

M3H

As a contribution towards the analysis of monetary developments in EC countries on a consistent basis, officials from EC central banks⁽¹⁾ have been working to agree a basis on which each central bank would produce a 'harmonised' broad monetary aggregate, which could be used for making comparisons among the member states.

This note⁽²⁾ describes the selected aggregate for the United Kingdom, which will be known as M3H to provide consistency with the terminology adopted in other EC countries, and provides quarterly data on the aggregate back to 1985. M3H contains the same components as the conventional UK M4 aggregate, with the additions of foreign currency deposits held by UK residents with banks and building societies in the United Kingdom, and sterling and foreign currency deposits held by UK public corporations with banks and building societies in the United Kingdom. The aggregate will in future appear on Table 6.2 in the statistical annex to the *Bulletin*.

Given the similarity between the two aggregates, it is perhaps not surprising that M3H and M4 have behaved similarly, as shown in the charts opposite.

Of those items that have been added to M4 to create M3H, the effect of including the deposit holdings of public corporations is small in the most recent data. Following more than a decade of privatisation, public corporations constitute a very small proportion of industrial activity in the United Kingdom. In any case, public corporations have generally not accumulated large money balances, since any major accumulation would normally have been passed on to the Exchequer.

The inclusion of foreign currency deposits held by the domestic non-bank non-building society private sector and public corporations with banks and building societies is of greater significance. Such deposits represent an addition of more than 5% to the total stock of M4 at present, and represented an even larger proportion in earlier years.

The foreign currency component of changes in M3H is notably more erratic than the sterling component of such changes. In certain recent quarters, changes in foreign currency deposit holdings have formed a large proportion (up to 25%) of the total quarterly change in M3H.

The Bank's most recent published work on the demand for broad money⁽³⁾ described a stable relationship between M4, wealth and real activity. Replication of this work for M3H produces broadly similar results, although the statistical properties (the goodness of fit) of the relationship are less robust. This is consistent with the view that the additional components of M3H which are not in M4 are less closely related to personal sector wealth and domestic real activity because foreign currency holdings may be used, at least in part, to finance overseas activity.

In summary, the properties of M3H and its behaviour over the recent past have been very similar to those of M4. This is not surprising given that M4 constitutes almost 95% of the stock of M3H. Nevertheless, the additional components of M3H have to date behaved more erratically than the components of M4, probably because they are less closely associated with the wealth of the domestic personal sector and domestic real activity—the two most important factors found empirically to explain the M4 measure of broad money.

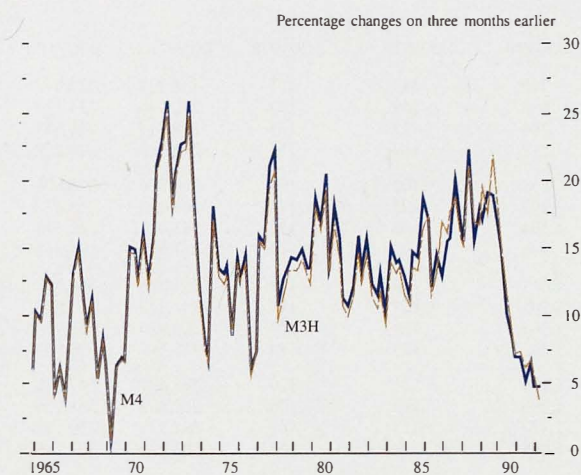
(1) The Monetary Sub-Committee of the Committee of Governors.

(2) Similar notes have appeared, or will be appearing, in the Bulletins of other EC central banks.

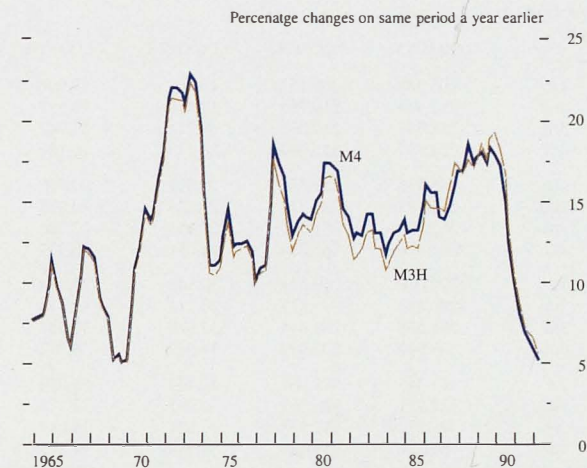
(3) 'The determination of the monetary aggregates', *Bank of England Quarterly Bulletin*, August 1990, pages 380-83.

Comparison of M4 and M3H aggregates

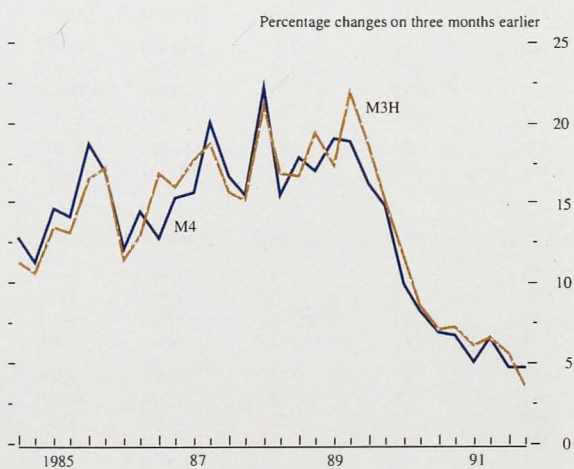
M4 and M3H three-month (annualised) growth rate



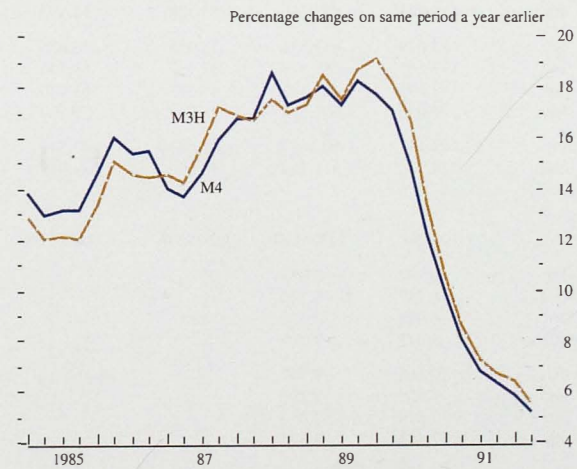
M4 and M3H twelve-month growth rate



M4 and M3H three-month (annualised) growth rate



M4 and M3H twelve-month growth rate



M4 and M3H: quarterly data

£ millions

		M4		M4 private sector holdings of FC deposits		Public corporations holdings of £ deposits		Public corporations holdings of FC deposits		M3H	
		Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted
Amounts outstanding											
End-quarters											
		LQQAUYM	LQQAUYN	LQQVTIR	LQQVTIS	LQQVTIT	LQQVTIU	LQQVTIV	LQQVTJB	LQQVTHS	LQQVTHY
1985	1st	205,382	205,151	19,108	19,000	697	706	147	155	225,334	225,012
	2nd	211,919	210,795	19,470	19,507	712	685	143	143	232,244	231,130
	3rd	218,031	217,932	19,714	19,742	776	744	123	135	238,644	238,553
	4th	224,899	225,094	20,144	20,186	751	812	189	165	245,983	246,257
1986	1st	235,536	235,336	20,801	20,590	875	863	102	109	257,314	256,898
	2nd	245,483	244,371	22,523	22,695	1,339	1,293	105	111	269,450	268,470
	3rd	252,501	251,541	27,163	27,286	1,601	1,594	166	177	281,431	280,598
	4th	261,400	261,219	29,051	28,977	873	942	199	179	291,523	291,317
1987	1st	270,070	269,821	30,143	29,430	1,324	1,017	119	114	301,656	300,382
	2nd	280,853	279,877	30,211	30,746	1,138	1,105	127	123	312,329	311,851
	3rd	291,688	289,844	31,820	32,657	1,154	1,265	168	157	324,830	323,923
	4th	303,662	302,999	31,519	30,752	1,223	1,242	143	144	336,547	335,137
1988	1st	315,445	315,004	31,430	31,073	1,441	1,136	121	120	348,437	347,333
	2nd	327,911	326,569	32,991	33,375	1,811	1,796	180	176	362,893	361,916
	3rd	345,870	342,998	33,824	34,083	1,876	1,970	153	147	381,723	379,198
	4th	356,420	355,407	34,988	34,817	1,900	1,945	118	116	393,426	392,285
1989	1st	371,720	370,994	36,964	36,926	2,286	1,977	117	118	411,087	410,015
	2nd	390,431	388,289	43,622	43,820	1,670	1,669	113	108	435,836	433,886
	3rd	407,785	404,850	43,246	42,901	1,514	1,589	94	94	452,639	449,434
	4th	423,405	422,369	48,463	48,890	1,551	1,621	88	83	473,507	472,963
1990	1st	439,207	438,209	51,547	51,828	2,068	1,754	105	108	492,927	491,899
	2nd	456,665	453,609	51,769	51,781	1,686	1,700	87	80	510,207	507,170
	3rd	466,892	464,101	54,796	53,847	1,502	1,559	101	107	523,291	519,614
	4th	474,293	473,366	53,328	54,352	1,241	1,336	111	104	528,973	529,158
1991	1st	483,079	481,876	58,055	58,656	1,238	919	95	100	542,467	541,551
	2nd	493,165	489,579	63,317	63,144	1,001	1,028	177	169	557,660	553,920
	3rd	497,691	495,495	63,523	61,970	1,312	1,351	122	133	562,648	558,949
	4th	502,005	501,121	38,039 (a)	39,660 (a)	1,156	1,277	91	81	541,291	542,139
1992	1st	507,142	505,697	42,621	43,541	1,244	920	74	81	551,081	550,239
	2nd	514,934	511,364	40,003	39,643	1,126	1,167	89	79	556,152	552,253
Changes											
End-quarters											
		LQQAUIZ	LQQAUIZ	LQQVSTE	LQQVTIW	LQQVTIX	LQQVTIY	LQQVTIZ	LQQVTJA	LQQVTHR	LQQVTHX
1985	1st	6,367	6,053	..	..	105	77	-16	4	6,456	5,979
	2nd	6,537	5,524	..	..	15	-17	5	-3	6,557	5,669
	3rd	6,098	7,297	..	..	64	62	-14	-2	6,148	7,375
	4th	6,872	7,289	..	..	-25	75	67	31	6,914	7,439
1986	1st	10,368	9,769	..	..	124	58	-87	-55	10,405	9,544
	2nd	9,950	9,392	..	..	581	555	5	5	10,536	10,359
	3rd	7,329	7,050	..	..	204	257	50	55	7,583	7,327
	4th	7,441	8,624	..	..	50	146	85	55	7,576	8,641
1987	1st	8,289	7,948	2,576	3,265	487	194	51	45	11,403	11,452
	2nd	10,898	9,783	290	1,456	-206	67	8	7	10,990	11,313
	3rd	10,910	10,322	2,058	2,273	29	171	43	35	13,040	12,801
	4th	11,901	13,547	2,318	606	69	-22	-12	—	14,276	14,131
1988	1st	11,652	11,780	285	615	218	-105	-20	-22	12,135	12,268
	2nd	12,638	11,482	-468	193	370	661	47	42	12,587	12,378
	3rd	18,122	16,717	909	705	70	180	-26	-27	19,075	17,575
	4th	10,258	12,489	2,727	2,217	327	279	1	4	13,313	14,989
1989	1st	14,510	14,843	375	428	385	32	-5	-3	15,265	15,300
	2nd	16,303	14,773	3,882	4,039	-643	-333	-12	-19	19,530	18,460
	3rd	17,950	17,257	1,050	426	-133	-55	-16	-10	18,851	17,618
	4th	15,500	17,716	4,057	4,749	196	192	-9	-15	19,744	22,642
1990	1st	16,047	6,061	4,350	4,125	518	135	20	28	20,935	20,349
	2nd	17,475	15,297	2,677	2,329	-379	-50	-14	-25	19,759	17,551
	3rd	10,463	10,836	4,328	3,287	-184	-139	15	27	14,622	14,011
	4th	7,288	9,302	-450	1,443	92	131	12	-2	6,942	10,874
1991	1st	8,219	8,008	1,425	922	648	235	-22	-10	10,270	9,155
	2nd	10,332	7,971	2,160	1,307	-186	162	23	10	12,329	9,450
	3rd	4,608	6,092	3,296	1,836	311	324	-47	-27	8,168	8,225
	4th	6,438	7,886	-1,919	1,176	-125	-41	-28	-51	4,366	8,970
1992	1st	6,347	5,777	2,697	1,916	176	-267	-21	-5	9,199	7,421
	2nd	8,118	5,869	90	-1,268	-84	283	19	2	8,143	4,886

.. not available.

(a) Prior to December 1991, some banks were including notional principal amounts associated with cross-currency interest rate swaps on their reported balance sheet, whereas most banks were not. From December 1991, all banks are excluding these items from their balance sheets. As a result of this change, there is a discontinuity in this series.