

SECRET



File S DSG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 May 1990

Dear Kate,

FOREIGN CURRENCY BORROWING:
LIABILITY SWAP OUT OF STERLING

Thank you for your letter of 18 May. I thought it worthwhile putting this into the Prime Minister over the weekend.

The Prime Minister has noted the new proposals for financing foreign currency holdings in the reserves without comment.

Yours,

Barry

Barry H. Potter

Miss Kate Gaseltine,
H.M. Treasury.

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Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

18 May 1990

Barry Potter Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

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Dear Barry

FOREIGN CURRENCY BORROWING : LIABILITY SWAP OUT OF STERLING

The Prime Minister may like to know that we are planning to experiment with a new technique for financing foreign currency holdings in the reserves at least cost. If successful, it should prove a very cost effective way to refinance existing foreign currency loans as they mature.

The technique involves using the very fine terms that the Government can secure for its borrowing in the sterling market to generate equally fine terms for foreign currency borrowing, by arranging a swap with a counterparty who has dollars and wishes to borrow sterling.

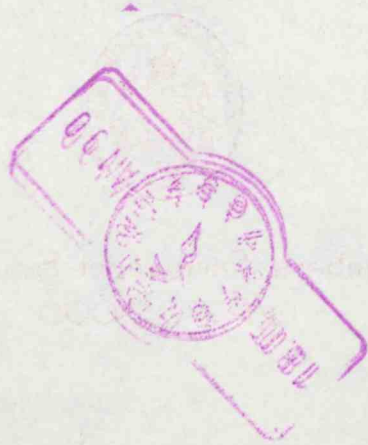
Assuming it can be negotiated successfully, the initial operation will involve a swap with the European Investment Bank, of up to \$500 million, and an increase in the reserves of the same amount. This will replace part of the \$3 billion rundown in foreign currency borrowing over the last two years. We intend to keep the arrangement confidential. But if the experiment proves a success we may wish to publicise the new technique later on.

There is no question but that the Exchange Equalisation Account, unlike local authorities, has the vires to undertake swaps.

Yours

Kate

MISS K GASELTINE
Assistant Private Secretary



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