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Barry Potter Esq
Private Secretary to
the Prime Minister
10 Downing Street
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SW1

Dear Barry,

ERM: QUESTION AND ANSWER BRIEFING

... I attach for information the briefing on the ERM which we are currently using.

Tomasz Tarkowski

T TARKOWSKI
Private Secretary

Date for Sterling's entry into ERM ?

UK not committed to any particular date, but will be during so-called stage 1 of Delors which has already begun.

Why not join ERM now ?

Very clear conditions for UK entry. A very good deal of progress has been made on a number of the Madrid conditions for membership of ERM but all have not yet been met.

What are conditions for joining ERM ?

Set out clearly after Madrid Summit. Government committed to join ERM when level of UK inflation is significantly lower, there is capital liberalisation in the community and real progress has been made towards completion of single market, freedom of financial services and strengthened competition policy.

What progress towards meeting conditions has been made ?

[Note Headline inflation Madrid (June '89) 8.3% cf 9.8% July; Underlying inflation (ex Mips/cc) Madrid 5.8% cf 7.0% July]

Countries required to abolish exchange controls by 1 July 1990 under 1988 Capital Liberalisation Directive have now done so. Also progress on competition policy and on liberalisation of financial services.

Sterling should join ERM as part of anti-inflationary battle ?

Government committed to achieving significantly lower inflation. ERM entry will not substitute for firm Monetary policies but complement them.

Exchange rate on entry ?

Aim is to join in a way that supports policy to reduce inflation. Entry rate will be determined by that objective.

Will Gulf situation affect entry (uncertainty, oil price inflation etc?)

Uncertainty caused by Gulf crisis will have to be taken into account. But so far the economic disturbance has been fairly limited. Rise in oil prices, if sustained, will increase inflation throughout EC for a while. But effect on UK smaller as import prices moderated by rise in sterling.