

SPEAKING NOTE ON INTEREST RATES

[As the Chancellor says] we faced the prospect of a large increase in interest rates earlier this week, and we are not out of the woods yet.

It's been a worrying few days. I've been taking even more interest than usual in the green Reuters screen in my private office. That really shows moment by moment just how important it is to keep market confidence in our policies.

Inter-bank rates rose on Monday to well over 11 per cent against bank base rates of 10 per cent. A 1% increase in base rates would then have left the markets wanting another 1% on top, that is 2% in all, a great blow, particularly ahead of our Conference next week.

So we had to buy time. At each of the early morning meetings I have had with the Treasury and the Bank this week, we have had to decide how much of our precious foreign exchange reserves we felt able to spend. And we have had to spend quite a bit - absolutely as little as possible, but still much too much.

We have been able so far to avoid an increase in base rates. But the position is still finely balanced, and a rise could easily be triggered by bad economic figures or any sign that we were relaxing our policies, particularly for public expenditure and borrowing.