

File- Monetary Policy Issues-Exchange Rate
Intervention – Part D

Reference MG-MAMC/D/0002/001

File begins 04/01/1988

File ends 22/04/1988

Pages 205-225

MR POJIN

22

Reuters NRIR has some useful
 quotations - for reserves briefing too

Can we get a photocopy?

News
 29/3

Miss. O'Mara

c Mr. Peretz
 Ms. Goodman
 Mrs. Ryding

A copy of some
 a) Chancellorial
 b) PM
 and c) European
 Reuters.

comments from

Ian Polni
 29/3/88

LONDON, MARCH 29, REUTER - U.K. CHANCELLOR OF THE EXCHEQUER NIGEL LAWSON SAID HE WAS CONTENT WITH STERLING'S CURRENT LEVEL. HE ADDED THAT HIS COMMENTS DID NOT IMPLY THAT THE TREASURY HAD A TARGET RANGE FOR THE POUND. 706

"I AM CONTENT WITH THE STERLING EXCHANGE RATE WHERE IT IS ... BUT THAT DOES NOT IMPLY THAT THERE IS A TARGET, (OR A DETERMINATION) TO HIT THAT PARTICULAR RATE," LAWSON TOLD A PRIVATE LUNCHEON FOR AMERICAN CORRESPONDENTS IN LONDON.

REUTERS WAS EXCLUDED FROM THE MEETING ON THE GROUNDS THAT PARTICIPANTS HAD TO REPRESENT PURELY U.S. MEDIA, BUT OBTAINED A TAPE RECORDING OF THE CHANCELLOR'S COMMENTS.

29-MAR-1504 MON116 MONO

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REUTER MONITOR 1953

LAWSON CONTENT =2 LONDON

NRJT

LAWSON DECLINED TO ELABORATE FURTHER ON U.K. EXCHANGE RATE POLICY. HE IS DUE ON WEDNESDAY TO GIVE EVIDENCE TO PARLIAMENT'S ALL-PARTY SELECT TREASURY COMMITTEE.

INTERVENTION IN CURRENCY MARKETS, HE SAID, HAD A PART TO PLAY IN ATTEMPTS TO PROMOTE EXCHANGE RATE STABILITY.

"THERE IS A VERY CONSIDERABLE DESIRE AMONG G-7 (GROUP OF SEVEN) COUNTRIES TO SEE STABILITY OF EXCHANGE RATES," LAWSON SAID. "OBVIOUSLY INTERVENTION HAS A PART TO PLAY IN THAT. I THINK THAT IS ACCEPTED BY ALL COUNTRIES."

"I WILL NO DOUBT BE DISCUSSING THAT FURTHER, AMONG OTHER THINGS, WHEN WE (G-7) MEET IN WASHINGTON NEXT MONTH," HE SAID.

29-MAR-1536 MON181 MONF

CONTINUED FROM - NRIR

ENDS

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REUTER MONITOR 1953

THATCHER AGAIN DENIES RIFT WITH LAWSON ON POUND

NRID

LONDON, MARCH 29, REUTER - PRIME MINISTER MARGARET THATCHER DENIED ANY RIFT WITH CHANCELLOR OF THE EXCHEQUER NIGEL LAWSON OVER THEIR POLICIES TOWARD THE POUND.

"BOTH THE CHANCELLOR AND I PUT DOWNWARD PRESSURE ON INFLATION AS THE TOP-MOST PRIORITY," SHE SAID IN ANSWER TO QUESTIONS IN PARLIAMENT. "BOTH THE CHANCELLOR AND I THINK THAT EXCHANGE RATE STABILITY CAN BE VERY USEFUL FOR INDUSTRY."

BANK OF ENGLAND GOVERNOR ROBIN LEIGH-PEMBERTON MADE BROADLY THE SAME POINT ON MONDAY.

29-MAR-1452 MON094 MONN

ENDS

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REUTER MONITOR 1953

NO FURTHER DOLLAR DECLINE CALLED FOR, SAYS LAWSON NRJZ
LONDON, MARCH 29, REUTER - CHANCELLOR OF THE EXCHEQUER NIGEL
LAWSON SAID HE BELIEVED NO FURTHER DOLLAR DECLINE WAS CALLED
FOR, BUT HE ADDED THAT FUTURE DOLLAR PROSPECTS DEPENDED ON WHAT
POLICIES WERE ADOPTED BY THE U.S. AUTHORITIES. 207

HE WAS ASKED AT A PRIVATE LUNCHEON FOR AMERICAN
CORRESPONDENTS IN LONDON WHETHER HE AND OTHER GROUP OF SEVEN
FINANCE MINISTERS THOUGHT THE DOLLAR HAD FALLEN FAR ENOUGH.

"YES. NO FURTHER (DOLLAR) DECLINE IS CALLED FOR," HE SAID.
LAWSON'S COMMENTS WERE MADE AVAILABLE TO REUTERS.

29-MAR-1640 MON263 MONP

CONTINUED ON - NRKA

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REUTER MONITOR 1953

NO FURTHER DOLLAR DECLINE =2 LONDON NRKA
REGARDING THE PROSPECTS OF FUTURE DOLLAR STABILITY, LAWSON
SAID "WE WILL HAVE TO SEE HOW EVENTS TURN OUT. IT DOES DEPEND ON
THE RIGHT POLICY DECISIONS BEING TAKEN .. AND YOU CAN'T DO THIS
BY INTERVENTION ALONE. HE ADDED THAT "EVEN IF YOU'VE GOT THE
RIGHT UNDERLYING FISCAL COMPONENTS, YOU'VE GOT TO BE PREPARED TO
RAISE TO RAISE INTEREST RATES."

ASKED HOW HE THOUGHT THE U.S. COULD ARM ITSELF AGAINST
FUTURE DOLLAR SLUMPS, LAWSON SAID "I THINK THERE IS A LOT TO BE
SAID FOR AMERICA BORROWING IN FOREIGN CURRENCIES. IT COULD HAVE
VERY HELPFUL CONSEQUENCES FOR THE DOLLAR AND THE AMERICAN
ECONOMY."

29-MAR-1649 MON278 MONP
CONTINUED FROM - NRJZ

CONTINUED ON - NRKB

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REUTER MONITOR 1953

NO FURTHER DOLLAR DECLINE =3 LONDON NRKB

LAWSON SAID "I THINK THERE IS A SLIGHT POLITICAL
EMBARRASSMENT FOR THE PRESENT U.S. ADMINISTRATION TO DO THIS."

"IF IT WERE NOT FOR THAT POLITICAL EMBARRASSMENT, THEY (THE
U.S. ADMINISTRATION) MIGHT HAVE DONE SO ALREADY," HE ADDED.

LAWSON SAID HE SAW NO THREAT OF A U.S. RECESSION FOLLOWING
THE CRISIS ON WORLD STOCK MARKETS LAST AUTUMN. HE SAID "THE U.S.
ECONOMY IS NOW GOING AHEAD PRETTY STRONGLY, AND THERE IS NO
RECESSION THREAT."

HE SAID THE NEXT U.S. ADMINISTRATION "WILL NEED TO BE
SLIGHTLY MORE RESOLUTE IN TACKLING PUBLIC EXPENDITURE." IT WOULD
ALSO HAVE TO BE PREPARED TO RAISE TAXES, HE ADDED.

29-MAR-1654 MON284 MONP
CONTINUED FROM - NRKA

ENDS

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REUTER MONITOR 1953

208
BANK SEES LESS RISK OF OVERHEATED U.K. ECONOMY .

NRKM

LONDON, MARCH 29, REUTER - THE BANK OF ENGLAND NOW SEES LESS CHANCE OF THE U.K. ECONOMY OVERHEATING THAN IT SAW IN THE THIRD AND FOURTH QUARTERS OF 1987, AN AUTHORITATIVE BANK SOURCE SAID.

HE SAID THIS WAS BECAUSE OF THE FISCAL AND MONETARY ACTION TAKEN BY THE AUTHORITIES RECENTLY.

HE WAS ADDING TO COMMENTS FROM CENTRAL BANK GOVERNOR ROBIN LEIGH-PEMBERTON AT A PARLIAMENTARY COMMITTEE MEETING ON MONDAY.

"I DON'T THINK THAT THE OVERHEATING PRESSURE IS AS GREAT NOW AS IT WAS (IN THE SECOND HALF OF LAST YEAR," LEIGH-PEMBERTON TOLD COMMITTEE MEMBERS ON MONDAY.

29-MAR-1715 MON300 MONQ

ENDS

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REUTER MONITOR

1953

EC TO DISCUSS JOINT CENTRAL BANK, SAYS RUDING NRJX
THE HAGUE, MARCH 29, REUTER - EUROPEAN COMMUNITY (EC)
FINANCE MINISTERS WILL DISCUSS EUROPEAN MONETARY INTEGRATION,
INCLUDING THE PROSPECTS FOR A JOINT EUROPEAN CENTRAL BANK AT A
MEETING IN JUNE, DUTCH FINANCE MINISTER ONNO RUDING SAID. 209

THE MINISTERIAL TALKS WILL TAKE PLACE AHEAD OF AN EC SUMMIT
OF GOVERNMENT LEADERS IN JUNE IN BONN, RUDING SAID IN A WRITTEN
ANSWER TO A PARLIAMENTARY QUESTION. HE WOULD NOT SAY EXPLICITLY
THAT THE ISSUE WOULD FEATURE ON THE EC SUMMIT AGENDA.

"PARLIAMENT WILL BE INFORMED IN DUE COURSE OF THE AGENDA OF
THE EC SUMMIT," HE SAID.

29-MAR-1609 MON230 MONF

CONTINUED ON - NRJY

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REUTER MONITOR, 1953

EC TO DISCUSS =2 THE HAGUE

NRJY

RUDING REPEATED THAT THE NETHERLANDS IS STRONGLY IN FAVOUR
OF A EUROPEAN MONETARY UNION AND THE RELATED CREATION OF A
EUROPEAN CENTRAL BANK.

HE SAID WEST GERMAN FINANCE MINISTER GERHARD STOLTENBERG,
CURRENT CHAIRMAN OF THE EC COUNCIL OF FINANCE MINISTERS, HAD
DRAFTED A WHITE PAPER ON THE ROLE OF A EUROPEAN CENTRAL BANK
WITHIN A EUROPEAN MONETARY UNION. DISCUSSIONS WITHIN THE BONN
GOVERNMENT TO FINALISE ITS POSITION HAD NOT BEEN COMPLETED.

29-MAR-1617 MON245 MONF

CONTINUED FROM - NRJX

ENDS

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REUTER MONITOR 1953

File 210

ERMP C/11

FROM: I POLIN
DATE: 5 April 1988

Da

Approved in draft.

- 1. MISS O'MARA
- 2. CHIEF SECRETARY

Distribution

- PPS
- PS/EST
- Sir P Middleton
- Sir T Burns
- Sir G Littler
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- Mr Scholar
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- Mr H Evans
- Mr Peretz
- Mr Sedgwick
- Mr R Allen
- Mr Bottrill
- Mr Bush
- Mr Grice
- Mr Hibberd
- Mr Pickford
- Ms Goodman
- Mr Segal
- Mr Cropper
- Mr Call

Version as amended
by the Chancellor
and the Chief Secretary

I Polin
6/4/88

THE RESERVES IN MARCH 1988

The reserves announcement for February will be made on Wednesday 6 April at 11.30 am. This month's announcement reports a rise in the reserves of \$1,713 million and an underlying rise of \$2,225 million. The annual revaluation of the reserves carried out at end-March gave rise to an increase in the published reserves of \$2.9 billion.

Ian Polin

I POLIN

Mr Gray - No 10
Mr Cassell - Washington (after publication)

- Mr Foot)
- Mr D J Reid)
- Mr J Milne) - B/E
- Miss J Plumbly)
- Mrs Jupp)

DRAFT PRESS NOTICE

THE RESERVES IN MARCH 1988

The UK official reserves rose by \$1713 million in March. Repayments of borrowing under the exchange cover scheme amounted to \$463 million. There was no new borrowing under the exchange cover scheme this month. Capital repayments on assignments to HMG of other public sector debt taken out under the exchange cover scheme amounted to \$49 million. This repayment represents the final instalment on this debt. At the end of March, the reserves on the old valuation stood at \$44,640 million (£23,688 million*) compared with \$42,927 million (£24,212 million⁺) at the end of February.

2. After the annual revaluation, the reserves stood at \$47,519 million (£25,216 million*) on 31 March.

Note to Editors

3. After taking account of foreign currency borrowing and repayments, the underlying change in the reserves during March, was a rise of \$2,225 million. This underlying change is the result of a variety of transactions, both debits and credits, including, for example, transactions for Government departments and with other central banks, and interest receipts and payments. The underlying change should not therefore be taken as an indication of market intervention during the month. The above figures can also be obtained from the Reuters Monitor (Code TREA).

* When converted at the closing market rate on Thursday 31 March
£1=\$1.8845

+ When converted at the closing market rate on Monday 29 February
£1=\$1.7730

4. There was no new borrowing under the public sector exchange cover scheme this month but repayments of such borrowing were as follows:

North of Scotland Hydro Electricity Board, \$75 million; Northumbrian Water Authority, \$57 million; Anglian Water Authority, \$55 million; Southern Water Authority, \$55 million; Electricity Council, \$50 million; Welsh Water Authority, \$48 million; South of Scotland Electricity Board, \$42 million; North West Water Authority, \$40 million; Yorkshire Water Authority, \$27 million; British Coal, \$6 million; British Railways Board, \$3 million; Shetland Islands Council, \$2 million; Others, \$3 million.

5. The UK reserves are conventionally revalued once a year at end-March as follows:

- (a) gold (other than that swapped for ecus under the EMCF arrangements) is valued at 75 per cent of the average of the London fixing price for the three months up to the end of March or at 75 per cent of its final fixing price on the last working day in March, whichever calculation gives the lower value.
- (b) non-dollar foreign currencies, Special Drawing Rights (SDRs) and European Currency Units (ECUs) are converted to dollar equivalents using the average of the relevant dollar exchange rates in the three months up to the end of March, or using the actual exchange rates on the last working day in March, whichever calculation gives the lower dollar value.

until 11.30 Wednesday 6 April 1988
thereafter UNCLASSIFIED

The same gold price and exchange rates are then used to value the reserves in successive monthly reserves announcements until the next revaluation. Securities are valued at historic cost but translated into dollars as set out above.

until 11.30 Wednesday 6 April 1988
after UNCLASSIFIED

THE RESERVES IN MARCH 1988 : PRESS BRIEFINGFactual : Main features of markets in March

	<u>1 March</u> <u>(cob)*</u>	<u>Month's</u> <u>High</u>	<u>Month's</u> <u>Low</u>	<u>31 March</u> <u>(cob)*</u>
£ ERI	74.8	78.1 (31st)	74.7 (1st)	78.1
£/\$	1.77½	1.88¼ (31st)	1.76½ (2nd)	1.88½
£/DM	2.99½	3.12½ (31st)	2.99½ (1st)	3.12½
\$ ERI	94.3	94.6 (2nd)	92.2 (31st)	92.2
\$/DM	1.68½	1.69½ (2nd)	1.65½ (14th)	1.65½
\$/Yen	128½	1/29½ (2nd)	124 (31st)	124

*cob = close of business.

The mood towards sterling this month was distinctly bullish. Underpinned by expectations that UK interest rates would remain firm, sterling began the month strongly. It moved above DM3 on 7 March for the first time since September 1986 ~~and resumed its rise when the Prime Minister seemed to rule out both lower interest rates and excessive intervention as solutions to curb sterling's rise on 10 March.~~ It eased slightly ^{on 11 March} ~~when the Chancellor stated that a further rise was unlikely to be sustainable~~ but quickly recovered as pre-Budget optimism took hold reaching \$1.8615 on 14 March. The Budget speech was well received in the foreign exchange markets and touched DM3.1065 on 17 March before easing in the wake of the ½% cut in UK base rates. ~~Rumours of intervention and some concern over reported policy differences caused sterling to dip but~~ It was carried back above DM3.10 by the firmer dollar, and continued to meet heavy demand. It dipped sharply (to \$1.8260 and as low as DM3.0675) following news of a UK visible trade deficit of £1.3bn in February, but last weeks TCSC appearances by the Governor and Chancellor reiterating the Government's key monetary policy aim was to bear down on inflation, ^W as seen as bullish for sterling which rose to highs for the month of \$1.8865 and DM3.1250 on 31 March.

In the wake of press reports saying US authorities would tolerate a substantial rise in the dollar, and the Bank of Japan would permit the dollar to rise to Yen 140, the dollar rose to highs of DM1.6977 and Y129.62 on 2 March. It subsequently suffered from a flow of funds into sterling as the latter moved above DM3 and eased further as a cautious mood set in ahead of the publication of US trade figures for January touching DM1.6545 and Yen 126.52 on 14 March. Some comfort was provided by news of a better than expected \$12.4bn trade deficit, after which the dollar rose to highs of Yen 128.65 on 17 March and DM1.6960 on 23 March. However, strong US personal income and consumer spending figures, caused the dollar to soften and, following rapid falls on Wall Street, it ended the month nervously amid concerns that Japanese insurance companies would be heavy sellers of dollars in April (ie after the end of their financial year).

Previous reserve changes

(i) At the beginning of January 1987, the reserves stood at \$21,923 million; at the end of December 1987, they stood at \$44,326 million, a rise of \$22,403 million (including effect of 1987 revaluation).

(ii) The underlying rise in the reserves in 1987 totalled \$20,475 million.

(iii) Reserve changes from the last calendar quarter of 1987 have been:

		\$ million		
		<u>Underlying change</u>	<u>Total change</u>	<u>Level of reserves at end period</u>
1987	October	+ 6,699	+ 6,591	41,399
	November	+ 31	- 118	41,281
	December	+ 3,737	+ 3,045	44,326
1988	January	+ 38	- 1,233	43,093
	February	- 25	- 166	42,927
	March	+ 2,225	+ 1,713	44,640
				(47,519 ⁺)

⁺after revaluation

(iv) October 1987 underlying change of \$6,699 million was largest ever.

(v) Reserves now stand at highest ever level (on both new and old valuations.)

(vi) Effect of annual revaluations* on reserves since 1980

<u>Year</u>	<u>\$ billion</u> <u>Effect on Reserves</u>
1980	+ 3.1
1981	- 0.3
1982	- 4.2
1983	+ 1.0
1984	- 1.0
1985	- 2.1
1986	+ 2.5
1987	+ 2.9
1988	+2.9

*Gold, SDR's and non-dollar currencies

Level of official debt

Now stands at \$19.1 billion at end December* (latest published figure, Financial Statistics, March 1988, Table 10.6). (In May 1979 was \$22 billion.)

*at end December market rates.

POSITIVE

1. Reserves remain very strong after substantial underlying increase of \$20 billion in 1987. Following 1988 revaluation, reserves now stand at \$47.5 billion. At highest ever level (on both new and old valuations).
2. Objective remains, as always, battle against inflation.

DEFENSIVE(A) POLICY

1. Exchange rate policy: As Chancellor said in Budget Speech, "exchange rates play a central role in domestic monetary decisions as well as in international policy co-operation". Greater exchange rate stability will bring advantages to economy. UK is committed to seeking this along with other major industrial countries. [See 15 March, OR Vol 129 No 1442 Cols 995-1015.]

2. Tactics: All instruments will be used as ^{and} when appropriate. But not sensible to reveal operational details or be more precise.

3. Exchange rate stability runs counter to anti-inflation strategy? Not alternative strategy. In right circumstances, exchange rate stability reinforces strategy. In each of last 6 years, sterling depreciated against deutschemark, weakening Government's battle against inflation and possibly leading industry to rely on currency depreciation. Period of exchange rate stability has therefore strengthened Government's anti-inflationary stance.

4. Why no reference in Budget Speech/MTFS to particular importance of rate against deutschemark? Resistance to exchange rate depreciation across range of currencies essential anti-inflationary discipline. Germany has good track record of low inflation. Exchange rate against deutschemark important to industry given proportion of UK trade with EC, so Government naturally pays particular attention to it.

5. Chancellor's and Prime Minister's statements in House, 10 March, contradictory? [Chancellor said (OR Vol 129 no 112 col 152) any significant rise in exchange rate against DM unlikely to be sustainable. Prime Minister said (OR Vol 129 no 112 col 157) no way in which authorities could 'buck the markets'.]

x Government policy remains as set out in Chancellor's Budget ~~Not at all. Prime Minister was referring to events earlier that week. Chancellor looking to future sterling movement in market. Both agreed top priority is to put downward pressure on inflation.~~ Speech and Medium Term Financial Strategy (MTFS).

6. Lord Young's and Sir Geoffrey Howe's views on exchange rate show continued rift in Government policy?

[Lord Young reported to have said in Manchester on 21 March that Governments liked to think they influenced the value of sterling - but "we long ago found the pound seems to rise and fall to its own level". Sir Geoffrey Howe, speech in Zurich on 24 March, gave support to role of exchange rate and to sterling's stability.]

x ~~No.~~ Government policy remains as set out in Chancellor's Budget Speech and Medium Term Financial Strategy (MTFS).

7. Change in exchange rate policy now sterling breached 3 DM?

x ~~No.~~ ^{change in policy} Stability does not mean immobility. Adjustments needed from time to time. Government never comments on foreign exchange market tactics.

8. Why did authorities permit sterling to rise above 3 DM? Because clear some tightening in monetary policy required and that could not be achieved without rise in exchange rate.

9. Will authorities allow exchange rate to find its own level? Instability in exchange rates damaging for British industry, and for exporters in particular. Right for Government to promote more stable exchange rates, within policy designed to squeeze out inflation.

10. Government operated within exchange rate range in past? New ceiling/floor?

[Governor reported as saying at TCSC, on 28 March, that Government had range in mind for sterling but limits never disclosed and that authorities form views about range within which they think appropriate exchange rate might move.]

As Chancellor told TCSC, on 30 March, Government never comments on market tactics.

11. Conflict between maintaining stable exchange rate and message from domestic indicators? Most of time no problem. Necessary to make judgement about balance of evidence. At beginning of ^{February} March needed to tighten monetary conditions slightly by raising interest rates requiring consequent adjustment in exchange rate. Overall approach of stability maintained. No conflict between stable exchange rate and non-accommodation of inflationary pressures.

12. Industry's criticism of sterling appreciation?

[Sir David Nickson, CBI chairman in speech in Cambridge, 9 March, said sterling strength against DM and other currencies presented serious threat to British industry and added to uncertainty.] Industry has welcomed greater exchange rate stability over past year. (CBI March trends survey said export order books remain very healthy and that rise in sterling does not appear to have had adverse effect on exports.) But important also accepts financial discipline inherent in this policy. Greatest threat to output and employment would come if Government relaxed its anti-inflationary stance.

13. Recent rise above 3 DM will affect UK competitiveness

Consistent trend of 1980s has been that British manufacturers have maintained their share of expanding world trade, after decades during which Britain's share was steadily declining. This is crucial test of competitiveness.

14. Current account deficit in February suggests exchange rate against deutschemark too high?

No. Monthly trade figures highly volatile - fall in exports inconsistent with other evidence eg March CBI survey. In any case, Government made clear that will not pursue policy of sterling depreciation to improve competitiveness.

15. Will Government be prepared to let sterling fall if recent pressures reversed?

Chancellor made clear in Budget Speech, Government will not allow sterling to depreciate to accommodate excessive increases in domestic costs.

(B) G7

16. G7 statement issued on 23 December:

Reaffirmed basic objectives and economic policy directions of Louvre. Stressed need to strengthen underlying economic fundamentals and to continue policy co-operation. Agreed either excessive fluctuation of exchange rates, further decline of dollar or rise in dollar to extent that becomes destabilising to adjustment process, could be counterproductive to growth prospects for world economy. Re-emphasised common interest in more stable exchange rates and agreed to continue close cooperation.

17. Is sterling recent rise in line with G7 statement, issued 23 December? [James Baker, US Treasury Secretary, 9 March, said sterling's rise above 3 DM did not violate G7 agreement to seek stable exchange rates.]

Yes.

18. Is it US policy to drive dollar down? Statement by US Treasury Secretary, James Baker on 2 March, that the US was price competitive at current exchange rates and that further falls in the value of the dollar would be counterproductive indicates US does not want to see further dollar decline.

19. [Outlook for] international exchange rate stability?

x [Chancellor reported to have said, 16 March, that does not think there's likely to be much happening on the international scene before election of next US President.] UK will continue to play its part in continued international co-operation to foster exchange stability. Likely to be one of subjects for discussion at IMF Spring meeting.

(C) INTERVENTION

20. Why cut interest rates on 17 March rather than intervene? Short-term interest rates essential instrument of monetary policy.

21. Value of intervention as instrument? Has part to play in efforts to promote exchange rate stability.

22. Prime Minister ruled out further intervention as it is inflationary? [OR Vol 129 no 110 col 184].

No. Prime Minister argued against excessive intervention: only poses inflationary threat if not funded. Government made clear will be fully funded.

23. Implication of recent intervention for UK monetary conditions/funding? Policy to ensure, over time, any net intervention fully funded so that effect on liquidity sterilised, but not necessarily in financial year in which it occurs.

24. Will 1988 revaluation affect funding task? No. Intervention always funded at current market rates.

25. Details of intervention? Policy never to discuss.

26. Have other countries been intervening over last month/recently? UK does not discuss details of other countries' intervention.

27. Current level of reserves suggests over reliance on intervention? No. Government uses all instruments, as and when appropriate. Reserves change not good guide to market intervention. Government never reveals details of market operations.

28. Cost of intervention? [Roger Bootle article in 'Financial Times', 23 March, claimed intervention during 1987 could have involved loss for UK of about £3 billion.]

Quite wrong to assume authorities intervene in market primarily in order to make profit. Calculations quoted in press only refer to book values and in any case, take no account of Government's foreign currency liabilities; also affected by exchange rate movements. Questions of actual profit and loss only arise when intervention unwound. But intervention in past has generally proved profitable over longer term.

x 29. Is intervention profitable? Intervention undertaken primarily
x to support exchange rate policy - not ~~to make profit: that is~~
x ~~role of short-term speculator.~~ For intervention to be profitable,
x authorities would need to sell sterling, when firm and buy it back
x when soft. This is, of course, what ^{needs to happen} ~~aim to do when smoothing~~
x ~~undue fluctuations and such operations have generally proved~~
x ~~profitable~~ over longer term. [N.B. See also BEQB, September 1983
pgs 384-391.]

30. Why not publish effect of intervention on public purse as Germans do? In UK, successive Governments have found exchange market intervention tends to be more effective the less revealed in public about its precise details.

31. Do capital losses or gains on reserves affect size of PSBR (as in Germany)? No. Like other changes in mix of Government's assets and liabilities, ^{affected} finance ^{of} PSBR - and then only when gain or loss is realised and reflected in flow of sterling into or out of Exchange Equalisation Account.

32. Will Government publish data on currency composition of reserves? No. Long standing practice of successive Governments not to publish details of currency composition of reserves.

33. Parliamentary Scrutiny of Exchange Equalisation Account (EEA)? Government always willing to participate in Secret Public Accounts Committee (PAC) examination of EEA, if requested.

(D) INTEREST RATES/MONETARY POLICY

34. Interest rates policy? As Chancellor said in Budget speech: "Within continuous and comprehensive assessment of monetary conditions, I will continue to set interest rates at the level necessary to ensure downward pressure on inflation."

35. Objectives of UK's domestic monetary policy: Policy directed at maintaining conditions that will bring about a gradual reduction in the growth of money GDP, and hence inflation, over medium-term.

36. ½ per cent interest rate cut on 17 March: Consistent with policy as set out in Budget speech. As Prime Minister said in House on 17 March [OR Vol 129 No 117 Col 1221], the strengthening of exchange rate tightened monetary conditions which made possible reduction in interest rates.

(E) EXCHANGE RATE MECHANISM (ERM)

37. UK membership of ERM? Matter kept under continual review. Will join when time is right.

38. Recent interest rates moves would not have been necessary if UK had been in ERM? Nonsense. Joining ERM would not be soft option. Countries within ERM frequently change their interest rates.

39. Proposals for Central Bank of Europe? Finance Ministers who have put forward these proposals have recognised they are very much for longer term. Immediate priority is to achieve liberalisation of capital movements throughout Community.

(F) 1988 RESERVES REVALUATION

40. Details of revaluation of reserves? Revaluation has increased reserves by \$2,879 million. Figures break down broadly:

	<u>\$ million</u>		
	<u>Holdings on old valuation</u>	<u>Effect of revaluation</u>	<u>Revalued holdings</u>
(a) Gold	5,793	+ 676	6,469
(b) SDRs, ECUs, and convertible currencies	38,847	+ 2,203	41,050
Total	44,640	+ 2,879	47,519

41. What principles govern revaluation of reserves? Basically, annual revaluation should be realistic but prudent. Other countries follow similar policies.

42. Does revaluation give guide to currency composition of reserves?

[ONLY IF PRESSED. No and not Government policy to reveal.]

43. Why not revalue reserves more frequently? Practice of successive Governments to revalue annually. No reason to change current policy.