

~~NRN OFFERONE~~

Please take to Mr. Thompson, 10 Downing St. Press Sec.
to arrive by 11.30 am
W.M.

FROM: S J PICKFORD
DATE: 30 SEPTEMBER 1986

NOTE FOR THE RECORD

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CHANCELLOR'S INTERVIEWS IN WASHINGTON - 30 SEPTEMBER

The Chancellor gave a number of interviews at lunchtime today (London time). His press conference was followed up by interviews for: Financial World Tonight; ITN; and BBC TV News.

2. Many of the questions (and the Chancellor's answers) are common to all. The main points have already appeared on Reuters - cuttings attached.

3. We do not yet have a transcript of the interviews. However the main pieces of news (paraphrased) are as follows:-

Q Is it true Germans intervened to support Sterling?

X ||| A. Can confirm modest intervention by Bank of England and Bundesbank. There is a long standing history of cooperation between central banks.

Q. Have you met Germans to discuss market developments?

A. I have attended many meetings. Natural that markets have been discussed. Not my practice to comment on whether specific bi-laterals have been held, or what was discussed.

Q. Any rise in UK base rates?

A. Been through this before - market turbulence, market and press speculation. So far today things have been calmer.

Q. UK joining ERM?

A. The UK is not joining today (joke, following up Governor's remarks yesterday). No change in UK's position - will join when the time is right.

Q. Changed prospects for UK economy?

A. Since the Budget the main changes to economic prospects have been that for 1986 output is likely to turn out lower than forecast but inflation is also likely to be better. For next year I expect output to be better than this year. When you take out the mortgage element from the RPI, the underlying rate is about $3\frac{1}{4}$ per cent - this is not expected to change significantly over the near future.

Q. Is Baker offering the alternative of either Germany and Japan raising their growth rates or the Dollar falling more?

A. I do not think either Baker or Volcker want to see a further fall in the Dollar. Baker has been worried about the prospects of protectionism. Now that the new GATT round is agreed on, the US administration must use that to stave off protectionist pressures within the US. Megaphone diplomacy on exchange rates is unproductive.

Q. Given that exchange rate effects take time to work through, prospect for UK current account deficit?

A. I have no new current account forecast yet - wait for Industry Act. But it is true that exchange rate effects do take time to work through.

4. The Chancellor also repeated his "short-termism" warning - whether the Germans cut their interest rates by $\frac{1}{2}$ per cent was

a very minor issue; on the major issues, such as action to deal with the US fiscal deficit and world current payments imbalances, there had been general agreement between Finance Ministers.

Stephen Pickford

S J PICKFORD

cc PS/Chancellor
PS/CST
PS/FST
PS/EST
PS/MST
Sir P Middleton
Mr Cassell
Mr Lavelle

Mr Peretz
Mr Kelly
Ms Goodman

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301307 :UK DOES NOT INTEND TO JOIN EMS TODAY

WASHINGTON, Sept 30 - The U.K. has no intention of joining the exchange rate mechanism of the European Monetary System today, Chancellor of the Exchequer Nigel Lawson told a press conference.

He repeated the government's long standing policy that it will join the mechanism when the time is right.

Confirming market reports, Lawson also said that the Bundesbank intervened this morning in the Europe and West German markets in support of sterling "to a modest extent."

There has always been a very good understanding between the Bank of England and the Bundesbank, he said.

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301310 :UK DOES NOT =2 WASHINGTON

Lawson said that he did not think that U.S. Treasury Secretary James Baker really wanted to see the dollar plummet. He added that he certainly did not think that Federal Reserve chairman Paul Volcker wanted that.

Lawson declined to comment when asked about the possibility of U.K. base rates rising due to the weakness of sterling. But, he added, "We have seen all this before. There is nothing new about this."

REUTER