



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MONETARY DEVELOPMENTS

The monetary situation remains as bleak as when we talked on Monday. Indeed, there is now growing concern about the size of the PSBR for this year. Nevertheless, the Governor and I have considered the market situation this evening, and concluded that we should delay the change in MLR until next week. There would be difficulties in reaching a considered decision by 11 a.m. tomorrow, and there would also be a cost in terms of piecemeal presentation.

2. As expected the eligible liability figures depressed the domestic market - the 3 months inter-bank rate is now over 15½ per cent, the yields on short gilts are about 14½ per cent, and on long stocks a little under 14 per cent. However, developments elsewhere, notably in Iran and Arabia, have so far outweighed the effect on the exchange markets, and sterling has risen: the effective rate is now 67.2 per cent. While the market regards an increase in MLR as almost inevitable, it does not seem to be expecting it this week.

3. The Bank's assessment therefore is that postponement of the decision from this week would of itself be unlikely to represent a significant risk. But there is of course bound to be some risk of other unforeseen developments affecting markets adversely during the coming week, and therefore that the delay could mean
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that the change in MLR had to be greater when it came. Because of this latter risk, if MLR were the only change which had to be announced, the Governor and I would have no hesitation in recommending a change to 16 per cent this week - the movement in market rates has been such that this would be the minimum necessary to reassert the authorities' position in the market.

4. However, there is a strong presentational case for delaying the change until next Thursday, 15th November, when the full money supply figures will be published. A change then could be explained as part of a general statement to the House on monetary policy. This would put the change in MLR and the October figures in context, reaffirm our determination to keep to the targets, and also include:-

- (i) the announcement of the roll forward of the monetary target;
- (ii) the announcement of the extension of the SSD scheme, or more probably its phasing out; and
- (iii) the statement of the intention to have technical discussions on a monetary based scheme, so that, if it proved appropriate, it could be brought in as the SSD scheme was phased out.

The impact on markets of a comprehensive statement would be much greater than that of an announcement on MLR this week and an announcement on the other points a week or two later. This advantage to my mind outweighs the risk of needing a higher change in MLR: that risk is not substantial, since the movement in market interest rates

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only just passed the point at which the move in MLR has to be to 16 per cent rather than 15 per cent, and there is therefore some leeway for a further move in market rates before the change would have to be one to 17 per cent.

5. If you agree that we should wait in this way, I will come back to you about the constituents of next week's package when I have had a further opportunity to discuss it with the Governor and others. I am sending a copy of this minute to the Governor.

A handwritten signature in dark ink, appearing to be "G.H.", written over a faint watermark of the word "CONQUEROR".

(G.H.)

7 November, 1979