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Dear Andrew

PM'S SPEECH IN QUEEN'S SPEECH DEBATE

As you will be aware, interbank rates have fallen well below 14 per cent recently on the expectation of a further fall in base rates in the near future. This is despite clear signals from the Bank that a reduction in rates is not imminent. Last week the Chancellor put out a statement reinforcing this point and that eased the position temporarily but today 3 month interbank rates are back only just above 13½ per cent.

Although the Chancellor hopes and expects to be able to reduce interest rates again towards the end of the year, he thinks it could be very damaging if a reduction is forced by the markets too soon. In particular, he is sure that we need to keep rates up until the Autumn Statement and the publication of the October RPI next week are safely behind us. A key element in our presentation of the Autumn Statement is the Government's determination to maintain tight policies and an early reduction in interest rates would confuse the picture and tend to encourage the belief that we are determined to bring interest rates down as fast as we possibly can. This impression is likely to make actual achievement of lower interest rates more difficult in the medium-term.

For all these reasons, the Chancellor wishes to dispel the expectations of an early reduction in interest rates. He thinks

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it would be very helpful therefore if the Prime Minister would include in her speech tomorrow something on the following lines:

"My RHF the Chancellor has made it clear he is not going to be hurried into making further cuts in interest rates; we will only do that when we are sure that it is safe to do so."

V. -

JG.

JOHN GIEVE
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