

CONFIDENTIAL

*Domestic
Monetary Policy*

2

Econ Pd

PRIME MINISTER

SEPTEMBER BANKING FIGURES

I received from the Treasury this evening provisional figures for banking in September, which will be published the Tuesday after next. Sterling M3 went up by about 3%; bank lending to the private sector fell back to about £500 million; and the GGBR was about £1.1 billion (which is more or less in line with the forecast which the Treasury gave you in their last note after adjustment for seasonal factors and conversion from calendar to banking month). The M3 figure must have included some continued re-intermediation, so that the underlying growth must have been lower. The broader aggregate known as PSL1, which excludes the bill leak distortion, went up by only 0.1%.

This is better, and it should mean that we will not be driven into any "crisis action" before the Party Conference; it will also make your speech for the Conference easier.

But the position - taking the first six months of the financial year - still remains very difficult; and important decisions will be needed in October. First, there is the monetary base question; second, the possibility of raising more from the personal sector by extending "granny bonds" and by other possible instruments; and third, the rolling forward of the monetary target and the possible need for further public expenditure cuts and/or tax changes.

The Treasury are working flat out on all this; on monetary base, for example, they have set up a special task force, bringing in people from other Divisions, and from conversations I have had with Peter Middleton and Terry Burns, I think they are determined to get some changes in the way the Bank controls the clearers. The worry is that the Bank dig their heels in; if they do, we will be faced with the difficult decision of whether to insist on changes, given that they have to operate the system.

CONFIDENTIAL /The Treasury

CONFIDENTIAL

- 2 -

The Treasury are preparing papers on the three issues mentioned; also a paper on the underlying economic situation and further notes on the draft exchange rate and the PSBR as a follow up to your last meeting.

It seems best if we consider all this at one long meeting - since the issues are all inter-related. Clive is suggesting in the Business Note that we set aside the whole afternoon of Monday, 13 October.

You are seeing the foreign participants in the monetary base seminar on Tuesday afternoon. Attached at Flag A is a useful summary article on the monetary base issue; at Flags B and C are notes on monetary policy in the countries represented by the foreign participants, including Switzerland.

T. Conroy
Duty Clerk
PP TL

c. Mr. Whitmore
Mr. Wolfson
Mr. Hoskyns
Mr. Vereker

26 September 1980

CONFIDENTIAL