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CHANGES IN THE BANKS' MONEY MARKET OPERATIONS AND POLICY FOR SHORT-TERM INTEREST RATES

I have seen Mr Monck's minute of 12 February, and Mr Middleton's covering note of the same date. Mr Middleton suggests that we hold a meeting very soon to discuss this.

Needless to say, I very much hope to be able to attend this meeting, but it might be useful if I set down my preliminary conclusion. This is that nominal short-term interest rates should be basically determined by the growth of M_0 , with some regard however to the other aggregates (including £M3) and the level of real interest rates. There should be no explicit link with the exchange rate, although inasmuch as exchange ^{rate} rises reduce inflation and thus increase the real interest rate, there will be an implicit link.

NIGEL LAWSON

13 February 1981