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WONFO 082/21 ① : [REDACTED]

Copy to each.

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The rest: [REDACTED]

38/268/01

GR 450

I should be grateful for material if possible by close tomorrow (Thursday) please, to allow time for compilation of a compendium

IMMEDIATE

CYPHER CAT A

FM WASHINGTON 212256Z

telegram on these and other points.

ADVANCE COPY

CONFIDENTIAL

[REDACTED]

TO IMMEDIATE F C O TELNO 4317 OF 21 DECEMBER. 22/12

FOLLOWING FOR [REDACTED] (TREASURY) FROM [REDACTED]

IMF STAFF PAPER ON THE U.K.

FOLLOWING ARE SOME FURTHER POINTS ON WHICH IT WOULD BE HELPFUL TO HAVE BRIEFING, PREFERABLY BY THE MORNING OF THURSDAY, 30 DECEMBER.

(1) WHAT ARE THE MAIN REASONS WHY IT IS DIFFICULT TO FORECAST THE PSBR PRECISELY? A BRIEF LIST WILL DO. IN THE SAME CONNECTION, WHAT WAS THE CHANCELLOR REFERRING TO WHEN HE SAID THAT THE PSBR FORECAST PREPARED IN OCTOBER CONTAINED QUOTE UNREALISTICALLY FAVOURABLE ASSUMPTIONS ON SEVERAL POINTS UNQUOTE? AGAIN A BRIEF INDICATION WILL DO. CAN WE SAY THAT THE FORECASTS NOW PRESENTED TO THE BOARD NO LONGER CONTAIN SUCH ASSUMPTIONS?

(2) IT WOULD BE HELPFUL TO HAVE ANY UP-TO-DATE INFORMATION WHICH I CAN GIVE ABOUT SALES OF GILTS, ESPECIALLY POST-PACKAGE.

(3) THE EXCLUSION OF FOREIGN EXCHANGE CREDIT FROM DCE AND OF FOREIGN CURRENCY BANK DEPOSITS FROM M3. WHAT SHOULD I SAY IF ASKED WHY WE PROPOSED THIS? IS THE COMMENT IN PARAGRAPH 2 ON PAGE 11 OF THE PAPER CORRECT AND ADEQUATE?

(4) ALTHOUGH THIS IS NOW IN THE PAST, THERE MAY BE COMMENT ON THE EXPANSION OF M3, AND ESPECIALLY ON BANK LENDING TO THE PRIVATE SECTOR IN THE PERIOD UP TO OCTOBER. DO WE ACKNOWLEDGE THAT BEFORE THE MEASURES TAKEN IN OCTOBER THE GROWTH OF THE MONETARY AGGREGATES,

AGREED WITH THE

PAGE 11 OF THE PAPER CORRECT AND ADEQUATE?

(4) ALTHOUGH THIS IS NOW IN THE PAST, THERE MAY BE COMMENT ON THE EXPANSION OF M3, AND ESPECIALLY ON BANK LENDING TO THE PRIVATE SECTOR IN THE PERIOD UP TO OCTOBER. DO WE ACKNOWLEDGE THAT BEFORE THE MEASURES TAKEN IN OCTOBER THE GROWTH OF THE MONETARY AGGREGATES, AND IN PARTICULAR LENDING TO THE PRIVATE SECTOR FOR LEADS AND LAGS WAS A CAUSE OF THE WEAKNESS OF THE EXCHANGE RATE?

(5) THE STAFF MAY BE ASKED TO SUBSTANTIATE THE VIEW IN PARAGRAPH 3 ON PAGE 11 THAT QUOTE THE FINANCE FOR THE NEEDED INVESTMENT RECOVERY IS REASONABLY ASSURED FOR 1977/78 AND 1978/79. UNQUOTE. SOME JUSTIFICATION IS GIVEN IN THE REMAINDER OF THAT PARAGRAPH. BUT HOW DOES THIS FIT, IN OUR OPINION, WITH THE FACT THAT STERLING BANK LENDING TO THE PRIVATE AND OVERSEAS SECTORS IN 1977/78 IS FORECAST TO BE NO LARGER THAN IN 1976/77?

(6) THERE SEEM TO BE SOME DISCREPANCIES BETWEEN THE M3 FIGURES IN THE STAFF PAPER AND THOSE IN [REDACTED] USEFUL NOTE ON THE PSBR AND DGE FIGURES IN THE LETTER OF INTENT, DATED 15 DECEMBER. AT THE TOP OF [REDACTED] PAGE 2, THE M3 PERCENTAGES ARE 10.7, 11.7 AND 13.2. THESE COMPARE WITH 10.6 AND 11.9 IN TABLE 6 OF THE STAFF'S PAPER (WHICH CONTAINS NO FIGURE FOR THE THIRD YEAR). AND I AM NOT CLEAR HOW THEY ARE TO BE RECONCILED WITH THE FIGURES IN THE ANNEX TO [REDACTED] NOTE ON THE POST-PACKAGE FORECAST WHICH READ 11.4, 12.8 AND 14.2.

[REDACTED]

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