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NOTE FOR THE RECORD

TEMPORARILY RETAINED S. Gray 1/4/2016

In reply to Lord Cromer's letter of 19 January, the Prime Minister telephoned him this afternoon. She accepted that it was important to maintain the standing of the Governor and of the Bank of England and that this had been allowed to decline in recent months. She would be considering how best to put this right. In particular, she thought she should see the Governor more often. Lord Cromer said he used to see the Prime Minister on his own. Although the meetings were brief and were no more than one a month, they helped him and the Prime Minister to keep in tune. Lord Cromer said the Governor could improve his presence by giving up the position of Lord Lieutenant of Kent. He felt it absorbed the Governor's time and created a dilettante image.

Discussion then turned to the exchange rate. Lord Cromer applauded the Prime Minister's action in giving a lead. Without this sterling would drift. The Prime Minister recounted how she had been horrified by the reports in the Sunday papers a week ago. She accepted that reports of criticism of the Deputy Governor over the Johnson Matthey affair were damaging ^{to the Bank} though she doubted whether this was a significant factor in developments on the foreign exchange markets. The Prime Minister and Lord Cromer agreed that too much emphasis was given to the petro-currency factor; the Prime Minister pointed out that oil represented only 5% of our production. She thought part of the problem was that foreign exchange dealers, most of whom were young and inexperienced, had made a great deal of money backing the dollar. They would continue to do so until something happened to break the momentum of the dollar.

There was no discussion of EMS.

AT

Andrew Turnbull

23 January 1985