

SUBJECT
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File 12. EL381Q
PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 July 1986

Dear Alex,

EXCHANGE CONTROLS

The Chancellor explained to the Prime Minister at their bilateral this afternoon the conclusions he had so far reached about the possibility of repealing the reserve powers for the reintroduction of exchange controls.

The Chancellor explained that these powers could be repealed in the next Finance Bill. To do so would be contrary to a Community directive which required powers to impose exchange controls to be available to member Governments. However Delors planned now to launch an initiative to liberalise capital movements. The proposal to repeal the UK legislation could be discussed with him privately and there was a reasonable chance that the Commission would not oppose repeal.

There would however be some difficulty in explaining why the Government wished to repeal the legislation. The explanation could be that the legislation was being repealed for the avoidance of doubt, and that it had been retained only because of the directive. With the prospective change in Community policy this requirement would no longer be relevant.

The effect of repeal on the markets was uncertain. The Bank of England's view was that it might be damaging because it would raise an issue which was at present dormant. Against that, it would reassure domestic holders of sterling who might fear the threat of a reintroduction of exchange controls by a Labour Government, though they might wish to move out of sterling anyway from fear of a depreciation of sterling which would follow (or precede) a Labour victory.

Politically, legislation to repeal the powers would have the advantage of forcing the Opposition to make clear where they stood on exchange controls. Their present position was that they would rely on changes in tax legislation to ensure repatriation of funds held overseas and to forestall outflows.

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PS

PM

The Chancellor concluded that he was attracted by the idea of repeal, though there were risks. There was no need to take a decision yet.

Y
Jm,
David.

DAVID NORRGROVE

Alex Allan, Esq.,
H.M. Treasury.

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