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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

22 June, 1979

David Hunter

I am extremely grateful for your letter of 23rd May on methods of sale of Government equity. You are of course right that I am concerned to ensure that the chosen method ensures the maximum advantage to the Exchequer, and I welcome the suggestions you have made in this context.

However you will also understand that I am extremely concerned that the Public Sector Borrowing Requirement should be strictly controlled and in particular that my target of £8½ billion for this financial year should be met, with further reductions (as a percentage of GDP) in the years which follow. An issue of convertible bonds along the lines you suggest would not, however, reduce the PSBR but could instead be a means of financing the PSBR. Thus the scheme would be open to many of the arguments against high public sector borrowing with which I am sure you are familiar.

I have also asked my officials to examine the question of the gain which might accrue to the Exchequer if your scheme was adopted rather than if there were a direct sale. They have advised me that the net effect, taking into account the cost of the interest paid on the bonds prior to conversion net of additional dividends received and any premium which might be obtained on the equity price, could go either way.

David Hunter, Esq.,



Much would depend on the precise form of the option to convert which the Government offered.

I will of course be examining very carefully a variety of possible methods of implementing the asset sales I announced in the Budget and your letter will be a very useful input into the discussions.

A handwritten signature in dark ink, appearing to read "Geoffrey Howe".

(GEOFFREY HOWE)

22 JUN 1979





With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

Treasury Chambers,
Parliament Street,
S.W.1.