

SECRET

24 November 1983

MR TURNBULL

John - who would you like on the Court?

FUNDING MEETING, 23 NOVEMBER

New applicants are being

I attended the meeting yesterday where the following propositions were generally agreed:

made and I should like

someone who really knows about money supply & funding.

no

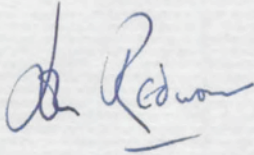
1. Monetary conditions are a little lax, and in the absence of better controls over public spending, more stock has to be sold.
  2. National Savings have been doing quite well recently, bringing the annual total to end-October to £1.6 billion compared with the target of £3 billion for the year as a whole. Likely flows over the Christmas period will leave National Savings with an estimated £700 million to raise in the last 2 months of the year. If building society interest rates have fallen by then, this is realistic. Otherwise they will need a new product to be able to achieve this target.
  3. Following last month's meeting, the Bank has issued a 10 per cent 1989 conventional tap stock, and has now issued a £500 million low coupon short in order to mop up some of the funds available from the roll-up funds, whose tax break expires at end-December. The Bank argued that it would not be able to meet the £1.25 billion a month of sales it needs in December and January without moving longer.
- The Treasury and I have been sceptical about the Bank's requests to sell a large amount of long stock. Their demand has been whittled down to tranches of 1990s stock if they have reached an impasse with other instruments.
4. The Bank do not seem to have exploited the rising market in gilts in the last 5 weeks as actively as we would have liked. They now face a 2-week period of inactivity with respect to new stocks during the Cable & Wireless sale. The Economic Secretary, therefore, may well be forced to accept small tranches of 1990s stock in 2-3 weeks' time, mainly because of the Bank's tactics.

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5. The long-dated index-linked tap stock remains unattractive to the market in current conditions.
  
6. Before the year end, the Bank will probably launch a short convertible stock to attract some of the building society money. That would seem an acceptable idea.



JOHN REDWOOD

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10 DOWNING STREET

### Prime Minister ④

This is an old story. Eternal vigilance, which John Redwood is helping to provide, is needed to stop the Bank selling long gilts. These should be sold only as a very last resort and then in limited quantities, i.e. further small tranches of existing stocks rather than full scale issues.

AT

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