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RR 7055

SECRET

1.12.82

THE GOVERNOR

Copies to Mr Loehnis  
Mr George  
Mr Walker  
Mr Fforde  
Mr Dow  
Mr Gill

EXCHANGE RATE POLICY

(at HMT)

I had a brief discussion on this with Wass this morning urging the need to be ready with a coherent response if sterling came under severe attack again. He was slightly hard to pin down but in the end appeared to accept that (a) a serious slide in the exchange rate would inevitably push market interest rates up and that therefore (b) there would be a case for acting ourselves earlier rather than later in the hope of limiting the damage. He confirmed that, as at the meeting last Friday, he was positively in favour of our giving signals rather than the reverse.

On intervention, he was a bit woolly. He claimed himself to have a pragmatic view on it; and when I asked why the Chancellor and some others seemed so very hostile to what was really a rather normal response with rather minimal costs to us, he said that he thought that the Chancellor (wrongly) thought the Bank was always "itching to intervene". I said rather warmly that the record, not only of recent weeks, but of the whole period since May 1979, showed exactly the contrary. He sort of agreed.

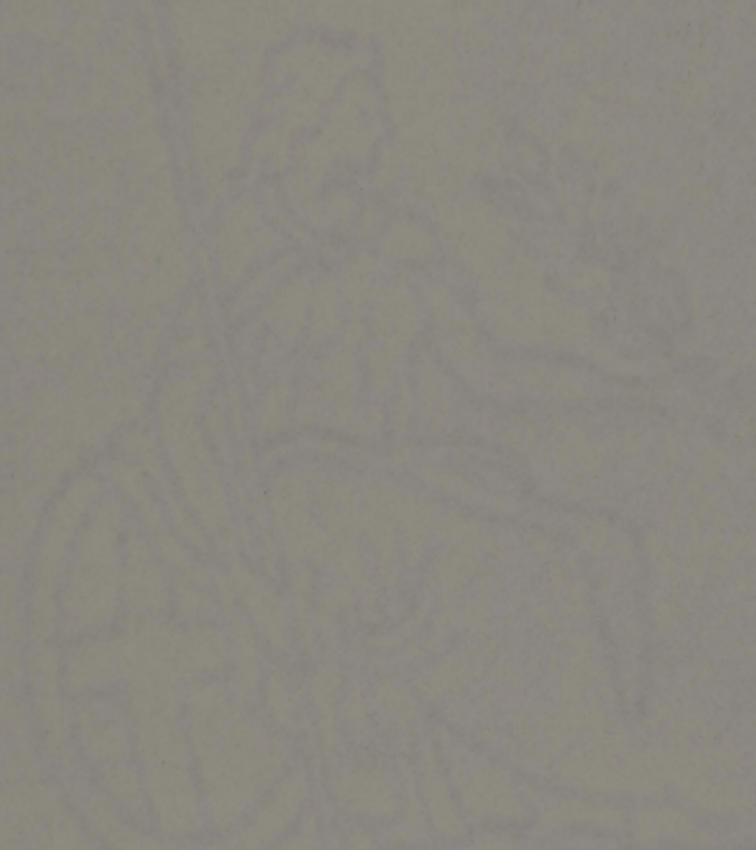
Perhaps there is a case for our preparing a paper showing how and when we have intervened, with the purpose of proving that we did it with discretion and that, much more often than not, we did not use up our "ration". On the basis of this paper it might be possible to hold a Treasury/Bank meeting to flesh the subject out and perhaps even to get away from rations.

I am not in fact very hopeful that we can get all that far while Couzens is there, but it may be worth starting to drip water on the stone again.

Cwm

1 December 1982

BANK OF



ENGLAND

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