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24 November 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3AG

cc: Deputy Governor
Mr Dow
Mr Loehnis
Mr Fforde
Mr Coleby
Mr George
Mr Goodhart
Mr Plenderleith

Dear Nigel,

Thank you for your letter of 23 November in reply to mine of 18 November. I feel that on this occasion I should record what appears to be some difference of emphasis between us.

In your letter you suggest that there are some signs that monetary conditions may be tightening, and it is against that background that you would not necessarily want to resist market pressures for lower interest rates. Our view, which was, I understand, made clear in the discussion between officials which Peter Middleton chaired on 15 November, is somewhat different: while we do not see an immediate need for tightening of policy, we are concerned that monetary conditions may, if anything, be tending towards the easy side. We base this view on the development of, and prospects for, the monetary aggregates as described in my letter, in which I drew particular attention to the growth of lending to the personal sector and to the uncertain outlook for funding. But, in addition, there are considerable uncertainties over the exchange rate and over the prospects for the current wage round, both of which could have adverse implications for the future course of inflation. Against this background, we are, for the present, inclined to take a somewhat cautious view on interest rates.

It was in this context that I raised the possibility of 2.30 lending, recognising, however, that we could only decide on this in the circumstances at the time. As it is, no immediate question arises since the earlier incipient pressures to which I referred show no signs of re-emerging. I felt nevertheless that I should make our view clear.

Yours ever,

Robin