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IMF STAFF REPORT : REFERENCES
TO THE EXCHANGE RATE

The references to competitiveness and the exchange rate (on pages 5, 10, 12, 13 and 15) of the report leave no doubt as to the key role for the exchange rate in our economic strategy as the staff see and so well describe it. There is more here about the exchange rate than many of us might have liked but, apart from the slight implication in the penultimate paragraph on page 5 that sterling may still be somewhat overvalued, it seems to me that none of these passages are objectionable at the level of substance. In particular, the indication of the aims of the authorities as described in the last complete paragraph on page 13 follows closely the line taken by the Chancellor in his final exchange rate meeting with the staff: and, while there is some interpretation by the staff in the following sentence:

"In their management of the exchange rate, the authorities will seek to avoid a situation in which the rate became fixed at an unsustainable level since the inevitable subsequent fall would do serious damage to confidence both at home and abroad."

this can reasonably be based on what the Chancellor, and I do not think that it would be appropriate for [REDACTED] to seek to reinterpret this further.

2. But there are one or two sentences - for example, the references to consistent overvaluation on pages 5 and 15 and the middle sentence in the last complete paragraph on page 13 - which, taken out of context, could do a good deal of harm if leaked. For this reason, I would advise [REDACTED] to impress upon his colleagues the sensitivity of these passages in the report (there may be others) and, accordingly, to ask that no public comment be made on at least this aspect of the WP3 discussions.

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[REDACTED]

20 December 1976