

THE GOVERNOR O/R

Copies to Mr Blunden  
Mr Loehnis  
Mr George o/r  
Mr Walker o/r  
Mr Coleby

~~Spence~~  
OK  
23/8

SEE D9144 218 in  
DREV  
SECTION

At my meeting with Wass yesterday he spent a good deal of time filling in the background from his point of view of discussions of the last two weeks over interest rates and funding. In particular he was keen to persuade me that nobody in the Treasury wanted to reduce the exchange rate. In practice, however, I think this statement is a little nuancée. It is probably true that nobody wants to shake things up so that the exchange rate will fall (that lesson of 1976 has not been unlearned) but there are obviously some who would be more prepared to live with the exchange rate consequences of certain interest rate reductions than others. (Very privately, he told me that the Prime Minister had a few days ago told the Chancellor very firmly that she wanted no depreciation in the exchange rate at all - though I am afraid she also said that she wanted significant further reduction in ~~exchange rates~~.)

*interest*

On interest rates Wass claimed that we were all at one, that is to say "steady as we go and not too much haste". Again, however, there are glosses and I gather the Chancellor is itching for more progress. Wass said that that there was some feeling among the Chancellor and senior officials that one might hope to reach 10% in the next couple of months.

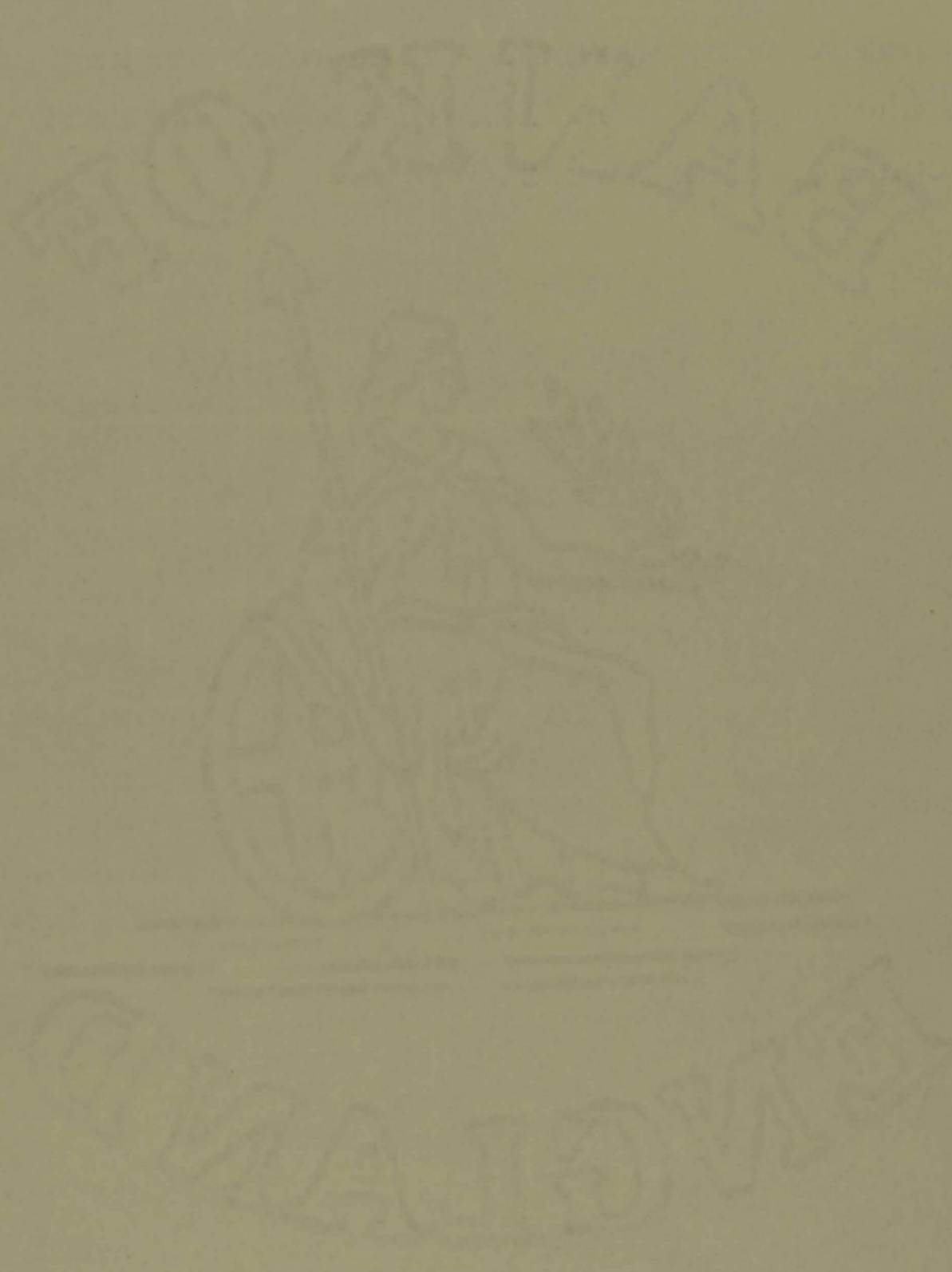
To all this I made the obvious rejoinders about the impossibility of projecting paths like this; and, in particular, the dangers of unwelcome developments in the US. I also pointed out that, though Sam Brittan and some in Whitehall might think we were being a little slow, there were those in the City who thought

that, if anything, we were being a little fast. What we were trying to do - and would continue to try to do - was allow the market to go down provided influences remained favourable (including exchange rate). In practice this meant that some days we would let our dealing rates down one-sixteenth or one-eighth and other days keep them where they were to check any headlong process.

I made the point very strongly that once we had got as far as the market thought we were likely to go, we would be in danger of losing control thereafter.

Cwm

5 August 1982



6261