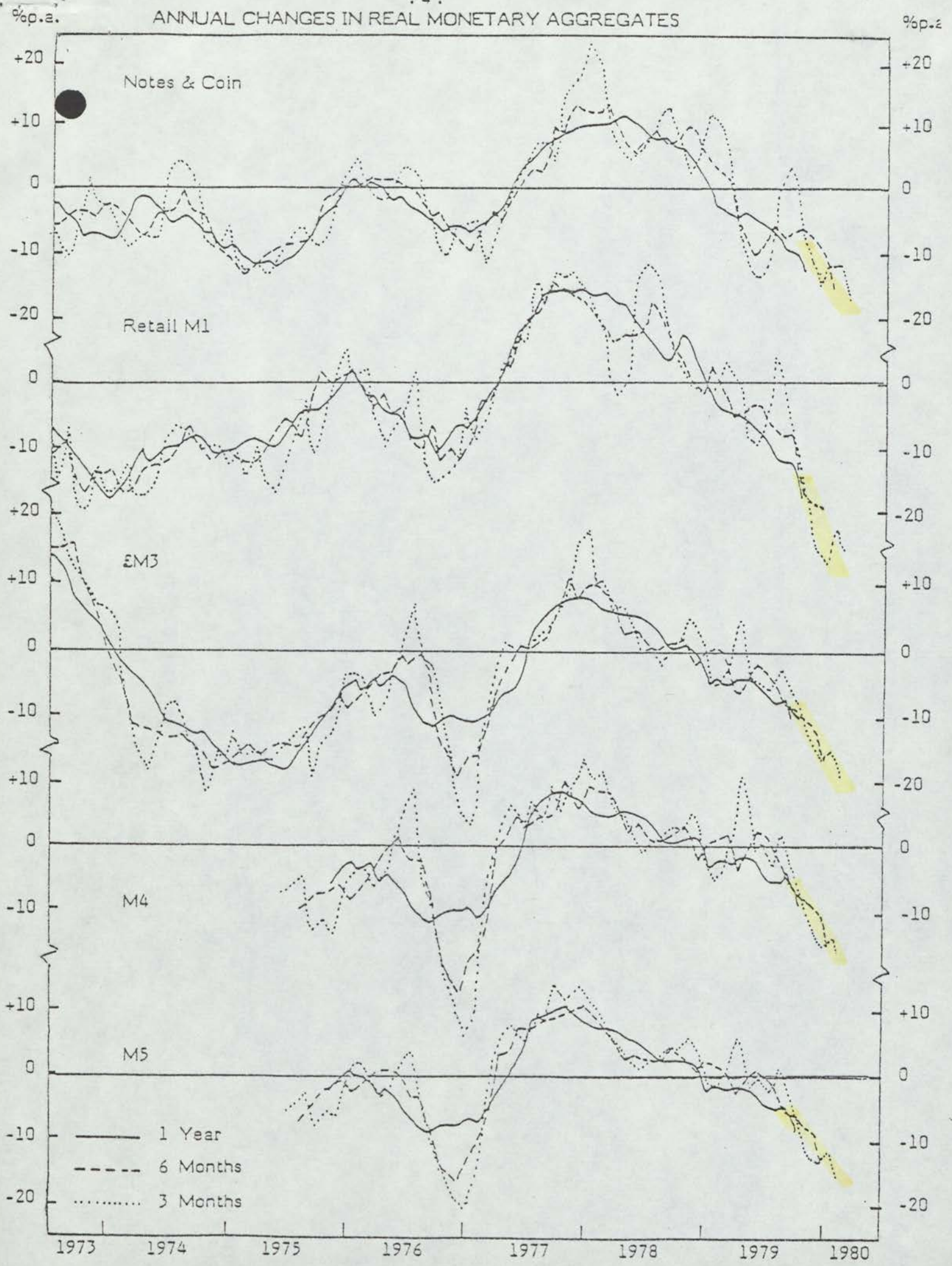
	<u>At mid-April, 1980</u>			<u>At mid-July, 1974</u>		
	<u>3 months</u>	<u>6 months</u>	<u>1 year</u>	<u>3 months</u>	<u>6 months</u>	<u>1 year</u>
Notes & coin	-17% p.a.	-14% p.a.	-12%	-8% p.a.	-8% p.a.	-8%
Retail M1*	-24% p.a.	-24% p.a.	-18%	-15% p.a.	-13% p.a.	-17%
Sterling M3	-18% p.a.	-14% p.a.	-11%	-15% p.a.	-12% p.a.	-1%
M4	-17% p.a.	-14% p.a.	-9%	n.a.	n.a.	n.a.
M5	-15% p.a.	-12% p.a.	-9%	n.a.	n.a.	n.a.

\*Data in 1974 are for M1 because those for Retail M1 are not available.





# ANNUAL CHANGES IN REAL MONETARY AGGREGATES





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## MONETARY BULLETIN

No. 106 June, 1980

Before the publication of the latest banking data, which disclosed buoyant growth of sterling M3 in the banking month to mid-May, we were becoming increasingly concerned that the monetary squeeze was becoming dangerously tight. Although the latest data have changed the situation somewhat, we are still concerned about the degree of financial pressure on the corporate sector.

The current target range for sterling M3 is 7% - 11% per annum. This range was originally set for the ten months between June 1979 and April 1980. It was reset in the March Budget to cover the fourteen months between February 1980 and April 1981.

### The background prior to the latest data

The monetary data for the banking month to mid-April showed that the growth of sterling M3 was just below the top end of the target range set in June 1979 and below the bottom end of the range set in February 1980. The period of slack growth started in the middle of October, the picture being altered only slightly if allowance is made for the so-called bill leak. Further, the squeeze in real terms, i.e. after allowing for inflation, was even more severe than in the middle of 1974. In short, the squeeze appeared to be tighter than the gradualist path advocated by most monetarists.

In spite of the tightness, the Government did not begin to reduce interest rates. Even the rapid fall of rates in the U.S. did not prompt a start in the U.K. This raised the question of whether the Government had abandoned the gradualist approach which was implicit in many of its earlier statements and explicit in the sequence of gradually falling target ranges set out in the Medium Term Financial Strategy.

### The Chancellor's speech

In a speech in the House of Commons on 7th May, during the debate on the Public Expenditure White Paper, the Chancellor added to the uncertainty about the Government's monetary strategy by stating that interest rates could not be allowed to fall whilst the excessive rate of growth of bank lending persisted. Later in the speech he stated that he did not want to be faced with having to increase interest rates again later this year, which a "premature" reduction in MLR would risk.

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The first of these statements was worrying because, relative to the business cycle, bank lending to the private sector is a lagging indicator; in contrast, the money supply is a leading indicator. Allowing interest rates to be determined by the behaviour of the money supply helps to smooth the business cycle. Determining them by bank lending would tend to magnify it. The Chancellor would be foolhardy if he overrode for long this automatic monetary stabiliser at a time when the Keynesian stabiliser of demand management is not being used and a worldwide recession is developing.

There was some reassurance soon after the Chancellor's speech from reports of non-attributable briefings to the press to the effect that the authorities had not changed from monetary to credit targets. The central government's borrowing requirement (CGBR) had been erratically low between mid-December and mid-April and was apparently expected to fluctuate in the opposite direction during the next month or so. The authorities apparently feared that bank lending would remain at the very high level of the previous few months; taken together with the large CGBR, this would have tended to produce excessive monetary growth once again. During the previous twelve months or so bank lending had, in fact, tended to fall when the CGBR rose (as people had to borrow less to pay taxes). From the press briefings, it appeared that the authorities wanted to make sure that this offset continued on a sufficient scale before they reduced interest rates. (The latest published data show that the authorities were right to be cautious about monetary growth in the banking month to mid-May.)

The second of the Chancellor's statements continues to be perturbing. His disinclination to run the risk of having to increase interest rates again later this year implies a desire to control both the money supply and interest rates. A basic rule is that both quantity and price cannot be controlled at the same time. If the money supply is to be controlled, interest rates must be allowed to fluctuate. If the authorities are unwilling to risk upward fluctuations, they are bound to reduce interest rates by too little, too late. The result will be an unnecessarily deep recession.

#### Monetary strategies

Last month it seemed possible that the Government was drifting into a most dangerous type of monetary policy. The following types of tight policy can be distinguished:

- (i) gradualism
- (ii) shock treatment and
- (iii) sustained pressure significantly more severe than gradualists advocate.

#### *Gradualism*

These Bulletins have consistently argued for continuous and gradual reductions in the growth of the money supply. They have argued against both excessive and inadequate monetary growth. The main reason for advocating the gradualist approach is the desire to avoid the Government suddenly being faced with a Hobson's choice of either allowing wholesale bankruptcies, the consequences of which cannot be predicted or controlled, or making a policy U-turn.



After the ravages of years of inflation, balance sheets are generally weak. Many companies can stand only a limited degree of financial pressure without going bankrupt. Individual bankruptcies can be tolerated, but not those which lead to chain reactions and "domino effects." The financial system as a whole should not be put under so great a financial pressure that individual bankruptcies will trigger uncontrolled chain reactions.

#### *Shock treatment*

The great disadvantage of the gradualist approach is that reducing inflation in this way can be a long drawn out process. There are doubts about whether people will be sufficiently patient to allow the policy to run its course. In order to avoid this drawback, some economists argue for shock treatment. It is claimed that inflationary expectations can be reduced quickly and, after this has happened, economic growth can be resumed.

If a Government decides to run the risk of shock treatment, the shock should be short and sharp. As far as the sharpness is concerned, the shock should be large to ensure that inflationary expectations are broken. It should also be very highly publicised, a whole package of measures being announced, and will be greater if the measures are unexpected. As far as the shortness is concerned, the shock should be very brief, so as to minimise the risk of chain reactions to bankruptcies.

The U.S. measures of 14th March were a good example of short, sharp shock treatment. Many Savings and Loans Associations were probably technically bankrupt on 15th March but, before they had time to declare it, interest rates had fallen sharply and their bankruptcy had disappeared.

#### *Sustained excessive pressure*

The third of the tight policies, namely sustained pressure significantly more severe than gradualists advocate, runs the greatest chance of an enforced policy U-turn. The monetary pressure involved is neither restricted to a level deemed to be safe nor is it of strictly limited duration.

It is important that the Government does not drift into this type of policy. Such a drift appeared possible last month and it cannot yet be ruled out.



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## MONETARY BULLETIN

No. 124. November 1981

### The imbalance between long and short term markets for credit

We have recently drawn attention to the rapid rise in the demand for finance and the vicious financial circle in which the UK has been trapped. There is a related problem, to which this Bulletin is addressed, namely the imbalance between long and short term financial markets. The ideas put forward in the conclusions starting half-way down page 4 are our contribution to finding the key to entering the virtuous circle.

#### Background

For about a decade, industry has raised only a small amount of long term finance. Historically, the bulk of its long term capital has been bond finance, with genuine risk capital being a comparatively minor source. Companies started to become unwilling to make long term bond issues when coupons reached 10%, with the cut-off becoming almost total when coupons rose through 12%. The risk to an issuer was considered to be too great; the burden, if inflation and interest rates were to fall, was unacceptable. (A rather similar phenomenon appeared in the US although the cut-off point was higher, probably because corporate bonds in the US are usually "callable", i.e. the issuer has the option to repay, albeit at a premium). During the last decade, therefore, companies have been obtaining from banks most of the finance which they would previously have raised by bond issues. In this sense, there has been a transfer in the demand for credit from the long to the short term market. Compared with the 1960s, the transfer is currently of the order of £2,000m per annum.

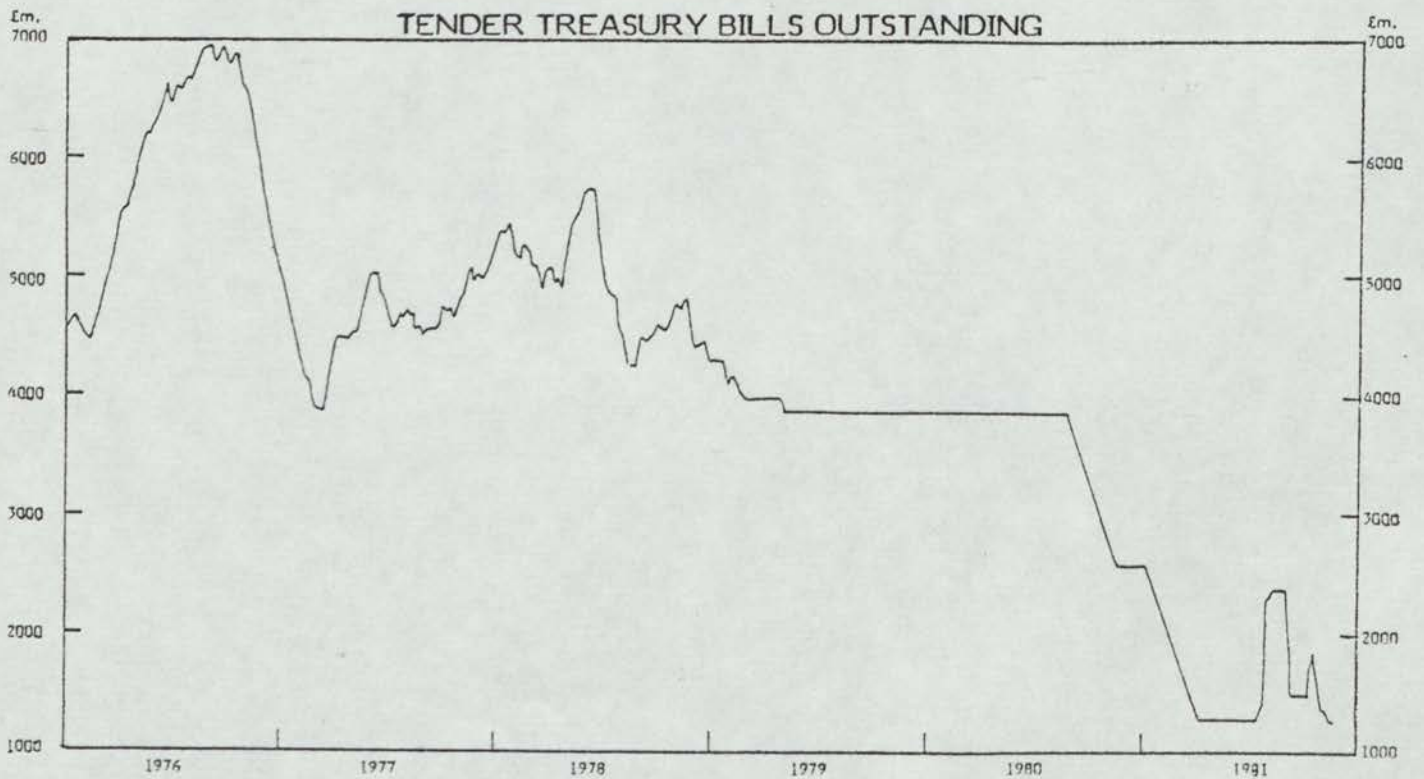
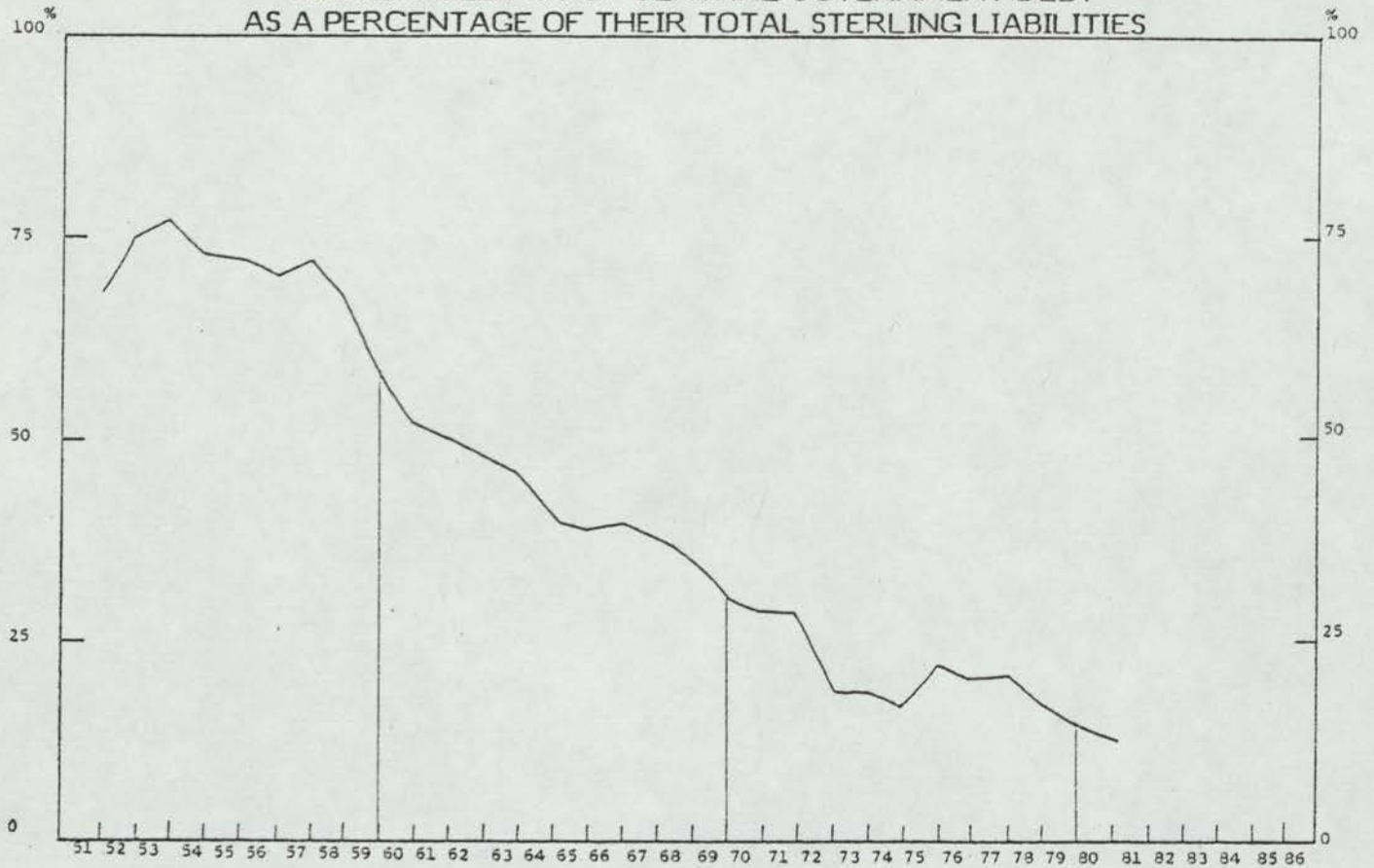
An important consequence of this transfer has been a tendency for banks' assets to grow rapidly. There has been, of course, a corresponding rise in liabilities, the bulk of which are deposits. As the deposits of UK residents are by far the largest component of sterling M3, there has been a clash between the control of the money supply and the banks' provision of finance to industry. It is, therefore, important to explore ways in which this clash can be resolved.

#### Responses within the banking system

The clash can be resolved within the banking system in three ways. Firstly, banks can run down their holdings of public sector debt. The growth of their total assets and of their demand for deposits is thereby curtailed. Banks have now been running down the relative importance of their holdings of central government debt for more than 25 years and to all intents and purposes they have none left. Being more precise, the holdings reached a working minimum in the summer of 1980 (when the Bank had to resort to export credits in order to make sale and repurchase agreements). Some leeway was subsequently created when the Bank allowed commercial bills to replace Treasury bills as reserve assets-cum-liquidity. The civil servants' dispute has masked the way in which this leeway has been used up. Banks' holdings of central government debt will again reach a working minimum in the coming tax paying season. The graphs on page 2 illustrate what has been happening.



### BANKS' HOLDINGS OF CENTRAL GOVERNMENT DEBT AS A PERCENTAGE OF THEIR TOTAL STERLING LIABILITIES





The second course of action open to the banks is to borrow from abroad. Such borrowings are excluded from the definition of the money supply so industry can be financed without the published data for the money supply increasing. For various reasons, however, it is probably imprudent to rely on banks' borrowing from abroad, for example, the sterling deposits of non-residents can be "hot money."

If the banks are to continue to meet the great bulk of industry's need for external finance, and at the same time if sterling M3 is to be controlled, there remains only one other possibility. The banks must enter the market for those longer term liabilities which lie outside the definition of sterling M3. Stripped to basics, the argument is that if banks are to continue providing medium term capital for industry they should match it, irrespective of whether the finance is at a fixed or floating rate, with longer term liabilities than at present. In the US banks have, to some extent, been encouraged to accept term deposits by the differential reserve requirements imposed by the Fed. With the present regulations in the UK, however, it is difficult to envisage how the Bank could encourage even this development.

#### Other private sector responses

If the banks cannot continue to be as dominant a financial intermediary for industry, what are the other solutions? There are three possibilities within the non-bank private sector. Firstly, the problem will disappear if an instrument can be designed which industry is prepared to issue and which life offices and pension funds, in particular, are prepared to buy. So far, nobody has managed to design such an instrument. The principal difficulty is that inflation is asymmetrical - what suits the issuer does not suit the long term investor.

In the summer of 1980 there was, in fact, an attempt to revive the corporate bond market. The Bank made only one long dated (over fifteen year) gilt-edged issue between mid-April and mid-September of that year. Long dated gilt-edged yields fell to  $12\frac{1}{2}\%$  in July; the sterling bulldog market was re-opened with a coupon of 13% on the first issue. If yields had fallen a little further and had remained there, companies would have started issuing bonds, the proceeds would have been used to repay bank loans and sterling M3 would have been reduced. A virtuous circle would have been entered; but it was not to be. Another attempt along these lines will not be worthwhile until long term interest rates fall significantly.

The second solution which bypasses the banks is to design an instrument which industry is prepared to issue and which the private investor is prepared to buy. Floating rate issues in general, and a public offer for sale of a drop-lock issue with a Stock Exchange quotation in particular, are designed to meet this need. The concept of a drop-lock appeals to issuers. A finance director can be asked at what level he would be prepared to make a long dated issue. A drop-lock can then be designed, i.e. an instrument which is initially a floating rate note but is automatically converted into a long dated fixed rate issue if yields fall to the relevant level.

A quoted drop-lock is also designed to appeal to the private investor. A margin above the full wholesale rate of interest is obtained. The investment is trouble-free in the sense that it does not have to be rolled over, as does a fixed term deposit. It can also be encashed quickly by selling it on The Stock Exchange. Finally, the conversion into a fixed rate bond limits the risk of the investor having a substantial fall in income.

These are the attractive features of the drop-lock for the private investor, although there are some snags. In the event, experience in the secondary market suggests that the distribution and retail network of the conventional markets is inadequate for floating rate and quoted drop-lock instruments to raise substantial funds from the personal sector.



The final possibility within the private sector is that a new type of financial institution should be founded to market new instruments. There could be UK versions of the US money market mutual funds (a US mutual fund is similar to a UK unit trust). UK law, however, continues to hinder the extension of unit trusts into the gilt-edged and money market fields. The law about double taxation and gilt-edged stocks was amended in last year's budget, but the situation with respect to investments in money market instruments is still unclear. The law could be clarified to encourage the development of money market mutual funds in the UK. The argument against this solution, however, is that it would be cosmetic; money market mutual funds are likely to be too similar to a deposit account or a CD, both of which are included in the definition of sterling M3, for any switch to them to reduce the inflationary potential of this way of financing industry.

### Public sector intermediaries

Having exhausted the private sector solutions, there remains a possibility of the public sector acting as the financial intermediary. Indeed, this is exactly what happens when the Bank of England acquires commercial bills or makes a loan to a discount house. Such transactions will, almost certainly, be the stop-gap solution in the coming months.

A longer term solution on similar lines is for the Bank to re-finance banks' industrial loans. Such a scheme would be similar to the original form of export and shipbuilding credits and would, therefore, raise the PSBR. The rise would, however, be of cosmetic rather than real significance and this solution has much to recommend it.

The only other public sector solutions involve a real rise in the PSBR; for example, an agency like the National Enterprise Board could be the financial intermediary. Solutions such as this are, presumably, unacceptable to the present Government.

### Conclusions

This Bulletin has drawn attention to the current imbalance between the long and short term markets for credit. It has, in particular, analysed the clash between industry obtaining the required amount of finance and the target for sterling M3.

Before setting out the main conclusions of the analysis, one further alternative should be considered, namely that the Government should stop trying to control sterling M3 and the broader definitions of the money supply. This would only be appropriate, in our view, if the authorities adopted a system of monetary base control. Under such a system the growth of broader liquidity can, to a considerable extent, be ignored because the Bank of England would not permit excessive encashment of liquidity.

Assuming that the Government is unwilling to adopt the monetary base solution, the best course of action at the moment would appear to be for the Bank of England to purchase commercial bills in the short run. Such purchases should be followed, if necessary, by the Bank refinancing industrial loans. The hope is that this would allow enough time for long term interest rates to fall to a level at which the corporate bond market would re-open.

Finally, the Government could take two types of action to accelerate the latter process. When interest rates fall close to the level at which the corporate bond market is likely to re-open, the availability of bank loans could be constrained. The aim should be to induce banks into encouraging their corporate customers to seek alternative forms of finance. In the meantime, fiscal action could be taken to prompt companies into making issues sooner rather than later. In the US, for example, tax law encourages companies to issue low coupon bonds, even zero coupon bonds; in this country such issues are discouraged by the difference between the redemption payment and the issue proceeds not being an



allowable expense. Companies can set up capital redemption funds to enable them to make such payments and tax law in the UK could be changed to permit the annual contributions to these funds to rank as an allowable expense.

Such a change would not, alone, have much impact. The special appeal of low coupon bonds is to investors who are taxed at a higher rate on income than on capital gains. Gilt-edged stocks are very attractive to such investors because they have a capital gains tax concession under which an investor is not subject to tax on gains on any stock held for longer than a year. If low coupon bonds are to raise substantial funds for companies, this concession would have to be extended to corporate bonds, although it could be restricted to long dated issues.

Some commentators may argue, correctly, that such changes in taxation would increase the PSBR. The reply is that firstly the overall effect would be to reduce sterling M3 and that secondly the proposed changes would promote financial efficiency by reducing existing distortions. These changes are good practical examples of supply side economics to which this Government has committed itself.

In general, the present capital gains tax concession is a classic example of the Government crowding out the private sector - government stocks have an attribute which is denied to the private sector. The Government also issues index-linked bonds (although only pension funds are allowed to purchase them). A fixed rate low coupon bond is, in fact, the closest in terms of the profile of cash flow that most companies can get to an index-linked issue, the open-ended liability of the latter being too risky. The coupon can be chosen so that the cost of servicing the fixed rate bond in the first years of its existence is similar to that for an index-linked bond. The present tax law discouraging companies from making such issues is, accordingly, another form of crowding out. Neither of these forms of crowding out should be allowed to continue.

#### The Exchequer's residual surplus and the money supply

In a Bulletin in September (No. 121) we introduced a new financial indicator, available on a weekly basis. It measures the Exchequer's residual surplus or deficit and approximates to the three central government components of sterling M3, namely the CGBR less sales of central government debt to the non-bank private sector less external and foreign currency finance accruing to the public sector. The main inaccuracy is the extent to which banks buy gilt-edged stock and the non-bank private sector buys Treasury bills.

It is important to note that this measure is not a reliable indicator of money supply growth because it does not include bank lending or most of the external component.

The main value of the new indicator is that it gives an early warning of unexpected changes in the central government components of sterling M3. Such a change occurred in the final two weeks of the October banking month. Press reports two months ago indicated that the CGBR was expected to be extremely high in banking October because, following the civil servants' dispute, VAT rebates would be made good ahead of VAT receipts. In the event, as the table at the top of page 6 shows, the sharp swing from a residual deficit of £690m in the first three weeks to a surplus of £1,000m in the last two weeks gave an early warning that the central government components of sterling M3 were not as high as had been expected. It was this which led some commentators to make low forecasts of monetary growth. However, higher than expected bank lending, a positive banking sector external component and very large other public sector net borrowing together caused sterling M3 to grow by £1,248m.



Exchequer's Residual Surplus

Week ending	23rd Sept.	-£	360m
	30th Sept.	-£	270m
	7th Oct.	-£	60m
	14th Oct.	+£	740m
	21st Oct.	+£	260m
			<hr/>
Banking October		+£	310m
			<hr/>

Turning to banking November, this is a month when the Government normally needs to borrow large amounts on seasonal grounds. The table below indicates, however, that the Exchequer had a residual surplus of £2,090m. This raises the possibility that the growth of sterling M3 in banking November will be low or, perhaps, even negative. It must be pointed out, however, that bank lending tends to be high whenever the CGBR is small or negative. The encouraging behaviour of the Exchequer's residual surplus may, accordingly, be offset by buoyant bank lending and other factors, as in banking October.

Exchequer's Residual Surplus

Week ending	28th Oct.	+£	140m
	4th Nov.	+£	220m
	11th Nov.	+£	560m
	18th Nov.	+£1,	170m
			<hr/>
Banking November		+£2,	090m
			<hr/>

Current monetary growth

In the five week banking month to 21st October, the seasonally adjusted behaviour of the monetary aggregates was as follows:

	<u>£m.</u>	<u>p.a.</u>
Currency	-16	-2%
Retail M1	-387	-17%
M1	-92	-3%
Sterling M3	1,248	20%
PSL1	961	15%
PSL2	1,358	12%
DCE	1,580	
Bank lending in sterling to the private sector	778	15%

The most striking feature of the published data is the degree to which the growth rates of the narrow and broad aggregates are divergent. This can also be seen in the growth rates over the longer term, which will now be reported regularly in a table immediately before the graphs at the back of these Bulletins.

The broader aggregates continue to be distorted upwards by the consequences of the civil servants' dispute. Thus, the Bank's press announcement indicates that in the month to mid-October the CGBR was inflated by between £750m and £1,000m, mainly because of an excess of VAT repayments over receipts of delayed taxes.



It is also notable that sterling M3 is continuing to grow faster than the broader aggregates PSL1 and PSL2. From the start of the current target period, for example, PSL2 has grown at an annual rate of 16%, four percentage points below that for sterling M3.

As is the case with the other narrow aggregates the monetary base has continued to grow very slowly. It has grown by 4% over the last year, 2% p.a. over the last six months and it is unchanged over the last three months.

GTP  
RLT  
RR



MONETARY GROWTH

In Nominal Terms

Percentage annual rates

Currency Retail M1 M1 Sterling M3 PSL1 PSL2

Changes in year to:

1980 Nov.	6	1	4	19	15	13
Dec.	5	3	7	20	17	14
1981 Jan.	7	3	5	19	15	13
Feb.	6	5	9	18	15	13
Mar.	6	4	7	18	14	13
Apr.	7	8	11	20	15	14
May	5	9	13	19	15	14
Jun.	6	9	12	19	13	14
Jul.	5	11	12	15	13	13
Aug.	6	10	10	14	13	13
Sept.	6	9	12	16	14	14
Oct.	5	7	9	15	13	13

forecast 1982 Apr

Changes in 6 months to:

1981 May	7	15	17	13	11	14
Jun.	8	12	11	12	9	13
Jul.	3	19	20	16	14	15
Aug.	4	10	11	18	16	15
Sept.	6	13	16	21	20	17
Oct.	3	1	5	19	17	15

forecast 1982 Apr

Changes in 3 months to:

1981 Aug.	3	3	1	15	14	12
Sept.	7	5	10	24	23	17
Oct.	8	-10	-4	21	19	15

In Real Terms

Changes in year to:

1980 Nov.	-9	-15	-12	3	-	-3
Dec.	-10	-12	-8	5	2	-1
1981 Jan.	-6	-10	-8	6	2	-
Feb.	-6	-7	-4	6	3	1
Mar.	-7	-9	-5	5	1	-
Apr.	-5	-4	-1	8	3	2
May	-6	-3	1	8	3	2
Jun.	-6	-3	1	7	2	2
Jul.	-6	-	1	4	2	2
Aug.	-6	-2	-2	3	2	2
Sept.	-6	-2	-	5	3	3
Oct.	-6	-5	-2	4	1	2

forecast 1982 Apr

Changes in 6 months to:

1981 May	-5	3	5	1	-1	2
Jun.	-5	-	-1	-	-3	1
Jul.	-9	7	8	4	2	3
Aug.	-8	-2	-1	6	4	3
Sept.	-6	1	4	9	8	5
Oct.	-10	-11	-8	7	4	2

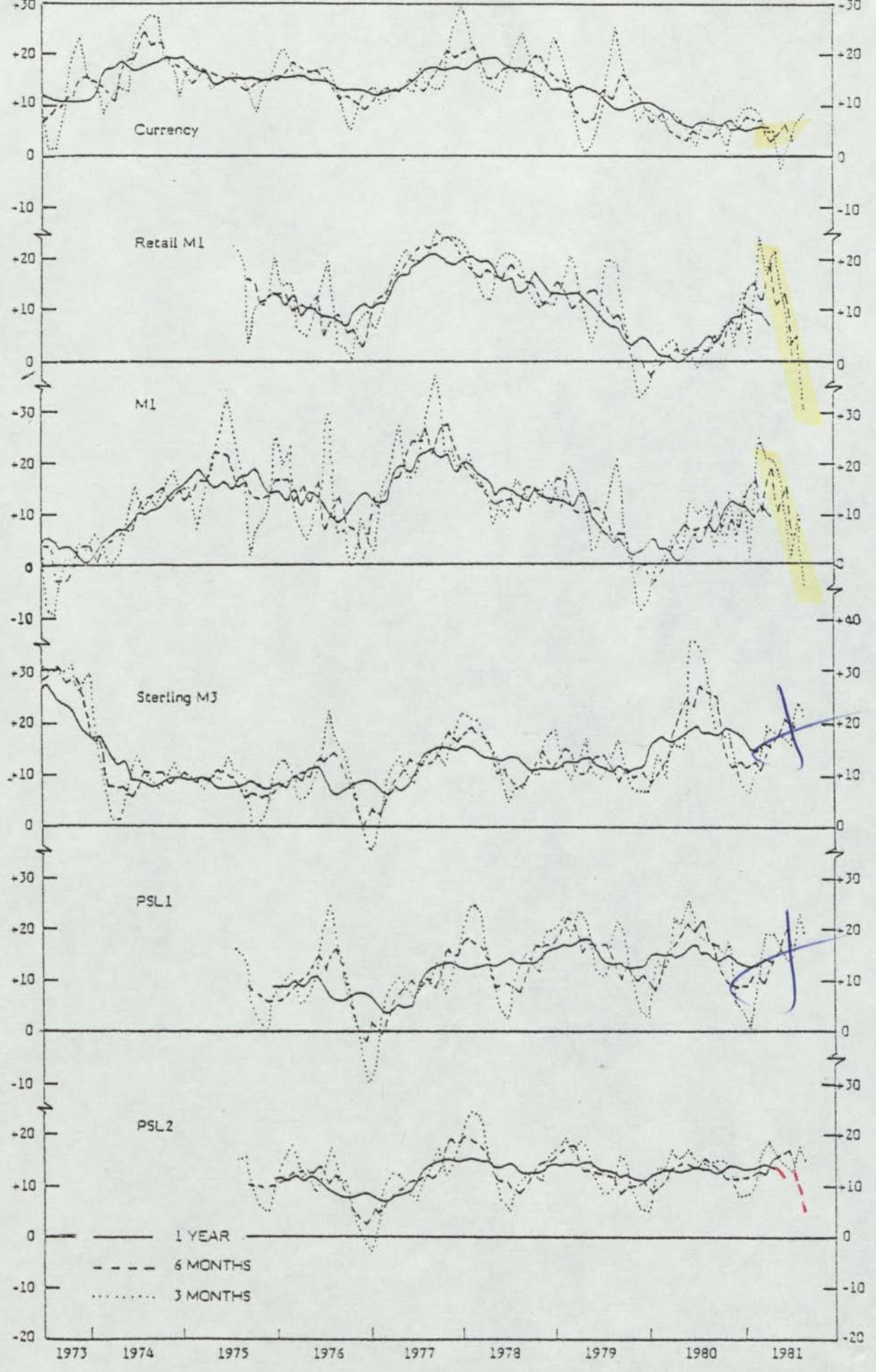
forecast 1982 Apr

Changes in 3 months to:

1981 Aug.	-9	-9	-11	3	2	-
Sept.	-5	-7	-2	12	10	5
Oct.	-5	-23	-17	8	6	2



CHART 1 MONETARY GROWTH IN NOMINAL TERMS %p.a.





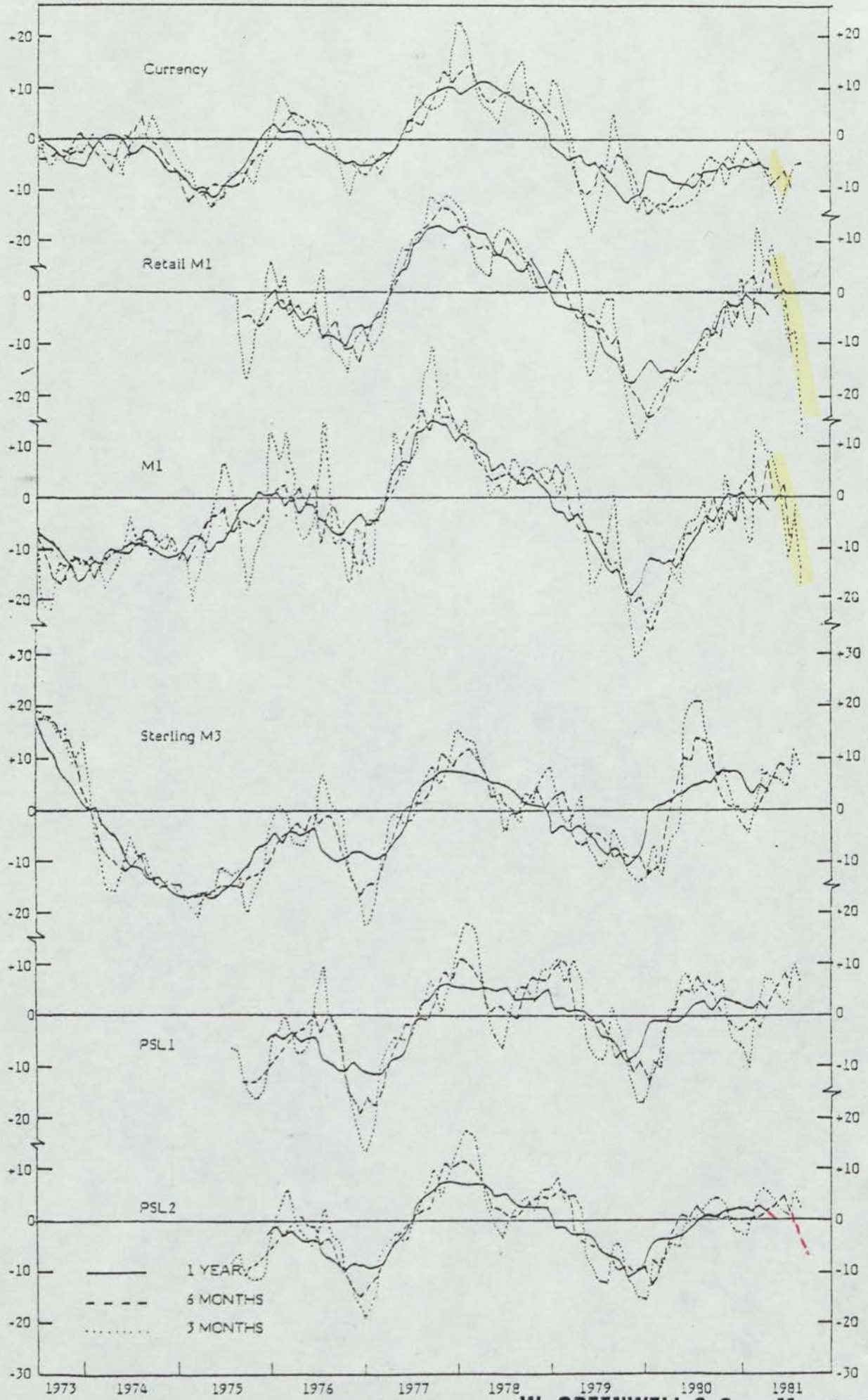




CHART 3

COMPONENTS OF MONETARY GROWTH

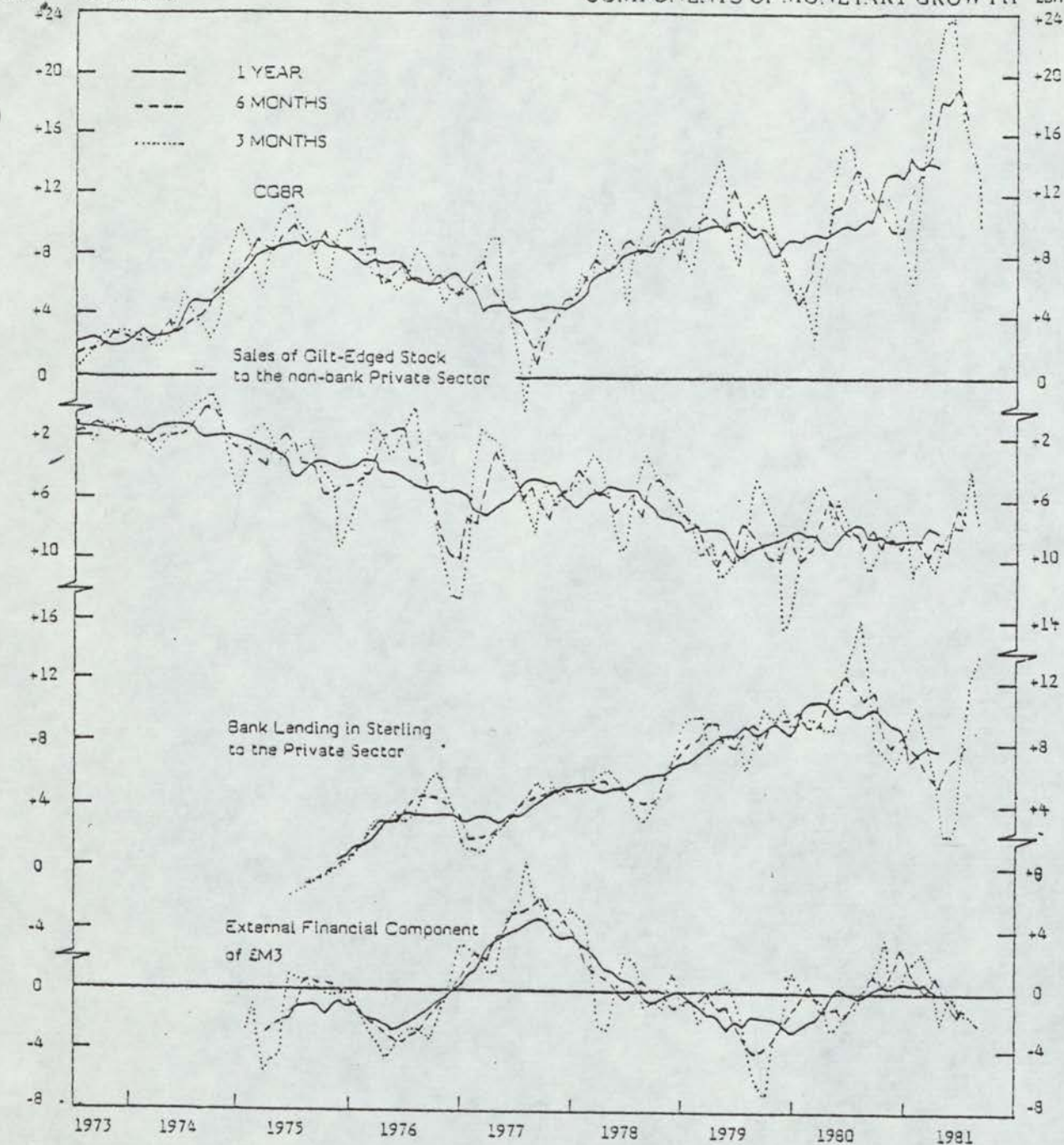
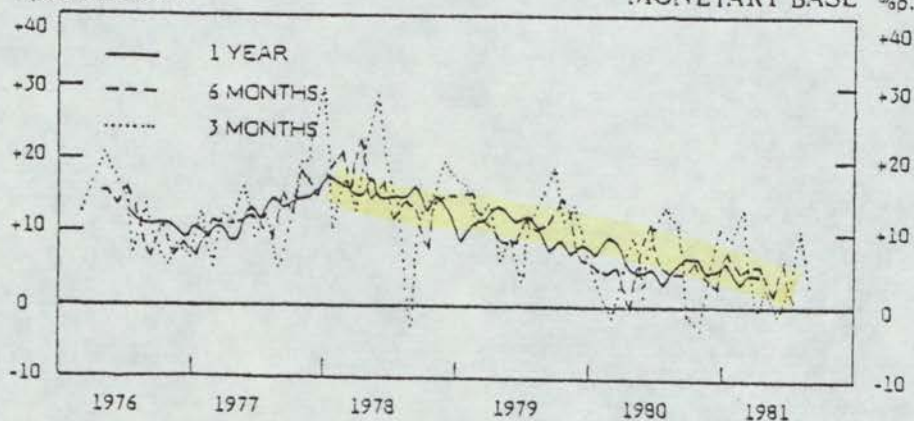


CHART 4

MONETARY BASE





# STATISTICS

reprinted from Bank of England, *Banking Statistics*

[Table 11.3 in the  
*Quarterly Bulletin*]

## Public sector borrowing requirement, domestic credit expansion and changes in money stock

£ millions

	Public sector borrowing requirement (surplus -)		Purchases (-) of public sector debt by UK private sector (other than banks)		Sterling lending to UK private sector [b]	Bank lending in sterling to overseas sector [c]	Domestic credit expansion [d]	External and foreign currency finance (increase -)			Net non-deposit liabilities (increase -) [e]	Money stock sterling M <sub>3</sub> [f]		
	Central government borrowing requirement	Other public sector contribution	Other public sector debt	Central government debt[a]				Public sector	Overseas sector sterling deposits [c]	Banks' foreign currency deposit liabilities (net) [e]				
													8	9
	1	2	3	4	5	6	7	8	9	10	11	12		
Month ended (unadjusted)														
1980 Oct. 15	+ 631	+ 405	- 1,081	+ 1,475	+ 234	+ 1,664	+ 462	- 327	+ 305	- 627	+ 1,477			
Nov. 19	+ 1,698	+ 79	- 964	- 192	+ 515	+ 1,136	- 138	- 182	+ 55	+ 223	+ 1,094			
Dec. 10	+ 1,896	- 193	- 703	+ 110	+ 236	+ 1,346	+ 279	- 144	- 456	- 39	+ 986			
1981 Jan. 21	- 789	+ 373	- 943	+ 1,344	- 156	+ 329	- 179	- 158	+ 79	+ 254	+ 325			
Feb. 18	+ 979	- 333	- 980	- 121	+ 403	- 52	+ 30	- 212	+ 276	+ 79	+ 121			
Mar. 18	+ 125	+ 198	- 1,387	+ 728	+ 611	+ 75	+ 247	- 253	- 192	- 80	- 203			
Apr. 15	+ 2,915	+ 228	- 1,147	+ 370	+ 323	+ 3,189	- 237	- 16	- 344	- 418	+ 2,174			
May 20	+ 1,963	+ 456	- 1,604	- 5	- 135	+ 675	- 32	- 82	+ 356	+ 70	+ 937			
June 17	+ 2,670	- 50	- 1,137	- 83	+ 292	+ 1,692	+ 45	- 314	- 387	- 576	+ 460			
July 15	+ 1,725	- 322	- 765	+ 1,541	+ 592	+ 2,771	- 371	- 513	+ 279	- 154	+ 2,012			
Aug. 19	+ 457	+ 254	- 1,057	+ 1,048	+ 156	+ 858	+ 2	- 721	+ 406	+ 64	+ 609			
Sept. 16	- 206	- 140	+ 437	+ 802	+ 450	+ 1,343	- 279	- 131	- 303	- 180	+ 450			
Oct. 21	+ 439	+ 866	- 1,365	+ 1,501	+ 461	+ 1,902	- 468	+ 447	- 363	- 248	+ 1,270			
Month ended (seasonally adjusted)														
1980 Oct. 15	+ 999	+ 229	- 974	+ 944	+ 234	+ 1,432		+ 352		- 182	+ 1,602			
Nov. 19	+ 984	+ 155	- 931	+ 312	+ 515	+ 1,035		- 330		+ 10	+ 715			
Dec. 10	+ 999	- 125	- 662	+ 472	+ 236	+ 920		- 232		- 132	+ 556			
1981 Jan. 21	+ 396	+ 329	- 1,005	+ 838	- 156	+ 402		- 200		+ 124	+ 326			
Feb. 18	+ 412	- 76	- 1,298	+ 549	+ 403	+ 90		+ 98		- 38	+ 150			
Mar. 18	+ 673	+ 184	- 1,719	+ 1,065	+ 611	+ 814		- 282		- 98	+ 434			
Apr. 15	+ 2,102	+ 128	- 892	+ 396	+ 323	+ 2,057		- 600		+ 103	+ 1,560			
May 20	+ 2,028	+ 501	- 1,415	+ 48	- 135	+ 1,027		+ 237		- 135	+ 1,129			
June 17	+ 1,659	+ 129	- 965	+ 51	+ 292	+ 1,166		- 593		- 391	+ 182			
July 15	+ 2,293	- 486	- 590	+ 408	+ 592	+ 2,217		- 480		- 173	+ 1,564			
Aug. 19	+ 272	+ 252	- 899	+ 1,464	+ 156	+ 1,245		- 338		- 82	+ 825			
Sept. 16	+ 1,227	+ 342	- 181	+ 1,212	+ 450	+ 2,466		- 766		- 181	+ 1,519			
Oct. 21	+ 914	+ 666	- 1,239	+ 778	+ 461	+ 1,580		- 469		+ 137	+ 1,248			

[a] Purchases (-) of central government debt by the UK private sector (other than banks) can be analysed by instrument as follows:

	Marketable debt		National savings		Tax instruments		Other [g]	Total (column 4 above)	
	Stocks	Treasury bills	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
Month ended									
1980 Oct. 15	- 816	- 1	- 46	- 51	- 219	- 107	+ 1	- 1,081	- 974
Nov. 19	- 710	- 12	- 6	- 22	- 221	- 172	- 15	- 964	- 931
Dec. 10	- 314	- 33	- 254	- 283	- 179	- 109	+ 77	- 703	- 662
1981 Jan. 21	- 786	+ 9	- 288	- 284	+ 124	+ 58	- 2	- 943	- 1,005
Feb. 18	- 613	- 5	- 465	- 467	+ 98	- 218	+ 5	- 980	- 1,298
Mar. 18	- 1,363	+ 18	- 424	- 424	+ 166	+ 34	+ 16	- 1,587	- 1,719
Apr. 15	- 510	- 59	- 421	- 363	- 123	+ 74	- 34	- 1,147	- 892
May 20	- 849	+ 79	- 741	- 732	- 97	+ 83	+ 4	- 1,604	- 1,415
June 17	- 836	- 29	- 281	- 293	- 18	+ 166	+ 77	- 1,137	- 965
July 15	- 194	+ 3	- 239	- 249	- 329	- 144	- 6	- 765	- 590
Aug. 19	- 833	- 69	- 197	- 199	+ 24	+ 184	+ 18	- 1,057	- 899
Sept. 16	+ 4	+ 19	- 179	- 174	+ 594	- 29	- 1	+ 437	- 181
Oct. 21	- 1,058	- 7	- 254	- 259	- 50	+ 81	+ 4	- 1,365	- 1,239

[b] Bank lending in sterling to the UK private sector (see page 6) plus issue Department's holdings of commercial bills.

[c] See page 6.

[d] Domestic credit expansion equals the sum of columns 1 to 6.

[e] Banks' foreign currency deposits from, less foreign currency lending to, UK and overseas residents (see page 6).

[f] Sterling M<sub>3</sub> equals domestic credit expansion plus columns 8 + 9 + 10 + 11 (see also page 7).

[g] Includes repayments (+) by the Fund for Banks for Savings (a central government fund) to the trustee savings banks.

### Symbols and conventions

- - not available.

- nil or less than £½ million.

-- figures above and below are not strictly comparable.

Owing to rounding of figures, the sum of the separate items will sometimes differ from the total shown.

Further notes and definitions on these tables are given in the *Quarterly Bulletin*.

Issued by the Financial Statistics Division, Bank of England, London EC2R 8AH.



## Money stock: amounts outstanding

£ millions

Month ended	Notes and coin in circulation with public		UK private sector sterling sight deposits		Money stock M <sub>1</sub> [b]		UK private sector sterling time deposits [c]		UK public sector sterling deposits		Money stock Sterling M <sub>3</sub> [b]		UK residents' deposits in other currencies [c]		Money stock M <sub>3</sub> [b]	
	1	2	3	4	5	6	7	8	9	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	
																Non-interest-bearing [a]
1980 Sept. 17	9,882	14,338	4,168	28,388	28,390	33,832	1,019	63,239	63,800	5,481	68,720	69,280				
Oct. 15	9,864	14,603	4,434	28,901	28,870	34,751	1,062	64,714	65,460	5,384	70,098	70,850				
Nov. 19	9,852	14,583	4,420	28,855	28,770	35,679	1,280	65,814	66,260	5,769	71,583	72,030				
Dec. 10	10,255	15,255	4,651	30,161	29,470	35,595	1,054	66,310	66,900	5,815	72,625	72,720				
1981 Jan. 21	9,885	14,211	4,603	28,699	29,300	36,634	1,739	67,122	67,310	6,519	73,641	73,830				
Feb. 18	9,953	14,704	4,560	29,217	29,690	36,804[d]	1,218[d]	67,239	67,540	7,182	74,421	74,720				
Mar. 18	10,042	14,845	4,511	29,398	29,560	36,419	1,223	67,040	68,010	7,678	74,718	75,690				
Apr. 15	10,499	15,826	4,911	31,236	31,010	36,677	1,303	69,216	69,570	8,063	77,279	77,640				
May 20	10,318	15,938	5,003	31,259	31,210	37,617	1,337	70,213	70,700	8,810	79,023	79,510				
June 17	10,273	16,047	4,757	31,077	31,060	38,337	1,259	70,673	70,850	9,609	80,282	80,460				
July 15	10,486	16,687	5,146	32,319	32,060	39,029	1,336	72,684	72,380	10,103	82,787	82,480				
Aug. 19	10,459	15,962	4,892	31,313	31,270	40,741	1,239	73,293	73,130	10,526	83,819	83,660				
Sept. 16	10,456	16,071	5,200	31,727	31,790	40,886	1,130	73,743	74,580	10,747	84,490	85,330				
Oct. 21	10,378	15,691	5,495	31,364	31,690	41,937	1,492	75,013	75,790	11,705	86,718	87,500				

[a] After deducting 60% of transit items (see additional notes to Table 6 of the Quarterly Bulletin).

[b] M<sub>1</sub> equals columns 1 + 2 + 3. Sterling M<sub>3</sub> equals M<sub>1</sub> + columns 5 + 6. M<sub>3</sub> equals sterling M<sub>3</sub> + column 8.

[c] Including UK residents' holdings of certificates of deposit.

[d] The changes in these items given in Table 11.2 for the four weeks ended 18 February do not equal the differences between the amounts outstanding. See footnote (b) to Table 6 on page 6.

Money stock: changes<sup>(a)</sup>

[Table 11.2 in the Quarterly Bulletin]

£ millions: percentages in italics

Month ended (unadjusted)	Notes and coin in circulation with public		UK private sector sterling sight deposits		Money stock M <sub>1</sub> [c]		UK private sector sterling time deposits [d]		UK public sector sterling deposits		Money stock Sterling M <sub>3</sub> [c]		UK residents' deposits in other currencies [d]		Money stock M <sub>3</sub> [c]	
	1	2	3	4	5	6	7	8	9	10	Transactions	Valuation changes [e]	Transactions	Valuation changes [e]		
															Non-interest-bearing [b]	Interest-bearing
1980 Oct. 15	- 16	+ 265	+ 266	+ 515	+ 919	+ 43	+ 1,477	- 44	- 53	+ 1,380						
Nov. 19	- 18	- 20	- 14	- 52	+ 928	+ 218	+ 1,094	+ 343	+ 42	+ 1,479						
Dec. 10	+ 393	+ 672	+ 231	+ 1,296	- 84	- 226	+ 986	- 15	+ 61	+ 1,032						
1981 Jan. 21	- 357	- 1,044	- 48	- 1,449	+ 1,039	+ 735	+ 325	+ 923	- 224	+ 1,029						
Feb. 18	+ 72	+ 493	- 43	+ 522	+ 120	- 521	+ 121	+ 289	+ 374	+ 784						
Mar. 18	+ 85	+ 141	- 49	+ 177	- 385	+ 5	- 203	+ 462	+ 34	+ 293						
Apr. 15	+ 455	+ 981	- 400	- 1,336	+ 258	+ 80	+ 2,174	+ 36	+ 349	+ 2,559						
May 20	- 191	+ 112	+ 92	+ 13	+ 940	+ 34	+ 987	+ 445	+ 302	+ 1,734						
June 17	- 45	+ 109	- 246	- 182	+ 720	- 78	+ 460	+ 454	+ 345	+ 1,259						
July 15	+ 214	+ 640	+ 389	+ 1,243	+ 692	- 77	+ 2,012	- 56	+ 550	+ 2,506						
Aug. 19	- 27	- 725	- 254	- 1,006	+ 1,712	- 97	+ 609	+ 148	+ 275	+ 1,032						
Sept. 16	- 3	+ 109	+ 308	+ 414	+ 145	- 109	+ 450	+ 232	- 11	+ 571						
Oct. 21	- 78	- 380	+ 295	- 163	+ 1,071	+ 362	+ 1,270	+ 783	+ 175	+ 2,238						
Month ended (seasonally adjusted)																
1980 Oct. 15	+ 23	+ 177	+ 266	+ 466	+ 1,102	+ 34	+ 1,602	+ 2,5	- 44	- 53	+ 1,505	+ 2,2				
Nov. 19	- 27	- 38	- 14	- 129	+ 884	+ 160	+ 715	+ 1,1	+ 343	+ 42	+ 1,100	+ 1,6				
Dec. 10	+ 29	+ 405	+ 231	+ 665	+ 4	- 113	+ 556	+ 0,8	- 15	+ 61	+ 602	+ 0,8				
1981 Jan. 21	+ 186	- 316	- 48	- 178	+ 303	+ 201	+ 326	+ 0,5	+ 923	- 224	+ 1,030	+ 1,4				
Feb. 18	+ 32	+ 387	- 43	+ 376	- 101	- 125	+ 150	+ 0,2	+ 289	+ 374	+ 813	+ 1,1				
Mar. 18	+ 34	- 120	- 49	- 135	+ 463	+ 106	+ 434	+ 0,6	+ 462	+ 34	+ 930	+ 1,2				
Apr. 15	+ 142	+ 909	+ 400	+ 1,451	+ 75	+ 31	+ 1,560	+ 2,3	+ 36	+ 349	+ 1,945	+ 2,6				
May 20	- 65	+ 168	+ 92	+ 195	+ 909	+ 25	+ 1,129	+ 1,6	+ 445	+ 302	+ 1,876	+ 2,4				
June 17	+ 43	- 59	- 246	- 144	+ 425	- 99	+ 182	+ 0,3	+ 454	+ 345	+ 981	+ 1,2				
July 15	- 40	+ 655	+ 389	+ 1,004	+ 392	+ 168	+ 1,564	+ 2,2	- 56	+ 550	+ 2,058	+ 2,6				
Aug. 19	- 69	- 596	- 254	- 781	+ 1,704	- 98	+ 325	+ 1,1	+ 148	+ 275	+ 1,248	+ 1,5				
Sept. 16	+ 145	+ 86	+ 308	+ 539	+ 1,031	- 1,7	+ 1,519	+ 2,7	+ 232	- 11	+ 1,740	+ 2,1				
Oct. 21	- 16	- 371	+ 295	- 92	- 1,194	+ 146	+ 1,248	- 1,7	+ 783	+ 175	+ 2,206	+ 2,6				

[a] Changes in the money stock may differ from those which can be calculated by reference to amounts outstanding (see additional notes to Table 11 of the Quarterly Bulletin).

[b] After deducting 60% of transit items (see additional notes to Table 6 of the Quarterly Bulletin).

[c] M<sub>1</sub> equals columns 1 + 2 + 3. Sterling M<sub>3</sub> equals M<sub>1</sub> - columns 5 + 6. M<sub>3</sub> equals sterling M<sub>3</sub> + column 8 - 9.

[d] Including certificates of deposit.

[e] See additional notes to Tables 6 and 11 of the Quarterly Bulletin.



UK banking sector: transactions in liabilities and assets<sup>(a)</sup>

£ millions

Month ended	Liabilities												
	Total	Domestic deposits									Overseas sector deposits		Non-deposit liabilities (net)
		Total		Public sector				Private sector		Sterling	Other currencies		
		Un-adjusted	Seasonally adjusted	Sterling		Other currencies	Sterling		Other currencies				
Un-adjusted	Seasonally adjusted			Un-adjusted	Seasonally adjusted		Un-adjusted	Seasonally adjusted		Sterling	Other currencies		
1980 Oct. 15	+ 5,178	+ 1,449	+ 1,535	+ 43	+ 34	+ 12	+ 1,450	+ 1,545	- 56	+ 327	+ 2,775	+ 627	
Nov. 19	+ 3,498	+ 1,455	+ 1,085	+ 218	+ 160	- 12	+ 894	+ 582	+ 355	+ 182	+ 2,084	- 223	
Dec. 10	+ 2,208	+ 578	+ 512	- 226	- 113	+ 10	+ 819	+ 640	- 25	+ 144	+ 1,447	+ 39	
1981 Jan. 21	+ 11,982	+ 1,610	+ 1,068	+ 735	+ 201	- 24	- 53	- 61	+ 952	+ 158	+ 10,468	- 254	
Feb. 18 <sup>(b)</sup>	- 633	+ 338	+ 407	- 521	- 125	+ 8	+ 570	+ 243	+ 281	+ 212	- 1,104	- 79	
Mar. 18	+ 4,925	+ 174	+ 862	+ 5	+ 106	+ 5	- 293	+ 294	+ 452	+ 253	+ 4,418	+ 80	
Apr. 15	+ 4,545	+ 1,755	+ 1,454	+ 80	+ 31	- 4	+ 1,639	+ 1,387	+ 40	+ 16	+ 2,356	+ 418	
May 20	+ 454	+ 1,623	+ 1,639	+ 34	+ 25	- 23	+ 1,144	+ 1,169	+ 468	+ 82	- 1,131	- 70	
June 17	+ 5,543	+ 959	+ 593	- 78	- 99	+ 5	+ 583	+ 238	+ 449	+ 314	+ 3,694	+ 576	
July 15	+ 5,431	+ 1,742	+ 1,548	+ 77	+ 168	+ 17	+ 1,721	+ 1,436	- 73	+ 513	+ 3,022	+ 154	
Aug. 19	+ 1,657	+ 784	+ 904	- 97	- 98	- 21	+ 733	+ 854	+ 169	+ 721	+ 216	- 64	
Sept. 16	+ 5,018	+ 685	+ 1,606	- 109	- 51	- 4	+ 562	+ 1,425	+ 236	+ 131	+ 4,022	+ 180	
Oct. 21	+ 4,993	+ 2,131	+ 2,047	+ 362	+ 146	+ 33	+ 986	+ 1,118	+ 750	- 447	+ 3,061	+ 248	

Month ended	Assets												
	Total	Lending to public sector						Lending to private sector				Lending to overseas sector	
		Total	Sterling		Other currencies	Sterling		Other currencies	Sterling	Other currencies	Sterling	Other currencies	
			Un-adjusted	Seasonally adjusted		Central government	Other						Un-adjusted
1980 Oct. 15	+ 5,178	+ 328	+ 583	+ 51	+ 277	- 175	+ 1,580	+ 1,049	- 7	+ 234	+ 3,218		
Nov. 19	+ 3,498	+ 769	+ 168	+ 731	+ 38	+ 10	- 268	+ 236	+ 13	+ 515	+ 2,459		
Dec. 10	+ 2,208	+ 1,015	+ 586	+ 1,146	- 131	- 122	- 19	+ 343	- 375	+ 236	+ 1,473		
1981 Jan. 21	+ 11,982	- 601	- 35	- 1,931	+ 330	- 20	+ 1,264	+ 258	+ 171	- 156	+ 11,324		
Feb. 18	- 633	+ 135	- 459	+ 327	- 192	+ 11	- 632	+ 138	- 115	+ 403	- 435		
Mar. 18	+ 4,925	+ 304	+ 751	- 34	+ 338	+ 10	- 678	- 341	+ 480	+ 611	+ 4,198		
Apr. 15	+ 4,545	+ 419	+ 39	+ 128	+ 291	- 6	+ 1,755	+ 1,281	- 14	+ 323	+ 2,068		
May 20	+ 454	+ 286	+ 397	- 117	+ 403	- 348	+ 683	+ 736	- 135	- 135	+ 98		
June 17	+ 5,543	+ 545	+ 265	+ 9	+ 536	- 441	+ 945	+ 1,079	+ 419	+ 292	+ 3,783		
July 15	+ 5,431	+ 130	+ 641	+ 9	- 139	- 84	+ 1,724	+ 591	- 62	+ 592	+ 3,391		
Aug. 19	+ 1,657	+ 593	+ 406	+ 565	+ 28	- 127	+ 138	+ 554	+ 409	+ 156	+ 438		
Sept. 16	+ 5,018	- 378	+ 467	- 619	+ 241	- 33	+ 995	+ 1,405	+ 108	+ 450	+ 3,876		
Oct. 21	+ 4,993	- 317	- 2	- 623	+ 306	+ 123	+ 1,368	+ 645	+ 244	+ 461	+ 3,114		

[a] The banking sector comprises all banks included in Table 3 together with the discount market and the Banking Department of the Bank of England. Inter-bank items are excluded and adjustments made to allow for transit items (see additional notes to Table 6 in the Quarterly Bulletin).

[b] The changes shown for public and private sector domestic deposits have been adjusted to exclude the effect of the transfer of British Aerospace from the public to the private sector with effect from 4 February; at the time of transfer, approximately £50 million of sterling and £13 million of other currencies were held on time deposit.

Components of private sector liquidity<sup>(a)</sup>

[Summary of Table 12 in the Quarterly Bulletin]

£ millions

Month ended	'Money'		Other money-market instruments		Savings deposits and securities			Certificates of tax deposit		PSL <sub>1</sub> <sup>(b)</sup>	PSL <sub>2</sub> <sup>(c)</sup>	
	Unadjusted	Seasonally adjusted	Total (net)	of which bank bills	Total (gross)	of which shares and deposits with building societies	Total (net)		Seasonally adjusted			
							Unadjusted	Seasonally adjusted	Gross	Net	Seasonally adjusted	Seasonally adjusted
	1	2	3	4	5	6	7	8	9	10	11	12
1980 Oct. 15	62,603	63,331	5,528	1,005	51,957	40,778	48,207	48,586	339	715	69,698	118,160
Nov. 19	63,539	64,025	5,147	836	52,335	41,096	48,430	49,051	1,013	859	70,185	118,082
Dec. 10	64,808	64,838	4,987	767	53,318	42,091	49,255	49,255	1,124	940	70,949	126,020
1981 Jan. 21	64,373	65,036	4,708	725	54,252	42,898	50,427	50,213	1,070	877	70,814	120,834
Feb. 18	65,106	65,494	4,228	494	54,659	43,120	51,112	51,143	1,293	1,113	71,015	124,978
Mar. 18	64,887	65,848	4,100	364	55,071	43,327	51,777	51,860	1,262	1,095	71,210	122,903
Apr. 15	67,009	67,404	4,579	427	55,565	43,636	52,364	52,541	1,188	1,025	73,171	125,549
May 20	67,984	68,514	4,589	426	56,005	43,959	52,762	53,137	1,105	937	74,208	127,177
June 17	68,543	68,794	4,492	515	57,126	44,989	53,804	53,674	939	766	74,225	127,726
July 15	70,486	70,160	4,357	543	57,806	45,579	54,450	54,152	1,083	907	75,600	129,576
Aug. 19	71,242	71,065	4,497	625	57,897	45,636	54,472	54,412	899	723	76,461	130,697
Sept. 16	71,823	72,596	4,432	515	58,259	45,910	54,340	54,818	928	752	77,956	132,598
Oct. 21	72,752	73,679	4,393	447	58,581	46,162	55,142	55,215	845	669	78,917	133,956

[a] An article introducing and explaining the full table of the components of private sector liquidity appeared in the September 1979 Quarterly Bulletin; see also additional notes to subsequent issues.

[b] PSL<sub>1</sub> equals columns 2 + 3 + 9.

[c] PSL<sub>2</sub> equals columns 2 + 3 + 8 + 10.