

PRIME MINISTER

You asked about the statements in the last two Market Reports that the Bank had "swapped" substantial amounts of dollars into this banking month from the next to ease domestic monetary conditions. As I mentioned to you this morning, this is another way in which the Bank ease the liquidity of the banks from time to time. They take in dollars from the banks and give them sterling in exchange; and the transaction is reversed next month. The Bank's defence is that they had to do this, as in the past with the other measures of liquidity assistance, to prevent large increases in their short-term interest rates; and they ~~did~~ this on this occasion because they were afraid that the ~~interest~~ rate would be pushed up sharply.

sterling

If they did it on account of the exchange rate, I must say that I have some sympathy with what they have done. I have been unable to find out how much this latest assistance is likely to add to the money supply; as long as the effect is not too great, I believe we must take some risks in order to hold the exchange rate down. Unfortunately, with the increase in the Fed. discount rate, there may be less upward pressure on sterling in the next few weeks.

?

Duty Clerk
PP 12

I think that
the Treasury knew
before the Bank
took this action
could consult
privately. It seems
that the Treasury
are nervous
whether we truly
keep up on our
pulling up the
money supply
not