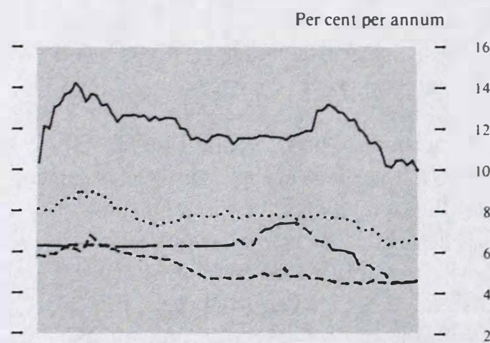
Operation of monetary policy

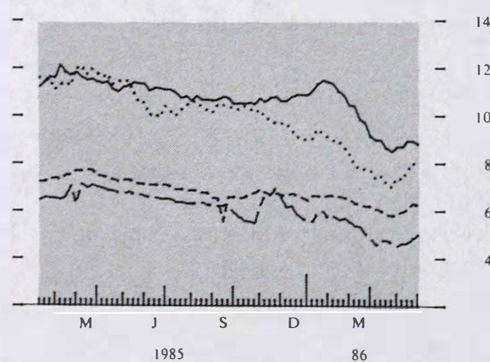
This article covers the three months from mid-February to mid-May 1986.

Review

The main feature of the period under review was the exceptional strength of financial markets worldwide. Domestically, the policy indicators were mixed. Retail price inflation was falling and output growth sluggish during the period; and narrow monetary growth remained modest and the exchange rate firm. But the broader monetary aggregates grew very fast, and continuing rapid growth of unit labour costs suggested that domestically-generated inflationary pressures were still uncomfortably high. In this context, the UK authorities allowed interest rates to fall, but at a more measured pace than the markets at times were suggesting.

Domestic interest rates in the major countries





(a) 10-year yields.

The principal impetus to lower domestic interest rates came from the international environment. The sharp decline in oil prices in the early part of the year had led to a marked fall in inflation expectations in the major countries, which was translated into lower nominal interest rates. This process seemed largely to have run its course by the second half of April. This was in part simply a reaction to the sharp decline in interest rates and bond yields, and the steep rise in equity prices, which had already occurred. But it also reflected the firming in the oil price (which, having fallen to $10 per barrel in early April, temporarily recovered to about $15 by the end of the period), and the increasing perception that the benefits of the oil price fall for inflation were a one-off factor.

In the United Kingdom, the period began with the domestic markets hopeful of lower interest rates around the time of the Budget on 18 March. These hopes were fulfilled with a 1% reduction in banks' base rates on the day following the Budget; and in the succeeding two months there were three further ½% reductions. Gilt-edged yields fell from 10% to 8½% by mid-April, before rising again to 9%–9¼%.

The international climate of falling interest rates both fuelled optimism in domestic market expectations and gave the room for manoeuvre to allow UK interest rates to fall without carrying the implication of monetary laxity. In particular, the sterling exchange rate was firm through much of the period. Although it fell in early March to a low point of 72.4 on the effective exchange rate index, and to below DM 3.19, from the time of the Budget onwards it traded largely in a narrow range between 75.0 and 77.0. This reflected at times particular strength against the dollar (well in excess of $1.50 on some days) and a more modest, but nevertheless significant, firming against the deutschemark (at times reaching DM 3.40). The performance of sterling was in part associated with the continuing adjustment of the dollar against, in particular, the deutschemark and the yen (which resulted in falls in the dollar

of 2½% against the deutschemark and 6½% against the yen during the period under review).

A further factor encouraging domestic markets was the improvement in the fiscal position evidenced by the £5.9 billion PSBR outturn for 1985/86. The Budget projection of a £7 billion PSBR for the current financial year was also well received. Taken together with the avoidance of overfunding, reaffirmed in the Budget, this helped gilt-edged yields to fall through the psychological 10% 'yield barrier', and to consolidate below this level.

The monetary statistics were mixed. The narrow money target aggregate, M0, continued to grow reassuringly slowly, towards the bottom end of the new 2%–6% target range announced in the Budget. But the wider target aggregate, £M3, grew faster than expected during the period, at a rate well above its re-established target range of 11%–15%. The growth of the broader aggregate, PSL2,[1] also accelerated, but to a considerably smaller degree, with the difference in part explained by a switch within the building societies' liquid assets into bank deposits. This acceleration in the broad monetary aggregates was partly accounted for by the public sector's financial position during the particular period, which had an expansionary influence on money, associated with the bunching of gilt-edged maturities; but it also reflected the strength of private sector demand for credit.

These figures, and the recent apparent acceleration in the growth of house prices, which, taken on their own, suggest a loosening of monetary conditions, have to be interpreted alongside other indicators, which suggest that monetary conditions have remained firm. In the first place, retail price inflation declined further during the period and the near-term outlook is very encouraging. In the short term the influence of low oil and commodity prices, and declining mortgage interest rates, will ensure that retail price inflation remains low. The longer-run prospect, however, is heavily dependent on the behaviour of unit labour costs, which are still advancing at a rate in excess of 5% per annum.

Second, there has been some hesitation in output growth since the second half of last year, and unemployment has risen. Although the prospect is for a consumption-led resumption of growth as a consequence of buoyant real earnings, the behaviour of output does not suggest that monetary conditions have been unduly relaxed.

Third, the modest strengthening of the exchange rate over the period also supports this interpretation of the monetary stance.

Taking all these factors into account, some decline in interest rates appeared to be justified during the period under review. But the authorities remain alert to the potential inflationary risks for the future of the buildup of private sector liquidity, and will continue to monitor carefully all the available evidence of monetary conditions.

(1) This aggregate has been redefined—see page 186.

Monetary aggregates and credit

The figures in this section are seasonally adjusted, unless otherwise stated.

Table A
Growth rates of the monetary aggregates
Percentages: *seasonally adjusted*

Banking months	12months to Feb. 86	12 months to May 86	Dec. 85– Feb. 86	Mar. 86– May 86
M0(a)	3.5	3.4	1.1	0.9
£M3	14.8	19.5	1.7	8.6
Non-interest-bearing M1	2.7	6.6	0.3	4.7
M1	20.0	22.0	1.1	9.3
M2(b)	9.0	12.0		
	9.6	*12.6*		
PSL1	13.9	18.3	1.3	8.4
PSL2, (new definition)(c)	12.9	14.7	2.4	5.1
M3	11.6	18.5	1.9	8.1

not available.

(a) Weekly average.

(b) Not seasonally adjusted: excluding the effect of changes in the terms of existing accounts. Figures including such effects are shown in *italics*.

(c) The definition of PSL2 has been widened to include building society term shares and SAYE deposits and bank deposits with an original maturity of over two years.

Apart from M0, which continued to grow steadily at a rate towards the lower end of its target range, other measures of money, both broad and narrow, grew more rapidly in each of the three months under review than in any of the previous three months. £M3 increased by an exceptional 8.6% during the three months compared with 1.7% in the previous three, taking its twelve-month growth rate to 19.5% at mid-May, compared with 14.8% at the beginning of the period. PSL2, the definition of which has now been broadened to include building society term shares and SAYE deposits, and bank deposits with an original term longer than two years,[1] increased by 5.1%, somewhat less than £M3, but again at a faster pace than in the previous three months, when it rose by 2.4%. Its twelve-month growth rate, which has shown apparent stability in the region of 12.5%–13.5% since 1984, had risen to 14.7% by mid-May. In retrospect, growth of broad money in the three months to mid-February may have been unusually low, and higher growth in the latest period may represent in some part a process of catching up. There are also good reasons—in particular, a repetition of last year's end-financial-year surge in bank lending for investment purposes, and the concentration of redemptions of gilt-edged—to suppose that growth in the latest period overstates the underlying trend.

Table B
Composition of changes in the money stock
£ billions: *seasonally adjusted*

	Banking months	Dec. 85– Feb. 86	Mar. 86– May 86	Level outstanding at mid-May 86
1	Non-interest-bearing M1	+0.1	+ 1.6	36.0
2	Interest-bearing sight deposits	+0.5	+ 3.9	29.0
3	**M1 (= 1+2)**	**+0.6**	**+ 5.5**	**65.0**
4	Private sector holdings of time deposits with banks and bank CDs	+1.4	+ 5.3	72.0
5	**£M3 (= 3+4)**	**+2.1**	**+10.8**	**137.0**
	Non-bank private sector holdings of:			
6	Building society shares and deposits(a)	+3.8	+ 3.4	109.7
7	Building society wholesale liabilities(b)	+0.2	+ 0.2	2.1
8	Other	−0.4	− 2.1	4.8
9	**PSL2 (= 5+6+7+8)(c)**	**+5.7**	**+12.3**	**253.6**

(a) Including term shares and interest credited.

(b) CDs and time deposits (excluding holdings by building societies themselves).

(c) The definition of PSL2 has been widened to include building society term shares and SAYE deposits and bank deposits with an original maturity of over two years.

Among the components of £M3, non-interest-bearing sight deposits continued to grow slowly until May, when there was an unusually large increase, in part perhaps a consequence of the proximity of the redemptions of two gilt-edged stocks to the end of the banking month, and also of the buildup of funds in anticipation of large share issues. Interest-bearing retail deposits, which had grown rapidly last year after the introduction of high interest cheque accounts but only slowly in the three months December to February, resumed rapid growth over the most recent period, with monthly inflows comparable to the middle months of last year. The competitiveness of such accounts has generally declined as interest rates have fallen, but, in retrospect, it appears that the slowing in growth in the post-Christmas period may have been seasonal rather than an end to a stock adjustment. Although inflows into building societies have tended to decline over the period, the growth of that part of their inflows that is included in M2 has remained strong, as a significant proportion of maturing term shares have been switched into these shorter-term accounts. M2 growth has thus accelerated, but this is likely to reflect a change in the pattern of saving rather than an easing of monetary conditions. The overall slowdown in building society inflows, however, together with a renewed sharp buildup in building society liquid assets including bank deposits (which are included in £M3 but excluded from PSL2) and large repayments of debt by local authorities to the non-bank private sector, help to explain the relatively modest acceleration (compared with that shown by £M3) in PSL2 over the period.

(1) The wider definition of PSL2 has been mentioned in the *Bulletin* for some time, reflecting easier access to building society term shares since late 1984. Since March 1983, Table 12 of the statistical annex has shown building societies' term shares and SAYE deposits alongside PSL2. Table 12 now shows 'PSL2' old definition up to end-1985, and new definition since 1984.

Table C
Changes in £M3 and its counterparts[a]

£ billions: *seasonally adjusted*

Banking months	3 months Dec. 85– Feb. 86	3 months Mar. 86– May 86	3 months Mar. 85– May 85	12 months June 85– May 86
1 Central government borrowing requirement	+0.9	+ 5.2	+2.5	+13.6
of which:	—	+ *0.2*	+*1.6*	+ *3.8*
own account borrowing:				
on-lending to:				
local authorities	+*0.6*	+ *5.3*	+*1.1*	+ *8.9*
public corporations	+*0.3*	– *0.3*	–*0.2*	+ *1.0*
2 Other public sector borrowing	–0.1	– 2.6	+0.1	– 5.7
3 **PSBR** (= 1+2)(b)	**+0.7**	**+ 2.6**	**+2.6**	**+ 7.9**
4 Net purchases (–) of central government debt by the non-bank private sector	–0.4	– 0.6	–3.2	– 4.2
of which:				
Gilt-edged stocks	–*0.6*	+ *0.3*	–*2.2*	– *1.9*
National savings	–*0.2*	– *0.2*	–*0.6*	– *2.0*
CTD's	+*0.2*	– *0.6*	–*0.3*	– *0.3*
5 External and foreign currency finance of the public sector(c)	–0.4	—	–0.4	– 2.2
of which, gilt-edged stocks (purchases –)	–*0.2*	– *0.5*	–*0.8*	– *2.4*
6 **Overfunding (–)** = (3+4+5)	–0.1	+ 2.0	–1.0	+ 1.6
7 Sterling lending by the banking system to the UK private sector(d)	+4.1	+ 7.2	+5.8	+21.0
8 External and foreign currency finance of the monetary sector(e)	–0.1	+ 1.4	+1.5	+ 1.4
9 Net non-deposit sterling liabilities (increase –)	–1.8	+ 0.3	–1.6	– 1.6
10 Change in £M3 = (6+7+8+9)	**+2.1**	**+10.8**	**+4.7**	**+22.4**

(a) Counterparts may not add up to the total change in £M3 because of rounding.

(b) Strictly the PSBR, *less* net purchases of local authorities' and public corporations' debt by the non-bank private sector.

(c) Includes net overseas purchases of public sector debt, *less* the public sector's net acquisition of claims on the overseas sector.

(d) Including changes in Issue Department's holdings of commercial bills and of promissory notes relating to shipbuilding paper guaranteed by the Department of Trade and Industry.

(e) The net external sterling liabilities of the monetary sector (increase –) *plus* the net foreign currency liabilities of the monetary sector to all sectors (increase –).

Table D
Financing of the public sector

£ billions: *seasonally adjusted*

Banking months	12 months to mid-Mar. 85	12 months to mid-Mar. 86	3 months to mid-May 86
Central government borrowing on own account	+ 6.0	+4.5	+0.2
Other public sector borrowing(a)	+ 4.3	+2.8	+2.4
'Modified' PSBR(b)	**+10.3**	**+7.2**	**+2.6**
Net sales of central government debt to the non-bank private sector	–13.1	–5.5	–0.6
of which:			
Gilt-edged stocks	– *9.4*	–*3.1*	+*0.3*
National savings	– *3.1*	–*2.2*	–*0.2*
CTDs	– *0.8*	–*0.2*	–*0.6*
External and foreign currency finance of the public sector	– 2.0	–1.9	—
of which, gilt-edged stocks	– *1.1*	–*2.1*	–*0.5*
Total financing of the government from the non-bank private and overseas sectors(c)	**–15.1**	**–7.4**	**–0.7**

(a) Includes on-lending from central government to local authorities and public corporations.

(b) Equals the PSBR *less* net purchases of local authorities' and public corporations' debt by the non-bank private sector.

(c) This total excludes net purchases of local authorities' and public corporations' debt by the non-bank private sector. As explained in footnote (b) the impact of such purchases is included, indistinguishably, within the 'modified' PSBR.

Turning to the counterparts of £M3, the main expansionary elements were bank lending, particularly in March and April, and an underfund of the PSBR. In May, external transactions were also a large expansionary factor.

Bank lending showed a pattern similar to that in the same period last year, when there was substantial borrowing to finance the bringing forward of investment in order to forestall the reduction in capital allowances. Although the basic motivation is likely to be as last year, there are some differences. While provisional estimates for investment suggest a marked rise in the first quarter of this year, it was on a more modest scale than last year, and more was financed directly by companies themselves, and less by way of leasing. With the rise in profits over the last two years, there are likely to be fewer tax-exhausted companies undertaking investment this year, and thus less demand for leasing. On the other hand, there was no particular reason why the path of lending, with growth concentrated in the last weeks of the financial year followed by a quick deceleration back to a more usual rate, should have been the same as last year: investment outlays could this year be spread over a longer period and still attract tax relief.

The aim of funding policy remains that of fully funding the PSBR, taking into account debt sales to the non-bank private sector and external and foreign currency finance of the public sector. This applies over the financial year as a whole, and need not apply in any particular period during the year. For the latest three months, the public sector contribution has been an expansionary influence on the growth of £M3. Although the central government had only a small deficit on its own account during the period (including the final call on British Telecom), on-lending by central government to the rest of the public sector was exceptionally high. This on-lending was mainly to local authorities, which used some of it to repay debt, to both banks and non-banks, and to build up bank deposits. The overall public sector borrowing requirement, adjusted for sales of debt by local authorities and public corporations to the non-bank private sector, was £2.6 billion, well up from the £0.7 billion of the previous period, and similar to the same period last year. But, unlike last year, when there was overfunding in the equivalent period, this year's surge in the PSBR coincided with a period of heavy gilt redemptions and, in March, with more moderate gross sales towards the end of the financial year. As a consequence, there was a substantial underfund, which amounted to £2.0 billion, compared with an overfund of £1.0 billion in the same period last year. This turnaround between overfunding and underfunding imparts a substantial, but partly temporary, boost to growth rates of broad money on the twelve-month comparison.

Rapid growth of bank lending, together with a substantial expansionary public sector contribution, provided the potential for £M3 to grow above its target range of 11%–15% in the early months of this financial year. But, in addition, external and foreign currency transactions of banks, which had been contractionary over the previous three months, were expansionary between mid-March and mid-May. This movement may in part reflect a turnaround in the private sector balance of payments, which was in small surplus after a large deficit in the previous period. Within the external flows, there

was a sharp reduction in non-residents' sterling bank deposits, particularly in banking May, and a sharp increase in their holdings of gilt-edged securities. Also over this period there were substantial issues of fixed-rate eurosterling paper by the UK private sector, some of which are likely to have been taken up by non-residents, and the proceeds of which may have been used to build up the issuers' bank deposits at least temporarily. The move out of bank deposits into gilts may perhaps be seen as part of a wider move into fixed-rate sterling instruments out of floating-rate deposits on the expectation by non-residents of a further decline in sterling interest rates.

Sterling commercial paper

Following discussions with prospective issuers and market participants, the authorities announced on 29 April arrangements to permit the issue of sterling commercial paper.[1] The first issues were made when the required regulation under the Banking Act came into effect three weeks later, on 20 May.

Sterling commercial paper may be issued by companies listed on The Stock Exchange with net assets of at least £50 million or by their wholly-owned subsidiaries under guarantee of the parent. Issues may also be guaranteed by a recognised bank or licensed deposit-taker. The paper must have a maturity of at least seven days but less than one year, and the minimum denomination of individual securities has been set at £500,000.

As in the case of the short-term corporate bond market, which was opened up last year, the removal of the Banking Act constraint is intended to continue the process of extending financial markets, especially for corporate borrowers, if an acceptable substitute regime—in terms of investor protection—can be provided.

Statistics are being collected by the Bank of commercial paper programmes, amounts issued, amounts held by banks (on their own account and on behalf of non-residents) and, by residual, of amounts estimated to be held by the non-bank private sector, in each case distinguishing between amounts guaranteed by a bank and amounts not so guaranteed. It is intended to publish such figures each month with the full money supply figures,[2] so that account can be taken of their possible implications for the interpretation of other monetary data.

By the last day of the period under review (21 May), the day after the market opened, paper totalling £22 million had been issued under three programmes.

Official operations in financial markets

The figures in this section are not seasonally adjusted, unless otherwise stated.

The central government's borrowing requirement on own-account transactions during the period under review was £1.8 billion. In addition, the central government lent no less than £5.0 billion to the rest of the public sector, mainly to the local authorities, bringing the total cash deficit of the central

(1) The relevant notice is reproduced on page 198.
(2) Reporting arrangements are described in the notice reproduced on page 198 and in a separate statistical notice to banks of 29 April.

Table E
Official transactions in gilt-edged stocks
£ billions: *not seasonally adjusted*

Banking months	June 85– Aug. 85	Sept. 85– Nov. 85	Dec. 85– Feb. 86	Mar. 85– May 86
Gross official sales(a)	+3.9	+2.7	+2.7	+3.3
less				
Redemptions and net official purchases of stock within a year of maturity	−2.5	−1.0	−2.0	−3.0
Equals net official sales(b)	+1.4	+1.7	+0.6	+0.3
of which, net purchases by:				
Monetary sector(b)	*+0.1*	*−0.3*	*−0.1*	*+0.1*
Overseas sector	*+1.1*	*+0.6*	*+0.2*	*+0.5*
Non-bank private sector	*+0.3*	*+1.3*	*+0.6*	*−0.3*

Note: Sales are recorded on a payments basis, so that payments made on partly-paid stocks are entered according to when they are paid rather than according to the time of the commitment to make the payment.

(a) Gross official sales of gilt-edged stocks are defined as net official sales of stocks with over one year to maturity apart from transactions under purchase and resale agreements.

(b) Apart from transactions under purchase and resale agreements.

Table F
Influences on the cash position of the money market
£ billions: *not seasonally adjusted*
Increase in the market's cash +

Banking months	Dec. 85– Feb. 86	Mar. 86– May 86	Apr. 85– Mar. 86
Factors affecting the market's cash position			
CGBR (+)	−2.1	+6.8	+10.8
Net sales (−) of central government debt(a)	−0.2	−1.7	− 8.0
of which:			
Gilt-edged	*−0.6*	*−0.4*	*− 5.4*
National savings	*−0.3*	*−0.3*	*− 2.2*
CTDs	*+0.7*	*−1.0*	*− 0.4*
Currency circulation (increase −)	—	−0.4	− 0.5
Other	−0.4	+1.4	+ 1.0
Total (A)	**−2.7**	**+6.1**	**+ 3.3**
Official offsetting operations			
Net increase (+) in Bank's holdings of commercial bills(b)	+2.2	−3.3	− 1.7
Net increase (−) in Treasury bills in market	+0.3	−0.3	− 0.3
Securities(c) acquired (+) under purchase and resale agreements with banks	+0.2	−1.9	− 0.5
Other	—	−0.4	− 0.5
Total (B)	**+2.7**	**−5.9**	**− 3.0**
Change in bankers' balances at the Bank (= A + B)	—	+0.2	+ 0.3

(a) Other than Treasury bills.

(b) By the Issue and Banking Departments of the Bank of England.

(c) Gilt-edged stocks and promissory notes related to guaranteed export credit and shipbuilding paper.

government to £6.8 billion. Much of this borrowing was used to repay other borrowing or to build up bank deposits and therefore did not contribute to the PSBR, which (after allowance for net purchases of local authorities' and public corporations' debt by the non-bank private sector) totalled £4.7 billion during the period.

Gross gilt sales totalled £3.3 billion, a higher rate than in recent periods. There were, however, exceptionally heavy maturities falling in the early part of the new financial year. In the period under review, redemptions totalled £1.8 billion, and purchases of a further £1.1 billion of stocks approaching maturity were made in order to smooth the flow of forthcoming redemptions. Net sales were thus only £0.3 billion, well down on the level of the previous three months. The overseas sector's net purchases (£0.5 billion) accounted for more than the total of net official sales, while the non-bank private sector disposed of £0.3 billion worth of gilts, and the monetary sector made net purchases of £0.1 billion.

National savings inflows, at £0.3 billion, remained at the same subdued level as in the previous three months, while net purchases of certificates of tax deposit totalled £1.0 billion.

Underfunding of the PSBR, taking sales of debt to the non-bank private sector together with external and foreign currency finance of the public sector, totalled £3.8 billion in the period under review. This correspondingly reduced the need for official assistance to the money market. But the activity of the local authorities described above, which caused the central government borrowing requirement to be so much larger than the PSBR, resulted in a total decline of £5.9 billion in the stock of money-market assistance.

The same effect may be seen in relation to the period spanning the twelve banking months to mid-March 1986 (which is the nearest banking month equivalent to the last financial year). Over that period the PSBR was exactly fully funded, yet the stock of official assistance fell by £3.0 billion. The predominant underlying factor was a substantial rise in borrowing from the central government by public corporations and, particularly, local authorities, which had its counterpart in substantial repayments of their borrowing from banks and a large rise in their sterling bank deposits. In other words, the cessation of overfunding did no more than remove what was earlier an expansionary influence on the stock of money-market assistance; that there has been a reduction was essentially a consequence of the switch of borrowing by the rest of the public sector to central government from outside sources.

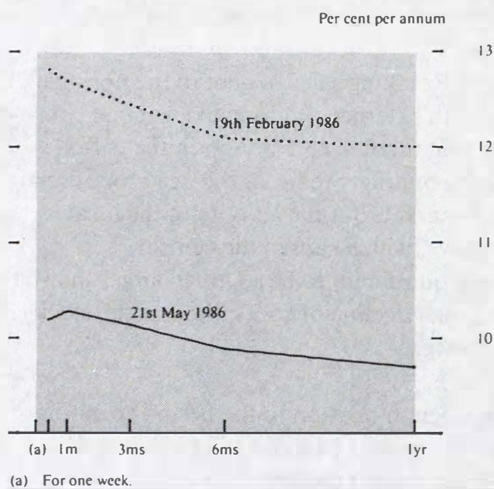
The reduction in assistance in the latest three months was reflected mainly in a £3.3 billion decline in the Bank's holdings of commercial bills. In addition, market holdings of Treasury bills increased by £0.3 billion. A further £1.9 billion of assistance was withdrawn through the expiry of all outstanding arrangements to provide finance directly to the banks, both through purchase and resale agreements in gilt-edged stocks and against promissory notes related to export credit and

domestic shipbuilding paper.(1) Details of the direct arrangements with the banks undertaken and terminated during the period are given in Table 10 of the statistical annex.

At mid-May the total stock outstanding of official assistance to the money market (other than that provided through dealings in Treasury bills) totalled £9.9 billion. Of this, £8.7 billion consisted of outright holdings of eligible bills, and the remainder were bills bought on purchase and resale agreements.

Average daily cash shortages in the money market were £725 million in the latest period, up from £650 million in the previous three months. This was largely a reflection of the higher scale of maturing assistance during the more recent period. This was caused by the shortening in the average maturity of the portfolio of the Bank's holdings of commercial bills, which in turn resulted from the discount houses' reluctance to sell longer-dated paper owing to persisting market expectations of declines in interest rates.

Sterling interbank rates



(a) For one week.

The money market

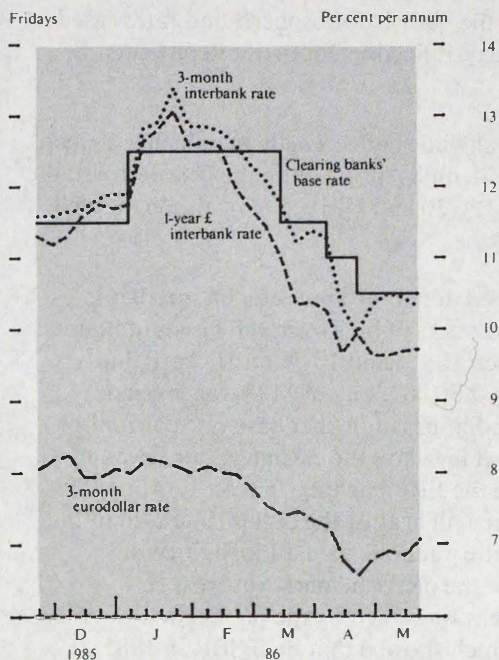
The three months under review were characterised by persistent market pressure for lower interest rates, associated with similar pressure worldwide as the oil price fall came to be reflected in reduced inflation expectations. The authorities' tactics during the period were designed to allow interest rates to fall in a measured and orderly way, but to prevent an excessive decline which was not justified by the overall monetary situation.

The period opened (20 February) with a downward-sloping yield curve in the interbank market, with the one-month rate at $12\frac{23}{32}$%, the three-month rate at $12\frac{1}{2}$% and the twelve-month rate at 12%. Banks' base rates were $12\frac{1}{2}$%. The ERI stood at 74.7, with the pound at $1.4540 and DM 3.3515. The market mood was one of increasing confidence that some downward adjustment in interest rates might become possible in the near future, reflecting the beneficial impact on inflation and inflation expectations of falling oil prices. Sterling moved up to $1.49 on 25 February, but this strength was not matched against other currencies, and the pound began to decline generally at the end of calendar February as North Sea oil for May delivery fell below $13 per barrel. Nevertheless, the three-month and twelve-month interbank rates were respectively $\frac{3}{16}$% and $\frac{1}{8}$% lower than at the start of the period. By the close on 3 March, sterling was down to $1.4375, below DM 3.20, and the ERI at 72.4. In these circumstances interbank rates firmed: by 4 March, the one-month rate was back at $12\frac{11}{16}$%, although the three-month and twelve-month rates were still somewhat below their levels at the beginning of the period, at $12\frac{11}{32}$% and $11\frac{3}{4}$% respectively.

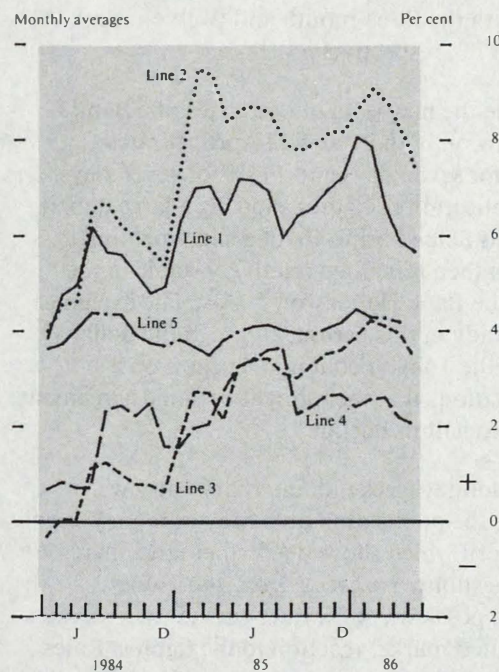
Sterling began to recover thereafter on publication of the reserves figures for February (up by $250 million) on 4 March, and news of the fall in US leading indicators. Interbank rates

(1) Of this, £1.6 billion was in respect of ECGD-backed export credit paper. Such lending by the banks is recorded as sterling lending abroad. When the banks sell the paper to the Issue Department of the Bank under a repurchase agreement, they record a reduction in sterling lending abroad, but the external counterparts to money supply are adjusted to allow for the acquisition of the paper by the Issue Department. The same procedure is followed when the repurchase agreement expires. At no stage, therefore, do such transactions directly affect the counterparts to money supply. (See also 'Official transactions in commercial bills, shipbuilding paper and export credit paper' March *Bulletin* page 81.)

Short-term interest rates in London



Real interest rates



Line 1 One year interbank deposit rate *minus* the expected rate of retail price inflation over the following year.

Line 2 Clearing banks' base rate *plus* 1% *minus* the expected rate of inflation.

Line 3 Clearing banks' base rate *plus* 1%, adjusted to allow for the deductibility of interest payments for corporation tax purposes, *minus* the expected rate of inflation.

Line 4 The building society ordinary share rate, net of basic-rate income tax, *minus* the expected rate of inflation.

Line 5 The gross real redemption yield on 2% Index-Linked Treasury Stock 1996.

Measures of real interest rates are discussed in the December 1982 *Bulletin*, page 483.

eased at the same time, in an atmosphere conditioned by the $\tfrac{1}{2}$% fall in discount rates in Germany on 6 March and in Japan and then the United States on 7 March (and also the cuts of $\tfrac{1}{4}$% in France and $\tfrac{1}{2}$% in the Netherlands on 6 March). The provisional banking February money figures, published on 11 March, were received calmly. From the low point on 3 March, sterling recovered by 2.8 points on the ERI to 75.2 by 12 March, and interbank rates had pivotted around the one-month maturity, with a firming in the shorter rates as market participants sought to fund their growing books, and a decline in the longer-period rates. The three-month rate fell by a full $\tfrac{1}{2}$% over a period of four days up to 12 March, and longer period rates by rather more, to leave the one-year rate as low as $10\tfrac{7}{8}$%.

The OPEC meeting on 16 March made little impact, and, helped by the emerging unexpectedly favourable PSBR outturn for 1985/86, market attention was firmly centred on the prospect of base rate cuts in the wake of the Budget on 18 March; by that time a 1% cut in base rates was firmly discounted in the market. After a reduction on the day following the Budget (19 March) in the rates at which the Bank accepted offers of bills, this cut duly occurred. Interbank rates thus fell by 1%–$1\tfrac{1}{8}$% across the maturity spectrum from their levels at the beginning of banking March, while the ERI was little changed at 74.8, although this reflected a weaker dollar ($1.4767) and a stronger deutschemark (DM 3.3393).

As was suggested by the steeper downward slope of the interbank yield curve, however, the market did not regard a 1% fall as exhausting the scope for lower interest rates. Sentiment was buoyed by the favourable reception of the Budget, the greater steadiness in oil prices and the resilience of sterling. Above all, there was a continued international expectation of lower rates worldwide. By 21 March, the three-month rate had fallen to $11\tfrac{3}{16}$% and the one-year rate to $10\tfrac{1}{4}$%, down $\tfrac{1}{4}$% and $\tfrac{7}{16}$% respectively from their levels two days earlier. In order to brake this decline, the Bank employed the technique of 2.30 lending on 21 March, at a rate of 12% for eleven days. This action, together with the effect on sterling of uncertainties about the oil price in the wake of the inconclusive outcome of the OPEC meeting, led to a firming in interbank rates early the following week. The interbank yield curve from one month outwards had shifted upwards by about $\tfrac{1}{4}$% by early on 26 March.

Sterling's improvement from its level just after the Budget was briefly interrupted on 25 March, but its upward trend resumed on the following day, and the ERI was at 76.4 ($1.4810 and DM 3.4418) on 27 March. Interbank rates consequently fell back again before the Easter holiday, reflecting the strong expectation of a further cut in base rates in the near future.

Shorter rates fell back a little further in the first week after Easter, but strong pressure for a further cut in the general level of rates did not become apparent until 7 April, when period interbank rates opened up to $\tfrac{1}{4}$% down throughout. They fell by a further $\tfrac{1}{4}$% early on 8 April. By then, the one, three and twelve-month rates were at $11\tfrac{1}{8}$%, $10\tfrac{21}{32}$% and $9\tfrac{13}{16}$% respectively, and the market was clearly discounting a $\tfrac{1}{2}$% cut in base rates, to 11%. This occurred during the morning, ahead of the announcement of the money supply figures for banking March,

and was ratified by the Bank in its dealing rates. The money figures failed to upset the bullish atmosphere, and rates eased further the following day, reflecting hopes of interest cuts worldwide.

The exchange rate meanwhile had strengthened further, helped by firmer oil prices, and, on 8 April, before the base rate cut, the ERI opened at 77.3 ($1.4730 and DM 3.5043), although it fell back the following day.

In view of the continued downward pressure on interbank rates, the Bank refused offers of bills from the discount houses at rates ranging between $10\frac{3}{16}$% and $10\frac{3}{8}$% on 10 April, but instead lent to them at 2.30, at a rate of $11\frac{3}{4}$% for seven days. This lending dampened hopes of further base rate cuts only temporarily. In the next few days the exchange rate began to strengthen again, with the ERI reaching 76.8 on 17 April. This reflected particular strength against the dollar ($1.5245) in the wake of the US retaliatory action against Libya three days earlier; the rate against the deutschemark was weaker (DM 3.3908). Sentiment was aided by the publication of PSBR figures on 16 April, which showed that the PSBR in 1985/86 had been only £5.9 billion. By 18 April a further $\frac{1}{2}$% cut in base rates had been fully discounted in the market. This took place that morning, just after the RPI for March was published (showing a decline in the annual rate of increase to 4.2%), and was later confirmed in the Bank's dealing rates. Longer-term interbank rates touched their lowest point in the period under review on that day, with the three-month and twelve-month rates being $9\frac{15}{16}$% and $9\frac{5}{16}$% respectively.

In order to consolidate the new level of base rates, the Bank engaged in 2.30 lending on both 21 and 22 April, at rates respectively of $11\frac{1}{2}$% for seven days and $11\frac{3}{4}$% for seven days. Together with the publication of figures showing a large deficit in calendar March, this helped bring about a slight firming in interbank rates, which then remained relatively stable in the period leading up to the Bank Holiday on 5 May. The exchange rate was also fairly steady in this period, although the dollar strengthened prior to the Tokyo Economic Summit on 4–6 May amid expectations that there might be some agreement on a concerted effort to halt its decline.

Following the Bank Holiday weekend, interbank rates were little changed, despite the publication on 6 May of money supply figures for banking April which showed a further large increase in broad money. Suggestions emanating from the Tokyo Summit regarding the possibility of further cuts in interest rates contributed to the muted market reaction to the figures. Rates remained steady until publication of the encouraging RPI figures on 16 May (3% annual rate of increase).

Market conditions at this stage were consistent with a further fall in base rates, but it did not occur immediately in the wake of the RPI announcement. After a renewed downward movement in interbank rates during the following week, however, National Westminster Bank cut its base rate by $\frac{1}{2}$%, to 10%, on 22 May, the first day of banking June. The three other major banks reduced their rates similarly on the following day, and the new pattern of rates was validated by the Bank in its discount market operations. In order to dampen market hopes of

any further imminent reduction in rates, the Bank engaged in 2.30 lending on 23 May at a rate of $10\frac{1}{2}$% for seven days.

Over the period from 20 February to 21 May, interbank rates fell by $2\frac{5}{32}$% to $10\frac{9}{16}$% at the one-month maturity, by 2% to $10\frac{1}{2}$% at three months, and by $2\frac{1}{4}$% to $9\frac{3}{4}$% at twelve months. Clearing bank base rates fell by 2% to $10\frac{1}{2}$%. Building society mortgage rates fell from $12\frac{3}{4}$% to 11% for new borrowers (with some societies offering lower rates in certain circumstances). Many societies have also abolished the $\frac{1}{2}$% premium on endowment mortgages. Building society deposit rates generally fell by 1%, and there was a further $\frac{3}{4}$% reduction on 1 June (when some of the lower mortgage rates came into effect).

The gilt-edged market

The authorities' objective in the gilt-edged market during the period under review, which was reconfirmed at the time of the Budget, remained that of fully funding the PSBR over the financial year as a whole through debt sales to the non-bank private sector and external and foreign currency finance of the public sector. Accordingly, gross sales of gilt-edged were moderate in the early part of the period, towards the end of the financial year 1985/86. This also helped the fall of yields to single-digit levels, and, although there was a technical reaction later in the period, yields were firmly based around 9% by the period's end.

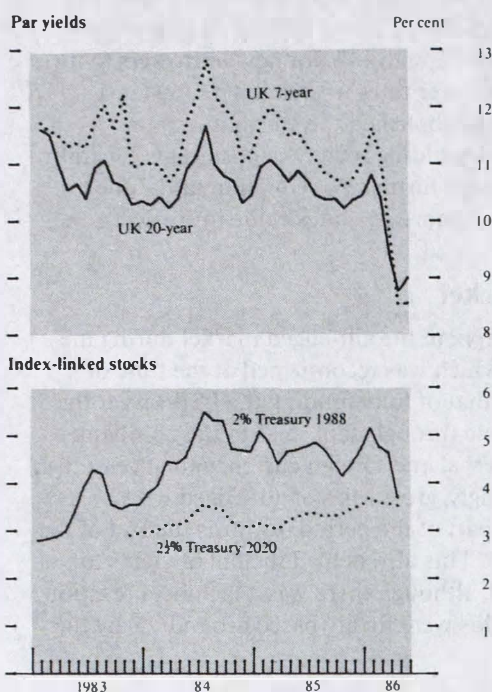
A feature of the period was the closeness with which the gilt-edged market followed the course of the US bond market. This was so even though certain important market influences—in particular, the weakness of the dollar and the modest but perceptible recovery in oil prices—have differing implications for the two economies, and despite the fact that a comparison of the values of sterling and dollar bonds must involve an important assumption about the longer-term outlook for the sterling/dollar exchange rate, which, given the volatility of exchange rates, is unlikely to be securely based.

A major tax change affecting the gilt-edged market—the accrued income scheme—came into effect on 28 February. The new tax arrangements, which had been foreshadowed a year earlier, were described in the June 1985 *Bulletin,* page 193.

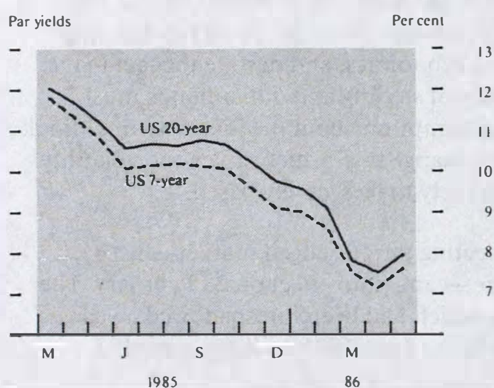
The authorities began the period having secured £1.3 billion through earlier sales of 10% Treasury 1993 and 10% Treasury 2003 in partly-paid form. On the other hand, forthcoming maturities were particularly high: four stocks—$11\frac{3}{4}$% Exchequer 1986, 10% Treasury Convertible 1986, 3% Treasury 1986 and $10\frac{1}{2}$% Exchequer Convertible 1986—were due to be redeemed during the period; as at mid-February, £2.5 billion of these stocks were in market hands. There was a moderate amount of $2\frac{1}{2}$% Exchequer 1990, issued in banking February, still available for sale at the beginning of the period.

The market breached the 10% 'yield barrier' at the long end three working days into the period under review, on 24 February. The Bank then announced, on 25 February, the placing with itself of £800 million of $9\frac{1}{2}$% Conversion Stock 2005 'A' (£20-paid) at a yield of 9.91%. This was the first issue of a long-dated stock with a yield below 10% since 1973, and it

Gross redemption yields on UK government stocks



Gross redemption yields on US government securities



was intended to help consolidate the fall in yields. Subsequent calls on the stock were set for banking May and banking June. (No calls were set for banking April as there were already calls for a total of £750 million outstanding in that month on 10% Treasury 1993 and 10% Treasury 2003.) The 2005 'A' stock was sold out at a premium of one-half point over its issue price (representing a yield of 9.85%) on its first day of trading, 27 February.

Following a short pause in the market's advance, during which sterling touched an all-time low against the deutschemark (DM 3.1825 on 3 March), the market recovered in sympathy with the US long bond market. Both moved further ahead on news of the fall in US leading indicators (with the US long bond yield registering an eight-year low). The market improved further as a result of the loosely-concerted round of international interest rate reductions on 6–7 March, and the low-coupon tap stock, 2½% Exchequer 1990, was finally sold out on 10 March.

The next step in the funding programme was the placing with the Bank on 14 March of £1 billion of 9% Conversion 2000 'A' (£25-paid) at a yield of 9.49%. As with the 2005 'A' stock, the remaining calls on the stock were set for banking May and banking June. The 2000 'A' stock was exhausted at a premium of one and a quarter points on 19 March (at a yield of 9.32%), the first dealing day for banking April, in the enthusiastic market response to the previous day's Budget, and the market continued to advance strongly as base rates were cut by 1%.

With the market continuing firm on 21 March, encouraged by the strength of the exchange rate and easing money rates (albeit temporarily restrained by the Bank's 2.30 lending to the discount market that day), the issue was announced of tranches of £150 million each of 9% Treasury 1994 and 8¾% Treasury 1997, and £100 million of 8% Treasury 2002–06, each being free of tax to non-residents. The 1994 and 1997 tranches were sold out on 24 March, their first day of trading. But news of the inconclusive outcome of the OPEC talks and the associated two-cent fall in sterling combined to turn the market back, and losses were recorded for two consecutive days.

Renewed firming of the US bond market soon prompted recovery in gilts, however, and the 2002–06 tranche was exhausted on 27 March, on which day long-term gilt yields fell below 9% (shorter-term yields followed nearly two weeks later). A quieter period followed, taking in the Easter holidays. The market firmed immediately after the EMS realignment (5–6 April), and, following the ½% cut in base rates on 8 April, moved ahead after a small amount of profit-taking. The money figures for banking March, published the following day, set the market back briefly, and it was further checked by the Bank's 2.30 lending to the discount market on 10 April. Nevertheless, a strengthening exchange rate the following day, accompanied by hopes of a further round of international interest rate cuts, helped sentiment on 11 April. The authorities took advantage of that situation to announce the issue of a further series of tranches covering a broad range of types of stock: £100 million each of 2½% Exchequer 1990, 9¾% Conversion 2001, 7¾% Treasury 2012–15 and 2½% Index-Linked

Table G
Issues of gilt-edged stock

Stock	Amount issued (£ millions)	Date announced	Method of issue	Date issued	Price per £100 stock (£)	Payable per £100 stock		Redemption yield (per cent)	Date exhausted
						Initial payment (£)	Further instalments (£)		
9½% Conversion 2005 'A'	800	25/2	Direct to Bank	25/2	96.50	20.00	40.00 (28/4) 36.50 (2/6)	9.91	27/2
9% Conversion 2000 'A'	1,000	14/3	Direct to Bank	14/3	96.25	25.00	25.00 (12/5) 46.25 (16/6)	9.49	19/3
9% Treasury 1994 (a)	150	21/3	Direct to Bank	21/3	—	—	Fully paid	—	24/3
8¾% Treasury 1997(a)	150	21/3	Direct to Bank	21/3	—	—	Fully paid	—	24/3
8% Treasury 2002–6(a)	100	21/3	Direct to Bank	21/3	—	—	Fully paid	—	27/3
2½% Exchequer 1990	100	11/4	Direct to Bank	11/4	—	—	Fully paid	—	14/4
9¾% Conversion 2001	100	11/4	Direct to Bank	11/4	—	—	Fully paid	—	17/4
7¾% Treasury 2012–15	100	11/4	Direct to Bank	11/4	—	—	Fully paid	—	17/4
2½% Index-Linked Treasury 2016	100	11/4	Direct to Bank	11/4	—	—	Fully paid	—	15/4
8% Treasury 2009	800	18/4	Minimum price tender	23/4	96.00	25.00	25.00 (9/6) 46.00 (14/7)	8.39	—
2½% Index-Linked Treasury 2003	100	16/5	Direct to Bank	16/5	—	—	Fully paid	—	19/5
2½% Index-Linked Treasury 2009	100	16/5	Direct to Bank	16/5	—	—	Fully paid	—	20/5
2½% Index-Linked Treasury 2013	100	16/5	Direct to Bank	16/5	—	—	Fully paid	—	28/5
3% Treasury 1991	400	23/5	Minimum price tender	29/5	86.00	—	Fully paid	6.34	—

(a) The prospectus includes provision for exemption from UK taxation in favour of non-resident holders and for the loan to be available in bearer form.

Treasury 2016. The 2012–15 stock was the first issue of a conventional stock maturing in the second decade of the next century since 1978, and was, at yields by then prevailing, virtually a current coupon stock.

The 1990 low coupon tranche was sold out after hours on its first day of trading, 14 April, in an otherwise quiet market. Weakness in the US bond market following the Libyan raid set back the conventional market the next day, although the index-linked sector improved and the 2016 tranche was sold out. Bullish sentiment came to the fore again in the following days on publication of the PSBR figure for 1985/86, a firmer exchange rate, and a recovery in US bonds. This facilitated the selling out of the 2001 and 2012–15 tranches on 17 April.

The ½% cut in base rates on 18 April had been discounted by the market beforehand. With the market nonetheless continuing to advance, the authorities took the opportunity of announcing the issue by tender of £800 million of 8% Treasury 2009 (£25-paid). The calls on this stock were scheduled for banking June and July. Although there were also cuts in US and Japanese discount rates, and in mortgage rates here, the market moved lower in the early days of the following week, particularly at the long end,[1] mainly reflecting very sharp falls in the US bond market during that time. In consequence the 2009 stock was undersubscribed at the tender on 23 April, and all applications were allotted at the minimum tender price of £96 per cent, implying a yield of 8.39%.

A subdued period in the conventional market followed, with long yields edging above 9% at the end of the first week of calendar May, following the announcement of the money figures for banking April. The US bond market continued generally soft until the end of the period under review (21 May), and this prevented the gilt-edged market from finding a price level at which substantial demand for stock could be

(1) In fact, the low point for yields in the period under review occurred on 18 April, with short and long yields at almost identical levels. They climbed together in tandem for the next two and a half weeks, before long yields began to rise somewhat faster.

confidently expected. In these circumstances, the Bank rejected a number of bids for part of the residue of the 2009 tap stock; and did not respond until after the end of the period (with sales being made on 23 May at a price of £$21\frac{5}{8}$).

Throughout the three months under consideration the index-linked sector was generally firm, and during the last month or so it substantially out-performed the conventional market, despite falling inflation; this may, however, have reflected profit-taking both in the conventional gilt market and the equity market. The strength of index-linked was mirrored in a depletion of the authorities' supplies. In order to replenish them, tranches were placed with the Bank on 16 May of £100 million each of $2\frac{1}{2}\%$ Index-Linked Treasury 2003, $2\frac{1}{2}\%$ Index-Linked Treasury 2009 and $2\frac{1}{2}\%$ Index-Linked Treasury 2013, despite the announcement that day of only a 3% increase in the RPI in the twelve months to April. With a lower-than-expected April PSBR being announced on 19 April, the market registered gains and the 2003 tranche was exhausted, followed by the 2009 tranche next morning.

Four conversion options were exerciseable on stocks in issue during the period. In two cases—10% Treasury Convertible 1990 and $10\frac{1}{4}\%$ Treasury Convertible 1992—the amounts converted were negligible. In the case of $9\frac{1}{2}\%$ Treasury Convertible 1989, however, there were conversions totalling some £280 million nominal into $9\frac{1}{2}\%$ Conversion 2005 (on 18 April). The fourth instance involved the double-option convertible, $10\frac{1}{4}\%$ Exchequer Convertible 1989, issued in banking December. On its first possible conversion date, 15 May, options were exercised to convert into £310 million nominal of 10% Conversion 1996 and £360 million nominal of $9\frac{3}{4}\%$ Conversion 2006; £430 million nominal was not converted.

Stock Exchange turnover in the gilt-edged market during the period under review was remarkably high, well up on the previous three months, although it began to tail off in banking May. As prospective market makers position themselves for Big Bang later in the year, the volume of off-Exchange gilts business has also expanded somewhat but was still only some 5% of prospective market-makers' gilt-edged turnover on The Stock Exchange (with a larger proportion of this business being in short-dated than in long-dated stocks).

Turnover in the long gilt futures market, traded in the London International Financial Futures Exchange, has also been exceptionally high. Open interest reached nearly 14,000 contracts in April, over four times as many as a year previously. The strength of the gilt market was reflected in the price of the contract, which rose from about £$112\frac{1}{2}$ per cent (of the £50,000 contract) at the start of February to over £129 on 17 April, before falling back to below £125 by the end of the period. Activity in the short gilt contract has, by contrast, been muted, with open interest around 1,000 contracts.

Over the three months to mid-May, yields on conventional 5-year stocks fell by $2\frac{1}{8}\%$ to $8\frac{7}{8}\%$, on 10-year stocks by $1\frac{11}{16}\%$ to $9\frac{3}{16}\%$, and on 20-year stocks by $1\frac{1}{8}\%$ to $9\frac{5}{16}\%$. There was therefore a clear shift in the shape of the gilt-edged yield curve in the course of the period. Real yields on index-linked stocks also fell; that on the 1988 stock by $1\frac{3}{16}\%$ to $3\frac{9}{16}\%$ and that on the 2020 stock by $\frac{7}{16}\%$ to $3\frac{1}{8}\%$.

Time/yield curves of British government stocks

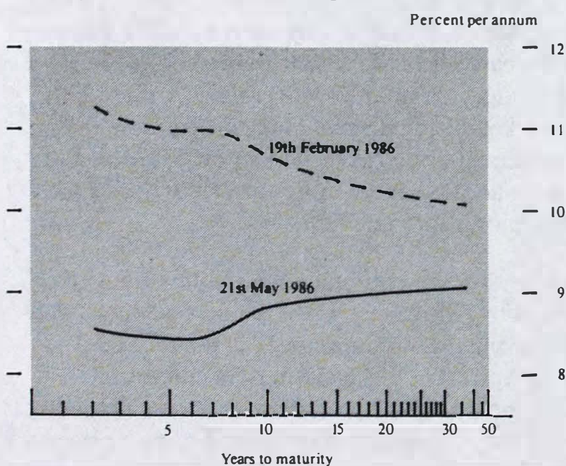


Table H
Amounts raised in the capital market

£ millions; *not seasonally adjusted*
Net cash raised +

Banking months	June 85–Aug. 85	Sept. 85–Nov. 85	Dec. 85–Feb. 86	Mar. 86–May 86
UK private sector				
Loan capital and preference shares	+ 485	+ 147	+218	+385
Equity capital(a)	+1,119	+ 443	+598	+675
Unit trusts(b)	+ 470	+1,030	+835	+696(c)
Issues on the unlisted securities market	+ 48	+ 28	+ 45	+ 33
Local authorities				
Stocks	– 3	– 90	—	+ 3
Negotiable bonds	– 88	– 108	– 68	– 9
Overseas	+ 175	+ 134	+245	+189

(a) Net issues by listed UK public companies.
(b) Calendar months.
(c) March and April only.

Table J
Debt issues announced on the London capital market, mid-February to mid-May 1986

Date of Announcement	Issuer	Nominal amount (£ millions)	Coupon (per cent)	Maturity
Domestic borrowers				
26 February	Hampton Trust	11	$11\frac{1}{8}$	2021
12 March	The Stock Exchange	30	$10\frac{1}{8}$	2016
24 March	Asda Properties	9	$10\frac{5}{16}$	2011
25 March	Securities Trust of Scotland	10	12	2003
2 April	Peel Properties	35	$9\frac{7}{8}$	2011
7 April	Queens Moat Houses	35	$10\frac{1}{4}$	2020
8 April	Colne Valley Water Co.	10	10	1998
22 April	Great Portland Estates	25	$9\frac{1}{2}$	2016
23 April	Estates Property Investment Co.	12	10	2001
29 April	Land Securities	100	10	2025
12 May	Witan Investment Trust	50	$8\frac{1}{2}$	2006
14 May	Mid Southern Water Co.	9	10	1998
14 May	Cambridge Water Co.	3	10	1998
14 May	Estates & General Investments	6	$11\frac{1}{4}$	2018
19 May	Tops Estates	15	$10\frac{1}{4}$	2016
20 May	British Alcan	30	$10\frac{1}{4}$	2011
Overseas borrrowers				
24 February	American Medical International	50	$9\frac{7}{8}$	2011
3 March	Inter-American Development Bank	75	$9\frac{3}{4}$	2016
13 May	Portugal	50	9	2016

Other capital markets

The *equity market* began the period in buoyant mood, with the FT-Actuaries all-share index at 726.88, and advanced strongly through most of March. Despite temporary setbacks, it reached a new high point on 4 April with the index, at 832.39, some $14\frac{1}{2}$% above its level in mid-February. Although the market eased thereafter and the all-share index finished the period at 783.64, nearly 6% below the peak, it was still some 8% above its level three months earlier. During the period the all-share yield fell by 0.17% to 3.92%.

Following the market's peak, there was modest profit-taking, in an atmosphere affected by a record fall on Wall Street (on 30 April) and by the US retaliatory action against Libya. Prices were also depressed in this period by the large rights issues announced by Saatchi & Saatchi (£406 million), Prudential Corporation (£360 million) and National Westminster Bank (a record £724 million). The latter had a particular impact on the market, accompanied, as it was, by speculation about further calls in the succeeding two months on institutional cash flow.

New issue activity picked up substantially over the three months to May. New equity issues announced, at £2.4 billion, represented the highest quarterly total since the same period last year. In addition to the three issues mentioned above, a number of other sizable rights issues were announced, including Wolseley Hughes (£100 million), Ward White (£74 million), Rosehaugh (£58 million), Harris Queensway (£71 million) and Burmah Oil (£86 million).

With yields falling in March and April, there was a very substantial volume of fixed-rate issues over the period. New issue activity in the *eurosterling market* reached record levels, with thirty-nine fixed-rate issues totalling £2,175 million. Eight of these issues, with a value of £675 million, took the form of longer-dated issues by UK corporate borrowers, including ICI (£100 million), Hanson Trust (£150 million), Land Securities (£100 million) and Asda/MFI (£100 million). These issues were prompted essentially by the substantial decline in yields. Following the Budget, when stamp duty was reimposed on the purchase of most registered stocks other than gilt-edged, eurosterling issues were made relatively attractive owing to their being in bearer form and thus exempt from the duty. New issue activity also picked up in eurosterling floating-rate notes, with six issues for a total of £975 million. This included a £250 million subordinated issue by Midland Bank, which was the largest eurosterling FRN to date, and £500 million of issues by building societies. In addition, there were three issues of warrants exerciseable into eurosterling bonds.

The re-imposition of stamp duty on domestic stocks and bonds (albeit temporary) helped to cause a much lower level of new issue activity over the same period in the *domestic fixed-interest market*. There was nonetheless a reasonable flow of issues: sixteen UK issuers raised a total of £395 million, with the largest issue—£100 million by Land Securities—structured in bearer form explicitly to avoid stamp duty. Three overseas borrowers also raised a total of £175 million.