Lawson repeats manifesto pledge for price stability

Chancellor allows no respite in struggle against inflation

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By Frances Williams and Peter Wilson-Smith

Mr Nigel Lawson, the Chancellor, last night made plain the Government's unswerving determination to reduce inflation further through tight control of state borrowing and monetary growth.

He told the distinguished audience gathered for the Lord Mayor's banquet in the City of London that there could be "no relaxation of the pressure to keep inflation moving down".

The Chancellor's remarks were strongly supported by Mr Robin Leigh-Pemberton, Governor of the Bank of England, in his first big speech since taking ofice in July.

"Nothing would be more damaging to our prospects than failure to sustain the improvement in inflationary expectations, so painfully won", he said.

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Lawson (left) strong support from Leigh-Pemberton

"But we now have low inflation combined with economic recovery and this offers the prospect of sustained improvement for the first time in many years," he said.

On a gloomier note, the Governor admitted that the international debt crisis could take years to solve and there were likely to be more difficult problems ahead.

"A durable and satisfactory solution to the debt problem may take a number of years to achieve, and will require perseverance and success on a number of fronts".

The Governor, who was echoed by Mr Lawson, said firm adjustment policies by debtor countries, sustained recovery in the West and a continues flow of finance to the developing world were all needed.

But he gave a warning that banks would not be able to lend money at the rate they had in the past.

The Chancellor made it clear that the medium term financial stategy (MTFS), which sets declining targets for money growth and public borrowing several years ahead, would still mark the cornerstone of the Government's economic policy.

Mr Lawson did, however, outline some technical changes he is now considering after an internal review of money policy.

Mr Lawson was optimistic on inflation prospects, scorning predictions that inflation will rise next year. On the contrary, recent indicators suggested a continuing downward path, he said.

The Government's message was: "We mean what we say: and we mean to keep on top of inflation".

The present inflation rate of 5 per cent would have been thought too high 20 years ago and it *was* too high, the Chancellor said. He repeated the Conservatives' election manifesto pledge that the Government's ultimate objective was price stability.

Mr Lawson said the picture of the British economy was one of improvement, of falling inflation and renewed growth. World recovery, too, was clearly under way, and the prospects for continued growth next year and beyond looked good, although high interest rates and international debt remained uncertainties.

Mr Leigh-Pemberton said the prospects for growth were better than for years. The international debt crisis was still a preoccupation, while at home unemployment was still edging up and many companies were facing difficulties.