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10 DOWNING STREET

cc: Mr Walker
Mr Wilson
Mr Ingham
Mr Duguid

THE PRIME MINISTER

Personal Minute

No. M 8/81

CHANCELLOR OF THE EXCHEQUER

MONETARY CONTROL

It is now more than six months since the new measures for monetary control were announced in the November 1980 statement. The last progress report was in January. I understand that, since then, considerable progress has been made; but my impression is that it has not been quite as rapid as you had originally envisaged.

For example, in the first place, it seems that the Reserve Asset Requirement still remains in place. It was envisaged in the progress report that it would be abolished by the Budget.

Secondly, I understand that the Bank still have not been able to abolish the 1½ per cent cash ratio and introduce the new ½ per cent reserve requirement which was announced at the time of the Budget.

Thirdly, it was envisaged in the progress report that the various changes in money market management and in the Bank's role as lender of last resort (including, I thought, the abolition of MLR) could be implemented at Budget time. I understand that progress has been made in that the Bank has

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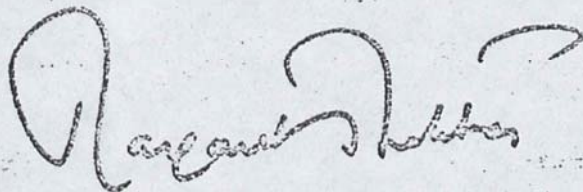
substantially reduced its discount window lending and is now operating primarily through open market operations; but the interest rate band apparently still remains to be put into effect, and MLR is still with us.

Fourthly, possible new funding techniques were being studied by a Treasury/Bank committee. I am not clear what has emerged from this work.

I am told that you now envisage making the new measures fully operational by August. I understand that we would then be in a position to move to Monetary Base Control if we so wished. I can only say that I very much hope that the programme does not slip any further. Although I know you have misgivings about a move to MBC, I am more than ever convinced - especially after my conversations with Dr. Zijlstra - that we must change over to some such system of quantitative control and sooner rather than later. I believe MBC could be introduced and implemented provided it includes a suitable discretionary element.

I would like to hold a stock-taking seminar before the Recess, and my office will be in touch with yours to arrange this.

I am sending a copy of this minute to the Governor.



4 June, 1981