5. Monetary Base Control III

Funding Techniques

FUNDING TECHNIQUES

SUMMARY

1 The problem with existing funding techniques is not that they cannot produce massive and sustained finance for the Government over a period, but that they are vulnerable to short-term pauses caused by investor uncertainty.

2 Such pauses are often a symptom of the need for corrective policy action; and improved funding techniques cannot be seen as a substitute for such necessary policy action without imposing substantial damage on the capacity of the gilt-edged market in the longer term.

3 Against this background the aim is taken as being to establish techniques that will reduce the vulnerability to funding pauses and provide as much scope as possible for smoothing the path of £M3 in the shorter term.

4 Blanket techniques, such as auctions - whether or not they are underwritten - for achieving this aim would result in radical change to the present structure of the gilt-edged market, and of the capital market more generally; and the gilt-edged market that then emerged is likely to have a reduced capacity to provide finance for the Government over a period.

5 An alternative, piece-meal, approach might include a number of techniques, viz:

(a) diversification of the sources of government borrowing;

(b) a broader market in central government short-term debt;

(c) borrowing by nationalised industries in their own name for some modest part of their needs;

(d) aggressive use of partly-paid gilts;

(e) flexibility provided by unofficial tap stocks through NILO;

(f) flexible use of convertible stocks;

(g) use of Restricted Indexed Gilts (RIGS).

6 These techniques in combination can provide some protection against funding pauses, provided that confidence in overall policy is maintained.

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FUNDING TECHNIQUES

AIMS

1 The problem

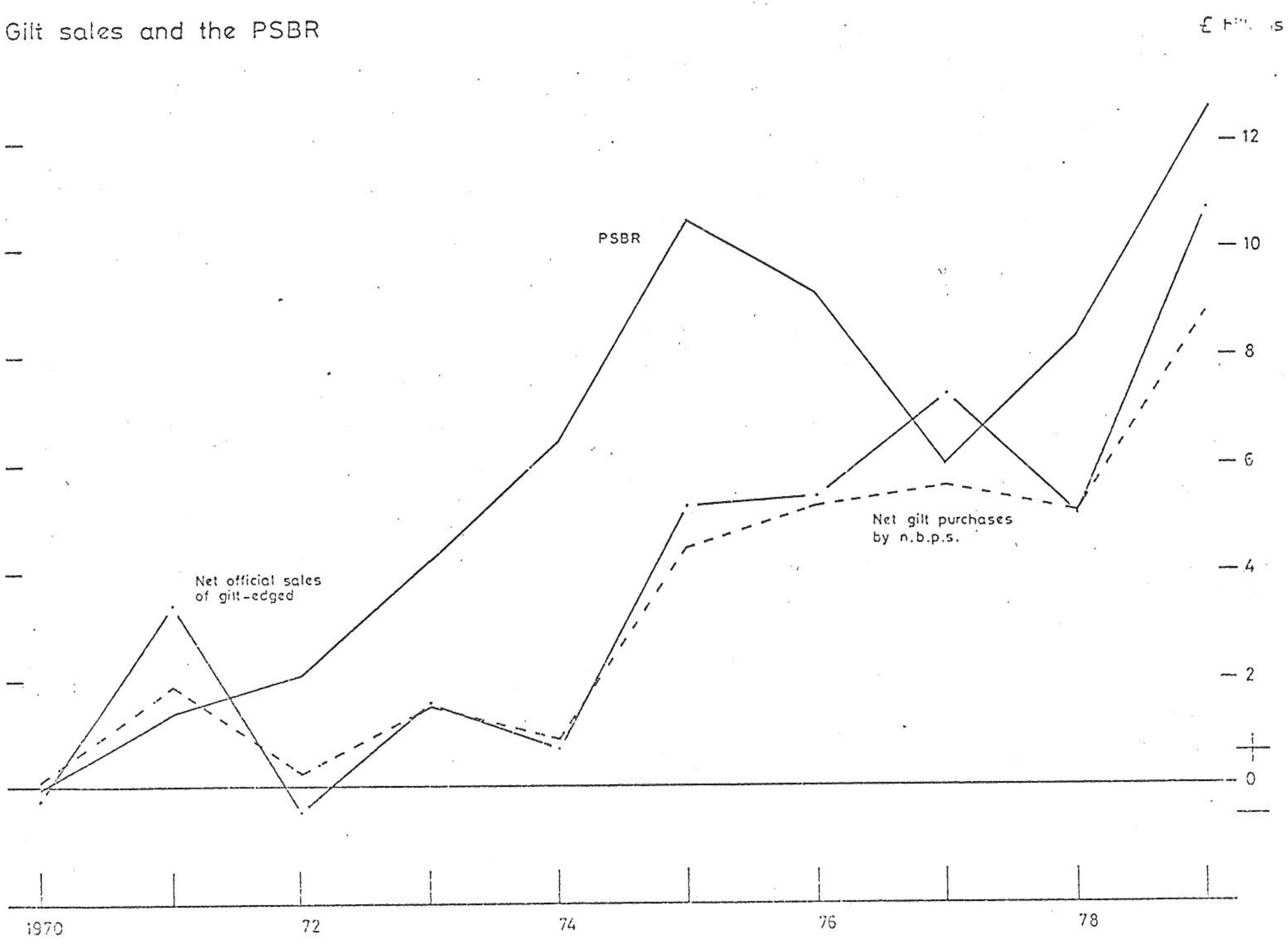
(a) Capacity of the gilt-edged market over a period.

Over any period of more than about 6-8 weeks the existing techniques of gilt-edged market management have proved capable of achieving massive and sustained sales of stock to domestic non-bank investors, so financing a very large proportion of the PSBR, even at its level of recent years, in non-monetary form. Annual and quarterly figures for the PSBR and gilt-edged sales are shown in the attached charts. Chart II in particular shows that during the last 3 1/2 years for which figures are available, to mid-1980, net official gilt sales covered almost 90% of the PSBR of over £30 billion during the period, while gilt sales to the domestic non-bank private sector covered just over 75%.

The ability of existing techniques to raise adequate finance for the Government in the gilt-edged market over a period has not hitherto therefore been regarded as a problem. Indeed the more frequent criticism is that the authorities have relied too heavily on the gilt-edged market to fund the PSBR and that this has been an important factor in the exclusion of private sector borrowers from the capital market. Net official gilt sales have, for example, taken 91% of all net funds raised in the domestic long-term capital market during the past 3 1/2 years. Action is now being taken to correct this over-reliance on gilt-edged market funding through the shift of emphasis to National Savings instruments that will tap personal sector savings more effectively, and the first step will be taken with

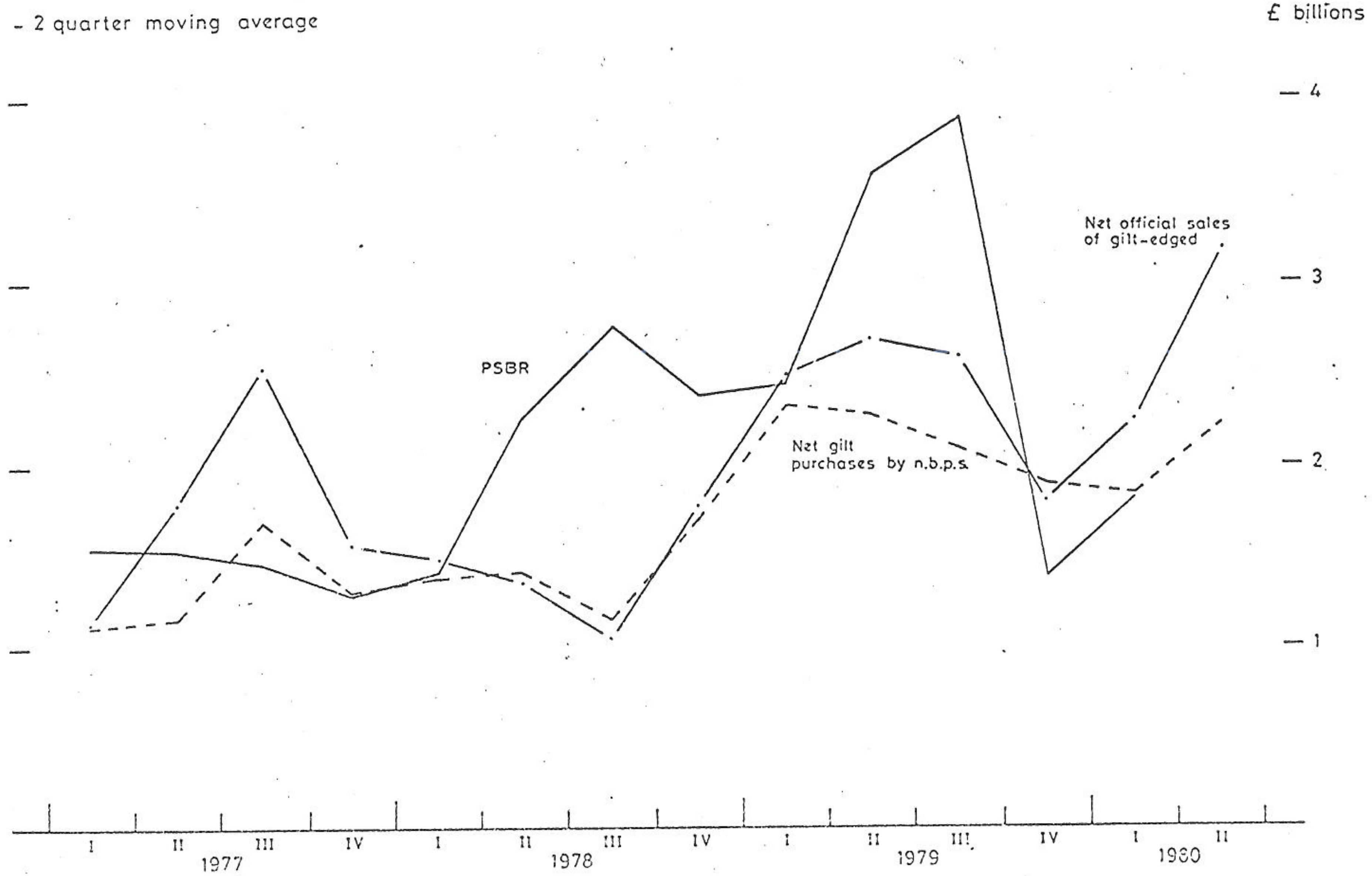
CHART 1

Gilt sales and the PSBR



Gilt sales and the PSBR (unadjusted)

- 2 quarter moving average



the new issue of indexed savings bonds on 17 November; the proposed sale of BNOC bonds next year will work in the same direction. In addition, since August, new arrangements for setting the interest rate on Certificates of Tax Deposits are already enabling these instruments to compete more effectively for the liquid resources of companies - notably in present conditions oil companies.

Particularly if some more substantial part of the financing burden can be carried by other debt instruments in this way - and always assuming that the PSBR itself is reasonably controlled - there is no reason to suppose that existing gilt-edged market techniques will not continue to be able to raise adequate finance for the government over a period.

(b) Funding pauses.

The problem more usually identified is one of periodic pauses in the gilt-edged funding program which, even if they last for only a few weeks, can lead to an acceleration in £M3 growth which can in turn affect expectations, market interest rates and the exchange rate. In some instances monetary control can only be restored by a rise in MLR which can bring about a rise in gilt-edged yields to a point where the funding program can be resumed - a manoeuvre known journalistically as "The Duke of York".

This sequence of events has been much discussed but often in oversimplified terms.

It is frequently implied for example that the problem originates in the gilt-edged market, and so, it is concluded, it can be resolved in the gilt-edged market if only we had different techniques. In reality funding pauses do not develop out of thin air. (Still less do they arise from wilful ganging up by institutional investors as is often suggested by their characterisation as "buyers' strikes".) In general they are a symptom of investor uncertainty which in most instances stems from a sense - often justified by events - that policy is failing in some other area. The danger of the mistaken analysis which sees funding pauses as the cause of the problem is that it can, all too easily, suggest that different funding techniques would allow gilt sales to compensate for policy failures elsewhere, ie that if only the symptoms could be suppressed more effectively there would be no need to attend to the underlying disease, through corrective fiscal or interest rate action.

Similarly it is often implied that MLR is raised because it is the only way to restart the funding program, and that it is only raised for this purpose. Neither proposition is true. Depending on the circumstances it may take a fall rather than a rise in MLR to stimulate the gilt-edged market; or if the problem originates in an excessive PSBR, fiscal action alone may be the necessary response. Increases in MLR are invariably proposed on the basis of a much broader assessment that higher short-term interest rates are necessary to control the trend in the growth of the money supply. It is of course true that a rise in MLR will often go to the cause of the uncertainty in the gilt-edged market (for example the MLR increases to 14%, and to 17%, last year were strongly influenced by the strength of private sector demand for bank credit, and in each case they took account of the accompanying fiscal action), and the Bank certainly always take into consideration the expected effect on the gilt-edged market - but on no occasion has an increase in MLR been proposed solely in order to allow the gilt-edged funding program to be resumed. It is therefore a considerable over-simplification to suggest that it is the funding pause, rather than the factors that prompted it, that has forced - or could force - a rise in MLR (and talk of the Duke of York or of cutting the price of all drinks to sell more coffee, is equally a caricature of the real position). The unspoken suggestion here too is sometimes that, with different gilt-edged funding techniques, policy action which is necessary on wider grounds can somehow be avoided. Quite clearly, in the Bank's view, if the attempt were made to use the gilt-edged market in this way - whatever the techniques that were used - the capacity of the market to continue to provide finance for the Government in the longer term would be put seriously at risk.

None of this is to suggest that a problem cannot originate in the gilt-edged market; clearly there can be occasions on which market concerns prove to be unjustified or exaggerated - though in practice the resulting pauses tend to be less severe and are generally short-lived. Nevertheless - given the central role of the gilt-edged market - we accept the importance of finding techniques that will help to avoid pauses of this nature. But it is crucially important that what can and what cannot reasonably be expected of such techniques should be understood and agreed so that the potential costs and benefits of possible changes can be properly assessed.

2 The objective

Against this background there are two possible objectives that might be sought through different funding techniques:

(i) First, we might aim to achieve whatever volume of gilt-edged sales the forecasts suggested was necessary to offset the movements in the other counterparts of £M3 in any given banking month in the hope of achieving more stable short-term monetary growth; and

(ii) Secondly we might aim for techniques that could be relied upon more confidently to produce a regular volume of funding month by month, related to the expected gilt-edged funding need over a longer period, say, of 6 months or a year.

Both these approaches would be designed to avoid funding pauses in the context discussed above, and both could be described as "selling debt according to need" in line with the mandate given at the Prime Minister's last seminar.

The first approach is much the more ambitious: but, quite apart from the question of the operational techniques for achieving the given volume of gilt sales, the present short-term forecasts are nowhere near sufficiently reliable to be used to set a gilts target that could be used successfully for the kind of close, short-run monetary control envisaged. (As noted in the Treasury's recent paper, the short-term forecasts for the CGBR are accurate only to within ± £500 mn. one month ahead and ± £750 mn. three months ahead; and uncertainty of this kind of order can persist until very late in the actual month in question.) Moreover, even if an adequate target could be set for total gilt sales, there is no technique that can possibly control the gilt-purchases of domestic non-bank private sector investors in isolation. While therefore this approach might be a desirable ideal, it is not likely to be practicable to aim more precisely than to sell rather more or rather less gilts in particular months, when we know of some particular major special factor in the opposite direction affecting the other £M3 counterparts. (If a substantially smoother PSBR profile could be achieved the position may be different; but we would need to see this in practice before we could assess what was likely to be possible.)

The second approach has the more modest aim of at least avoiding periods of famine in the gilt-edged market but not seeking to fine-tune gilt sales or therefore to smooth, month by month, the growth of £M3. Essentially it would be designed to limit the risk to £M3 of a major funding pause.

It is assumed in the remainder of this paper that it is this latter aim which is regarded as the more important; but that, beyond this, Ministers would want us to do what we could, given the unavoidable limitations of the forecasts, to smooth the path of £M3 - quarter by quarter if not month by month. These are indeed the objectives we currently pursue.

TECHNIQUES

3 Auctions

The apparently obvious technique for guaranteeing regular, month by month, gilt sales in some sizeable minimum amount, but which would be capable of some degree of variation in the short run, is the auction - where we would simply announce to the market at regular intervals the quantities we wished to sell at which maturities, leaving the market to determine the terms on which the stock was taken up.

As a general approach this would add directly to the short-run price volatility of the market - since it would be the deliberate intention to secure sales irrespective of the state of market demand. It would mean too that virtually all official sales would be made directly by the Bank to final investors through the primary market; the secondary market dealings associated with tap stocks would be reduced, and this would add further to price volatility while at the same time the reduced turnover in the secondary market would have a major adverse impact on the profitability of the jobbers that now make the market. In these circumstances, with the risks increased and the rewards reduced, the gilt-edged jobbing system is unlikely in the Bank's considered judgment to survive in its present form.

The wider implications of this development are considered further below. In relation to the gilt-edged market the Government would need to consider how the transition could be managed without severe disturbance to the flow of finance; and it would need to consider what kind of market mechanism might ultimately emerge. The risks are that gilt-edged would become a less readily marketable and more expensive form of borrowing, and that the capacity of the market over the longer term - especially for long-dated stocks - would be substantially reduced.

The changes in market structure that would result from an auction system for the marketing of gilt-edged would be likely to include: the dispersion of dealings in gilt-edged and in other securities outside the central market made on the Stock Exchange; and the end within the Stock Exchange of the separation of the market-making function provided by jobbers from the function of brokers. Both developments would require a reconstruction of the present arrangements for the supervision of the securities market.

The present central market is governed by the Stock Exchange Council and the Stock Exchange is a member of the CSI. The Council's writ over dealers in securities does not run outside the Stock Exchange and it would therefore have no authority to supervise such non-member market-makers as might come into existence. Unless it were envisaged that such market-makers should be allowed initially to operate with no more supervision and regulation than is provided either by existing statutes or by virtue of their membership, if any, of existing trade associations (which have little or no direct experience of regulating dealing in securities) a new set of arrangements would have to be devised beforehand. Establishing the nature and scope of these arrangements (allocation of responsibilities for drawing them up, their statutory or non-statutory form, identification of those to whom they should apply and consultation on and drafting of rules, securing co-operation and reference to the OFT) would clearly require much thought and a considerable period of planning.

Similarly, substantial change would be required within the Stock Exchange. The Council's existing arrangements for the regulation of dealings and the protection of investors rest heavily on the separation of capacity between jobbers and brokers. It would not be sufficient for the Stock Exchange only to amend its existing rules to take account of the end of this separation, which in itself would be a complex task. New rules would have to be thought out and drafted and this process would need to be closely co-ordinated with the study outlined in the preceding paragraph.

4 Underwriting

To moderate the effects of auctions on price volatility in the gilt-edged market, some commentators - including the Wilson Committee - have suggested that the auctions might be underwritten by the major institutional investors. Commercial underwriting can clearly provide an occasional borrower with the finance he needs at an assured price close to the market price. It does not follow at all that it could provide the same service for HMG's continuous funding program. It would need to be considered, for example, why the institutions - left to themselves - should in this case accept underwriting at a higher price than they would bid in a straight auction. If they were not prepared to do so, underwriting may not make much practical difference to the degree of price volatility associated with auctions. And whether or not the auctions were underwritten, the effect on secondary market dealing would be the same. Thus essentially the same questions about market structure would arise. Underwriting would, in addition, provide a constant temptation to the Government to seek to influence the decisions of the institutions, which could rapidly displace the present free market.

5 A piece-meal approach

Short of such a general approach of this kind there are a number of techniques which might be used and developed to help to achieve the objective defined earlier with less disturbance to existing market arrangements.

(i) Vulnerability to funding pauses in the gilt-edged market should be substantially reduced by the diversification of the sources of government funding mentioned earlier (National Savings, CTD's) provided these are now kept competitive. In particular personal savers and to some extent commercial companies, are likely to take more diverse views of actual and prospective financial developments, than institutional investors - who all being subject to the same influences and with the same objectives often behave in a herd-like way. This should make for a steadier flow of funding.

(ii) A further possibility would be the creation of a broader market in marketable central government short-term debt with a maturity initially of up to one year but perhaps extending eventually to 3 or 4 years. This possibility has been considered frequently in the past, but rejected because no clear non-bank market could be identified: persons, companies and institutions all hold the vast bulk of their liquidity in capital-certain, immediately encashable, deposits with banks or building societies, holding only minimal amounts of CD's for example.

Nevertheless, and especially in the context of the steps considered in the companion paper on greater money market flexibility, it may nevertheless be appropriate to seek to develop a non-bank market for this kind of instrument. It could also provide the opportunity to experiment with auctions at the boundary between the money and capital markets without the wider implications for the capital market structure that a general move to auctions in relation to gilt-edged would have.

Any move in this direction would be bound to take time before it could make a significant contribution to monetary control. Initially such bonds might be taken up largely by the banking system, and this may be necessary to the development of an effective market. And we will need to look closely at the implications for the maturity of the debt. We already have for example an annual average of over £4 bn. of gilt maturities during the next five years.

This possibility is being further explored.

(iii) Borrowing by nationalised industries in their own name

Discussions are being held with the nationalised industries to examine their request to be allowed to borrow in capital markets in their own names. If the question of cost can be satisfactorily resolved, this might allow some modest part of the PSBR to be funded outside the Bank's operations as is the case with local authority borrowing through techniques such as placings, outside underwriting, or, if they wished, through auctions, without this calling into question the structure of the gilt-edged market as a whole. This could provide a further modest element of more regular funding.

(iv) Aggressive use of the partly-paid gilt technique. This was already used vigorously during the spring and early summer of this year - as on earlier occasions - to tie up future funding for up to three months ahead. It meant that we were able to ride out almost without noticing it, the very pronounced funding pause which resulted from the shock of the July and August £M3 figures. Although virtually no new net official sales were made between 24 July and 3 September the take-up of gilts by domestic non-banks in banking August, September and October was £960 mn., £890 mn. and £680 mn. respectively - in each case well above the average monthly amount expected to be needed for the year as a whole. We would hope to be able to use this technique again for example when the PSBR falls back later in the current financial year.

(v) Unofficial tap stocks from the National Investment and Loans Office. Discussions have been in progress for some time to give some additional flexibility to the Bank's gilt-edged market management by enabling the Bank to acquire stock more easily from the NILO which can then be sold into the market without publicity and without the price sensitivity that applies in the case of normal tap sales. This flexibility would be especially useful during periods when the market was seeking to establish a new yield basis below an established tap price; and between the exhaustion of one tap and the announcement of another. It could allow sales of, say, up to £400-500 mn. on technical rallies in a generally unsettled market (as it has during the past week).

(vi) Convertible stocks. These stocks attach to a conventional short-dated issue an option to convert, on one or a series of future dates, into a longer maturity at something close to the current long yield. They can, in principle, be used quite flexibly in a number of different situations. The option might for example be made available on generous terms but only if the stock was purchased within a specified period as a means of giving impetus to the funding program. Or the terms for the option might be made more aggressive if we wished to encourage a downward movement in long yields and the surrounding circumstances meant that such a movement would carry conviction with the market. We have in fact considered this possibility on a number of recent occasions but have not actually implemented it because of the uncertainty about the future size of the PSBR.

(vii) Restricted Indexed Gilts. Although a number of points remain to be settled, we now have a prospectus in an advanced state of readiness for an issue of indexed gilts with eligible holders restricted to pension funds and the pension fund business of life companies. The ability to sell such stock, if it were acceptable to the Government taking account of wider considerations, would be useful at times when market expectations were for an increase in inflation, and could then have the effect - as a result of switching and because of the effect on expectations - of pushing up the yield on conventional stocks to a point where they again became attractive. It would of course be important - on wider grounds - - that an initial issue should be made at a time when the Government was seen to be acting from strength rather than weakness, ie when the prospect for inflation, the money supply, and conventional funding, was reasonably bright; once successfully introduced, however, the instrument might then be used to support the funding program if it ran into difficulties. It needs to be recognised however that there would be a risk, if the RIG's proved attractive, that the institutions would stay out of the conventional market forcing pauses that might not otherwise occur.

These various possible techniques, used in combination, provide reasonable grounds for hoping that the risk of pauses in the gilt-edged funding program can be reduced, provided confidence in overall policy is being maintained. Without that we doubt whether there is any technique that could achieve the stated objective without major damage to the capacity of the gilt-edged market in the longer term.

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PRINCIPAL PRIVATE SECRETARY

cc: Financial Secretary
Sir Douglas Wass
Mr [illegible]
Mr Ryrie
Mr Middleton
Mr Monck
Mrs Lomax

Michael Scholar

I attach for the Chancellor's approval:

(i) A redraft of the paper we discussed this morning; and

(ii) A brief record of the points to be discussed with [illegible] [illegible].

The Chancellor [illegible] [illegible], to send both these to the Prime Minister tonight.

Pauline Hogg
pp R [illegible]
[illegible] November 19[illegible]

MONETARY CONTROL: THE NOVEMBER STATEMENT

1. The consultations on monetary control following the publication of the Green Paper in March are now complete. An account of the Government's conclusions is planned as part of a wider statement about economic policy on /24/ November. There are also some more immediate practical questions to be resolved. A series of meetings has been held between the Treasury and the Bank to prepare the ground for the Prime Minister's seminar on 13 November. There is a wide measure of agreement as to the steps which could be announced [illegible]. We are not very [illegible] as to the merits of the case for monetary base control in the longer term and on this there is a continuing difference of view, or at least of emphasis, between Bank and Treasury officials.

2. The Treasury think that these issues need to be considered explicitly now, whereas the Bank feel that the development of experience with the evolution of the changing system and the pressures of events, or possible entry into EMS, makes it unwise to take an explicit position now on long distant changes, especially those that would involve major structural changes.

Control of £M3

3. The Green Paper argued that control of the target aggregate on a month-to-month basis was not necessary to the effect of monetary policy in reducing inflation, although it also recognised that even short-term deviations from the target path could influence market expectations. It is now generally accepted that precise short-run control of a broad aggregate like £M3 is not in practice possible and also that control of such an aggregate, even over a period of six to twelve months, could sometimes involve costs in terms of other objectives that are unacceptable. A major change in the definition of the target aggregate to one that might be more easily controlled, however, has not been considered as a "live" option at the present time. Whilst the Government may not be committed to the precise definition of £M3, the concept of the financial strategy would be drained of significance if there were no commitment to a broad monetary aggregate at all.

4. The extent of debt flexibility is one subject on which views differ between Treasury and Bank officials.

The Treasury believe that a greater readiness to see the yields on gilts respond to market pressure would give greater assurance that a programme of sales could be achieved within a period of, say, three to six months.

The Bank believe that the greater volatility of yields would not necessarily secure the sales outside the banking system. The structure of the market would be damaged and the prospects for selling debt in the longer term diminished.

Some forms of auction for short-term central government debt would not be open to all these objections. There is general agreement that the possibility of broadening the market at the short end should be examined as a means of providing greater flexibility to the government funding programme. If it were decided to introduce an indexed stock, restricted to institutional holders (the RIG), it could also be auctioned; it would then provide an alternative to conventional gilts to which the savings institutions might turn when the prospect for inflation was particularly uncertain.

Multiple Targets and Monetary Base Control

5. The advocates of monetary base control do not see it as a means of controlling £M3 or any broad aggregate - except very indirectly. They see it as controlling either a narrow monetary aggregate [illegible] or simply the base itself [illegible]. If this were to be combined with the existing commitment to £M3, the Government would be committed to multiple targets. The narrow aggregate would be the short-run objective with the wider aggregate as the guide to medium-term policy. Again, there is a difference of view between the Treasury and the Bank on the possibility of operating such a system.

The Treasury see control of the narrow aggregate as an operating guide for [illegible] determination of short-term interest rates. They see fiscal policy and debt sales as the appropriate instruments for meeting the medium-term target for the wider aggregate. The possibility of conflict between

The Bank see a conflict [illegible] short-term rates [illegible] as a means of influencing bank lending (in the longer run) and of securing gilt sales (in the shorter run). [illegible] would often have conflicting implications for movements in short rates. [illegible] the two targets would be much reduced if a new approach were adopted to the marketing of gilts.

target is maintained, therefore, they see a need for discretionary choices about the appropriate level of short rates.

10. There is considerable uncertainty over the workability of a mandatory monetary base system. A system based on retail deposits alone would create less of an incentive to offshore disintermediation, but it is not clear that an adequate definition could be found for control purposes. There is a danger that other distortions would be introduced, especially affecting competition between banks and building societies. We do not, however, need to close this option as a long-term possibility. It would, in any case, be valuable to introduce a statistical series for retail deposits to replace the old M2 series discontinued in 1972 (although it would be costly for the banks). We might then be able at a later date to asses its controlability and its economic significance.

Initial Steps

(a) Money Market Operations

11. During the debate following the Green Paper, there has been persistent criticism of the way that "lender of last resort" or discount window facilities are operated. It would be possible to exercise control of interest rates in a more flexible (and less visible) way by adopting rather different techniques in the conduct of open market operations. The instructions for these operations could eventually be framed in terms of either quantities or prices (or a combination of the two). Initially, the emphasis would have to be on the control of interest rates, but it would be possible, if we wished, to move gradually towards control of the monetary base.

12. The interest rate objectives could, from the start, be expressed as a band within which market rates could fluctuate. The choice of the limits to that band would remain, in a sense, a political act, but it is hoped that it might be somewhat "de-politicised". These limits would not be announced (in order to keep the banks uncertain of the terms on which they could certainly obtain funds), but if actual rates were to reach either intervention point, the market would be well aware of the fact. A decision would then have to be taken whether to move the band or whether to stabilise it at that level. Minimum Lending Rates, as such,

[illegible] simplified, and discount window facilities would be provided [illegible] only and probably only at penal rates. The new method of [illegible] would be indicated in general terms in the November statement. It would brought into use over the next few months.

(b) The Cash Ratio

13. The existing cash ratio is not operated as the base for a system of monetary control. The Green Paper speaks of it as the "fulcrum" for open market operations, but it would be possible, nevertheless, to determine interest rates without any required cash ratio since the banks are unable to overdraw their accounts with the Bank of England. An associated effect of the present cash ratio requirement is to provide the Bank of England with the main source of its own income.

14. In its present form, the ratio could not be used in a mandatory system of monetary base control: it is too small a percentage and related to the wrong total of deposits. Whilst it remains, it conceals the size and variability of the banks' true demand for cash; it therefore prevents us from discovering any information relevant to the operation of a non-mandatory base control system. This points to the replacement of the cash ratio by some alternative means of financing the Bank of England. We shall be discussing further what possibilities exist. At a minimum, some reference to **a review of the cash ratio** would be made in the end-November statement.

15. We could also announce our intention of reviewing the case for monetary base control in due course. [illegible] It could then benefit from:

(i) experience of more flexible market operations, with their implications for interest rate volatility and bank behaviour;

(ii) some knowledge of the banks' true demand for cash (relevant to a non-mandatory system); and

(iii) some data on retail deposits (relevant to a mandatory system

(c) The Reserve Asset Ratio

16. It is agreed policy, announced in the Green Paper, to abandon the reserve asset ratio as soon as a successor system for the prudenti control of bank liquidity could be put in its place. Discussion of

new prudential arrangements between the Bank and the banks has gone as far as it can in ignorance of how the Bank's market operations and discount window facilities are to be structured in the future. Once that has been settled, it will be a matter of months - not earlier, say, than March - before permanent new arrangements can be agreed, and somewhat longer before they can be fully operational. But it should be possible almost immediately to make an interim adjustment to the reserve asset obligation, consistent with the Bank's objectives for the new liquidity regime, which will go a long way towards removing the problems of market management which have recently been experienced; though it might not wholly eliminate them. The nature and timing of this adjustment would form part of the November statement.

(iv) That a mandatory monetary base system would probably work better if related to a narrow monetary aggregate. Consequently, we will arrange for the collection of appropriate data for retail deposits, an M2 series.

(v) That, in order to provide more information on how a non-mandatory base system would work, it would be necessary to abolish any required cash ratio. The difficulty about this is that it would remove the Bank's main source of income.

It remains for decision:

(i) Whether it is possible to reconcile maintenance of a sufficient and sure source of income to the Bank with the abolition of the required cash ratio.

(ii) How far it would be desirable to express an intention now to move on towards a monetary base system; or more modestly to claim that the above changes were desirable in their own right and consistent, should further experience point that way, with moving on to a monetary base system.

For further discussion but not immediate decision.

(iii) Whether any measures can be introduced that will encourage companies to obtain funds other than through bank lending, ie through the capital markets.

(iv) Whether there are any means of inducing banks to fund such bank lending more through non-monetary liabilities.