



10 DOWNING STREET
LONDON SW1A 2AA

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THE PRIME MINISTER

10 December 1990

Dear Wim,

Thank you for your kind letter of 28 November.

I would not, of course, presume to offer advice as to whether the Netherlands should introduce index-linked bonds. But I can say that our own experience of index-linked gilts has been a positive one. We see several advantages of financing ourselves in this form:

- a) buyers of indexed debt acquire certainty about the real rate of return they will receive regardless of what happens to future inflation. Equally, the Government knows the real interest cost of its borrowing. This reduction in risk, compared to borrowing in conventional form, is of value to both sides;
- b) having debt in indexed form acts as a deterrent to future governments pursuing inflationary policies. If they allow inflation to develop that will be reflected in the increased cost of redeeming the debt at its maturity;
- c) by the same token, because in fact we are confident that inflation will be defeated as a result of the tight policies we are pursuing, we believed indexed finance represents cheaper borrowing than would otherwise be obtainable.

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For all these reasons, the proportion of gilts in indexed form has been increased steadily since they were first introduced in 1981. Over 15 per cent of all gilts are now in indexed form. We also issue index-linked savings certificates to individuals, enabling small savers to receive a guaranteed real rate of return. About £5 billion of the certificates are in issue.

Officials at the Treasury would, of course, be pleased to talk to your experts if they wished to discuss the matter in more detail.

*Your Ever,
John*

Mr. Wim Kok



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

6 December 1990

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Charles

Your letter of 30 November, enclosing correspondence from Mr Wim Kok, the Netherlands Minister of Finance, was, as you know, transferred to the Treasury.

... I attach a draft reply for the Prime Minister to send to Mr Wim Kok.

Yours sincerely

Kate Gaseltine

MISS K GASELTINE
Assistant Private Secretary

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John
Choy Kok
To WIM

DRAFT LETTER FROM THE PRIME MINISTER TO MR WIM KOK

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[JOHN MAJOR]

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Foreign and Commonwealth Office

London SW1A 2AH

3 December 1990

R3/12

Dear Kate,

I enclose a letter that we have received from Mr Powell at Number 10 attaching one to the Prime Minister from Mr Wim Kok. The letter concerns the use of index-linked bonds by government.

I am informed by officials here that this subject is more appropriately one for your to deal with. I should therefore be grateful if you would provide Number 10 with a reply.

I have informed Number 10 of this transfer.

Yours sincerely,

Christopher H Eakin

~~(C H Eakin)~~
Assistant Private Secretary

Ms Kate Gaseltine
APS/HM Treasury



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 November 1990

I attach a copy of a letter the Prime Minister has received from Mr Wim Kok, the Netherlands Minister of Finance.

I should be grateful for a draft reply, to reach me by Thursday 6 December.

Charles Powell

~~Richard Gozney Esq~~
Foreign and Commonwealth Office

→ HMT 3/12



MINISTER
OF
FINANCE

BGW90/3071

The Hague, November 28 1990

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To: The Right Honourable John Major,
Prime Minister,
10 Downing Street,
London SW1
UNITED KINGDOM

Dear John,

I am writing you on a matter which has stirred quite some debate here in The Netherlands - between economists, and also in Parliament - namely the use of index-linked bonds by Government. Proponents have stressed the savings that such an instrument would produce. The Ministry of Finance has always been, and still is, very reluctant to introduce index-linked instruments. It is seen as undesirable that Government expenditure and indebtedness would rise with inflation, because this would aggravate budgetary problems in times of high inflation.

I would be very grateful if you could share some of the U.K. experience in this field. I am especially interested in your assessment of index-linked bonds in the present context of rising inflation in many European countries.

On a personal note I would like to congratulate you wholeheartedly with your election as leader of your party and with your appointment as the new British Prime Minister.

A copy of this letter will be sent to the new Chancellor of the Exchequer.

With kind regards,

(Wim Kok)