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

15 November 1990

Barry Potter Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
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Dear Barry

PRIME MINISTER'S BILATERAL WITH THE CHANCELLOR

I showed your letter of 15 November to the Chancellor this afternoon. He found the second sentence in your first indent slightly ambiguous. For the avoidance of doubt, he wished to confirm that he expects the exchange rate to respond positively to the inflation figure published in mid-December (and, perhaps, to other good figures over the next month). He does not expect, therefore, that exchange rate weakness will rule out a cut in interest rates. However that cannot be certain and, of course, the behaviour of the exchange rate is bound to be relevant to the Government's ability to cut interest rates.

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JSL

JOHN GIEVE
Principal Private Secretary