

SECRET

BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

28 September 1983

F Cassell Esq
H M Treasury
Parliament Street
London SW1P 3AG

Dear Frank,

I am not sure at this stage what ground it is intended should be covered at the meeting which has been arranged for tomorrow between the Governor and the Chancellor, but I thought that you might anyway find it useful to have the enclosed background note on the problem of gilt-edged maturities to which we have referred in the past and which is now becoming an increasing constraint on our freedom of choice in the matter of funding instruments.

Yours ever,

Addie.

MATURITY SCHEDULE OF GILT-EDGED STOCKS AS AT 26. 9.83 (TABLE 1)

Table 1 provides a maturity schedule of gilt-edged stocks as at 26 September 1983. It has been necessary to make certain assumptions in drawing it up, as follows:

(1) Stocks with optional redemption dates

It is generally advantageous for the Government to redeem such stocks at the earliest possible date if the current level of interest rates at that date is below the coupon on the stock. Accordingly, it has been assumed in drawing up the attached table that stocks with coupons of over 5% will be redeemed at the earliest possible date: this reflects an implicit assumption that interest rates will fall to around 5%.

(2) Convertible stocks

Broadly speaking, investors will take up the conversion options on conventional stocks, thereby converting short-dated stocks into long-dated stocks, if long-dated stocks rise in price in relation to short-dated ones. In the case of the index-linked convertible stock, they will convert into the long-dated conventional stock if long-dated conventional stocks rise in price relative to long-dated index-linked stocks. If interest rates fall generally, investors will have an incentive to convert both conventional convertibles and the index-linked convertible, and for the purposes of the table full conversion of all convertible stocks has been assumed.

The raw material for the table comes from the daily sheet produced by Messrs Mullens and Co, which gives a full list of British Government stocks listed in order of redemption date. The redemptions due in each financial year from now on, on the basis of this list, are shown in column A of the table attached. In Mullens' sheet, and hence in column A of the table, stocks with optional redemption dates are listed according to the last possible redemption date, and convertible stocks are listed according

to the redemption date of the short-dated stock rather than that of the stock into which the holder can convert. In other words, the list is not in the order implied by assumptions (1) and (2) above. To get the list into that order certain adjustments are required: those are shown in column B, and column C shows the adjusted maturity schedule.

Column C gives the maturity schedule of the stocks in issue, but to obtain a maturity schedule of stocks held by the market it is necessary to allow for stocks held by the National Investment and Loans Office (NILO) on behalf of the National Debt Commissioners and by the Issue Department of the Bank. The maturity schedule of the stocks in these official hands are shown in columns D and E, and the maturity schedule of stocks held by the market in column F. The nominal amounts accounted for by index-linked stocks are shown in column G, in brackets.

Stocks with no final redemption date (of which £3,256 million nominal are in issue) have been omitted. Index-linked stocks, where the amount to be redeemed is uncertain, are included at the nominal value; those totals which contain index-linked redemptions are marked with an asterisk. More detailed notes are attached to the table.

On the basis of the table, some 74% of the total of conventional gilt-edged stocks held in the market will mature in the next 15 financial years: this percentage has risen from 61% two years ago. Making no allowance for the effect of new stocks, in the next five years the percentage will rise with the passage of time to 91%.

TABLE 1

GILT-EDGED MATURITIES AS AT 26. 9.83

£ millions

	A	B	C	D	E	F	G	
	Schedule as on Mullens' sheet	Adjustments	Adjusted schedule of stocks issued	Stocks held by NILO ⁽¹⁾	Stocks held by the Bank (2)	Adjusted schedule of stocks held by market	of which: index- linked ⁽³⁾ stocks	
1983/84 to come	3,388	-	3,388	411 ⁽⁴⁾	460	2,517		1983/84 to come
1984/85	4,615	+1,100	5,715	489	106	5,120		1984/85
1985/86	5,897	- 438	5,459	338	107	5,014		1985/86
1986/87	8,326	-3,926	4,400	201	48	4,151		1986/87
1987/88	7,159*	- 59	7,100*	439	-29	6,690*	(1,000)	1987/88
1988/89	7,102	-1,000	6,102	658	-96	5,540		1988/89
1989/90	3,651	-	3,651	312	-	3,339		1989/90
1990/91	2,600	- 600	2,000	322		1,678		1990/91
1991/92	2,850	+ 200	3,050	300	-15	2,765		1991/92
1992/93	3,107	-	3,107	206		2,901		1992/93
1993/94	3,550	-	3,550	257		3,293		1993/94
1994/95	5,650	-	5,650	494		5,156		1994/95
1995/96	3,514	+ 400	3,914	107		3,807		1995/96
1996/97	5,991*	-	5,991*	366		5,625*	(1,000)	1996/97
1997/98	1,800	-	1,800	14		1,786		1997/98
1998/99	8,100	+1,800	9,900	320		9,580		1998/99
1999/2000	1,800*	+4,897	6,697 ⁽⁵⁾	172		6,525 ⁽⁵⁾		1999/2000
2000/01	1,557	+ 226	1,783	39		1,744		2000/01
2001/02	3,150*	-1,800	1,350*	50	13*	1,287*	(348)	2001/02
2002/03	-	+5,300	5,300		8	5,292		2002/03
2003/04	3,150*	+ 500	3,650*			3,650*	(350)	2003/04
2004/05	443	-	443			443		2004/05
2005/06	2,050	-2,050	-			-		2005/06
2006/07	4,300*	-3,300	1,000*			1,000*	(1,000)	2006/07
2007/08	1,250	-1,250	-			-		2007/08
2008/09	-	+1,000	1,000	30		970		2008/09
2009/10	500*	-	500*			500*	(500)	2009/10
2010/11	-	-	-			-		2010/11
2011/12	750*	+ 600	1,350*			1,350*	(750)	2011/12
2012/13	1,000	-1,000	-			-		2012/13
2013/14	-	+1,000	1,000			1,000		2013/14
2014/15	600	- 600	-			-		2014/15
2015/16	-	-	-			-		2015/16
2016/17	750*	-	750*			750*	(750)	2016/17
2017/18	1,000	-1,000	-			-		2017/18
2018/19	-	-	-			-		2018/19
2019/20	-	-	-			-		2019/20
2020/21	-	-	-			-		2020/21

DETAILED NOTES TO TABLE 1

An asterisk (*) indicates that the amount in question includes an amount of index-linked stock, included at its nominal value.

- (1) As at 30. 6.83 - the latest date for which we have full figures. Includes stocks lent to the Bank.
- (2) As at 26. 9.83. Stocks owed to NILO are included with a minus sign.
- (3) At nominal value.
- (4) As at 17. 8.83.
- (5) This amount will be wholly in conventional form if all of the index-linked convertible stock is converted.