

SECRET AND PERSONAL



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*From the Private Secretary*

7 December 1988

**AN INDEPENDENT CENTRAL BANK**

The Prime Minister and the Chancellor discussed yesterday the Chancellor's minute of 25 November. They concluded that the time was not right to consider further the possibility of an independent Central Bank.

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## NOTE FOR RECORD

## AN INDEPENDENT CENTRAL BANK

At their bilateral meeting on 6 December the Prime Minister and the Chancellor discussed the proposal in the Chancellor's minute of 25 November for an independent Central Bank.

The Chancellor said that, after careful consideration, he had concluded it would be a better arrangement to change to the sort of independent Central Bank model operated in the United States and in Germany. This would assist in establishing the credibility in the markets of the commitment to bear down on inflation.

The Prime Minister responded that she had given the idea of an independent Central Bank serious consideration in the late 1970s. But she had concluded then that it would not be appropriate. In the present circumstances she was even more firmly of this view. There could be no question of the Government being seen to hand over responsibility for counter-inflationary policy unless the Government had established firm control. At the moment we were encountering a temporary increase in the rate of inflation. It was one of the Government's fundamental duties to maintain the stability of the currency, and the priority for Government must be to ensure that inflation was got down. The possibility of an independent Central Bank could only begin to be contemplated if, say, the inflation rate had been reduced to 2% and held at that rate for 2 or 3 years. In any event, it would be essential for ultimate control for maintaining the stability of the currency to rest with the Government rather than with Parliament. The Prime Minister also questioned the suitability of an independent Central Bank for the British system; it was arguable that this was a more appropriate approach in Federalist countries.

SECRET

Following further discussion the Prime Minister summed up by saying that the idea of an independent Central Bank should not be considered further at this time. If, as she sincerely hoped, inflation was got down to a very low level and held there, it might be appropriate to reconsider the idea in, say, 4 years time.

*Recc.*

P. GRAY

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SECRET