



PRIME MINISTER

STERLING AND TRADE

No doubt the
Chancellor will
offer his views
as well

MS

Mr Nott's officials have considered
the impact of the unexpectedly
high $\%$. The conclusion is
essentially that:

- 1) We can do nothing about
it, but must simply await
events;
- 2) Even if we could influence
it, there are powerful
objections to each possible
approach. M/P 3/11/11

As you well know, the high sterling rate - much higher than anyone thought at all likely a few months ago - has been causing apprehension on account of our lack of industrial competitiveness at home and abroad.

2. About six weeks ago I asked my officials to undertake a quick study of the implications of our policies and of a continuing very high exchange rate for both our manufacturing and service industries, and consider what, if anything, we might do. I did not consider it sensible to burden colleagues with additional papers in the last few weeks of the Parliamentary sitting, but now that the pressure has eased a little I think it is worth circulating their note. I should add that it does not contain anything new, but it comes from a different stable to other economic papers emanating from the Treasury and hence it may be worth a brief study.

3. If the sterling rate stays up the current account will certainly turn out worse over the next year than we expected, both as regards visibles and invisibles. We are likely to come under increasing pressure to alter course in one way or another. But we cannot both follow our present strategies and try to manage the exchange rate. I see no scope, or justification, for departing from our general trade policies. As far as exchange controls are concerned, Geoffrey Howe is already looking towards a further move in the autumn.

4. Though the immediate outlook for our trade is very worrying, I see no alternative to sticking to our guns. Favourable movements in interest rates and better confidence in the dollar may in due course help. Otherwise we shall simply have to ride out the pressures, because of the overriding need to bring inflation down and improve our longer-term industrial performance.

CONFIDENTIAL



5. I am copying this to our colleagues on E Committee and to Sir John Hunt.

Talbot

J. N.
(approved by the Secretary
of State and signed in his
absence)

Department of Trade
2 August 1979