

PRIME MINISTER

MLR

The Chancellor and the Governor have not yet reached a final view on whether to reduce MLR tomorrow. Accordingly, they want to discuss it with you at 0900 tomorrow morning - the Chancellor hopes he will be able to have ten minutes with you beforehand.

The Governor seems to be vacillating for two reasons. First, the money supply figures now seem likely to be slightly less good than he indicated to you on Monday - 0.7 per cent increase rather than 0.5 per cent. (This is based on further information which has come in from the smaller banks.) Secondly, the money markets have been a bit off - with short-term rates rising. But they have come back today - the long tap is sold out and inter-bank rate is below 17 per cent again. In addition, I suspect that the Governor may be having second thoughts in view of the slight contradiction - which you of course noticed - between his serious concerns about overspending and his view that it is safe to move interests rates down now.

I am told that the Chancellor still thinks it is safe - and worth while - to go for a 1 per cent cut. Even though the money supply figures since February will still be running at an annual rate slightly above the target range, the figure for June does suggest that we are getting back towards the target range; gilt sales are going ahead well; and there is the confidence factor for manufacturing industry. Furthermore, if we do not move tomorrow, it will probably be impossible to move until next month. But there are risks, and it is a difficult decision. If we do decide to go down, it will require very careful presentation.

R.

2 July 1980

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CHANCELLOR

c.c. Financial Secretary
Sir D. Wass
Mr. Ryrie
Mr. Middleton

Mr. Fforde

MLR

The Governor and yourself may find it useful to have available for your talk with the Prime Minister the attached copies of an alternative draft of the note to editors, reflecting comments made at your meeting this evening. I have agreed it with Mr. Fforde.

J.M.B.

(J.M. Bridgeman)

2 July 1980

Note to Editors

Alternative Texts

HAS SO FAR
APPEARED HIGH
←

(a) Revised Text

There are signs that monetary growth moderated during banking June, and also that the underlying demand for credit from the private sector may be beginning to ease, with increasing evidence of downturn in the economy. While the CGBR has ^{so far} ~~remained~~ ^{been} ~~somewhat~~ high in comparison to the forecast for the year as a whole, this has been financed by large debt sales: recent gilt sales have secured substantial funding for the next few months. It is now the judgement of the authorities that the present monetary target of a 7-11 per cent annual rate of increase of £M3 in the fourteen months to mid-April 1981 can be achieved with modestly lower short-term interest rates.

is appropriate

(b) Earlier Text

Early statistical returns indicate that monetary growth has moderated during banking June, in part as a result of continuing large debt sales. While the CGBR has remained high in comparison to the forecast for the year as a whole, there are signs that the underlying demand for credit from the private sector may be beginning to ease, with increasing signs of downturn in the economy. In the Bank's judgement, the present monetary target of a 7-11 per cent annual rate of increase in the fourteen months to mid-April 1981 can be achieved with modestly lower short-term interest rates.

Chambliss

The Governor wants
I have told him

But John Ingham / Bondman

included.

to agree

"has so far been high".

but this is OK with you.

want "rather"

have told them

their case

NOTES TO EDITORS

There are signs that monetary growth moderated during banking June, and also that the underlying demand for credit from the private sector may be beginning to ease, with increasing evidence of downturn in the economy. While the CGBR has so far been rather high in comparison to the forecast for the year as a whole, this has been financed by large debt sales: recent gilt sales have secured substantial funding for the next few months. It ^{is} the judgement of the authorities ~~that~~ this lower ~~rate of~~ MLR is now appropriate ^{to} ~~for~~ the achievement of the present monetary target of ⁷⁻¹¹ per cent annual rate of increase of £M3 in the fourteen months to mid-April 1981.