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Even P.A. : Domestic Treasury Policy : Pt 7

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PRIME MINISTER

INDEXED GILTS

When the Governor and I discussed indexed gilts with you, you invited us to consider the timing of the issue and to report back.

2. We are agreed that the Budget would be the best time to announce an indexed gilt. The Bank have tied up in advance over £500 million of funding for banking March which begins next Thursday, and hope to achieve further sales ahead of the Budget, particularly if the hopes of lower MLR, which were quashed last week, should revive. In any event the market will need longer than usual to digest the (complicated) prospectus and will be better able to assess the stock in the Budget context.
3. If we wished to issue before the Budget we should need to do so very soon, so as not to have a situation in which the period between issue and call included Budget day itself. An announcement in the next week or so might in any event be technically impracticable. On the other hand, we do not wish to delay the announcement any longer than necessary. The longer we do delay the greater the risks of a leak which could cause considerable damage to our conventional funding programme.
4. On balance, therefore, we think the Budget is the best time for an announcement, with the first call on 26 or 27 March.
5. You might wish to know that we would propose, in the first place, to issue a tranche of £1 billion with calls spread



over three months, with a 2 per cent real coupon and a maturity of 15 years.

6. I have proposed a solution to the eligibility problem to the Secretary of State for Trade.

7. I am copying this letter to Gordon Richardson.

(G.H.)

18 February 1981