

SUBJECT

SECRET



11a
p.a.
R

10 DOWNING STREET

From the Principal Private Secretary

12 February 1981

Dear John,

SHORT-TERM INTEREST RATES

The Prime Minister held a meeting yesterday evening with the Chancellor of the Exchequer and the Financial Secretary to discuss short-term interest rates. Sir Douglas Wass, Mr. Burns, Mr. Middleton, Mr. Walters and Mr. Wolfson were also present.

After discussion it was agreed that there should not be a cut in MLR this week. The possibility of a reduction next week should be left open for the time being. In reaching a decision account would need to be taken of developments between now and next Wednesday and in particular of the market's reactions to the RPI and trade figures to be announced on Friday of this week and Monday of next respectively. It was important, however, that whatever decision was taken then was not reached solely in the light of the immediate situation but within a framework of factors which could be used to determine the management of short-term interest rates in a logical and consistent way over the months ahead. We needed to think through very carefully what our objectives were, what the various factors to be taken into account in deciding interest rates should be and what relative weights to give to those factors. The Chancellor of the Exchequer agreed to circulate such an analysis in time for a further discussion on Wednesday 18 February.

Yours ever,

John Wiggins

John Wiggins, Esq.,
H. M. Treasury.

SECRET

MPAM