Operation of monetary policy

This article covers the three months from January to March 1989.

Review

During the three months under review evidence accumulated that the tightening of monetary policy last year was having its intended effect in dampening the growth of domestic demand. The stance of monetary policy remained unchanged, despite periodic pressure in financial markets, with initial market optimism giving way to doubts about the pace of the slowdown as well as concern about the upward movement of interest rates abroad.

Table A
Growth rates of the monetary aggregates[(a)]
Percentages; *seasonally adjusted (financial year constrained)*

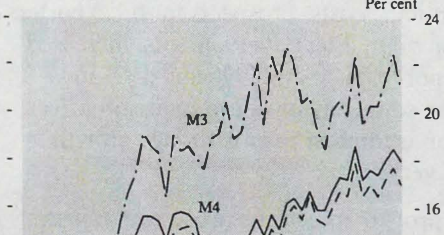
	12 months to end-Dec. 88	12 months to end-Mar. 89	1988 Q4	1989 Q1
M0(b)	+ 7.7	+ 6.2	+1.1	−0.9
Non-interest-bearing M1	+12.1	+ 2.8	+3.8	−3.4
M1	+14.3	+13.8	+1.7	+4.8
M2	+16.8	+15.2	+3.1	+2.6
M3	+20.5	+21.2	+4.0	+4.7
M3c	+19.0	+20.8	+3.7	+4.9
M4	+17.5	+18.4	+3.4	+4.5
M5	+16.5	+17.4	+3.0	+4.4

(a) See the statistical annex to the February 1989 *Bulletin* for definitions.
(b) Weekly average.

The effects of the earlier tightening of policy had most effect on the personal sector. In the housing market, price increases had already slowed in the South East, and market turnover decreased in the latter part of last year. This downturn now appears to have spread to East Anglia and the Midlands, although house prices in the North and in Scotland continued to rise rapidly, narrowing the regional price disparities which had widened sharply during 1987 and the early part of 1988. Consumer expenditure on durable goods has not grown since last summer and appears, on the basis of preliminary indications, to have eased in the first quarter of this year. Retail sales fluctuated erratically from month to month but have nevertheless shown little overall growth since the autumn of last year.

This evidence of more subdued behaviour by the personal sector was corroborated in some degree by the behaviour of the money and credit aggregates. Non-interest-bearing money holdings, including M0, declined in the period under review (although the introduction of interest-bearing current accounts by the major clearing banks will have been partly responsible for this). Borrowing by the household sector was a good deal weaker than in the middle part of last year, despite stronger growth in March.

Twelve-month growth rates of M3, M4, and M5



By contrast, as might have been expected given its strong financial position, the corporate sector displayed resilience in the face of higher interest rates. Surveys of business opinion suggested that confidence about the prospects for output had diminished only modestly, and there was no sign of any significant slowdown in either investment spending or corporate borrowing. There were indications of some deceleration of output growth from the exceptionally rapid rates of mid-1988, though with the accuracy of some of the statistics in doubt it was particularly difficult to gauge the extent of the slowdown. The apparent levelling-out of the current account balance of payments deficit suggested that the gap between domestic demand and domestic output was no longer widening.

Price and cost indicators (with the exception of the house price statistics) did not point to any diminution of inflationary pressures during the period. The retail price index continued to be affected by increases in mortgage interest rates arising from the earlier tightening of policy but, even with this effect excluded, the twelve-month increase in the index rose, from 5.1% in December to 5.7% in March. Moreover, the underlying rate of increase of average earnings rose, reflecting the trend in pay settlements, and, as output and productivity growth slowed down, unit labour costs accelerated.

Sentiment in the domestic money and bond markets and in the foreign exchange market fluctuated during the period, influenced by the indicators as they emerged, though many of them—notably the current account of the balance of payments and the price and cost indicators—were lagging indicators of monetary conditions a year or more before. Towards the end of the period under review, the Budget, which demonstrated a continuing commitment to counter-inflation and sound public finances, was well received in financial markets.

International influences on market sentiment were generally discouraging. Concern over inflation grew perhaps most strongly in the United States, where continued pressure on capacity and strong rises in input prices led to a tightening in policy, which in turn was a major factor behind the dollar's strength during the period. Inflationary pressures in Germany, partly arising from the dollar's rise, led to an increase in official rates there also during January. Against that background, and with recurrent bouts of market concern about the domestic economy, sterling came under downward pressure from time to time, and there were associated market anxieties about the possibility of a further rise in interest rates.

The evidence of the emerging indicators, though necessarily inconclusive, did not appear to the authorities to show that the earlier tightening of policy had been either excessive or insufficient. Consequently the authorities' operations in the market—particularly at the end of February and early in March—were designed to contain the upward market pressure on interest rates, while resisting downward pressure on the exchange rate.

Over the period as a whole, sterling's effective index fell by 1.9% to 95.5, taking it back to its level in the autumn of last year. The sterling/dollar rate fell by 6.8% to $1.6855 and the sterling/deutschemark rate finished 0.2% lower, at DM 3.2008. In the money market, banks' base rates remained unchanged at 13% while the three-month interbank rate declined by $\frac{1}{8}$% to 13$\frac{1}{32}$%; the yield on 20-year gilt-edged stocks edged down by $\frac{1}{16}$% to 9$\frac{3}{16}$%.

Table B
Composition of changes in the money stock[(a)]
£ billions; *seasonally adjusted (financial year constrained)*

		1988 Q4	1989 Q1	Level outstanding at end-Mar. 89
1	Non-interest-bearing M1	+ 1.8	− 1.7	48.4
2	Interest-bearing sight deposits	− 0.1	+ 6.7	60.9
3	**M1 (=1+2)**	**+ 1.7**	**+ 5.0**	**109.3**
4	M3 private sector holdings of time deposits with banks and bank CDs	+ 6.8	+ 5.5	124.0
5	**M3 (=3+4)**	**+ 8.5**	**+10.5**	**233.3**
6	Building society holdings of M3	+ 1.3	+ 0.6	18.9
	M4 private sector holdings of:			
7	Building society shares and deposits	+ 4.6	+ 5.8	156.1
8	Building society £CDs and time deposits	− 0.3	+ 0.4	3.3
9	**M4 (=5−6+7+8)**	**+11.6**	**+16.1**	**373.8**
10	M4 private sector holdings of money-market instruments and national savings in M5	− 0.6	+ 0.2	15.3
11	**M5 (=9+10)**	**+11.0**	**+16.3**	**389.1**

(a) See the statistical annex to the February 1989 *Bulletin* for definitions. The M3 private sector comprises all UK residents other than the public sector and banks. The M4 private sector further excludes building societies.

Table C
Counterparts to changes in M3, M4 and M5[(a)]
£ billions; *seasonally adjusted figures (financial year constrained)*

	Counterparts to M4			Counterparts to M3	Counterparts to M5
	1988 Q4	1989 Q1	12 months to end-Mar. 89	12 months to end-Mar. 89	12 months to end-Mar. 89
1 PSDR (−)	− 4.0	− 4.2	−14.3	−14.3	−14.3
2 Net purchases (−) of central government debt by the 'private' sector(b)(c)	+ 2.7	+ 4.7	+ 8.8	+ 9.3	+ 9.0
3 Net purchases (−) of other public sector debt by the 'private' sector(b)(c)	+ 0.3	− 0.2	+ 0.6	+ 1.6	+ 0.6
4 External and foreign currency finance (−) of the public sector	+ 0.6	+ 0.2	+ 2.4	+ 2.4	+ 2.4
5 Public sector contribution (= 1+2+3+4)	− 0.3	+ 0.5	− 2.5	− 1.0	− 2.3
6 Sterling lending to the 'private' sector(b)(d)	+19.6	+21.3	+85.7	+58.9	+85.0
7 Other counterparts(e)	− 7.7	− 5.7	−25.2	−17.1	−25.2
8 Total (= 5+6+7) = change in the aggregate	**+11.6**	**+16.1**	**+58.0**	**+40.9**	**+57.6**

(a) See the statistical annex to the February 1989 *Bulletin* for definitions.

(b) For M3 counterparts, the 'private' sector excludes banks; for M4 and M5 counterparts it also excludes building societies.

(c) Transactions in public sector debt instruments included in M5 are necessarily excluded from the M5 counterparts.

(d) Includes changes in Issue Department's holdings of private sector commercial bills and of promissory notes relating to shipbuilding paper guaranteed by the Department of Industry. The M5 counterpart includes 'private' sector holdings of commercial bills.

(e) External and foreign currency transactions and increases (−) in net non-deposit liabilities.

Monetary aggregates and credit

The figures in this section are seasonally adjusted.

Components of money

M0 fell in the three months to March, following signs of slower growth at the end of last year. The twelve-month growth rate declined to 6.2% (6.8% unadjusted, the difference being mostly due to the timing of Easter) from 7.7% in the year to December 1988. The target range remains 1%–5% for the current financial year.

At least part of the slowdown in M0 may be ascribed to the effect of the rise in interest rates over the course of last year, which could be expected to encourage economy in holdings of money in all non-interest-bearing forms. Indeed, non-interest-bearing sight deposits fell even more sharply (see Table A). By contrast, interest-bearing sight deposits grew by 12.3% in the three months to end-March. These effects may well have been accentuated by the introduction of interest-bearing current accounts by the larger banks, which may also have attracted funds from less liquid accounts (such as time deposits).

Table D
Sectoral contributions to the growth of the broad aggregates and credit in the twelve months to March 1989

	Persons	ICCs	Building societies	Other OFIs
M3 components				
Percentage growth	18.5	19.2	28.0	27.3
Contribution to M3 growth(a)	9.0	4.7	2.3	5.0
M4 components				
Percentage growth	16.7	17.9	—	26.6
Contribution to M4 growth(a)	12.0	2.9	—	3.1
M3 credit counterparts				
Percentage growth	26.6	27.8	- 0.5	28.3
Contribution to M3 credit growth(a)	11.0	10.0	—	5.4
M4 credit counterparts				
Percentage growth	21.4	30.1	—	28.3
Contribution to M4 credit growth(a)	13.9	6.9	—	3.4

(a) Percentage points.

The broad monetary aggregates grew faster in the period under review than in the preceding three months, and their twelve-month growth rates went up. Within these aggregates the growth of retail deposits has declined. This was particularly so among the banks, even though interest margins moved in their favour. The explanation may be that building societies, having a larger stock of interest-bearing retail liabilities, credited a larger amount of interest payments to accounts.

In contrast with retail deposits, wholesale deposits have accelerated in the past six months. The main source of the additional wholesale deposits—which have flowed almost exclusively to the banks—was industrial and commercial companies (ICCs), whose bank deposits increased by an unprecedented £5.4 billion in the first quarter.

Counterparts to money

Although the public sector was slightly underfunded (in seasonally adjusted terms) in the first quarter, it was overfunded by £2.5 billion in the financial year as a whole (see page 205). The public sector external counterpart was slightly expansionary in the first quarter: a government inflow of £0.5 billion caused by the fall in official reserves was more than offset by disposals of government debt by the overseas sector.

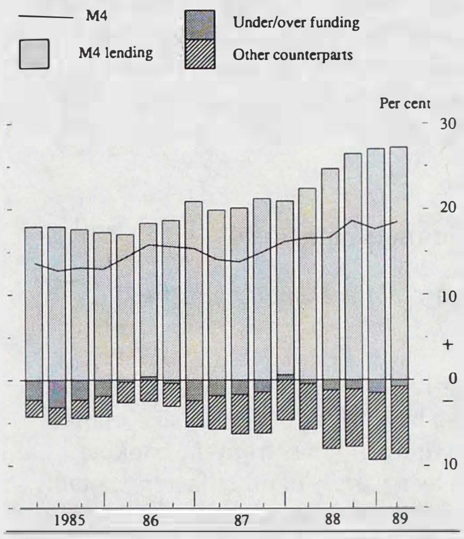
Table E
External influences on broad money
£ billions, *seasonally adjusted (financial year constrained)*

Financial years	1987/88	1988/89
1 Current account and M4 private sector capital account of the balance of payments (= −2 −3 −4)	—	−21.9
Financed by:		
2 External and foreign currency finance of the public sector	− 8.3	− 2.4
3 M4 private sector net borrowing from banks and building societies in foreign currency	+ 0.3	+11.1
4 Banks' and building societies' net external borrowing in sterling and switching of foreign currency into sterling	+ 8.0	+13.1
5 External counterpart to M4 (= −2 −4)	**+ 0.3**	**−10.7**

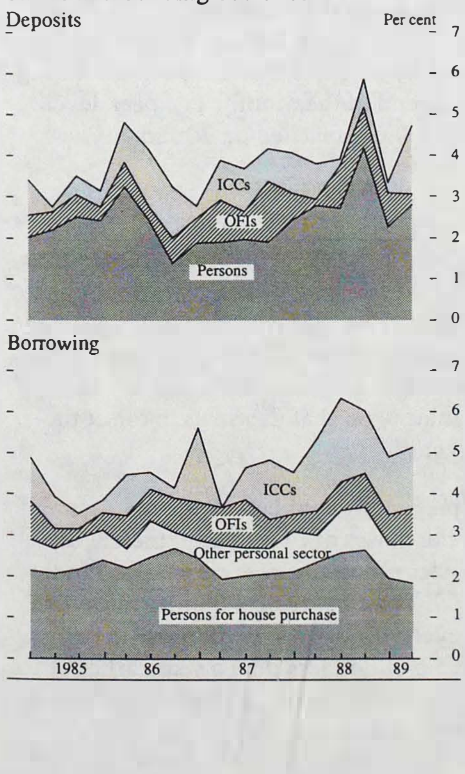
Over the financial year as a whole, external and foreign currency finance of the public sector was expansionary by £2.4 billion, but net external sterling borrowing, and switching of foreign currencies into sterling, by banks was contractionary by £13.1 billion (see Table E). This reflected the marked widening in the current account balance of payments deficit along with a resumption of private sector net capital outflows. The deficit on these accounts combined was £21.9 billion; it was, however, partly financed by net foreign currency borrowing by the private sector from banks totalling £11.1 billion.

The pace of bank and building society lending rose in the quarter, although not to the peak levels seen in the middle of last year. Growth was less than in the same quarter of last year, and so the twelve-month growth rate eased slightly, but at 24.4% it remains high. The bulk of lending, as in earlier quarters, was to the personal sector (which includes unincorporated businesses), but the growth rate of personal lending, both on mortgage and in other forms, continued to be well down from mid-1988 levels. Borrowing by ICCs and other financial institutions (OFIs) increased.

Personal sector net indebtedness to banks and building societies rose in the first quarter by £1.8 billion, well below the £3.4 billion recorded in the fourth quarter, but not greatly different from the average quarterly increase of £2.3 billion in 1988. Personal sector holdings of building society deposits grew particularly fast, Counterparts to annual growth of M4



Sectoral contributions to quarterly growth of deposits with, and borrowing from, banks and building societies



continuing a trend which began in the aftermath of the stock market crash in October of 1987.

Mortgage lending by banks and building societies was £7.6 billion (3.8%) in the first quarter, much the same as in the previous quarter, but much less than in the second and third quarters of 1988. Non-mortgage lending to the personal sector increased slightly from the low growth rate in the fourth quarter with a rise of £1.5 billion (4.2%), but this was still below the rates of growth seen last summer.

The non-household part of the personal sector (ie unincorporated businesses etc) continued to borrow heavily from the banks, with growth of £2.6 billion (8.1%) in the first quarter, taking the twelve-month growth rate to 35.6%, up from 29.2% in the fourth quarter and 17.6% in the first quarter of 1988. This may partly reflect the lengthening of trade credit, as business activity began to slow.

ICCs' net recourse to banks and building societies for sterling funds—at £0.5 billion—was lower in the first quarter than at any time over the past year. However, ICCs' new sterling borrowings of £6.2 billion (up 6.3%) were a little higher than last quarter, and did not appear to have been depressed by bond issues (about £3 billion of sterling issues—both domestic and eurosterling—were announced during the quarter), nor by the apparent slowdown in takeover activity. Indeed, it is possible that companies used at least part of the proceeds of their borrowing to increase their holdings of M4, which rose by an unprecedented £5.7 billion. The downward sloping yield curve has clearly presented an opportunity for highly rated companies in particular to issue long debt and place the proceeds on short-term deposit, but more generally, as for the personal sector, the rise in interest rates would be expected to encourage an increase in the holdings of interest-bearing liquid assets.

Latest estimates suggest that companies ran a financial deficit (of over £3 billion) in 1988; earlier it had been thought they were in surplus. It now seems likely that some companies, particularly smaller ones without access to the longer-term markets, financed increased expenditure on investment and on stockbuilding through the banks. Companies may also have opted to switch to external finance by reducing retained earnings, as indicated by the sharp rise in dividend payments in recent quarters (which appears, to judge by ACT payments, to have continued into the first quarter).

Companies' net foreign currency indebtedness to the banks increased by £3.4 billion in the first quarter—as much as in the previous half year. In part this may reflect a preference for financing overseas purchases (of materials, capital goods etc) by foreign currency borrowing; in addition some overseas direct investments (particularly takeover activity) may have been financed in foreign currency.

Financial institutions other than banks and building societies borrowed £3.6 billion (a rise of 6.8%) in sterling in the first quarter. Their holdings of bank and building society deposits, however, grew by just £0.9 billion (2.0%). The figure is lower than might have been expected in a quarter in which life assurance and pension funds were large net sellers of gilts to the authorities.

Table F
UK monetary sector: sterling and foreign currency deposits of, and lending to, the non-bank private sector
£ billions; *seasonally adjusted (calendar year constrained)*

	1988				1989
	Year	Q2	Q3	Q4	Q1
Sterling deposits					
Other financial institutions	+13.9	+ 5.7	+ 2.9	+ 4.1	+ 1.3
ICCs	+ 6.3	+ 0.3	+ 2.5	+ 1.0	+ 5.4
Persons	+16.5	+ 2.8	+ 7.3	+ 3.0	+ 3.8
Total	+36.7	+ 8.8	+12.8	+ 8.1	+10.5
of which, transit items allocated to ICCs	*– 0.1*	*+ 0.8*	*– 0.6*	*+ 0.7*	*– 0.7*
Sterling lending					
Other financial institutions (a)	+11.0	+ 2.9	+ 3.0	+ 2.9	+ 3.2
ICCs(a)(b)	+23.3	+ 6.2	+ 5.7	+ 5.5	+ 5.0
Persons	+23.2	+ 6.4	+ 6.6	+ 5.5	+ 5.9
Total	+57.5	+15.5	+15.2	+14.0	+14.2
of which, transit items allocated to ICCs	—	*– 0.5*	*+ 0.4*	*– 0.4*	*+ 0.4*
Foreign currency deposits					
Other financial institutions	+ 2.4	+ 0.2	+ 0.4	+ 1.9	+ 1.3
ICCs	+ 0.2	– 0.6	+ 0.5	+ 0.2	– 1.0
Persons	+ 0.2	+ 0.1	– 0.1	+ 0.1	+ 0.2
Total	+ 2.9	– 0.3	+ 0.7	+ 2.2	+ 0.5
Foreign currency lending					
Other financial institutions	+ 1.0	– 0.5	+ 0.6	+ 1.0	+ 3.9
ICCs	+ 8.3	+ 2.1	+ 2.3	+ 1.9	+ 2.4
Persons	+ 0.3	+ 0.1	+ 0.1	+ 0.3	+ 0.1
Total	+ 9.6	+ 1.6	+ 3.0	+ 3.1	+ 6.5

(a) Includes Issue Department take-up of commercial bills.
(b) Includes Issue Department take-up of guaranteed shipbuilding paper.

Table G
Influences on the cash position of the money market
£ billions; *not seasonally adjusted*
Increases in the market's cash (+)

	1988		1989	12 months to end-Mar. 89
	Q1	Q4	Q1	
Factors affecting the market's cash position				
CGBR (+)	–2.0	–2.3	–4.4	– 6.9
of which, on-lending to local authorities and public corporations	*+1.4*	*+1.4*	*+1.7*	*+ 6.0*
Net sales (–) of central government debt(a)	–2.0	+3.9	+6.9	+13.3
of which: Gilt-edged	*–1.7*	*+3.7*	*+6.6*	*+13.3*
National savings	*–0.8*	—	*+0.1*	*– 0.6*
CTDs	*+0.5*	*+0.2*	*+0.2*	*+ 0.6*
Currency circulation (increase –)	+0.1	–1.2	+0.9	– 0.8
Reserves etc	+0.6	+0.9	–1.0	+ 1.5
Other	–0.3	+0.1	–0.5	– 0.8
Total (A)	**–3.6**	**+1.4**	**+1.9**	**+ 6.3**
Official offsetting operations				
Net increase (+) in Bank's commercial bills(b)	+2.4	+0.9	–3.7	– 5.7
Net increase (–) in Treasury bills in market	+1.0	–2.1	+1.9	– 0.5
Securities(c) acquired (+) under sale and repurchase agreements with banks	—	—	—	—
Other	+0.1	–0.4	—	+ 0.1
Total (B)	**+3.5**	**–1.5**	**–1.8**	**– 6.1**
Changes in bankers' operational balances at the Bank (= A + B)	–0.1	–0.1	+0.1	+ 0.2

(a) Other than Treasury bills.
(b) By the Issue and Banking Departments of the Bank of England.
(c) Gilt-edged stocks and promissory notes related to guaranteed export credit and shipbuilding paper.

It is possible that these institutions reinvested at least part of the surplus funds in domestic and overseas bond issues. They may also have continued to invest overseas, an activity which revived in the course of last year, following a pause in the aftermath of the stock market crash. This factor may also explain the strong rise in foreign currency borrowing (£3.9 billion, the largest quarterly increase since mid-1987), which was only partially reflected in a rise of £1.3 billion in foreign currency deposits, and which may have been used as a hedge against additional foreign currency portfolio assets.

Official operations in financial markets

The figures in this section are not seasonally adjusted.

Money-market operations

Over the three months under review, the central government had a large cash surplus, arising in large part from seasonal corporate tax receipts. The consequent drain of funds from the banking system was more than offset by a variety of other factors, notably reductions in outstanding central government debt, and the amount of assistance outstanding fell over the quarter as a whole (see Table G).

The central government had a cash surplus of £6.8 billion in January, including large amounts of corporate tax receipts. The effect of this surplus on the money market was offset in part by the normal post-Christmas fall in the note circulation (£1.9 billion) and by official purchases of gilt-edged stock (£1.0 billion); in addition, the amount of Treasury bills outstanding fell by £2.8 billion with the maturing of the bills issued last autumn in order to smooth the profile of money-market assistance. Consequently, money-market assistance needed to increase by no more than £1.8 billion during January, to £9.5 billion at the end of the month. The peak level during the month was £10.2 billion, reached on 20 January.

The stock of assistance fell in both February and March. In February the main factors were the redemption of 11½% Treasury Stock 1989 and heavy official purchases of other stocks, which in total supplied £3.8 billion to the market; market assistance fell by £3.3 billion during the month. There was a particularly sharp fall on the day of the gilt-edged redemption (22 February), and in advance of this the Bank arranged large amounts of sale and repurchase agreements to mature on that day so as to offset the flow of funds into the market.

In March there was a central government borrowing requirement of £2.0 billion and net gilt purchases of £1.8 billion; these were only partly offset by the Easter rise in the note circulation, and money-market assistance fell by a further £2.2 billion during the month to £4.1 billion—a level which is £3.7 billion less than at the end of December and £5.6 billion less than a year earlier. A note on page 212 explains the longer-term background to the fall in the stock of money-market assistance.

Daily cash shortages averaged £710 million in January, reflecting both Exchequer surpluses and the periods of market optimism about interest rates during the month, when the Bank was offered shorter-dated bills in its daily operations. In February the shortages averaged £510 million and in March £410 million.

Table H
Reverse auctions of gilt-edged stock

Stock	Amount purchased (£ millions)	Total applications received (£ millions)	Date announced	Method of purchase	Date purchased	Price paid (£) per £100 nominal of stock		Redemption yield (per cent) at purchase	
						Highest	Average	Lowest	Average
10% Exchequer Stock 1989	280	895	14/12/88	Auction, offer basis price	13/1	98.84	98.83	12.42	12.44
11% Exchequer Stock 1989	219	715	14/12/88	Auction, offer basis price	13/1	99.18	99.17	12.20	12.22

Table J
Financing of the public sector
£ billions; *seasonally adjusted (financial year constrained)*

	1988		1989	12 months to end-Mar. 89
	Q3	Q4	Q1	
1 Central government borrowing on own account	−2.7	−3.0	−4.1	−12.8
2 Other public sector borrowing(a)	−0.7	−1.0	—	− 1.4
3 PSDR (−)(=1+2)	**−3.3**	**−4.0**	**−4.2**	**−14.3**
4 Net sales (−) of central government debt to the M4 private sector	+1.0	+2.7	+4.7	+ 8.8
of which: Gilt-edged stocks	*+1.3*	*+2.6*	*+4.5*	*+ 9.2*
National savings	*−0.2*	*—*	*+0.1*	*− 0.6*
CTDs	*−0.2*	*+0.4*	*−0.1*	*+ 0.3*
5 Net sales (−) of local authorities' and public corporations' debt to the M4 private sector	+0.3	+0.3	−0.2	+ 0.6
6 External and foreign currency finance (−) of the public sector	+1.3	+0.6	+0.2	+ 2.4
of which, gilt-edged stocks	*+0.2*	*−0.1*	*+0.4*	—
7 Total financing (−) of the public sector from the M4 private and overseas sectors (=4+5+6)	**+2.6**	**+3.6**	**+4.7**	**+11.7**

(a) Includes on-lending from central government to local authorities and public corporations.

Table K
Official transactions in gilt-edged stocks
£ billions; *not seasonally adjusted*

	1988				1989
	Q1	Q2	Q3	Q4	Q1
Gross official sales(a)	+3.1	+0.9	−0.1	−1.7	−3.8
less					
Redemptions and net official purchases of stock within a year of maturity	−1.4	−2.3	−1.5	−1.9	−2.9
Equals net official sales(b)	+1.7	−1.4	−1.5	−3.7	−6.6
of which, net purchases by:					
Monetary sector(b)	*+0.8*	*−1.5*	*−0.5*	*−1.1*	*−0.5*
Building societies	*−0.2*	*+0.4*	*+0.4*	*—*	*−1.2*
Overseas sector	*+0.1*	*+0.4*	*−0.2*	*+0.1*	*−0.4*
M4 private sector	*+1.1*	*−0.7*	*−1.3*	*−2.6*	*−4.5*

Note: Sales are recorded on a payments basis, so that payments made on partly-paid stocks are entered according to when payments are made rather than according to the time of the commitment to make the payment.

(a) Gross official sales of gilt-edged stocks are defined as net official sales of stocks with over one year to maturity apart from transactions under purchase and resale agreements.
(b) Apart from transactions under purchase and resale agreements.

The Bank established money-market dealing relationships with Greenwell Montagu Gilt-Edged and S G Warburg Discount Limited as from 13 February, as reported in the February *Bulletin*. These new relationships bring the number of the Bank's money-market dealing counterparties to ten.

Gilt-edged operations

With the continuing strength of the public finances, the pursuit of a 'full fund' of the public sector[1] meant that the Bank continued to purchase substantial amounts of gilt-edged stock during the period under review. Official purchases (net of sales) of stock with more than one year to maturity totalled £3.8 billion over the period and, with redemptions of stock and net official purchases of stock with under one year to maturity amounting to £2.9 billion, the total of stock outstanding in market hands declined by £6.6 billion (see Table K). By contrast, the rate at which fixed-rate sterling debt other than gilt-edged stock was issued grew considerably (see page 211). The opportunity for other fixed-rate sterling debt issues created by the reduction last year, and absence so far this year, of gilt-edged stock issues was discussed in the February *Bulletin*.

Over the financial year 1988/89 as a whole, redemptions and net official purchases of gilt-edged stock with under one year to maturity totalled £8.5 billion; in addition there were official purchases of other stocks (net of new issues and other sales) of £4.7 billion. The total stock outstanding in market hands thus declined by £13.3 billion, or 9% of the amount in market hands at the beginning of the financial year. Within this total, the holdings of the private sector other than banks and building societies fell by £9.2 billion but those of the overseas sector remained virtually unchanged; after taking into account transactions in other government debt instruments, this meant that the public sector was overfunded by £2.5 billion over the financial year as a whole. It is intended that this overfunding will be offset in the new financial year.

The authorities conducted their first reverse auction for gilt-edged stock on 13 January, the results of which were described in the February *Bulletin* and are repeated in Table H. Following that successful experience, the Bank has said that it expects to conduct further reverse auctions for conventional gilt-edged stock at intervals during 1989/90 to supplement its purchases of stock in the secondary market. Accordingly, another reverse auction was announced, to be held on 5 May, for a maximum of £500 million of three conventional medium-dated stocks; 15½% Treasury Loan 1998, 14% Treasury Stock 1998–2001 and 12% Exchequer Stock 1999–2002. As in the 13 January reverse auction, holders were invited to offer stock on a

(1) The 'full fund' policy is to fund the total of maturing public sector debt, the PSBR and any underlying change in the foreign exchange reserves by sales (or, if necessary, purchases) of debt outside the bank and building society sectors.

competitive offer-price basis or, for small amounts of stock, on a non-competitive basis. In the light of experience with that operation, a further reverse auction may be held later in the summer.

Table L
Changes in UK official reserves
$ millions

	1989		
	Jan.	Feb.	Mar.
Changes in reserves	**+ 20**	**− 22**	**− 1,227**
of which:			
Net borrowing (+)/payment (−) of public debt	− 20	− 51	− 31
Valuation change on roll-over of EMCF swap	− 290	—	—
Underlying change in reserves	+ 330	+ 29	− 1,196
Annual revaluation of reserves	—	—	− 3,525
Level of reserves (end of period)	51,705	51,683	46,931(a)

(a) After the annual revaluation.

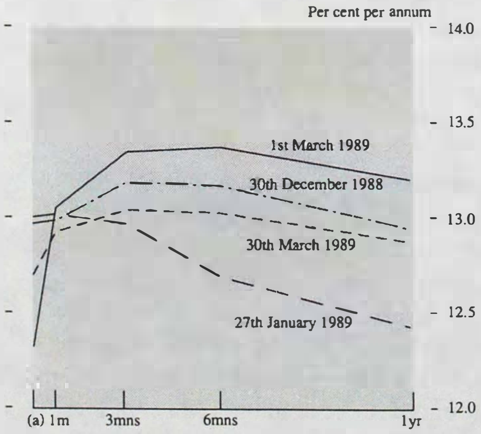
Official reserves

The level of official reserves stood at $46.9 billion at the end of March, compared with $51.7 billion at the end of December (see Table L). The bulk of the fall was due to the annual revaluation of the reserves. Using the old valuation, the underlying change in the reserves (ie excluding changes arising from foreign currency borrowing and debt repayment) was a fall of $0.8 billion over the quarter; the reserves rose modestly in January, remained stable in February and fell by $1.2 billion in March.

ECU Treasury bills

The Chancellor announced in the Budget that the programme of monthly tenders of ECU Treasury bills, which began last October with an initial series of six tenders, would continue, and dates of tenders were set for the remainder of 1989. Details of the auctions up to January this year were given in the February *Bulletin*. At the three tenders on 12 February, 12 March and 11 April the Bank allotted a total of ECU 2,400 million to successful bidders, of which ECU 900 million were of one-month's maturity, ECU 900 million of three months' and ECU 600 million of six months'. In addition at the April tender ECU 125 million of bills were allotted directly to the Bank, and are to be available for lending to the market in order to facilitate settlement of secondary market transactions. As at 14 April, ECU 2,400 million of bills were outstanding, excluding the additional bills allotted to the Bank. Tenders during the latest three months have been covered on average 3.2 times. The average accepted yield at each maturity has remained a fairly stable margin of around $\frac{3}{16}$% below the bid rate for ECU-denominated bank deposits. The secondary market in the bills was buoyant, with monthly turnover during the quarter amounting to ECU 3,610 million, up 54% from the average of November and December last year.

Sterling interbank rates



(a) For one week.

Market developments

Financial markets began the period under review in a mood of nervousness about the apparent continued strength in domestic demand and the associated possibility that interest rates might increase further before they began to decline. This nervousness was reflected in interbank interest rates above 13% at three and six months, but below that level at twelve months (see Table M). Gilt yields had also risen modestly over the previous few months, although the yield curve retained the pronounced downward slope which had been a feature since August. Sterling's effective rate index, meanwhile, had been fairly stable, with a weakening against the dollar being offset by a strengthening against the deutschemark.

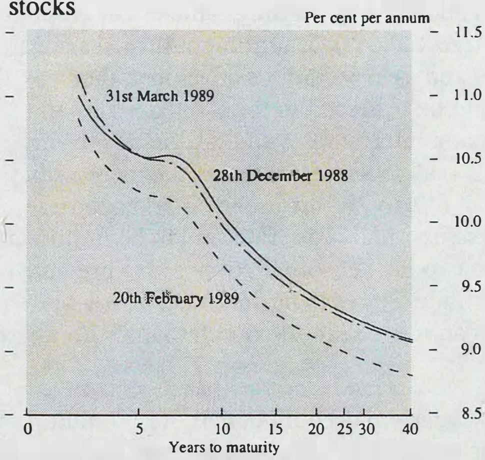
Interbank interest rates and shorter-term gilt yields rose further as January began, following the Chancellor's reiteration of willingness to raise interest rates further if necessary to control inflation. Increased market expectation of a rise in US interest rates and speculative testing of the authorities' resolve to restrain the dollar pushed the US currency up against sterling as well as other currencies on the first few days of the month. Interbank

Table M
Sterling interest rates, gilt yields and exchange rates

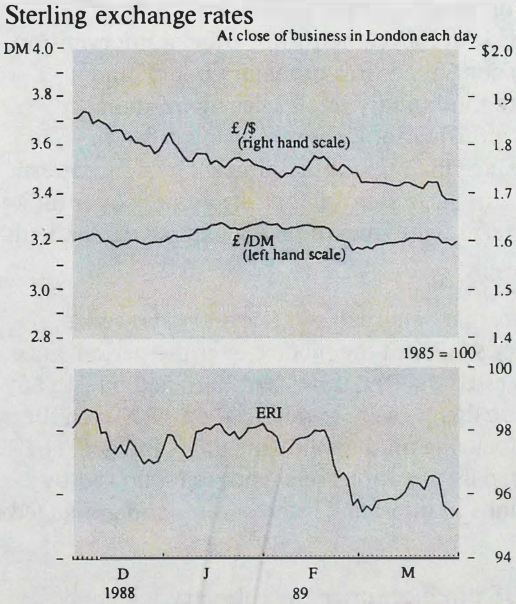
Date	Interbank interest rates (per cent per annum)			Gilt yields (per cent per annum)				Exchange rates		
				Conventionals			Index-linked			
	3 months	6 months	12 months	Short	Medium	Long	Long	ERI	£/$	£/DM
30 December (close)	$13\frac{5}{32}$	$13\frac{1}{8}$	$12\frac{7}{8}$	$10\frac{13}{32}$	$10\frac{1}{8}$	$9\frac{1}{4}$	$3\frac{5}{8}$	97.4(a)	1.8080	3.2074
5 January (close)	$13\frac{7}{32}$	$13\frac{3}{16}$	13	$10\frac{1}{2}$	$10\frac{7}{32}$	$9\frac{11}{32}$	$3\frac{5}{8}$	97.6	1.7955	3.2238
11 January (close)	$13\frac{1}{8}$	$13\frac{1}{32}$	$12\frac{13}{16}$	$10\frac{3}{8}$	$10\frac{1}{8}$	$9\frac{1}{4}$	$3\frac{9}{16}$	98.0	1.7840	3.2549
16 January (close)	$13\frac{1}{16}$	$12\frac{15}{16}$	$12\frac{11}{16}$	$10\frac{5}{32}$	$9\frac{31}{32}$	$9\frac{3}{16}$	$3\frac{9}{16}$	98.1	1.7615	3.2729
27 January (close)	13	$12\frac{11}{16}$	$12\frac{13}{32}$	$9\frac{15}{16}$	$9\frac{21}{32}$	9	$3\frac{1}{2}$	98.2	1.7585	3.2787
1 February (close)	13	$12\frac{3}{4}$	$12\frac{15}{32}$	$10\frac{1}{16}$	$9\frac{23}{32}$	$9\frac{1}{16}$	$3\frac{15}{32}$	98.0	1.7505	3.2747
13 February (close)	$12\frac{31}{32}$	$12\frac{13}{16}$	$12\frac{9}{16}$	$9\frac{15}{16}$	$9\frac{5}{8}$	$8\frac{15}{16}$	$3\frac{15}{32}$	97.8	1.7485	3.2718

(a) Sterling's ERI was rebased at the start of 1989 to 1985 = 100. On the old basis, sterling's ERI was 77.8 at the close on 30 December.

Time/yield curves of British government stocks



Sterling exchange rates



rates, which tended to follow sterling's movements throughout the period under review, rose during this period of sterling weakness, with three-month rates reaching a peak of $13\frac{7}{32}$% on 5 January. However, rates fell back somewhat as sterling's decline halted, and on 10 and 11 January sterling rebounded sharply against the dollar and reached a two and a half year high against the deutschemark.

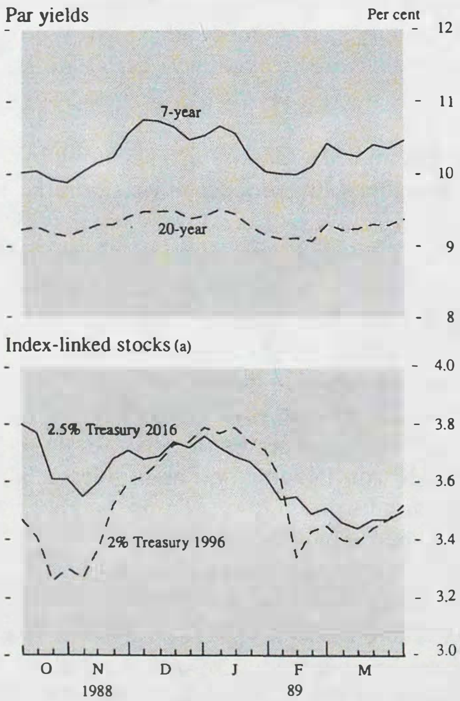
The provisional announcement on 16 January of a slight fall in retail sales in December, together with evidence of weaker retail activity from a CBI/FT survey and the successful reverse auction, sharply lowered gilt yields and revived speculation that base rates might be at their peak. This led to a further fall in interbank rates, particularly at longer maturities. This optimism about a cooling in the domestic economy received further support from the reported slight fall in industrial output in November and from the underlying twelve-month increase in whole-economy average earnings of $8\frac{3}{4}$%, which was less than expected; the six-month interbank rate fell back to $12\frac{3}{8}$% on 19 January. The Bundesbank's decision on 20 January to raise its discount rate dampened but by no means wholly dissipated market optimism. Gilt yields continued to fall in the latter half of the month, aided by a smaller than expected December current account deficit announced on 27 January. There was continued upward pressure on the dollar at this time; sterling tended to rise with the dollar against other currencies, and on 1 February reached a high against the deutschemark for the period under review of DM 3.2915.

Speculation that interest rates had peaked continued at the beginning of February, and this mood was not materially changed by an upward revision to the December retail sales figure to show a slight rise from November. Against this background, the news on 10 February of a 1.0% rise in US producer prices during January, and the immediate rise in US prime rates, left UK interest rates little changed, though sterling weakened for a while from 1 February onwards in response to expectations of a narrowing of the interest rate differential in its favour. However, the effect on inflation expectations of a similar rise in UK producer output prices announced on 13 February, confirming the worldwide impact of earlier rises in raw material prices, was only partly offset in the United Kingdom by the provisional January figure of a 1.5% fall in retail sales from December's level. Sterling then moved back up against the dollar, as upward

Table N
Sterling interest rates, gilt yields and exchange rates

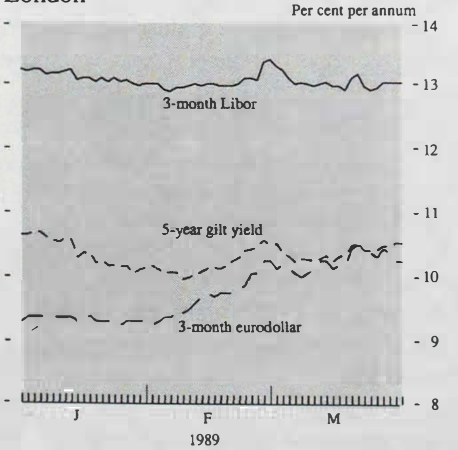
Date	Interbank interest rates (per cent per annum)			Gilt yields (per cent per annum)				Exchange rates		
				Conventionals			Index-linked			
Date	3 months	6 months	12 months	Short	Medium	Long	Long	ERI	£/$	£/DM
20 February (close)	$12\frac{31}{32}$	$12\frac{13}{16}$	$12\frac{11}{16}$	$10\frac{1}{32}$	$9\frac{23}{32}$	$8\frac{29}{32}$	$3\frac{3}{8}$	97.7	1.7657	3.2560
24 February (close)	$13\frac{1}{8}$	$13\frac{1}{8}$	13	$10\frac{5}{16}$	$9\frac{31}{32}$	$9\frac{1}{16}$	$3\frac{13}{32}$	96.5	1.7535	3.1987
1 March (close)	$13\frac{5}{16}$	$13\frac{5}{16}$	$13\frac{3}{16}$	$10\frac{3}{8}$	$10\frac{1}{16}$	$9\frac{1}{8}$	$3\frac{13}{32}$	95.4	1.7237	3.1694
6 March (close)	13	13	$12\frac{27}{32}$	$10\frac{1}{32}$	$9\frac{13}{16}$	9	$3\frac{3}{8}$	95.8	1.7230	3.1884
14 March (close)	$12\frac{31}{32}$	13	$12\frac{7}{8}$	$10\frac{3}{16}$	$9\frac{7}{8}$	$9\frac{1}{32}$	$3\frac{11}{32}$	96.1	1.7227	3.2025
17 March (close)	$13\frac{3}{32}$	$13\frac{1}{8}$	$13\frac{1}{32}$	$10\frac{5}{16}$	$9\frac{15}{16}$	$9\frac{1}{16}$	$3\frac{3}{8}$	96.3	1.7135	3.2154
31 March (close)	$13\frac{1}{32}$	$13\frac{1}{32}$	$12\frac{29}{32}$	$10\frac{3}{8}$	$10\frac{1}{32}$	$9\frac{3}{16}$	$3\frac{13}{32}$	95.5	1.6855	3.2008

Gross redemption yields on UK government securities



(a) Real yields assuming 5% inflation.

Short-term interest rates and yields in London



pressure on the US currency was seen to be successfully resisted by central banks and as the market showed scepticism about the likelihood that President Bush's US budget proposals could be brought to fruition.

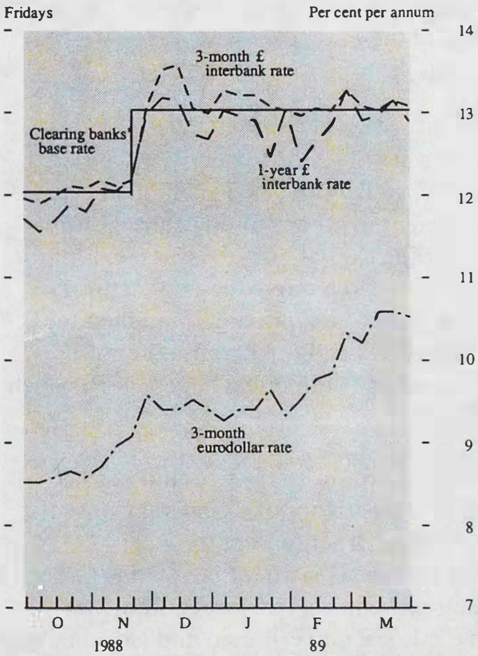
However, starting on 20 February, sterling came under sustained downward pressure (see Table N), as sentiment turned against high-yield currencies and as expectations developed that monetary policy might be tightened in the United States and Germany. UK interbank interest rates and gilt yields rose in response to sterling's weakness and, following the increase in the US discount rate from $6\frac{1}{2}$% to 7%, the money market became anxious that a further rise in UK base rates might be imminent. Attention focused on two further sources of possible pressure on sterling, the January trade figures to be announced on 1 March and the possibility of an increase in the Bundesbank's Lombard rate on 2 March.

In the event, January's current account deficit of £1.7 billion was a little larger than the market had expected, and the Bundesbank decided not to raise its Lombard rate. Following the news, sterling steadied at its lower level, helped by official intervention and by assurances of continued firm monetary policy, and a downward revision to the January retail sales figure soon afterwards provided a further indication of a slowdown in consumer spending since the previous summer. The new pattern of interbank rates at this stage showed that the anxiety over the possibility of a near-term tightening of policy had passed, and gilt yields fell slightly.

The provisional figures for retail sales in February showed a rebound after January's fall, but the picture over the period since the autumn still suggested that the series had flattened out. In any case, by the time those figures were announced on 13 March the market was already focusing on the following day's Budget. The Budget was interpreted as a cautious one, and was followed by a rally in sterling and falls in interbank interest rates and gilt-edged yields.

The rise of 1.0% in US producer prices in February, which followed a similar rise in January and which was announced on 17 March, led to renewed nervousness in the UK markets about worldwide inflationary pressures, but the moderate US consumer price index figure which immediately followed it served as a check on the more extreme worries. As the month came to a close, sentiment in the foreign exchange market deteriorated significantly, with sterling coming under pressure in advance of the February trade figures, repeating the pattern of the previous month. Sterling's weakness coincided with market testing of the G7 authorities' resolve to hold the dollar down following their meeting in Washington. Once again, the trade figures showed a modestly larger deficit than the market had expected, but sterling fell only slightly further before ending the quarter on a steady note.

Short-term interest rates in London



Although interbank interest rates firmed a little in response to this latest bout of sterling weakness, and gilt yields rose also, rates had on balance been particularly stable over the period under review as a whole. Interbank rates ended the quarter $\frac{3}{32}$%–$\frac{1}{8}$% lower at three and six months, but $\frac{1}{32}$% higher at twelve months. The pattern of short sterling futures prices, with prices for later delivery dates consistently higher than those for earlier ones, indicated that the market expected short-term rates to decline over the next year or so. At close on 31 March, futures for June delivery were priced at 87.14, while those for March 1990 delivery were 88.57. Conventional gilt-edged yields ended the quarter very slightly lower across the range of maturities. Index-linked yields also fell, by about $\frac{1}{4}$%.

Sterling tended to decline against the dollar throughout the quarter, finishing down 6.8% at its lowest closing level for the quarter of $1.6855. Having risen against the deutschemark during January to a peak of DM 3.2915 on 1 February, it fell back to close the quarter at DM 3.2008, 0.2% below its level at the end of 1988. The effective index, having reached a peak of 98.3 in January, finished the quarter at 95.5, down 1.9% over the quarter as a whole.

Market turnover

Transactions in eligible bills by discount houses,[1] including sales to the Bank, averaged £1.3 billion daily over the quarter. This represented a further increase from the previous quarter, and paralleled the rise in the amount of bills outstanding. Discount house transactions in certificates of deposit averaged £0.6 billion daily over the period, little changed from the average in the fourth quarter of 1988. Meanwhile, the average daily turnover in the short sterling futures contract on the London International Financial Futures Exchange rose to 22,400 contracts in the first quarter from 15,900 contracts in the previous three months, despite the relative stability of short-term interest rates. Over the year to the first quarter, turnover in this contract increased by two and a half times.

Total turnover in gilts rose to an average of £4.4 billion per day in the first quarter from £4.3 billion per day in the previous quarter. Intra-market transactions accounted for just under half of total turnover. Futures market activity in gilts declined slightly in the period: average daily turnover in the long gilt futures contract was 17,000 contracts, down from 17,800 in the previous quarter and 28,500 in the first quarter of 1988. No warrants exercisable into gilt-edged stock were issued during the quarter, and £200 million each of call and put warrants expired. This left

(1) Figures for discount houses cover only those money-market dealing counterparties of the Bank of England which are within the monetary sector.

£250 million of call warrants and £100 million of put warrants outstanding at the end of the quarter.

Sterling commercial paper

Gross issues of sterling commercial paper during the first quarter totalled £10,933 million, compared with a revised figure of £9,679 million in the previous three months. There were redemptions of £10,107 million, and the total of paper outstanding rose to £4,086 million at the end of March, £826 million above its level three months earlier. The Bank had been notified of 163 programmes by the end of March, and paper had been issued under 136 of these.

Revised sterling issues arrangements

Revised arrangements for issues of sterling paper were announced by the Chancellor in the Budget. The main effects were to abolish the requirement to obtain timing consent from the Bank of England for sterling capital market issues (except for those made by local authorities), to remove the non-statutory minimum maturity of five years which previously applied to issues of sterling bonds and FRNs and to liberalise the rules governing the issuance of sterling commercial paper (SCP) which were established in April 1986.

The need to obtain timing consent for sterling capital market issues has been removed by the issuance of a General Consent under the Control of Borrowing Order (except for local authorities). It is intended that the Control of Borrowing Order itself will be revoked when new controls on local authorities' borrowing, contained in the Local Government and Housing Bill, come into force.

New Exempt Transactions Regulations under the Banking Act, effective on 4 April, broadened the range of institutions, both UK and overseas, permitted to issue SCP without infringing the deposit-taking provisions of the Banking Act. Banks, building societies and insurance companies, as well as sovereign governments and overseas public authorities with debt listed on certain overseas exchanges, are among those that can now issue SCP. The issuing constituency has also been extended to UK unlisted companies and companies listed on certain overseas exchanges, as long as they conform to particular information disclosure requirements. Other changes include both a lowering of the previous net asset requirement from £50 million to £25 million and a reduction in minimum denomination from £500,000 to £100,000. The intention was also announced to extend the maximum maturity of SCP to 5 years later this year.

Other capital markets

After underperforming compared with other major international stock markets in 1988, the UK equity market outpaced them in January and the first week of February, making substantial price gains in response to generally favourable domestic economic news. The FT-Actuaries all-share index rose by 17% over this period to reach a post-October 1987 high of 1083 on 8 February. The upward movement in prices faltered in the second half of February as worries about inflation and interest rates resurfaced. However, these concerns receded ahead of the Budget and the

FT-Actuaries all-share index reached a fresh post-October 1987 high of 1,101 on Budget Day. In the second half of March, the mood in the market once again became more cautious amid growing concern at the prospects for inflation and interest rates in both the United States and the United Kingdom, and the market fell back by 2% from its peak. Nevertheless, it ended the quarter 16% higher than at the end of December, although still 15% below its pre-October 1987 high.

Equity issues of just £0.6 billion were announced in the first quarter, the lowest quarterly total for three years (see Table P). Sterling debt issues were, by contrast, considerably larger than in the previous quarter and amounted to almost £5 billion. The main categories of borrower were UK industrial and commercial companies, which announced issues for over £2½ billion, and overseas governments and governmental organisations, which announced issues for some £900 million. There were issues announced at a wide range of maturities over five years, but those for ten years and more were again predominant in the continuing absence of gilt-edged issues.

Table P
Sterling capital issues: amounts announced
£ millions

	Equities	Fixed rate(a)			FRNs
		Domestic issues(b)	Sterling eurobonds		
			UK borrowers	Overseas borrowers	
1988	5,473	3,324	4,391	3,160	5,809
Q1	808	350	1,890	1,340	1,090
Q2	1,578	1,046	1,173	1,670	2,155
Q3	1,895	541	183	—	1,645
Q4	1,192	1,387	1,045	150	919
1989					
Jan.	121	83	673	450	450
Feb.	265	431	700	400	150
Mar.	225	915	450	294	—
Q1	611	1,429	1,823	1,144	600

(a) Of which £1,006 million was equity-related in the first quarter of 1989.
(b) All UK borrowers except for two 'bulldog issues' in 1988 Q4 for £200 million. Excludes local authority issues.

The first issue to take advantage of the removal of the 5-year minimum maturity for sterling capital market issues was Abbey National's £200 million floating-rate note (FRN) with a maturity of 18 months issued on 5 April. It was followed by the first sub-five-year fixed-rate issue, Barclays Bank's three-year eurobond for £125 million issued on 12 April. Another notable issue following the period under review was the Republic of Italy's £400 million 25-year eurosterling issue, the largest ever fixed-rate sterling bond issue outside the gilt-edged market.

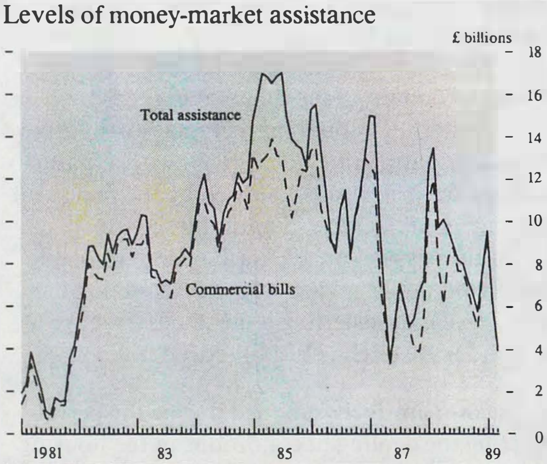
The FRN sector was comparatively subdued during the period under review, reflecting the cooling of conditions in the housing market and the consequent reduction in demand for funds by building societies and other specialist mortgage lenders. There were just five issues announced in the quarter, totalling £600 million.

UK companies together with their overseas subsidiaries raised the dollar equivalent of $3.6 billion through capital market issues in currencies other than sterling, an increase of $2.5 billion over the amount raised in the last quarter of 1988. Much of this increase reflected heavier borrowing at fixed rates by non-financial companies; these included Unilever with issues for US$200 million and A$75 million and BP with issues through its American subsidiary in US dollars, Swiss francs and New Zealand dollars for a total of US$552 million. The US dollar accounted for 50% of total borrowing, the yen 14% and the deutschemark 11%.

Recent developments in money-market assistance

Over the last few years, the total of money-market assistance, which had begun to increase in 1981 from a level of less than £1 billion and which had reached a peak in July 1985 of £17 billion, has fallen back sharply: at the end of March 1989 it stood at £4.1 billion (see chart). The growth in money-market assistance—the 'bill mountain'—in the first half of the decade was largely the result of the overfunding of the public sector—that is, the sale of more public sector debt outside the banking sector than was needed to fund the total of maturing debt, the PSBR and any underlying change in the foreign exchange reserves—in order to restrain broad monetary growth. One consequence of overfunding was that the central government built up a large holding of short-term assets in the form of paper (mainly eligible bank bills) bought by the Bank in order to provide assistance to the money market in the face of the drain of funds which overfunding caused.

Levels of money-market assistance



In 1985, the objective of funding policy became a 'full fund' of the PSBR—ie net sales of public sector debt outside the banking sector[1] equal to the PSBR etc—over each financial year. This change removed what had been the main stimulus to the increase in money-market assistance, but it was not the cause of the subsequent fall. Changes in money-market assistance are related to the finance of the central government only, rather than the public sector as a whole, because most of the public sector other than the central government has accounts with the commercial banking system rather than with the Bank of England; and to transactions in the debt of the central government (including bank notes) only, rather than debt of the whole public sector. Moreover, the sectoral breakdown of transactions in central government debt makes no difference to their consequences for money-market assistance.

Table 1 gives an account in terms of central government transactions of changes in money-market assistance over the financial years 1981/82 to 1988/89. Table 2 is an alternative presentation which includes over-funding or under-funding of the public sector as an influence on money-market assistance and which identifies the other influences which, for a given amount of over-funding or under-funding, affect the level of assistance. Table 3 shows changes in the various forms of money-market assistance over the same period.

Table 2 shows that the main influence on money-market assistance since 1985 has been the heavy borrowing by the local authorities from the central government (mainly in the form of long-term loans from the Public Works Loan Board), much of the proceeds of which have been used to repay debt to the banking system and to build up deposits

Table 1
Influences on the cash position of the money market
£ billions; *not seasonally adjusted*
Increases in the market's cash (+)

Financial years	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Factors affecting the market's cash position								
CGBR (+)	+ 7.6	+12.7	+12.2	+10.2	+11.0	+10.5	+ 0.9	− 6.9
of which, on-lending to local authorities and public corporations	*+ 1.0*	*+ 5.0*	*+ 4.1*	*+ 3.7*	*+ 6.7*	*+ 6.0*	*+ 4.2*	*+ 6.0*
Net sales (−) of central government debt(a)	−10.8	− 9.2	−14.7	−14.1	− 8.2	− 8.7	− 9.3	+13.3
of which: Gilt-edged	*− 6.0*	*− 5.1*	*−11.7*	*−10.2*	*− 5.7*	*− 6.1*	*− 7.0*	*+13.3*
National savings	*− 4.3*	*− 3.0*	*− 3.3*	*− 3.1*	*− 2.1*	*− 3.3*	*− 2.3*	*− 0.6*
CTDs	*− 0.6*	*− 1.0*	*+ 0.2*	*− 0.8*	*− 0.4*	*+ 0.7*	—	*+ 0.6*
Currency circulation (increase −)	− 0.2	− 1.2	− 0.3	− 0.9	− 0.7	+ 0.3	− 1.9	− 0.8
Reserves etc	− 1.3	− 1.6	+ 0.1	− 0.5	+ 0.9	+ 1.5	+11.4	+ 1.5
Other	− 0.4	+ 0.1	− 0.3	− 0.3	+ 0.7	+ 0.9	− 0.6	− 0.8
Total	**− 5.1**	**+ 0.8**	**− 3.0**	**− 5.7**	**+ 3.7**	**+ 4.4**	**+ 0.6**	**+ 6.2**

(a) Other than Treasury bills.

(1) From 1988/89, outside the bank and building society sectors.

Table 2
Influences on the cash position of the money market: alternative presentation

£ billions; *not seasonally adjusted*
Increases in the market's cash (+)

Financial years	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89(a)
Factors affecting the market's cash position								
Under/overfunding (+/−)	− 3.8	− 1.8	− 4.2	− 4.6	+ 0.3	+ 0.3	− 0.1	− 2.5
Local authority borrowing requirement (−)	+ 0.2	− 0.1	− 1.2	− 2.4	− 1.7	− 0.2	− 1.2	− 0.5
Public corporation borrowing requirement (−)	− 2.3	− 1.1	− 0.5	− 1.2	+ 0.3	+ 1.3	+ 1.5	+ 2.0
Central government on-lending to other public sector (+)	+ 1.0	+ 5.0	+ 4.1	+ 3.7	+ 6.7	+ 6.0	+ 4.2	+ 6.0
Central government net debt sales to banks (−)	+ 1.4	+ 0.2	− 0.7	+ 0.4	− 0.8	− 1.6	+ 0.3	+ 4.5
of which: Gilt-edged	*+ 1.4*	*+ 0.1*	*− 0.7*	*+ 0.5*	*− 0.6*	*− 1.7*	*+ 0.3*	*+ 4.1*
CTDs	—	—	—	—	*− 0.2*	*+ 0.1*	—	*+ 0.4*
Local authority and public corporation net debt sales to non-banks (+) (b)	− 0.7	− 0.5	− 0.1	− 0.8	− 1.1	− 3.0	− 2.5	− 1.5
Private sector currency circulation (increase −)	− 0.4	− 1.4	− 0.3	− 0.8	− 0.7	+ 0.2	− 2.0	− 1.1
Other	− 0.6	+ 0.5	− 0.1	—	+ 0.7	+ 1.3	+ 0.6	− 0.6
Total	**− 5.1**	**+ 0.8**	**− 3.0**	**− 5.7**	**+ 3.7**	**+ 4.4**	**+ 0.6**	**+ 6.2**

(a) For financial year 1988/89 overfunding is defined in terms of the non-bank and non-building-society private sector; in previous years it is defined in terms of the non-bank private sector. For financial year 1988/89, all references in the table to banks include building societies also.
(b) Non-banks comprise the non-bank private sector and the overseas sector.

Table 3
Official offsetting operations

£ billions; *not seasonally adjusted*
Increases in the market's cash (+)

Financial years	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Net increase (+) in Bank's commercial bills(a)	+ 4.7	− 0.3	+ 3.8	+ 1.5	− 2.0	− 3.3	+ 2.5	− 5.7
Net increase (−) in Treasury bills in market	+ 0.1	− 0.2	− 0.1	+ 0.2	− 0.1	− 0.7	− 0.8	− 0.5
Securities(b) acquired (+) under sale and repurchase	—	+ 0.6	− 0.6	+ 3.4	− 1.1	− 1.2	− 1.1	—
Other	+ 0.3	− 0.6	− 0.1	+ 0.7	− 0.4	+ 0.9	− 1.5	+ 0.1
Total	**+ 5.1**	**− 0.5**	**+ 3.0**	**+ 5.8**	**− 3.7**	**− 4.2**	**− 0.9**	**− 6.1**
Changes in bankers' operational balances at the Bank	—	+ 0.3	—	+ 0.1	—	+ 0.1	− 0.3	+ 0.2

(a) By the Issue and Banking Departments of the Bank of England.
(b) Gilt-edged stocks and promissory notes related to guaranteed export credit and shipbuilding paper.

with banks and building societies. These activities add to the CGBR but do not affect the financing of the public sector as a whole, so that their effects on money-market assistance have not been offset by variations in funding operations.

With the stock of money-market assistance having fallen in the last few weeks to its lowest level since autumn 1981, the prospective small daily amounts of maturing assistance, combined with expected Exchequer flows, are likely to lead to recurring cash surpluses in the money market. Annex 3 of the paper 'Bank of England operations in the sterling money market', published in October 1988, [1] described the means available to the authorities to remove such surpluses and maintain their influence over short-term interest rates.

(1) See the August 1988 *Bulletin*, pages 403–9.