



cc Chief Secretary
 Financial Secretary
 Sir D Wass
 Mr Burns
 Sir A Rawlinson
 Mr Ryrie
 Mr Barratt
 Mr Hancock
 Mr Middleton
 Mr Britton
 Mr Lavelle
 Mr Lovell
 Mr Unwin
 Mrs Case
 Mrs Lomax
 Mr Peretz
 Mr Ridley

SIR KENNETH COUZENS)
 MR BURGNER) copy to each)

THE EXCHANGE RATE

At E Committee yesterday afternoon, when the BSC Corporate Plan was being discussed, the Chancellor was struck by the extent to which forecasts of the BSC results are dependent on assumptions about the exchange rate. He has asked how far the assumptions used by them are reasonable; reflect discussion with us; and are accompanied by a discussion of the effect of alternative exchange rate outcomes. The same point, of course, arises on BL, and - to a greater or lesser degree - on almost all the other nationalised industries. Can we be satisfied that the projections of nationalised industries' finance adequately reflect what now seems likely to happen on the exchange rate? The Chancellor would be grateful for a note on this.

2. More generally, the Chancellor had the feeling at E Committee that the Government's general stance on the exchange rate was not really understood by his colleagues. While we have explained to the Prime Minister - and persuaded her - that we could not control the exchange rate, and that inward exchange controls were unlikely to achieve any significant reduction in the rate, the arguments have probably not been deployed before a wider audience. The Chancellor has therefore asked whether it would be appropriate for him to circulate a paper on exchange rate policy to his

/E Committee

26/12



Mr. Bagnall
 Miss Brown
 Mr. Christie
 Mrs. Cox

E Committee colleagues. I should be grateful for Sir K Couzens' advice on the substance of the issue, and on the timing of such a paper, if it were decided that one should be circulated.

(a) The Subscriber Fund

I've asked for comments on two aspects of the Department of Finance's suggestion of a subscriber fund, i.e. with what form a fund should compete and what the interest

JW

A J WIGGINS

4 February 1981

The scheme is angled towards householder small businesses. I assume that one will have any incentive to subscribe beyond the point where the annual rebate exceeds the annual telephone bill and this will naturally tend to set an upper limit for physical. Although the personal better, it appears being substantial gains - 10% per cent of the total - these holdings tend to be large and the NW funds would be a direct substitute only to a very limited extent. The three main alternatives would tend to be bank deposits, building society deposits and personal savings (if they're there are other possible sources of funds such as higher borrowing or lower life assurance premia). Although the fund is described as being for five years, it is in effect for one year, renewable thereafter for 1 month at a time. As such it is closest to a national savings certificate or a building society term share. If the NW subscriber fund replaced NW certificates there would be no benefit to the money supply, but would there be if subscriptions were financed by increased bank borrowing. At the other extreme, if it all came from bank deposits, the benefit would be 100% per cent. If it came from building societies the effect would be between these two extremes. Earlier work indicated that a new national savings certificate might reduce the money supply by