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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 November, 1986.

**BRIEFING ON MONETARY POLICY
AND THE EXCHANGE RATE**

The Prime Minister agreed with the Chancellor at their bilateral today that it would be useful for her to have for Questions tomorrow an updated line to take on interest rates and the exchange rate. I attach a draft, and would be grateful for your comments as soon as possible.

(David Norgrove)

Alex Allan, Esq.,
HM Treasury.

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Interest rates

Short term interest rates will be held at the level required to maintain the conditions for downward pressure on inflation. Of course we do not want to see interest rates any higher than they have to be. But we shall not risk our achievements on inflation.

Exchange rate

The dramatic fall in oil prices earlier this year obviously also meant a fall in our exchange rate. But that adjustment has now worked through.

The exchange rate continues to be a most important indicator of financial conditions. A further fall would risk adding unacceptably to inflationary pressures.