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Treasury Chambers, Parliament Street, SW1P 3AG  
071-270 3000

5 October 1990

Andrew Turnbull Esq  
10 Downing Street  
LONDON  
SW1A 2AA

Dear Andrew

**CHANCELLOR AND PRIME MINISTER'S STATEMENTS**

- ... I attach a revised draft of the Chancellor's 4.00 pm statement this afternoon which has been agreed with the Bank and incorporates your earlier comments.
- ... I also attach a form of words that the Prime Minister might use when she talks to the media.

We will be letting the No.10 Press Office have the same briefing pack that we are preparing for our own information department and Mr O'Donnell will discuss the line for Mr Ingham directly with him.

VCS  
JG

JOHN GIEVE

copied to BF





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Text of HM Treasury Press Notice to be issued at 4.00 pm on  
Friday, 5 October 1990

**UK REDUCTION IN INTEREST RATES AND ENTRY TO ERM**

At 4.00 pm today the Chancellor of the Exchequer, the Rt Hon John Major MP issued the following statement:

"It has become increasingly clear that the Government's sustained policies of high interest rates and firm budgetary control are now reducing inflationary pressures in the economy. Monetary growth has fallen very sharply to well within its target range and the growth of demand has slowed and continues to do so. The rise in oil prices will continue to feed through for some time but the prospect is for a substantial reduction in inflation over the coming year both in absolute terms and in relation to inflation in other European countries.

In these circumstances, a reduction in interest rates is now justified; so the Bank of England is announcing that its minimum lending rate on Monday will be 14 per cent, one per cent below the current level of banks' base rates.

A tight monetary policy and a firm exchange rate remain essential to bring inflation down. To reinforce our framework of monetary discipline, we have decided that the UK should now join the Exchange Rate Mechanism of the European Monetary System. We have proposed, therefore, to our European Community partners that, as part of the common procedure, we should join the ERM on Monday morning with a central exchange rate at around DM2.95 and initially with 6 per cent margins."





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DRAFT

Statement by the Prime Minister

I am delighted with the announcement we have made today.

As full members of the European Monetary System we shall have the right framework within which to continue the battle against inflation.

It is clearer and clearer every day that our firm financial policies are working, cutting into the inflationary pressures which had built up in the economy. These pressures have been very considerable and it is going to take some time to squeeze this inflation completely out of the system.

This will not be an easy or painless process. It never is, inside or outside the European Exchange Rate Mechanism. I am determined to defeat inflation, and confident that our tough monetary policy, buttressed now by full membership, will bring that about.