

29

JJJJJ

CABFO 006/11

ZZ PORT STANLEY

GR 350

~~S E C R E T~~

FM CABINET OFFICE LONDON 111912Z JAN 83
TO FLASH PORT STANLEY
TELEGRAM NUMBER MISC 013 OF 11 JANUARY 1983

FOLLOWING IS A MESSAGE TO THE PRIME MINISTER FROM THE
CHANCELLOR OF THE EXCHEQUER.

THE EXCHANGE RATE AND INTEREST RATES

1. THE EXCHANGE RATE, DOLLAR AND EFFECTIVE, AGAIN FELL SHARPLY TODAY. THIS WAS ACCOMPANIED BY A RISE IN INTER-BANK INTERES RATES TO NEARLY 11 PER CENT THIS MORNING AND OVER 11 PER CENT THIS AFTERNOON.
2. I HELD A MEETING WITH THE BANK OF ENGLAND THIS MORNING AND MADE IT CLEAR THAT MY STRONG PREFERENCE WAS TO KEEP INTEREST RATES DOWN. THE BANK'S PROPOSAL WAS THAT ITS BILL DEALING RATE SHOULD GO UP AT 1215= BUT THE CONCLUSION WAS THAT THEY SHOULD BE MAINTAINED AT 10 PER CENT. BARCLAYS, WHO HAD ALREADY INDICATED THAT THEY WISHED TO RAISE THEIR BASE RATE FROM THE EXISTING LEVEL OF 10 PER CENT, WERE ASKED TO DEFER A DECISION FOR THE TIME BEING.
3. IN THE EVENT THE EXCHANGE RATE WEAKENED FURTHER AND INTER-BANK RATES ROSE ABOVE 11 PER CENT. BY 1430 THE EFFECTIVE RATE WAS 80.3 AND THE DOLLAR RATE 1.5635 .
4. BARCLAYS THEN MADE IT CLEAR THAT IN THESE CIRCUMSTANCES A REQUEST TO THEM TO DELAY AN ANNOUNCEMENT OF AN INCREASE IN BASE RATES BEYOND THIS AFTERNOON WOULD MAKE IT VERY LIKELY THAT THE INCREASE ON 12 JANUARY WOULD BE SUBSTANTIALLY LARGER THAN THE ONE POINT RISE THEY WISHED TO MAKE TODAY. THE BANK'S ADVICE, WHICH I RELUCTANTLY ACCEPTED AT 1500, WAS THEREFORE NOT TO REQUEST A FURTHER DELAY AND THEREBY RUN THE RISK OF AN EVEN BIGGER MOVEMENT IN BASE RATES TOMORROW. BARCLAYS ANNOUNCED A ONE POINT RISE AT 1630 - THE OTHER CLEARERS WILL NO DOUBT FOLLOW SUIT. STERLING ROSE SHARPLY: BY 1730 TO AN EFFECTIVE RATE OF 81.3 AND A DOLLAR RATE OF 1.5820.

5. THE BRIEFING LINE MAKES IT PLAIN THAT THE INCREASE IN BASE RATES, WHICH WILL BE FOLLOWED BY AN INCREASE IN THE BANK OF ENGLAND'S DEALING RATES FOR BILLS TOMORROW, WAS NOT ENGINEERED BY THE AUTHORITIES. IT GOES ON TO SAY THAT IT WAS NEITHER DESIRABLE NOR FEASIBLE FOR THE AUTHORITIES TO RESIST THE MARKET DEVELOPMENTS WHICH PRODUCED THE RISE IN BASE RATES. THERE WAS NO EXCHANGE RATE TARGET, BUT THE EXCHANGE RATE HAD ALWAYS BEEN A FACTOR TO BE TAKEN INTO ACCOUNT IN ASSESSING MONETARY CONDITIONS AND DETERMINING THE AUTHORITIES' ATTITUDES TO INTEREST RATES. THE RECENT FALL IN THE EXCHANGE RATE REFLECTS MARKET UNCERTAINTIES ABOUT MONETARY CONDITIONS, DESPITE THE REASSURING POSITION ON THE PSBR AND THE MONETARY AGGREGATES. THE RISE IN INTEREST RATES WOULD REASSURE MARKETS THAT THE MONETARY CONDITIONS REQUIRED FOR THE CONTINUED CONTROL OF INFLATION WILL BE MAINTAINED.

6. I HAVE TALKED TO ALAN WALTERS ABOUT THESE DEVELOPMENTS - HE FULLY AGREED WITH THE ACTION WHICH HAD, IN THESE VERY DIFFICULT CIRCUMSTANCES, TO BE TAKEN.

7. I AM SORRY TO HAVE TO SEND SUCH DEPRESSING NEWS.

8. BON VOYAGE.

MESSAGE ENDS
BT

NNNN

PLEASE ADVISE T O R PORT STANLEY

SENT/RECD 111939Z JH/DBF

RECD AT PORT STANLEY
1956²