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Prime Minister (2)

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PRIME MINISTER

MONETARY POLICY AND INTEREST RATES

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On Tuesday, 16 November there will be the usual monthly meeting on interest rates and funding. Today I had a preliminary meeting with Eddie George and Peter Middleton.

There was virtual unanimity between the three of us. We believe that the base rate of 9% is around the right level, considering our monetary aggregates and all the other indicators of monetary stringency. Much of the effect of the recent reduction in base rates has yet to appear.

Nevertheless, the markets may come under considerable downward pressure if the Federal Open Market Committee (FOMC) decide to reduce their interest rates next Tuesday. If they do reduce interest rates by one percentage point, there will certainly be considerable pressure in London. In my view it would be dangerous to strenuously to resist that pressure. It may send a destabilising signal to the market. And I believe we could live with another half-a-percentage point off the base rates over the next month. What we must avoid, however, is allowing ourselves to be bounced down at a fast rate. The monetary conditions certainly do not warrant any additional dramatic and speedy reduction.

I believe considerable pressure is coming from Sir Douglas Wass and Kit MacMahon for a large and quick reduction in interest rates. But I believe the Committee will recommend to the Chancellor that he follow the policy which we agreed today.

11 November 1982

ALAN WALTERS

(Dictated but not seen by AAW)

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