

For Information:

Chief Secretary
Financial Secretary
Sir Douglas Wass
Mr Ryrle
Mr Terry Burns
Mr Middleton-

CHANCELLOR

MLR IN THE BUDGET: THE EXCHANGE RATE

You may like a short note about this, though the facts speak for themselves. After quite a steep fall from the middle of February the exchange rate has stabilised and, since 2 March, has indeed risen a little. As you know, some expectation of a 3% fall played a part in bringing the rate down. We think the markets are not now expecting more than 2% but have probably discounted a 2% reduction. It is always difficult to guess the impact of a Budget, which can depend on unpredictable reactions to it as well as on content, but our best judgement is that this Budget, with a 2% MLR reduction, ought not from its content to weaken the rate, and might cause some rise.

2. You may care to see the attached graph which puts the recent fall in the perspective, both of the long rise and of the earlier dips of autumn 1979 and spring 1980.

K E COUZENS
5 March 1981

enc

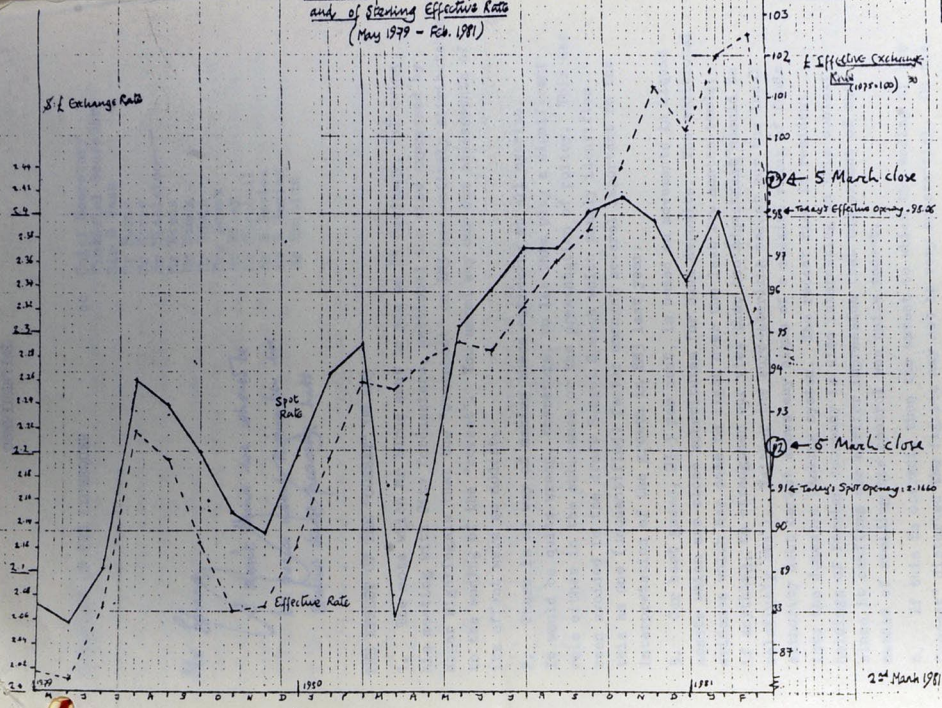
BUDGET - SECRET

432
3

307/81

89

and of Steering Effective Rate
(May 1979 - Feb. 1981)



£/\$ Exchange Rate

Effective Exchange Rate (1975=100)

5 March close

Today's Effective Opening - 95.26

5 March close

Today's Spot Opening - 2.1660

20th March 1981