

SECRET

But I have now heard from a ^{separate} source that the Chancellor made some acidic remarks that "outside advice", and that we could therefore get some "Lansdown says hands off" headlines tomorrow.

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 20 JULY

The Chancellor's office have alerted me to the following items the Chancellor may raise.

(1) Alan Walters

I think the Chancellor probably will want a word about the publicity of the last 24 hours. I gather ^{from the Treasury} that when he attended this evening's meeting of the Backbench Finance Committee, the Chancellor faced a couple of questions on this, but they were low key and did not detract from the main business of the session. I enclose at Flag A a short note from Bernard detailing actions on the press office front today. As you know, Nigel has also spoken to Alan.

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pt 4

(2) Markets

The usual stock taking discussion. You will see from today's evening report - Flag B - that sterling has been quite strong. You may also be less than delighted to see that the Bank carried out some intervention. You may want to stress to the Chancellor that the overriding objective now is to tighten monetary policy, and if this leads to some strengthening of the exchange rate - which will of itself reinforce the tightening - that should be allowed to happen.

You may also want a word about the appropriate timing for the next interest rate increase. Relevant information here is:

- the full details of the provisional money figures for June to be published tomorrow (Flag C);
- the export figures we now have for June (Flag D). These are not too bad, but much will depend on what has happened on the import side.

(3) Tax treatment of residents

You already have the papers on this. The Chancellor is