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4 Oct, 1979

SECRET

THE GOVERNORS

GR 5/10

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POLICY ISSUES OVER THE NEXT FEW WEEKS
(A SUGGESTED AGENDA FOR A PRELIMINARY MEETING)

1. A number of interrelated questions are crowding in on us and the Treasury for early discussion and decision as follows:-

(i) Whether there should be further large relaxations of Exchange Control at the end of October, or whether they should be postponed until the end of the year, or sometime thereafter.

(ii) If the answer to (i) is affirmative, for what range of consequential exchange market and domestic monetary contingencies should we be prepared, and in what way should they be handled? This question covers intervention tactics, policy on short-term interest rates, the handling of the gilt market, and possibly also the collection of information from the institutions.

(iii) If the answer to (i) is affirmative, how do we go about the almost inevitable consequential abandonment of the Corset, and the resulting increase in £M3 as the cosmetics dissolve? Is it feasible or useful to retain the cosmetics for another period if the answer to (i) is delay?

(iv) How would we treat positive market responses to publication of the September money figures (beginning next Tuesday), in the light of the latest Treasury NIF and Financial forecasts, ~~of~~ and a fresh set of three-month monetary projections (taking in December)?. Answers here are not independent of (i), (ii) and (iii); but expectations may develop in the money and gilt markets in response to the published money figures before the answer to (i) is known.

2. Documentation on most of the questions relating to the domestic monetary implications of the proposed relaxation of Exchange Control largely consists at present of papers written in the Treasury. The absence of Bank papers requires explanation and is due to the available time of the officials concerned being pre-empted, as foreseen, by:-

(a) Construction of the paper on Monetary Base Controls, designed as a basis for the joint Treasury/Bank report to No.10. This has swallowed up a great deal of time.

(b) Work on the new financial forecasts.

(c) Work on preparations for the BP sale.

We have however seen the Treasury papers in draft and have commented on them. I have myself had considerable discussion with Littler and this may be reflected in his own covering Minute to the Financial Secretary. On the other hand, I have considerable reservations about the exposition in Middleton's Minute.

3. Littler told me yesterday that they had had their meeting with the Financial Secretary. The latter had reportedly accepted the general drift of the former's Minute, including the abandonment of the Corset as a consequential of the EC move. He recognised the limited number of timing options and, to his way of thinking, the dangers of continuing postponement (i.e.'Greek kalends'). In his opinion HMG should wait for a good set of monetary figures, etc. and then go ahead. If the September figures were favourable to a move at end-October the go-ahead should be given. Officials should accordingly plan 'contingently but solidly' for an early move.

3. The first shot at September seasonally-adjusted money, based on the monthly rather than the weekly figures, is:-

CGBR	+ 1,650
Debt sales	- 1,025
Other public sector	+ 125
Bank lending to private sector	+ 155
Bank lending to overseas	- 20
DCE	+ 885
Externals	- 490
Non-deposits	- 95
= £M3	+ 300

SHF.

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