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# The Guardian

**'Within days Bosanska Krupa will become a hellish trap, and the residents will be like ducks in a shooting gallery'**

Devotion of a daughter . . . Sedana dodges the snipers to make her weekly visit to her father in a Bosnian town being strangled by Serbian guns and bombs Ed Vulliamy reports, page 20

PHOTOGRAPH: JEREMY STIGTER

# £7bn loan to boost pound

**Will Hutton, Economics Editor**

THE Chancellor raised the stakes again yesterday in his battle to defend the pound inside the European Exchange Mechanism by announcing that the Government plans to borrow £7 billion of foreign currency to buy sterling over the next seven months — the first official foreign currency borrowing since the IMF crisis in the 1970s.

The surprise move impressed London's financial markets where the pound rose more than one and half pfennigs against the mark to close at DM 2.8009, the first time it has finished trading above 2.80 on London's foreign exchange markets since the sterling crisis began 10 days ago, and more than two pfennigs above its lowest permitted level inside the ERM.

Mr Lamont, digging himself even more deeply into the commitment to no devaluation of sterling inside the ERM, insisted that this was more evidence that the Government meant what it said.

"These arrangements demonstrate once again the Government's clear determination and ability to maintain sterling's position in the ERM at the existing central rate regardless of the outcome of the French referendum on the Maastricht treaty," he said.

With conservative backbenchers and leading industrialists criticising the government over its insistence that the ERM parity is the immutable centrepiece of economic policy, even to the extent of increasing interest rates, Mr Lamont's initiative is aimed at taking both the economic and political heat off the Government.

As the risk of an interest rate increase recedes, the first signs of relief came with building society leaders saying that the foreign currency borrowing meant that an early rise in the mortgage rate seemed unlikely.

The first half of the borrowing is to be undertaken this month, when the Government will raise 10 billion marks (5 billion ecu) from a consortium of leading British and German banks. This will be immediately used to buy pounds, and the proceeds redeployed to finance the Government's balloning public sector borrowing requirement.

The next phase will be a "multi-currency note issue programme", simply a means by which the Government will borrow marks, dollars, Swiss francs and yen in Frankfurt, New York, Zurich and Tokyo just as it borrows pounds in London. Again the £3.5 billion (5 billion Ecu) proceeds will be used to buy sterling and then finance the public sector borrowing requirement, with the Treasury making it clear that the deadline for completing the borrowing is the end of the current financial year.

As a result the Goverment hopes to achieve a number of simultaneous goals. It will:

- have 20 billion marks or its equivalent extra to buy pounds, so directly supporting sterling's international value
- finance its borrowing requirement
- show that it has a vested interest in sterling being revalued rather than devalued because any devaluation would mean that its foreign currency borrowings would be more expensive to repay with a weaker pound.

But above all the package is aimed to demonstrate that the Government aims absolutely to maintain sterling's value.

The last Chancellor to borrow foreign currency to support sterling was Denis Healey in the successive sterling crises in the 1970s.

Mr Lamont's move was followed by buoyancy on the London Stock Market — which put on £12.8 billion with the FTSE index closing up 68.9 at 2381.9. There was a more subdued rise in sterling on the foreign exchange markets.

Jeremy Hale of investment bankers Goldman Sachs said that the history of managed support operations for currencies was not good, and that he was not convinced that Britain was out of the woods on interest rates, especially if the French voted No in this month's referendum. The borrowing was a "difference only in style rather than substance" compared with other unsuccessful currency interventions.

Others insisted that sterling remained fundamentally overvalued and, as Gerard Lyons of DKB International remarked, that market tensions would persist.

But there was a general recognition that it was "quite a clever move" which showed at least that the Government was prepared to be active.

One aspect of the package pleasing the City is that the Government now needs to raise only £11 billion more to fully finance the public sector borrowing requirement in this financial year. With £18 billion to be funded before the announcement of the borrowing, and the Bank of England now so far ahead of schedule, there is little risk of it having to raise interest rates to persuade investors to lend to it.

*Margaret Hughes adds:* Major building societies welcomed the government funding move.

A spokesman for the Halifax Building Society said it would reduce the pressure for an increase in base rates and therefore mortgage rates. Both Abbey National and the Woolwich Building Society said it was "good news" for the housing market.

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## News in brief

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Kevin Maxwell, youngest son of Robert Maxwell, became Britain's biggest bankrupt in a process he described as "a very public humbling." Page 3

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GCSE examiners were put on probation by the Government. Page 2

**Son 'admitted murder'**
The former army officer arrested at sea on suspicion of murdering his parents in Jersey admitted the killings, a court was told. Page 5

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Labour Party membership dropped last year to an all-time low of 261,000. Page 2

**Essex keep title**
Essex retained the county championship with an eight wicket victory over Hampshire. Page 17

**£282,792 for Africa**
Guardian readers have given £282,792 in less than a month to the newspaper's Fund for Africa to help alleviate famine and drought in Somalia and southern Africa. The Guardian Fund has sent the money to the Africa in Crisis appeal, launched yesterday. "Readers' response has been quite magnificent," said Dee O'Connell, secretary of the Disasters Emergency Committee, which is co-ordinating the appeal. The Guardian Fund for Africa is now closed. Donations to Africa in Crisis can be made at banks and post offices or by telephoning 071 235 5454.
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