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PRIME MINISTER

MONETARY SITUATION

You ought to know that the monetary figures for December are likely to show that the improvement shown in the November figures has been maintained.

2. The eligible liabilities figures will be published tomorrow, Tuesday 8th. They show a fall of 1.2 per cent compared with an increase of 1.9 per cent last month. As last month, however, this gives a misleading indication of monetary growth. In fact we expect sterling M3 to have grown by about 0.4 per cent. As usual, briefing by the Bank on the eligible liabilities will point the markets in the right direction; the Bank will probably follow last month's practice and give an explicit indication of the sterling M3 figure. Domestic Credit Expansion is expected to have been about £260 million, considerably less than the average figure of £1 billion since mid-June. Preliminary estimates of the components are shown in the Annex.

3. Central Government borrowing in December was nearly £1.5 billion; but this was almost entirely offset by sales of gilts and other Central Government debt to the public. The growth of bank lending was only about £200 million. There was some further leakage of acceptances outside the banking system. But underlying growth appears to have been less than in recent months. It is difficult to say to what extent this



deceleration reflects the rise in MLR on 15th November, or marks the slowdown we have been expecting for some time. Preliminary indications for banking January suggest that we would be unwise to count on the slowdown being sustained.

4. The overall money supply figure is thus again fairly encouraging. It was achieved in spite of a positive external adjustment, in contrast to last month when the adjustment was very substantially negative. The lower figure for DCE is gratifying. But we cannot be complacent with a Central Government borrowing requirement as high as last month's, and the possibility that bank lending might bounce back upwards.

5. I am copying this minute to the Governor.

G.H.

(G.H.)

7 January, 1980

	Average of 5 months July-November	£ billion Banking December
CGBR	+0.87	+1.47
<u>less</u> sales of CG debt outside the banking system		
Gilts	-0.59	-1.13
Other	+0.10	-0.13
Bank and overseas lending to the rest of the public sector	-0.02	-0.15
Bank lending to:		
Private	+0.64	+0.21
Overseas	<u>+0.03</u>	<u>-0.01</u>
DCE	+1.03	+0.26
External Adjustment	-0.42	+0.17
Other	<u>-0.06</u>	<u>-0.21</u>
Change in £M3	+0.55 (1.0%)	+0.22 (+0.4)