

Chancellor: This needs to go across
to No 10 by Thursday am:

Em 8/10

- 1. ✓ MR MIDDLETON (copy to keep)
- 2. ✓ PRINCIPAL PRIVATE SECRETARY (2 copies)

M pp J. Wiggles
9/10

- cc Chief Secretary *RT 8/10.*
- Financial Secretary
- Minister of State (C) *(You may find it convenient to hand this copy to the PM. I will send a copy to TL in any event.)*
- Minister of State (L)
- Sir Douglas Wass
- Mr Burns
- Sir Kenneth Couzens
- Sir Anthony Rawlinson
- Mr Rylie
- Mr Britton
- Mr Evans
- Mr Monck
- Mr Unwin
- Mr Collinson
- Mr Riley
- Mr Ward
- Mr Ridley
- Mr Cardona
- GECS

CGBR: PSBR FORECASTS FOR THE PRIME MINISTER

I attach the first of the regular notes to be sent to the Prime Minister giving the rolling three month forecast for the CGBR and the latest assessment of the PSBR for the current financial year.

- 2. The Chancellor referred to this, as in preparation, in para 3 of his note of 7 October to the Prime Minister headed "Money Supply, Interest Rates, the PSBR and the Exchange Rate".
- 3. It should reach the Prime Minister before the press notice on the CGBR in September is published at 2.30 pm on 9 October.
- 4. I attach also a draft letter of transmittal.

Private Secretary No 10 *RT*

The Chancellor has asked me to transmit to you this minute, with the message that

- (a) this note raises a number of disquieting issues;
- (b) he will be commenting on them briefly as soon as possible, probably in a 1/5 minute to Tim Lankaster.

MPB

PATRICIA BROWN
8 October 1980

Adam Pridg 9 October

370/10

DRAFT LETTER TO:

Private Secretary
10 Downing Street
LONDON
SW1

SHORT-TERM PROSPECTS FOR THE CGBR AND PSBR

The Chancellor's minute of 7 October to the Prime Minister (Money Supply, Interest Rates, the PSBR and the Exchange Rate) noted (para 3) that the Treasury was preparing, in accordance with the agreed work programme, the first three month forward look at the CGBR and the forecast path on a quarterly basis for the PSBR over the rest of the financial year.

I am now enclosing this note.

THE PROFILES OF THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR)
AND PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) IN THE REMAINDER OF
1980-81: NOTE OF OCTOBER 1980

A. Outturn of the CGBR in September

The provisional estimate of the CGBR in September is £800 million. This will be published on 9 October. The outturn may later be increased a little by further information. The result is within the margin of error of a one month ahead forecast: the rolling forecast made at the beginning of the month had been £650 million. Tax receipts were nearly £400 million below forecast with shortfall on receipts from both Inland Revenue and Customs and Excise. In earlier months the tendency had been for the former to run above forecast. Net issues to finance departments' expenditure were some £300 million more than forecast. In the absence of special knowledge, some reaction from the relatively high August figure had been expected. No large special factor in the outturn has been identified. There were offsets elsewhere in the accounts, including an increase in departments' end-month balances. Table 1 compares the outturn with the figures forecast in Table 1 of last month's note.

2. The CGBR this September was much smaller (largely because of PRT receipts) than it had been a year ago. So the cumulative excess of the CGBR this year so far over the corresponding part of 1979-80 has fallen from £2.1 billion at the end of August to only £1.2 billion at the end of September. Table 2 summarises the figures and also the new forecasts for the remainder of the financial year.

3. The CGBR counterpart relevant to the money figures for banking September was £749 million (compared with £650 million forecast). The equivalent figure seasonally adjusted was £1,145 million.

B. Rolling forecast for CGBR in banking October

4. The banks' mid-month make-up day in October is 15 October. So the October banking month is 18 September-15 October. From 18-30 September the CGBR was £690 million and the current figure for the banking month as a whole is £830 million, in both cases before seasonal adjustment.

C. Rolling forecast for CGBR in October-December

5. The new working figures for the CGBR in the next three calendar months were compiled alongside work on the new forecasts for the PSBR as a whole (see next section). They are:

	<u>£ million</u>
October	100
November	1,800
December	1,300

As noted in the recent paper "Money Supply, Interest Rates, the PSBR and the Exchange Rate" such forecasts can deviate by around plus or minus £500 million for the first month and plus or minus £750 million for the third month.

6. The composition of the rolling forecast is summarised in Table 3. Receipts into the Consolidated and National Loans Fund are forecast to be relatively high in October: this is the quarterly peak for receipts of both VAT and advance corporation tax.

7. In total, expenditure from the Consolidated and National Loans Fund (including net lending) is more evenly spread over the quarter, though lending is forecast to be heaviest in October and debt interest payments are always large in November. Main borrowers which have signified intentions are the Electricity Council, the Steel Corporation. Relatively high net borrowing by local authorities from PWLB is usual in October.

D. PSBR in 1980-81

8. A fresh assessment of the PSBR is produced by the new economic forecasts. For the current financial year the figures by quarters, not seasonally adjusted, are as follows:

	<u>£ billion</u>	
	<u>1979-80 outturn</u>	<u>1980-81</u>
April - June	3.3	4.9 Provisional outturn
July - September	3.8	3.0 Estimated and forecast
October - December	3.9	3 $\frac{1}{4}$ Forecast
January - March	-1.2	- $\frac{1}{2}$ Forecast
Year	9.9	10 $\frac{3}{4}$

A minus sign denotes a net repayment.

9. The new forecast reflects a thorough reappraisal of all elements. A realistic margin or error, on each side of the new forecast for the year is some £2 billion: hence the forecast may best be expressed as a range £8 $\frac{1}{4}$ -12 $\frac{3}{4}$ billion. The chance of going outside this range is assessed, subjectively, as one in five. The estimate of the error margin is derived from an analysis of the Industry Act forecasts published in the autumn of the years 1976-79: in 1976 and 1977, the year's PSBR was overestimated in the autumn forecast and in 1978 and 1979 it was underestimated (though by less). Even though much is already known about borrowing in the first half of the current financial year, there are still major uncertainties:

(i) Although the borrowing of the central government over the period April-September 1980 is known to within a small margin, there is less information about the borrowing of the rest of the public sector;

(ii) The need for borrowing arises because of an excess of expenditure over income, and that is the way forecasts of borrowing requirements are constructed. Knowledge of

expenditure and income for the period April-September is weaker than knowledge of what has been borrowed; and, for example, unexpectedly high borrowing thus far in the year may suggest either a continued extra excess of expenditure over income in the rest of the year; or only a temporary excess, with much lower borrowing in the second half of the year. In building up the new forecast some items have been interpreted one way and some the other;

(iii) Government income and expenditure flows for the rest of 1980-81 depend on the development of the economy - on output, inflation, unemployment etc. Errors in these forecasts for the next six months, and in the uncertain estimates for the July-September quarter, will contribute to errors in the PSBR forecasts.

10. The main elements in the net increase of £2½ billion in the forecast PSBR since the Budget are:

<u>Factors increasing the forecast PSBR</u>	<u>£ billion</u>
Extra borrowing by local authorities	0.9
Extra borrowing by public corporations ¹⁾	0.7
Shortfall on VAT receipts	0.7
Shortfall on other Customs receipts	0.4
Shortfall on expected special sales of assets	0.2
Extra social security benefits because of higher unemployment	0.3
Increase in defence cash limit	0.2
Total	<u>3.4</u>

¹⁾ The latest forecast for public corporations' borrowing is £3.1 billion. The PSBR showed only £1.4 billion, but included a hidden allowance of about £1 billion.

Factors reducing the forecast PSBR £ billion

Extra receipts from EC as a result of 30 May agreement ²⁾	0.4
Extra receipts of income tax and national insurance contributions	<u>0.6</u>
Total	<u>1.0</u>

2) This is the difference between the refunds forecast to result from the 30 May agreement and the refunds expected at PSBR time under the old financial mechanism. The latest forecast, unlike the figures being used in the public expenditure survey, assumes some slippage of cash refunds out of 1980-81 into the following year.

Total identified changes, net	+2.4
Others, net	-0.2
Total change in the forecast PSBR	+2.2

11. Outside forecasts for the PSBR in 1980-81, published in August or September, range from £9-11 billion.

TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT

CGBR IN SEPTEMBER

	<u>Forecast</u>	<u>Outturn</u>	<u>£ million</u> <u>Effect on</u> <u>CGBR</u>
RECEIPTS			
<u>Consolidated Fund</u>			
Inland Revenue	3200	3050	-150
Customs and Excise	1730	1507	-223
Other	600	605	+5
<u>National Loans Fund</u>			
Interest etc receipts	300	618	+318
Total receipts	5830	5780	-50
EXPENDITURE			
<u>Consolidated Fund</u>			
Supply services and Contingencies Fund	5300	5603	-303
Other	250	244	+6
<u>National Loans Fund</u>			
Services of the national debt	800	884	-84
Net lending	280	335	-55
Total expenditure	6630	7066	-436
Other Funds and Accounts	+150	+486	+336
CGBR	650	800	-150

TABLE 2

Central Government Borrowing Requirement

	£ billion				Difference
	1979-80	1980-81	Cumulative		
	1979-80	1980-81	1979-80	1980-81	
April	1.3	0.9	1.3	0.9	-0.4
May	1.5	2.3	2.8	3.3	+0.4
June	1.0	1.3	3.8	4.6	+0.8
July	-	0.8	3.8	5.4	+1.5
August	1.1	1.6	4.9	7.0	+2.1
September	1.7	0.8	6.6	7.8	+1.1
October	0.1	(0.1)	6.7	(7.9)	(+1.2)
November	1.8	(1.8)	8.5	(9.7)	(+1.2)
December	1.6	(1.3)	10.2	(11.0)	(+0.8)
January	-2.5	} (-1.3)	7.7
February	0.4		8.0
March	0.2		8.2	(9.7*)	(+1.5)

* Latest forecast

Note: Some rows may not cross add because of rounding. Each column is correctly rounded.

TABLE 3

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ million and %

	(1) April- September	(2) October forecast	(3) November forecast	(4) December forecast	(5) Year to end December	(6) % change of col (5) on year earlier	(7) Budget forecast for whole year % change
Receipts							
Consolidated Fund							
Inland Revenue	14,510	2,850	2,100	2,250	21,700	+20	+17
Customs and Excise	10,371	2,600	1,950	1,700	16,650	+34	+33
Other	3,746	700	750	750	5,900	+14	+5
National Loans Fund							
Interest etc receipts	1,971	400	300	300	2,590	-	+19
Total receipts	30,592	6,550	5,100	5,000	47,200	+22	+20
Expenditure							
Consolidated Fund							
Supply services	31,726	5,700	5,400	5,500	48,300	+24	+20
Other	1,535	250	250	250	2,250	-	+12
National Loans Fund							
Service of the national debt	4,788	350	1,200	450	6,850	+19	+19
Net lending	1,766	550	250	150	2,700	+12	+27
Total expenditure	39,825	6,850	7,100	6,350	60,100	+22	+20
Other Funds and Accounts	+1,465	+200	+200	+50	+1,900		(1,350)¹⁾
CGBR	-7,768	-100	-1,800	-1,300	-11,000		

1) £ million.