

SECRET



MS.

Prime Minister, am 12
The Chancellor has not seen this yet. Subject to his views, we go on contact?

Treasury Chambers, Parliament Street, SW1P 3AG

R Carter
Duty Clerk.

PRIME MINISTER

TAP STOCKS

You accepted yesterday that a new long tap stock should be announced tomorrow, Friday 20 July. I thought that you would now like to know what is proposed, after discussion between the Bank and the Treasury.

As was mentioned in discussion yesterday, we have already secured sufficient receipts from gilt sales for banking August, given the very low Central Government Borrowing Requirement. Indeed, additional receipts during that month could be something of an embarrassment, since they would tend to tighten money market conditions, and so increase pressure on short term interest rates. But there is a need for very high receipts in banking September, when the Central Government Borrowing Requirement may be not far short of £2 billion, partly because of the effects of the first round of the income tax reliefs, which are affecting pay packets in July. We probably need more than £1,500 million of receipts from gilt sales in banking September if we are to keep the growth of money supply in that month down to an acceptable figure. Gross sales will need to be greater than this, because we ought to be starting to buy in some of the £1,200 million of Treasury 10½% 1979, which matures on 1 November: we have also to allow for some sales going overseas or to the banking system.

It is envisaged that this financing should be achieved with the issue of both a long stock and a medium stock. We feel that we ought to announce one of the stocks now, in order to take advantage of present market conditions, rather than risk missing

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an opportunity to get ahead with our funding - the more we can get ahead of our funding, the sooner we may be able to reduce interest rates without jeopardising control of the money supply. Any stock announced tomorrow would clearly have to be on a part paid basis, with 15% payable on application and the balance payable in banking September. Such a part paid stock does run the risk of attracting overseas buyers, which both puts ^{upward} pressure on the exchange rate and is a relatively expensive form of external financing. The risk would be greater if the stock announced tomorrow were the medium stock rather than the long dated one. The Bank therefore propose, and I agree, that we should announce the long dated stock tomorrow and then announce the medium stock when it can be sold on a fully paid basis in banking September.

The long stock would be for an amount of £1,500 million maturing in 2007. The coupon would be $11\frac{3}{4}\%$, or $11\frac{1}{2}\%$ if the market moves upward tomorrow, to give a redemption yield of under $12\frac{1}{4}\%$.

I am sending copies of this minute to the Chancellor and the Governor.

PL

NIGEL LAWSON

19 July 1979

(Approved by the Financial Secretary and signed in his absence).



10 DOWNING STREET

Mini

I told Paula Diggie
that PM had
registered no objection.
I have not written
round.

MA
20/11