

# MONETARY BASE CONTROL

## PART 13

18 October 1983 – 2 November  
1983

File 1/10  
B8

FROM: D L WILLETTS  
DATE: 18 OCTOBER 1983

MR CASSELL

cc: Mr Middleton  
Sir T Burns  
Mr Monck  
Mr Lankester  
Mr Sedgwick  
Mrs Loxax  
Mr O'Donnell  
Mr Willoughby

#### PUBLISHED INFORMATION ON THE MONETARY BASE

At your meeting yesterday you pointed out that information on the monetary base is published weekly in the Bank return showing the accounts of the Issue Department and Banking Department. The Return gives the accounts for close on Wednesday, is published on Thursday, and appears in an obscure part of Friday's Financial Times.

2. I attach as an example the weekly return for 17 August, the last day of banking August, which is the last month for which full money and banking figures have been published. The Return shows the total note issue in circulation (a liability of the Issue Department) and total Bankers' Deposits (a liability of the Banking Department). This is very close to giving the monetary base figures published on a monthly basis in the full money and banking figures (those for the 17 August are also attached). The Bank Return figures differ from those for the monetary base in two main respects, but in both cases the discrepancy is stable and predictable, and could easily be allowed for by anyone familiar with the figures:-

(i) The coinage is not a liability of the Bank of England and is therefore not reported in the weekly Return, but is included as one of the liabilities of the monetary authorities. The gap between the two measures is pretty stable with the value of the coinage standing at around £900 million until the issue of the £1 coin which took it up over £1 billion. But apart from this step change the figure only changes by £10 million or £20 million a month.

22/86

(ii) The Bank Return includes all Bankers' Deposits without distinguishing between operational deposits and cash ratio deposits: it is only the former which count towards the monetary base. Cash ratio deposits only change every few months and then on an easily calculable basis.

3. We will presumably wish to avoid getting involved in the business of commenting on weekly monetary base figures, but we may find some outside commentators directing attention to them.

*D L Willetts*  
D L WILLETTS

# BANK OF ENGLAND

Wednesday the 17th day of August 1983

## ISSUE DEPARTMENT

	£		£
Notes Issued:		Government Debt	11 015 100
In Circulation	11436 430 153	Other Govt. Securities	5382 969 144
In Banking		Other Securities	6046 015 756
Department	3 569 847		
	<hr/>		<hr/>
	11440 000 000		11440 000 000

## BANKING DEPARTMENT

	£		£
Capital	14 553 000	Govt. Securities	405 815 857
Public Deposits- including Exchequer, National Loans Fund, National Debt Commissioners and Dividend Accounts	42 185 651	Advances and Other Accounts	1136 507 156
Special Deposits	615 250 259	Premises, Equipment and Other Securities	983 314 956
Bankers' Deposits		Notes	3 500 847
Reserves and Other Accounts	1917 389 793	Coin	170 827
	<hr/>		<hr/>
	2580 378 703		2580 378 703

Dated the 18th day of August 1983

W.B.MOULE, Deputy Chief Cashier

Extract from Banking Statistics  
Dated 17 August 1983

### Liabilities of the monetary authorities

£ millions: seasonally adjusted figures in italics

	Notes and coin in circulation outside the Bank of England				Liabilities of the Banking Department				Wide monetary base (sub-total of columns 1, 2 and 3)	
	In circulation with the public		Held by banks (till money)		Bankers' deposits		Special deposits	Other liabilities		
	1	2	3	4	5	6	7			
Amounts outstanding										
1982 July 21	10.867	<i>10.511</i>	991	<i>1.025</i>	211	393	—	1,873	12,069	<i>11,747</i>
Aug 18	10.750	<i>10.598</i>	949	<i>1.054</i>	121	393	—	1,930	11,820	<i>11,773</i>
Sept 15	10.788	<i>10.680</i>	888	<i>979</i>	274	391	—	1,943	11,950	<i>11,933</i>
Oct 20	10.702	<i>10.687</i>	885	<i>988</i>	230	391	—	2,042	11,817	<i>11,905</i>
Nov 17	10.760	<i>10.760</i>	874	<i>986</i>	204	436	—	2,065	11,838	<i>11,950</i>
Dec 8	11.196	<i>10.832</i>	945	<i>1.016</i>	211	436	—	2,107	12,352	<i>12,059</i>
1983 Jan 19	10.825	<i>10.899</i>	889	<i>984</i>	135	436	—	3,572	11,849	<i>12,018</i>
Feb 16	10.965	<i>11.049</i>	833	<i>958</i>	101	436	—	4,500	11,899	<i>12,108</i>
Mar 16	11.103	<i>11.133</i>	786	<i>925</i>	192	436	—	4,109	12,081	<i>12,250</i>
Apr 20	11.194	<i>11.157</i>	821	<i>892</i>	137	435	—	2,045	12,152	<i>12,186</i>
May 18	11.263	<i>11.177</i>	853	<i>952</i>	96	468	—	2,076	12,212	<i>12,225</i>
June 15	11.348	<i>11.296</i>	877	<i>1,001</i>	223	468	—	2,137	12,448	<i>12,520</i>
July 20	11.621	<i>11.265</i>	959	<i>995</i>	118	468	—	2,031	12,698	<i>12,578</i>
Aug 17	<b>11.527</b>	<i>11.256</i>	<b>948</b>	<i>946</i>	<b>148</b>	468	—	1,974	12,623	<i>12,550</i>
Changes in month ended										
1982 Aug 18	- 117	+ 89	- 42	+ 28	- 90	—	—	+ 57	- 249	- 27
Sept 15	+ 38	+ 84	- 61	- 76	+ 153	- 2	—	+ 13	+ 136	+ 161
Oct 20	- 86	+ 8	- 3	+ 9	- 44	—	—	+ 99	- 133	- 27
Nov 17	+ 58	+ 74	- 11	- 3	- 26	+ 45	—	+ 23	+ 21	+ 45
Dec 8	+ 436	+ 73	+ 71	+ 30	+ 7	—	—	+ 42	+ 514	+ 110
1983 Jan 19	- 371	+ 68	- 56	- 33	- 76	—	—	+1,465	- 503	- 41
Feb 16	+ 140	+ 150	- 56	- 26	- 34	—	—	+ 928	+ 50	+ 90
Mar 16	+ 138	+ 85	- 47	- 33	+ 91	—	—	- 391	+ 182	+ 143
Apr 20	+ 91	+ 26	+ 35	- 33	- 55	- 1	—	-2,064	+ 71	- 62
May 18	+ 89	+ 41	+ 32	+ 59	- 41	+ 33	—	+ 31	+ 80	+ 59
June 15	+ 65	+ 99	+ 24	+ 49	+ 127	—	—	+ 61	+ 216	+ 275
July 20	+ 273	- 30	+ 82	- 6	- 105	—	—	- 106	+ 250	- 141
Aug 17	- 94	- 7	- 11	- 50	+ 30	—	—	- 57	- 75	- 27

[Table 2 in the Quarterly Bulletin]

FROM: D K WILLOUGHBY  
DATE: 26 OCTOBER 1983

MRS LOMAX

cc Mr Cassell  
Mr Mowck  
Mr Lankester  
Mr Sedgwick  
Mr O'Donnell  
Mr Willetts

PUBLISHED INFORMATION ON THE MONETARY BASE

In his minute of 18 October David Willetts set out how outside commentators could monitor movements in the monetary base by making use of the weekly Bank Return. I thought you might like to see how the calculation would look operationally, on the basis of banking October.

2. The Bank Return for the October make-up day (19th) appeared in the Financial Times, as usual, on the following Friday. A comparison between this and the Return for 21 September produces the following results:-

	<u>21 Sept</u>	<u>19 Oct</u>	<u>Change</u>
Notes Issued - In circulation	11,388	11,347	- 41
Bankers' Deposits	616	602	- 14
Total			- 55 *

3. There remain three further factors to take into account:-

(i) Coin

Because coin is not a liability of the Bank of England it does not appear on the Bank Return. With the advent of the £1 coin outside observers might allow, say, £10 million for the increase in coin in circulation.

(ii) Bankers' balances

It is clear from published information on the liabilities of the monetary authorities that the regular adjustments to cash ratio deposits occur in November and May; the change in such balances this month would therefore be attributed to "operational" deposits which form part of MO.

(iii) Seasonal adjustment

Attention is focussed mainly on the seasonally adjusted change in MO. Both notes and coin with the public and banks' till money

are seasonally adjusted within M0. The provisional seasonal movement for notes and coin with the public is given for the forthcoming banking month at the end of the Bank's money and banking statistics press notice (see copy attached). The seasonal on till money is not published in advance, but it is possible to get some idea of the size and direction of the adjustment by looking at the corresponding banking month in previous years. In the most recent three years the seasonal factor on till money in banking October has been - 12, - 11 and + 12, so a forecast of flat would be realistic. (The actual adjustment is - 4.)

4. Bringing together the data from the Bank Return and the adjustments outlined above produces the following:-

	<u>Change on month</u>		
	<u>unadjusted</u>	<u>seasonal</u>	<u>seasonally adjusted</u>
Notes with public	- 41 *	+ 40	- 1
Banks' till money		-	
Coin	+ 10	-	+ 10
Bankers' balances	<u>- 14</u>	<u>-</u>	<u>- 14</u>
M0	<u>- 45</u>	<u>+ 40</u>	<u>- 5</u>

5. On this basis outside commentators would conclude that M0 was unchanged (in seasonally adjusted terms) leaving growth over the target period of 6.7% (annual rate). We should have some idea of the robustness of such a forecast later this week when the Bank's "first estimate" is available.

*D & Willoughby*  
D K WILLOUGHBY

\* The split between notes and coin held by the public and till money can only be derived from the statistical returns sent to the Bank.

**BANK RETURN**Wednesday  
September 21 1983Increase (+) or  
Decrease (-)  
for week**BANKING DEPARTMENT**

	£	£
<b>Liabilities</b>		
Capital.....	14,553,000	—
Public Deposits.....	35,433,859	+ 1,241,951
Bankers Deposits.....	616,412,672	— 27,288,244
Reserve and other Accounts.....	1,593,339,896	+ 6,669,372
	2,259,739,427	— 19,376,921
<b>Assets</b>		
Government Securities.....	388,440,858	— 87,969,999
Advances & other Accounts.....	998,374,028	+ 130,552,540
Premises Equipment & other Secs.	860,547,750	— 63,280,412
Notes.....	12,205,055	+ 1,224,257
Coin.....	171,736	— 3,307
	2,259,739,427	— 19,376,921

**ISSUE DEPARTMENT**

	£	£
<b>Liabilities</b>		
Notes issued.....	11,400,000,000	— 40,000,000
In Circulation.....	11,387,794,945	— 41,224,257
In Banking Department.....	12,205,055	+ 1,224,257
<b>Assets</b>		
Government Debt.....	11,015,100	—
Other Government Securities.....	4,051,133,010	— 634,661,529
Other Securities.....	7,337,851,890	+ 594,661,529
	11,400,000,000	— 40,000,000

**BANK RETURN**Wednesday  
October 19 1983Increase (+) or  
Decrease (-)  
for week**BANKING DEPARTMENT**

	£	£
<b>Liabilities</b>		
Capital.....	14,553,000	—
Public Deposits.....	37,912,789	— 301,520
Bankers Deposits.....	602,388,548	— 95,925,009
Reserve and other Accounts.....	1,563,152,455	— 61,475,459
	2,218,006,792	— 158,712,088
<b>Assets</b>		
Government Securities.....	458,355,857	— 320,000
Advances & other Accounts.....	854,088,423	— 93,557,035
Premises Equipment & other Secs.	892,207,063	— 67,344,188
Notes.....	12,580,498	+ 2,499,876
Coin.....	179,951	+ 9,260
	2,218,006,792	— 158,712,088

**ISSUE DEPARTMENT**

	£	£
<b>Liabilities</b>		
Notes issued.....	11,360,000,000	— 20,000,000
In Circulation.....	11,347,419,502	— 82,499,876
In Banking Department.....	12,580,498	+ 2,499,876
<b>Assets</b>		
Government Debt.....	11,015,100	—
Other Government Securities.....	5,694,459,157	— 159,511,302
Other Securities.....	7,654,525,743	+ 139,511,302
	11,360,000,000	— 20,000,000



investments by £370 million. Bank bills held outside the banking system fell by £210 million. Foreign currency lending by banks to the private sector rose by £130 million in transactions terms.

6 External and foreign currency finance, seasonally adjusted, was expansionary by £270 million. Net non-deposit liabilities, seasonally adjusted, rose by £930 million (see above).

7 Table 4 shows details of the discount market's balance sheet. The usual details of the banks' balance sheets (Table 3) have been omitted on this occasion: the table will reappear in the December 1983 Quarterly Bulletin (and subsequent monthly press releases), expanded to cover the whole of the monthly-reporting population\* (apart from the discount market), and with some alterations in the composition of the groups of banks.

8 Transactions of the UK monetary sector during the month, excluding interbank items and valuation changes on foreign currency items, are given in Table 6.

#### Estimated seasonal movements - banking October 1983

9 The provisional seasonal movements for the four weeks ended 19 October 1983 are as follows:

	£ million
Notes and coin	- 40
Private sector sight deposits	<u>+470</u>
M1	+430
Other sterling deposits (including CDs held by UK residents)	<u>-600</u>
Sterling M3	<u>-170</u>
Bank lending in sterling to the private sector	+460

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

BANK OF ENGLAND  
20 October 1983

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\*Hitherto the Banking Department of the Bank of England and the trustee savings banks have not been included in Table 3.

FROM: D K WILLOUGHBY  
DATE: 2 NOVEMBER 1983

MRS LOMAX -

cc: Sir T Burns  
Mr Cassell  
Mr Lankester  
Mr Monck  
Mr Sedgwick  
Mr O'Donnell  
Mr Willetts  
Mr Wynn-Owen

I am afraid that the first part of this note has been overtaken by events (your note on the fact that Reuters had cottoned on to the Bank Return); but paras 3 and 4 are still topical. *D. Willoughby*.

*ja.*

PUBLISHED INFORMATION ON THE MONETARY BASE

... Please see the attached side-lined extract from the latest Greenwell's Bulletin.

2. Although there is no source reference, I think it is pretty clear that Greenwell's have been doing their homework on the Weekly Bank Return. Past experience has shown Greenwell's (and Gordon Pepper in particular) to be adept at grasping the implications of the Bank Return data - although the calculation of Mo itself is not particularly demanding!

Mo in banking September

3. My note to you of 3 October argued that the seasonal on Mo for banking September looked very odd and contributed to the sharp rise (+2.3 per cent). As you know we pressed the Bank on this at the time, and especially so when it became clear that the Chancellor would be referring to Mo in the Mansion House Speech. We were assured that the methodology had been checked and that there was no reason to change the seasonal factor for September.

4. In one of their papers for Mr Lankester's meeting tomorrow, the Bank have now admitted that there was an error of £150 million in the September seasonal, fully offset in August. The monthly percentage changes become +1.0 per cent and +1.1 per cent for August and September respectively, rather than -0.2 per cent and +2.3 per cent. The only consolation is that we had assumed that any offset to the eventual correction of <sup>the</sup> September figure would affect the

earlier part of the target period and that the cumulative growth to September was not likely to be misleading.

*DK Willoughby*  
DK WILLOUGHBY

In last month's Bulletin we concluded that the period of excessive monetary growth was clearly ending, that the narrower aggregates might even have been starting to undershoot and that the stage where real monetary growth was clearly inadequate had not yet been reached, but that the latest trend was in that direction.

The latest figures confirm that monetary growth is no longer excessive. The record £1,747m sales of gilt-edged stock to the non-bank private sector ensured that all but the narrowest aggregates fell or grew very slowly. Sterling M3 is now clearly within the target range.

The narrower aggregates are no longer signalling a developing tendency to undershoot. This removes for the time being what might have been an important source of pressure on the authorities to countenance or encourage a further fall in short term interest rates. M1, as the Chancellor indicated in his Mansion House speech last week, should be discounted because it is less and less a measure of transactions related balances. Retail M1 is behaving satisfactorily. M0, even after its sharp rise in the month to mid-September, has nevertheless increased at a rate of only 6% p.a. over the last six months (see Chart 4 in the regular section at the end of this Bulletin).

There is a qualification, however, because the preliminary indications for banking October are that M0 did not rise and may have fallen slightly. It may, therefore, be premature to conclude that the tendency to undershoot has entirely disappeared.

The trend to lower monetary growth in real terms has continued. On a six and twelve month basis this rate is now very close to the 4% which we last month suggested would be regarded by the authorities as a tolerable underlying level.

One factor is distorting sterling M3 downwards a little. Public sector deposits, which are included only in sterling M3 and in no other monetary aggregate, have fallen by some £180m over the last four months. Beginning four months ago, however, local authorities and public corporations have been able to deposit funds with the central government at market rates of interest. Such deposits would reduce both the CGBR and sterling M3. The effect up to now is probably not very large in total, but it may be large in a particular month.

Bank lending in sterling to the private sector rose by £880m in banking September, but the seasonal adjustments did not allow for some £300m of interest debits that occurred before the make-up. True bank lending was therefore lower than the reported figure. This does not imply a distortion to sterling M3, however, because there was an equal and opposite effect on banks' non-deposit liabilities.

### Public Expenditure and the PSBR

The current debate about public expenditure and the public sector borrowing requirement (PSBR) is being carried on within at least three timescales. Markets are obviously most concerned about developments during the current financial year. The negotiations between the Treasury and the main spending departments, which will shortly be concluded, refer to the public expenditure plans for 1984/5. The discussion of the longer term, which arises from the widely reported leaked Treasury studies, relates to 1990/1. Given the extreme uncertainties which inevitably surround the last of these timescales, this part of the Bulletin will concentrate on the near future.