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NOTE FOR THE RECORD

The Chancellor called on the Prime Minister at 0900 hours this morning. The following points came up in discussion:

(i) Select Committee on the Treasury and Civil Service

The Chancellor said that the Committee were causing him considerable difficulty in their demands for information and the general tone of their approach to the Government's economic policies. Their first report was likely to be fairly critical, and this was bad for the Government's credibility. Unfortunately, the Chairman and some of his Tory colleagues were being almost as unhelpful as the Opposition members. He was trying to get the more sympathetic members of the Committee, such as Mr. Beaumont-Dark, to play a bigger role in the Committee's deliberations.

(ii) The Exchange Rate

The Prime Minister said that the high exchange rate was beginning to have a serious effect on manufacturing industry. She agreed with the Chancellor that there was no easy way of getting the exchange rate down, and in any case there would be disadvantages in terms of the RPI even if it were possible. Nonetheless, she hoped that the Chancellor was considering what might be done. The Chancellor said that the effect of the exchange rate was to move resources out of the manufacturing sector to consumers, and this was reflected in the recent big increase in real disposable income. But he did not think there was any mileage in trying to reduce the exchange rate: if anything was to be done for manufacturing, it would be better to look at fiscal reliefs. He had this whole question under review.

(iii) Interest Rates

The Chancellor said that the money supply figures for banking April now seemed likely to be worse than earlier expected: instead of a negative figure, sterling M3 was likely to show an increase of $\frac{1}{4}$ per cent. This in itself was not too bad, but it concealed a continued high level

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lending to the private sector. Interest rates had fallen a little partly in sympathy with American interest rates, but it was too early to contemplate a reduction in MLR. The Bank would need to put out a new tap, probably this week, in order to maintain the funding programme.

(iv) Iran

The Chancellor referred to his minute of 28 April and said that he fully agreed with Mr. Nott that it would be very difficult to get legislation through Parliament if sanctions were to apply to existing contracts. The Prime Minister said she agreed. The Chancellor then turned to the question of Iranian assets, and reported that the Governor had recently met Mr. Nobari of the Iranian Central Bank - who had asked for an assurance that we had no intention of freezing. The Governor had given him this assurance, and in answer to further questioning, had made clear that he was not under any pressure from HMG to freeze the Iranian assets. He had explained to Mr. Nobari that the situation would have been different if the UN Resolution had included freezing of assets; but since it had not there was no question of HMG going down this route. Mr. Nobari had told the Governor that he had been given a similar assurance by the Germans and the Austrians. The Prime Minister said she was glad that Mr. Richardson had made our position clear.

T.L.

1 May 1980

cc: Mr. Michael Alexander