

File

2 January 1985

MR TURNBULL

I have seen the minutes of an informal meeting held on Thursday 20 December by the Economic Secretary in lieu of the regular Funding Meeting.

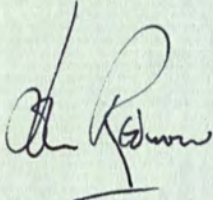
The one piece of bad news is the current Treasury forecast for Sterling M<sub>3</sub>. They anticipate a fall of 0.5 per cent in December, to be followed by rises of 1 per cent in both January and February.

I spoke to Tim Lankaster today. Latest indications are that the December figure, to be released on 8 January, could be even better - perhaps minus 0.7 per cent. If this is the case, it may provide some temporary respite in what is a rapidly declining market both for the currency and for bonds.

However, the prospective figures for January and February are too high, and reflect overspending on Government account, combined with reasonably buoyant bank lending. The correct response should be to bring public spending back into line with targets: only proper control of public spending can reassure the markets, otherwise we will be into a position where interest rates may have to go up.

Conclusion

Struggle through until Tuesday 8 January, and see what impact the figures have. In January and February, try a more ambitious funding target than the £1 billion a month sketched in for the figures above. And above all, remind Cabinet that overspending does lead directly to a collapse in the currency and to pressure for higher interest rates.

JOHN REDWOOD