

PRIME MINISTER

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INTEREST RATES AND MONEY SUPPLY

1. The easing in international interest rates has enabled the Bank to follow the market and allow our dealing rates to fall by a sixteenth in band one, and a quarter in band four. You may, however, be concerned at what the Budget day money supply figures will be. Although it is very early to say, it seems that the Budget day figures will indeed confirm the view that last month's figures were freakishly high. It is likely that the monetary base will decline slightly and M1 will be virtually flat. And M3 and PSL2 will be in the very low range.
2. All this is highly conjectural at present, but I thought you ought to know that we are keeping an eye on it. I will certainly sound any alarms that I believe are necessary.

23 February 1982

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ALAN WALTERS