

SECRET

Prime Minister²
To note

20 April 1983
ALAN WALTERS

PRIME MINISTER

FUNDING

MUS 20/4

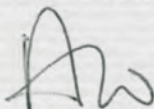
The target for gilt-edged funding for the year is about £1bn a month. However, there is particular difficulty because of the overshoot of the CGBR of £1³/₄bn in banking April. The total CGBRs seasonally adjusted and including on-lending are, for April £1995m, for May £1645m and for June £1625m.

This suggests that we should step up our funding target, depending on market conditions, somewhat above the billion for May and June. The general view is we should certainly avoid falling below £1bn in each month.

Fortunately there are calls in place for May and June for £630m and £565m respectively. This would mean that the very minimum level of sales should be about £400m in each month. And if the markets are suitably buoyant we should try to reach £700m in both of those months. This latter figure would give us just about the higher funding we are looking for.

In order to help funding over the future months, the Bank is going to introduce "an index link to convertible stock". This is sold as a normal index-linked stock with a yield slightly below that of present index-linked. As a quid pro quo for this lower yield, the holders will have the right to convert into conventional stock with a yield about 1% below the present yield on 1994 conventionals. According to the various optional conversion dates, the yield on the conventional conversion stock falls to reflect the expected declining rate of inflation.

This new gilt concept arose from a suggestion which I made some months ago and which I mentioned in one of my memos to you (copy attached). I thought it would be particularly useful where there was increased uncertainty perhaps associated with an impending election. The Bank are thinking of issuing about £750m to £1bn of this stock. If it is successful, this should go quite a long way towards filling funding requirements over the months ahead. It should also be slightly cheaper than either of the alternative pure-IG or pure-short-conventional.



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