

*Yes - especially
The Chancellor & the
Governor & we
in the District*

PRIME MINISTER

INDEXED GILTS - 13 JANUARY PAPER BY FINANCIAL SECRETARY
TO TREASURY

Prin Minister

1
You and the Chancellor were, on balance,
opposed to Nigel Lawson's indexed gilt
proposal at the November seminar. I think
we now need a meeting to discuss
again - with Gordon Richardson of
Cowan as well. Agree?

*12
1571*

1. I agree with the arguments set out in the Financial Secretary's Paper. One other consideration may be thought to be both relevant and bullish. It is impossible to sell indexed gilts through the present arrangements; they must be sold by tender. This would facilitate more rapid movement towards MBC.

2. The financial implications could be quite dramatic*. My judgement is that if £10Bn of £20Bn total borrowing were indexed, the real rate of interest on the indexed gilts would be only about 1% - perhaps even negative - but take it at a high 2%. This would remove then the difference between the present 14% and 2%, ie 12% of £10Bn (or £1.2Bn) from the PSBR in the current year. This reduction in the "front end loading" of our present borrowing would be a very useful ally in the difficult months ahead.

*Ignoring tax payments.

A Walker

15 January 1981