

SECRET



7
file P.O.
dnp

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

PRIME MINISTER

The financial markets are very unsettled this morning. The effective exchange rate opened at 77.4, the lowest since 1976, and money market rates have shifted sharply upwards.

2. I have discussed the situation with the Governor and we are agreed that in these circumstances it is necessary for our short-term interest rates to rise immediately - to 10 per cent.

3. A clearing bank is expected to raise its base rate to that level by mid-day and the Bank will then confirm that rate in its market dealings.

4. The presentation of this move, ahead of the rather poor money figures to be published on Tuesday, requires very careful handling. I think the best line to take is the one attached below.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

N.L.

6 July 1984