

Prime Minister
We discussed the option of moving to the narrower band at a lower central exchange rate. Sarah minute sets out some possible options.

SECRET AND PERSONAL

PRIME MINISTER

3 January 1991

B/A for next bilateral
with Sarah
21.

Options for "Narrowing the Band"
to $\pm 2\frac{1}{4}\%$ *

The strict is perhaps the most obvious - but the UK finished above the upper limit today. (But if interest rates were reduced, the UK would come down!)

BHP 2/11

- 1. Same central rate
Central rate : DM 2.95 Range DM 2.88 - DM 3.02
- 2. Old central rate becomes new ceiling
Central rate : DM 2.88 Range DM 2.81 - DM 2.95
- 3. Old floor becomes new floor
Central rate : DM 2.83 Range DM 2.77 - DM 2.89
- 4. Old floor becomes new central rate
Central rate : DM 2.77 Range DM 2.71 - DM 2.83

Options 2, 3 and 4 involve a devaluation of the central rate (and therefore our ecu rate); but only 4 involves a true devaluation in the sense that the floor is lowered. And 4 still conforms to the old "Lawson rules" for realignments. Anything lower - eg Walters' proposed DM 2.65 - would not.

Sarah

SARAH HOGG

* Allowing for rounding!

Prime Minister

BHP

311

①

PRIME MINISTER

3 January 1991

Thank you! f.

You may care to note that sterling ended the day with the same effective rate - 94.1 on the index - as on the day you entered the ERM. The D-mark rate is only just over four pfennigs lower, the dollar rate less than three cents higher.

Sarah

SARAH HOGG

(248)