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NOTE FOR THE RECORD

I spoke to the Prime Minister about the press interpretation of her World Service interview. She confirmed that she had no intention of criticising the Chancellor publicly. She has agreed the following press line.

- (i) It has been recognised that monetary policy became too loose; that is why it has now been tightened up.
- (ii) Important to remember that the Chancellor was trying to avoid a recession following the stock market crash. In this he acted with the full support of the Prime Minister and was successful.
- (iii) Her interview specifically drew attention to inflationary pressures elsewhere; hence not attributing current position on inflation entirely to UK policy.
- (iv) She expressed the hope that the current stance on monetary policy will prove well judged and that a safe landing will be achieved.
- (v) She has fullest confidence in the Chancellor.

She remarked to Terry Perks after the interview that she had not responded when the interviewer said (page 7 of the transcript)

"so the Chancellor was wrong on that point?".

This was because she was already moving on to counter the impression given by Mr. Christopher Johnston on the radio this morning that joining the ERM provided an easy way of reducing

inflation. The fact that she declined to answer that question should not, therefore, be interpreted as an acceptance of the criticism of the Chancellor.

I will relay these points to Peter Middleton and ask him to pass them to the Chancellor in Spain.

AT

ANDREW TURNBULL

19 May 1989