

PRIME MINISTER

**BILATERALS WITH THE CHANCELLOR**

You have two bilaterals with the Chancellor tomorrow one before Cabinet and one in the afternoon. The one before Cabinet will be about the handling of Cabinet itself. The folder includes a note by Bernard about the line to be taken after Cabinet and also a note by the Treasury. The Treasury propose that Bernard should say virtually nothing about the Cabinet discussion. I am not sure this is realistic: other members of Cabinet will be doing their own briefing afterwards. I attach a possible, rather fuller, line. If there is major disagreement tomorrow the line would probably need to be further reconsidered, to enable Bernard to brush aside the wilder reports.

At the meeting in the afternoon you will probably want to take stock of the morning's discussion. Other points for discussion include:

- (i) The JMB sale where the Chancellor will describe the latest developments.
- (ii) The Green Paper on Personal Taxation: the Chancellor wants to alert you to the dangers of the Cabinet discussion which has been agreed for next week (not that you need any alerting about them).

You might raise with him the prospects for interest rates. Clearly it would be unwise to look for a reduction while there is still so much uncertainty. But now that the Treasury have had their extended discussions about the policy stance and the prospects for the economy, do they think that the present level of short-term interest rates is at the right level, bearing in mind the Government's inflation objectives



and the prospects for growth? When is it going to be possible to get interest rates down?

OPEC have kindly scheduled a meeting for Budget Day.

There are rumours that the Chancellor's Cabinet Paper has been leaked to the Press.

*Susan Holt*  
*Duty Clerk*

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E. R.

POSSIBLE LINE TO TAKE

Cabinet today held their usual pre-Budget macro-economic discussion. They reaffirmed the economic strategy. They recognised the importance of maintaining downward pressure on inflation, in the interests of <sup>growth</sup> ~~growth~~ and jobs. They agreed that economic policy should remain prudent and cautious, acknowledging in particular ~~the present uncertainties about the prospects for~~ ~~oil prices.~~

the sharp drop in oil prices. ~~(and the continuing uncertainties about them)~~