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TREASURY
19 JAN 1981
FEB CS

1. Mr. Burt
2. Mrs. Lomas
3. Mr. Covic
cc Mr Ryrie
Mr Monck
Mr Turnbull

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Sir Douglas Wass

FINANCING OF BUDGET DEFICITS

When the Chancellor and I saw the Prime Minister on 22 December, she again reverted to the question of whether the Treasury should take over the marketing of Government securities from the Bank. Needless to say this is an idea which rather strongly appeals to her. The question was put in the context of the November money supply figures so I was able to reply that there could be no question of the Treasury taking over this function as an immediate option; we were simply not equipped to deal with markets. The Prime Minister did however go on to say that she hoped that the possibility would be considered in the further discussions on funding which would be taking place in your group. To the best of my recollection, neither the Chancellor nor I reacted to this suggestion.

2. The idea is not one for which I have any enthusiasm. But if you want to pursue it further you might like to see the attached note by Mr Turnbull which looks at the precedents in other countries. The Prime Minister appears to have a point when she says that responsibility for financing the deficit seems to have been delegated much more in the UK than in most other countries.

For Canada... government debt management in collaboration with the Bank of Canada. The Bank advises the Government and administers marketable bond issues...

Japan "The Ministry of Finance has responsibility for funding the deficit of the central government."

P E MIDDLETON
6 January 1981

France "The Ministry of Finance is responsible for carrying out the central government borrowing programme."

U.K. "The Bank of England has responsibility for funding the budget deficit of the central government, which in turn undertakes most of the borrowing required by other public sector bodies on their behalf."

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FINANCING OF BUDGET DEFICITS

You asked how many OECD countries entrust the task of selling debt to finance the fiscal deficit to the Ministry of Finance and how many to the Central Bank. The question is not entirely straightforward as the definition of the fiscal deficit varies. In the UK it is a very comprehensive measure; in the US, Canada, Germany and Australia, it refers only to the federal deficit; and in France only to a narrowly defined central government. However the recent OECD document, Budget Financing and Monetary Control (DES/NI(80)15), provides broad answers for 10 countries. I quote the relevant passages below.

2. U.S.: "The U.S. Treasury has responsibility for meeting the Federal Government's borrowing needs. Except to the extent that the Federal Reserve makes purchases of (short term) Treasury debt in the open market it does not play a direct role in the financing of budget deficits."

Germany "The Ministry of Finance has responsibility for funding the deficit of the central government." The Bundesbank makes limited use of open market operations.

Canada "The Department of Finance has responsibility for Canadian government debt management in collaboration with the Bank of Canada. The Bank advises the Government and administers marketable bond issues ..."

Japan "The Ministry of Finance has responsibility for funding the deficit of the central government."

France "The Ministry of Finance is responsible for carrying out the central government borrowing programme."

U.K. "The Bank of England has responsibility for funding the budget deficit of the central government, which in turn undertakes most of the borrowing required by other public sector bodies on their behalf."

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Italy "The Bank of Italy acts as the government's banker and financial adviser, while the Treasury has the final responsibility for the implementation of the central government's borrowing programme. The latter relates to that part of the budget deficit not financed by postal deposits held on account with the Treasury."

Australia "The Treasury, subject to the approval of the Australian Loan Council (consisting of the Prime Minister and six state premiers) is responsible for financing the Commonwealth government's budget ... The terms of borrowing by the Commonwealth government are fixed by the Council, in the light of market conditions, with advice being received from both the Treasury and Reserve Bank."

Belgium "The Ministry of Finance has the responsibility for funding the budget deficit of the central government."

Denmark "Central government debt is issued by the Ministry of Finance The terms and techniques of issue are determined in consultation with the National Bank."

3. There are thus examples of pure Ministry of Finance systems - U.S., Germany, Japan, France, Belgium; collaborative systems in Canada, Australia, Denmark and Italy. The U.K. appears to have gone further than any of the countries studied in delegating responsibility to the central bank.

AT

A TURNBULL
5 January 1981