

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Possible topics for discussion include the following:

(i) Interest Rates

The Chancellor is now inclined to believe that the right time to reduce interest rates is on Thursday week, 2 April, the day when the reserves figures come out. He would be willing of course to go earlier if there was enough pressure. A reduction which coincided with the reserves announcement might take some of the heat out of the market reaction. (I understand that the Chancellor is considering publishing a reserves figure of around  $\$1\frac{3}{4}$  billion with the remainder being taken into the forward book. This would have the incidental advantage that if the Ministry of Defence switches to buying its foreign currency forward to give greater planning certainty the problem of a double-dose of MOD requirements created by that switch will be reduced.)

(ii) Research Councils

The Chief Secretary is seeing Mr. Baker for a private chat tomorrow evening and the Chancellor may want to see what you think about extra expenditure for the Research Councils. You might like to look again at Mr. Baker's minute on this, below.

(iii) Lignite Power Station for Northern Ireland

A row is apparently brewing between the Treasury and Mr. King. The power station is likely to be privately financed, and Mr. King is resisting the Treasury suggestion that the expenditure should score against his programme. I know no details at this stage and it is possible that the Chancellor may choose not to mention it to you yet.

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DAVID NORRGROVE

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